Westpac Banking Corporation - New Zealand Banking Group
Disclosure Statement

For the year ended 30 September 2015

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 (Overseas Incorporated Registered Banks) Order 2014 ('**Order**').

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

- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac);
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank (carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations);
- Westpac Banking Corporation - New Zealand Banking Group (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business. Controlled entities of the NZ Banking Group as at 30 September 2015 are set out in Note 24 Related entities;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities; and
- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.

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

Limits on material financial support by the ultimate parent bank

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

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

APRA has allowed a period of five years commencing on 1 January 2016 to transition to be less than the 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 Overseas 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.

While the limit and associated conditions do not apply to the ELE's non-equity exposures to the NZ Branch (which is within the ELE), the limit and associated conditions do apply to the NZ Branch's non-equity exposures to the rest of the NZ Banking Group other than Westpac New Zealand Group Limited. As at 30 September 2015, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the new limit was approximately 7% of Level 1 Tier 1 Capital of the Overseas Bank.

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

General matters

Registered Bank

The Overseas Bank is entered on the register maintained under the Reserve Bank Act. The NZ Branch's head office is situated at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand and the address for service of process on the NZ Branch is Westpac on Takutai Square, 53 Galway Street, Auckland, New Zealand.

Overseas Bank

The Overseas Bank was founded in 1817 and was incorporated in 1850 pursuant to the Bank of New South Wales Act 1850. In 1982 the Overseas Bank acquired The Commercial Bank of Australia Limited and the Overseas Bank changed its name to Westpac Banking Corporation. On 23 August 2002, the Overseas Bank registered as a public company limited by shares under the Australian Corporations Act 2001 and as of that date the Bank of New South Wales Act 1850 ceased to apply.

The Overseas Bank's principal office and address for service of process is Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

Until 1 November 2006, the Overseas Bank operated as a branch in New Zealand. Effective 1 November 2006, the Overseas Bank has operated in New Zealand through both the NZ Branch (a branch of the Overseas Bank carrying on financial markets operations and institutional banking activities until 1 November 2011) and Westpac New Zealand. Westpac New Zealand is a member of the NZ Banking Group.

On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to Westpac New Zealand (For further details refer to Note 2 to the financial statements included in the Disclosure Statement for the year ended 30 September 2013).

As a registered bank, Westpac New Zealand is required to produce its own disclosure statement. Accordingly, further information on Westpac New Zealand is available in Westpac New Zealand's Disclosure Statement for the year ended 30 September 2015.

Registered bank: Directorate

Directors

The Directors of the Overseas Bank ('**Board**') at the time this Disclosure Statement was signed were:

Name: Lindsay Philip Maxsted, DipBus (Gordon), FCA, FAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Chairman of Transurban Holdings Limited, Transurban Infrastructure Management Limited and Transurban International Limited. Managing Director of Align Capital Pty Ltd. Director of BHP Billiton Limited, BHP Billiton plc, Align Investments Pty Ltd, Baker IDI Heart and Diabetes Institute Holdings Limited, Belmont Pty Ltd, Centip Pty Ltd, Continuum Investments Pty Ltd, Jacobite Investments Pty Ltd and 139 Pty Ltd. Member of the Coolmore Australia Advisory Board.
Name: Brian Charles Hartzer, BA, CFA **Non-executive:** No **Country of Residence:** Australia **Primary Occupation:** Managing Director & Chief Executive Officer, Westpac Banking Corporation **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** No	**External Directorships:** Chairman of Australian Bankers' Association Incorporated. Director of The Financial Markets Foundation for Children.
Name: Elizabeth Blomfield Bryan AM, BA (Econ.), MA (Econ.) **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Chairman of Virgin Australia Holdings Limited. Deputy Chairman of Insurance Australia Group Limited. Director of Virgin Australia International Airlines Pty Ltd, Virgin Australia Airlines (SE Asia) Pty Ltd, Virgin Australia Airlines (NZ) Limited, Virgin Australia International Holdings Pty Ltd, Tiger International Number1 Pty Ltd and the E. Bryan Superannuation Fund Pty Ltd. Member of the Takeovers Panel and Investments Commission Director Advisory Panel. President of YWCA NSW.
Name: Ewen Graham Wolseley Crouch AM, BEc (Hons.), LLB, FAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Chairman of Mission Australia. Director of City Mission Employees Retirement Fund Pty Limited, Mission Australia Capital Fund Pty Ltd, Sydney Symphony Orchestra Holdings Pty Limited, Sydney Symphony Limited, Wersley Investments Pty Limited, Wersley Pty Limited and BlueScope Steel Limited. Alternate Director of Working Links (Employment) Limited. Member of the Law Committee of the Australian Institute of Company Directors, the Corporations Committee of the Law Council of Australia and the Commonwealth Remuneration Tribunal. Board Member of Jawun.
Name: Catriona Alison Deans, BA, MBA, GAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Cochlear Limited, Insurance Australia Group Limited, IAG RE Australia Limited, WFI Insurance Limited, Chessholme Pty Ltd, Ascog Pty Ltd and kikki.K Holdings Pty Ltd.
Name: Craig William Dunn, BCom, FCA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Chairman of Stone and Chalk Limited and The Australian Ballet. Director of Amiala Pty Ltd, Carringbush Consulting Services Pty Ltd, Australian Government Financial Literacy Board and Financial Literacy Australia. Member of the New South Wales Government Financial Services Knowledge Hub and the Australian Securities and Investments Commission External Advisory Panel. Consultant at King & Wood Mallesons.

General matters (continued)

Name: Robert George Elstone, BA (Hons.), MA (Econ.), MCom **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of R & S Elstone Pty Ltd, Elstone Investments Pty Limited and R Elstone Pty Limited. Board Member of the University of Western Australia Business School. Adjunct Professor of the University of Western Australia Business School and University of Sydney School of Business.
Name: Peter John Oswin Hawkins, BCA (Hons.), SF Fin, FAIM, ACA (NZ), FAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of Clayton Utz, Joshawk Investments Pty Ltd, Liberty Financial Pty Ltd, Liberty Fiduciary Ltd, Lynter Investments Pty Ltd, LFI Group Pty Ltd, MG Responsible Entity Limited (the responsible entity for MG Unit Trust), Minerva Financial Group Pty Limited, Mirvac Funds Limited, Mirvac Limited, Murray Goulburn Co-operative Co. Limited and Petlyn Holdings Pty Ltd.
Name: Peter Ralph Marriott, BEc (Hons.), FCA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes, Chairman **Independent Director:** Yes	**External Directorships:** Chairman of Austraclear Limited. Director of ASX Limited, ASX Settlement Corporation Limited, ASX Clear (Futures) Pty Limited, ASX Clear Pty Limited, ASX Clearing Corporation Limited, ASX Settlement Pty Limited, P. & E. Marriott Investments Pty Ltd, P. & E. Marriott Holdings Pty Ltd and P. & E. Marriott Pty Ltd. Member of the Review Panel & Policy Council of the Banking & Finance Oath.

The following changes in the composition of the Board have been effected since 30 September 2014:

- Ann Pickard retired from the Board on 12 December 2014;
- Gail Kelly retired as Managing Director and Chief Executive Officer on 1 February 2015;
- Brian Hartzer was appointed as Managing Director and Chief Executive Officer on 2 February 2015; and
- Craig Dunn was appointed to the Board effective 1 June 2015.

Chief Executive Officer, NZ Branch

Name: Karen Lee Ann Silk, B.Com

Country of Residence: New Zealand

Primary Occupation: Chief Executive Officer, NZ Branch

Secondary Occupations: General Manager, Commercial Corporate and Institutional, Westpac New Zealand

External Directorships: Director of Waianiwa Pastoral Limited

Responsible person

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

Name: David Alexander McLean, LLB (Hons.)

Country of Residence: New Zealand

Primary Occupation: Chief Executive, Westpac New Zealand

Secondary Occupations: None

Address for communications

All communications may be sent to the Directors, the Chief Executive Officer, NZ Branch and the Responsible Person at the head office of the NZ Branch at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand.

Conflicts of interest policy

The Board follows a procedure to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Overseas Bank and their personal, professional or business interests are avoided or dealt with. Accordingly, each Director must:

(i) give notice to the Board of any direct or indirect interest in any contract, proposed contract or other matter with the Overseas Bank as soon as practicable after the relevant facts have come to that Director's knowledge. Alternatively, a Director may give to the Board a general notice to the effect that the Director is to be regarded as interested in any present or prospective contract or other matter between the Overseas Bank and a person or persons specified in that notice; and

(ii) in relation to any matter that is to be considered at a Directors' meeting in which that Director has a material personal interest, not vote on the matter nor be present while the matter is being considered at the meeting (unless the remaining Directors have previously resolved to the contrary).

General matters (continued)

Interested transactions

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

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

(b) which could be reasonably likely to influence materially the exercise of the Directors', or the Chief Executive Officer, NZ Branch's duties.

Auditors

NZ Banking Group

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland

New Zealand

Credit ratings

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

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Service	Aa2	Stable
Standard & Poor's	AA-	Stable

In the two years prior to 30 September 2015, there have been no changes to the Overseas Bank's credit ratings or ratings outlook as outlined above.

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

Descriptions of credit rating scales[1]

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
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 Investors Service and Standard & Poor's.

Credit ratings by Fitch Ratings and Standard & Poor's may be modified by a plus (higher end) or minus (lower end) sign to show relative standing within the major categories. Moody's Investors Service 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 Overseas Bank's current position is at the lower end of the credit rating scale indicated in bold.

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

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

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2015 and can be accessed at the internet address www.westpac.com.au.

Historical summary of financial statements

	NZ Banking Group				
$ millions	**Year Ended 30-Sep-15**	Year Ended 30-Sep-14	Year Ended 30-Sep-13	Year Ended 30-Sep-12	Year Ended 30-Sep-11
Income statement					
Interest income	**4,451**	4,037	3,801	3,965	4,016
Interest expense	**(2,670)**	(2,447)	(2,223)	(2,440)	(2,482)
Net interest income	**1,781**	1,590	1,578	1,525	1,534
Non-interest income	**590**	677	585	582	509
Net operating income	**2,371**	2,267	2,163	2,107	2,043
Operating expenses	**(943)**	(868)	(877)	(872)	(845)
Impairment charges on loans	**(47)**	(26)	(105)	(184)	(226)
Operating profit	**1,381**	1,373	1,181	1,051	972
Share of profit of associate accounted for using the equity method	**-**	1	1	1	1
Profit before income tax expense	**1,381**	1,374	1,182	1,052	973
Income tax expense	**(375)**	(355)	(327)	(293)	(307)
Profit after income tax expense	**1,006**	1,019	855	759	666
Profit after income tax expense attributable to:					
Head office account and owners of the NZ Banking Group	**1,003**	1,016	852	756	662
Non-controlling interests	**3**	3	3	3	4
	1,006	1,019	855	759	666
Dividends paid on ordinary share capital	**(159)**	(251)	(327)	(4)	(2)
Dividends paid on convertible debentures (net of tax)	**-**	-	(66)	(72)	(70)
Balance sheet					
Total assets	**88,861**	81,678	77,554	77,854	78,293
Total impaired assets	**282**	346	573	868	919
Total liabilities	**82,668**	76,179	72,757	72,339	73,532
Total head office account	**1,824**	1,750	1,639	1,513	1,389
Total equity	**6,193**	5,499	4,797	5,515	4,761

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

Guarantee arrangements

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

Ranking of local creditors in liquidation

There are material legislative restrictions in Australia (being the Overseas Bank's country of incorporation) which subordinate the claims of certain classes of unsecured creditors of the NZ Branch on the assets of the Overseas Bank (including a claim made or proved in an insolvent winding-up or liquidation of the Overseas Bank) to those of other classes of unsecured creditors of the Overseas Bank.

The legislation described below is relevant to limitations on possible claims made by unsecured creditors of the NZ Branch (together with all other senior unsecured creditors of the Overseas Bank) and New Zealand depositors on the assets of the Overseas Bank (including a claim made or proved in an insolvent winding-up or liquidation of the Overseas Bank) relative to those of certain other classes of unsecured creditors of the Overseas Bank.

Section 13A(3) of the Australian Banking Act provides that if an authorised deposit-taking institution ('**ADI**') becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to satisfy the liabilities of the ADI in the following order:

- first, certain obligations of the ADI to the Australian Prudential Regulation Authority ('**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 ADI;
- second, APRA's costs (if any) in exercising its powers and performing its functions relating to the ADI in connection with the FCS;
- third, the ADI's liabilities (if any) in Australia in relation to 'protected accounts' that account-holders keep with the ADI;
- fourth, the ADI's debts (if any) to the Reserve Bank of Australia;
- fifth, the ADI's liabilities (if any) under an emergency financial 'industry support contract' that is certified by APRA in accordance with the Australian Banking Act; and
- sixth, the ADI's other liabilities (if any) in the order of their priority apart from the above.

Section 13A(3) of the Australian Banking Act affects all unsecured liabilities of the NZ Branch, which, as at 30 September 2015, amounted to $15,415 million (30 September 2014: $13,748 million).

Section 13A(4) of the Australian Banking Act also provides that it is an offence for an ADI not to hold assets (other than goodwill and any assets or other amount excluded by the prudential standards) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the year ended 30 September 2015, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

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.

The requirements of the above provisions have the potential to impact on the management of the liquidity of the NZ Banking Group.

Other material matters

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

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

Conditions of registration

The conditions of registration imposed on Westpac Banking Corporation (the '**registered bank**') in New Zealand, which applied from 1 November 2014, are as follows:

1. 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.

2. 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.

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.

4. That no appointment to the position of the New Zealand Chief Executive Officer of the registered bank shall be made unless:

   (a) the Reserve Bank of New Zealand ('**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.

5. That Westpac Banking Corporation complies with the requirements imposed on it by the Australian Prudential Regulation Authority.

6. That Westpac Banking Corporation complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:

   (a) Common Equity Tier One Capital of Westpac Banking Corporation is not less than 4.5% of risk-weighted exposures;

   (b) Tier One Capital of Westpac Banking Corporation is not less than 6% of risk-weighted exposures; and

   (c) Total Capital of Westpac Banking Corporation is not less than 8% of risk-weighted exposures.

7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed $15 billion.

8. That the retail deposits of the registered bank in New Zealand do not exceed $200 million. For the purposes of this condition retail deposits are defined as deposits by natural persons, excluding deposits with an outstanding balance which exceeds $250,000.

9. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

10. That the business of the registered bank in New Zealand 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 registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

11. That the business of the registered bank in New Zealand must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.

12. That the business of the registered bank in New Zealand must not provide a residential mortgage loan if the residential property to be mortgaged to the registered bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.

Conditions of registration (continued)

13. That the business of the registered bank in New Zealand must not—
    (a) act as broker or arrange a residential mortgage loan for the business of the registered bank outside New Zealand or for an associated person of the registered bank outside New Zealand; or
    (b) facilitate the drawdown of a residential mortgage loan the registered bank originated as part of its business outside New Zealand or by an associated person of the registered bank outside New Zealand without notifying the Reserve Bank of this activity in the manner and form specified by the Reserve Bank.

In these conditions of registration:

- 'Banking Group'—
  (a) means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013 (unless paragraph (b) applies); or
  (b) if the Financial Reporting Act 1993 applies to the registered bank, means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 9(2) of the Financial Reporting Act 1993:
- 'business of the registered bank in New Zealand'—
  (a) means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013 (unless paragraph (b) applies); or
  (b) if the Financial Reporting Act 1993 applies to the registered bank, means the New Zealand business of the registered bank as required to be reported in financial statements under section 8(2) of the Financial Reporting Act 1993:
- 'generally accepted accounting practice'—
  (a) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (b) applies); or
  (b) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the registered bank is required to prepare financial statements in accordance with that practice:
- 'liabilities of the registered bank in New Zealand'—
  (a) means the liabilities that the registered bank would be required to report in financial statements for its New Zealand business if section 461B(1) of the Financial Markets Conduct Act 2013 applied (unless paragraph (b) applies); or
  (b) if the Financial Reporting Act 1993 applies to the registered bank, means the liabilities of the registered bank as required to be reported in financial statements under section 8(2) of the Financial Reporting Act 1993.
- In conditions of registration 9 to 13,—
  (a) 'loan-to-valuation ratio', 'loan value', 'property value', 'qualifying new mortgage lending amount' and 'residential mortgage loan' have the same meaning as in the Reserve Bank document entitled 'Framework for Restrictions on High-LVR Residential Mortgage Lending' (BS19) dated October 2014;
  (b) 'loan-to-valuation measurement period' means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2014.

The conditions of registration were amended on 28 October 2015 with effect from 1 November 2015. The amendments impose revised high loan to value ratio ('**LVR**') restrictions in line with the revised Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19) and remove certain conditions relating to high-LVR restrictions.

The new high-LVR restrictions:

- restrict residential property investment loans in the Auckland region at LVRs of greater than 70 percent to 5 percent of total residential property investment loans in Auckland;
- retain the existing 10 percent limit for owner-occupier mortgage loans in the Auckland region at LVRs greater than 80 percent; and
- increase the limit on residential mortgage loans at LVRs greater than 80 percent outside of Auckland to 15 percent of residential mortgage loans outside of Auckland.

Superseded references to the 'Financial Reporting Act 1993' have also been removed from the conditions.

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

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed, the Disclosure Statement:

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

(b) is not false or misleading.

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, over the year ended 30 September 2015:

(a) the Overseas Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act; and

(b) the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group.

    Refer to Note 35 for further detail regarding the entities which had systems in place to monitor and control the material risks of relevant members of NZ Banking Group.

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

David McLean

David Alexander McLean

Karen Lee Ann Silk

Dated this 10th day of December 2015

Index to financial statements

Page	Contents

Income statement for the year ended 30 September

		NZ Banking Group	
$ millions	Note	Year Ended 30-Sep-15	Year Ended 30-Sep-14
Interest income	2	**4,451**	4,037
Interest expense	2	**(2,670)**	(2,447)
Net interest income		**1,781**	1,590
Non-interest income	3	**590**	677
Net operating income		**2,371**	2,267
Operating expenses	4	**(943)**	(868)
Impairment charges on loans	6	**(47)**	(26)
Operating profit		**1,381**	1,373
Share of profit of associate accounted for using the equity method		**-**	1
Profit before income tax expense		**1,381**	1,374
Income tax expense	7	**(375)**	(355)
Profit after income tax expense		**1,006**	1,019
Profit after income tax expense attributable to:			
Head office account and owners of the NZ Banking Group		**1,003**	1,016
Non-controlling interests		**3**	3
		1,006	1,019

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Statement of comprehensive income for the year ended 30 September

$ millions	NZ Banking Group Year Ended 30-Sep-15	NZ Banking Group Year Ended 30-Sep-14
Profit after income tax expense	**1,006**	1,019
Other comprehensive (expense)/income which may be reclassified subsequently to the income statement:		
Available-for-sale securities:		
Net unrealised (losses)/gains from changes in fair value of available-for-sale securities	**(8)**	24
Transferred to the income statement (refer to Note 3)	**(19)**	(88)
Exchange differences	**-**	(3)
Income tax effect	**8**	(4)
Cash flow hedges:		
Net losses from changes in fair value of cash flow hedges	**(217)**	(52)
Transferred to the income statement	**39**	49
Income tax effect	**50**	1
Total other comprehensive expense which may be reclassified subsequently to the income statement	**(147)**	(73)
Other comprehensive (expense)/income which will not be reclassified subsequently to the income statement:		
Remeasurement of employee defined benefit obligations	**(7)**	4
Income tax effect	**2**	(1)
Total other comprehensive (expense)/income which will not be reclassified subsequently to the income statement	**(5)**	3
Total other comprehensive expense, net of tax	**(152)**	(70)
Total comprehensive income	**854**	949
Total comprehensive income attributable to:		
Head office account and owners of the NZ Banking Group	**851**	946
Non-controlling interests	**3**	3
	854	949

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Balance sheet as at 30 September

$ millions	Note	NZ Banking Group 2015	2014
Assets			
Cash and balances with central banks		**939**	1,927
Due from other financial institutions	9	**168**	591
Trading securities and other financial assets designated at fair value	10	**4,215**	3,514
Derivative financial instruments	25	**5,459**	4,180
Available-for-sale securities	11	**3,421**	3,010
Loans	12,13	**69,576**	65,027
Life insurance assets		**265**	297
Due from related entities	24	**3,451**	1,770
Investment in associate	24	**-**	48
Property, plant and equipment		**164**	178
Deferred tax assets	14	**167**	120
Goodwill and other intangible assets	15	**658**	715
Other assets	16	**378**	301
Total assets		**88,861**	81,678
Liabilities			
Due to other financial institutions	17	**837**	1,141
Deposits and other borrowings	18	**52,986**	50,570
Other financial liabilities at fair value through income statement	19	**279**	1,072
Derivative financial instruments	25	**6,717**	4,123
Debt issues	20	**14,685**	12,592
Current tax liabilities		**25**	30
Provisions	21	**92**	87
Other liabilities	22	**775**	697
Total liabilities excluding related entities liabilities		**76,396**	70,312
Subordinated debentures	23	**1,984**	710
Due to related entities	24	**4,288**	5,157
Total related entities liabilities		**6,272**	5,867
Total liabilities		**82,668**	76,179
Net assets		**6,193**	5,499
Equity			
Head office account			
Branch capital		**1,300**	1,300
Retained profits		**524**	450
Total head office account		**1,824**	1,750
NZ Banking Group equity			
Ordinary share capital		**143**	143
Retained profits		**4,328**	3,555
Available-for-sale securities reserve		**16**	35
Cash flow hedge reserve		**(118)**	10
Total equity attributable to owners of the NZ Banking Group		**4,369**	3,743
Non-controlling interests		**-**	6
Total equity		**6,193**	5,499
Interest earning and discount bearing assets		**80,925**	74,494
Interest and discount bearing liabilities		**69,623**	66,117

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Signed on behalf of the Board of Directors.

Director
10th December 2015

Director
10th December 2015

Statement of changes in equity for the year ended 30 September

	NZ Banking Group								
	Head Office Account								
$ millions	Branch Capital	Retained Profits	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total Before Non-controlling Interests	Non-controlling Interests	Total Equity
As at 1 October 2013	1,300	339	139	2,895	106	12	4,791	6	4,797
Year ended 30 September 2014									
Profit after income tax expense	-	111	-	905	-	-	1,016	3	1,019
Net gains/(losses) from changes in fair value	-	-	-	-	24	(52)	(28)	-	(28)
Income tax effect	-	-	-	-	(4)	15	11	-	11
Exchange differences	-	-	-	-	(3)	-	(3)	-	(3)
Income tax effect	-	-	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	-	(88)	49	(39)	-	(39)
Income tax effect	-	-	-	-	-	(14)	(14)	-	(14)
Remeasurement of employee defined benefit obligations	-	-	-	4	-	-	4	-	4
Income tax effect	-	-	-	(1)	-	-	(1)	-	(1)
Total comprehensive income for the year ended 30 September 2014	-	111	-	908	(71)	(2)	946	3	949
Transactions with owners:									
Aggregation of new entities (refer to Note 24)	-	-	4	-	-	-	4	-	4
Dividends paid on ordinary shares (refer to Note 24)	-	-	-	(248)	-	-	(248)	(3)	(251)
As at 30 September 2014	1,300	450	143	3,555	35	10	5,493	6	5,499
Year ended 30 September 2015									
Profit after income tax expense	**-**	**74**	**-**	**929**	**-**	**-**	**1,003**	**3**	**1,006**
Net losses from changes in fair value	**-**	**-**	**-**	**-**	**(8)**	**(217)**	**(225)**	**-**	**(225)**
Income tax effect	**-**	**-**	**-**	**-**	**3**	**61**	**64**	**-**	**64**
Transferred to the income statement	**-**	**-**	**-**	**-**	**(19)**	**39**	**20**	**-**	**20**
Income tax effect	**-**	**-**	**-**	**-**	**5**	**(11)**	**(6)**	**-**	**(6)**
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	**-**	**74**	**-**	**924**	**(19)**	**(128)**	**851**	**3**	**854**
Transactions with owners:									
Dividends paid on ordinary shares (refer to Note 24)	**-**	**-**	**-**	**(151)**	**-**	**-**	**(151)**	**(8)**	**(159)**
Derecognition of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**(1)**
As at 30 September 2015	**1,300**	**524**	**143**	**4,328**	**16**	**(118)**	**6,193**	**-**	**6,193**

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Statement of cash flows for the year ended 30 September

$ millions	Note	NZ Banking Group Year Ended 30-Sep-15	 Year Ended 30-Sep-14
Cash flows from operating activities			
Interest income received		**4,475**	4,013
Interest expense paid		**(2,647)**	(2,377)
Non-interest income received		**511**	607
Operating expenses paid		**(813)**	(774)
Income tax paid		**(369)**	(318)
Cash flows from operating activities before changes in operating assets and liabilities		**1,157**	1,151
Net (increase)/decrease in:			
Due from other financial institutions		**105**	(2)
Trading securities and other financial assets designated at fair value		**(537)**	973
Loans		**(4,489)**	(3,036)
Due from related entities		**(2,250)**	(138)
Other assets		**-**	(3)
Net increase/(decrease) in:			
Due to other financial institutions		**(304)**	806
Deposits and other borrowings		**2,375**	2,392
Other financial liabilities at fair value through income statement		**(793)**	574
Other liabilities		**(9)**	(2)
Net movement in external and related entity derivative financial instruments		**2,964**	(417)
Net cash (used in)/provided by operating activities	39	**(1,781)**	2,298
Cash flows from investing activities			
Purchase of available-for-sale securities		**(930)**	(430)
Proceeds from maturities/sale of available-for-sale securities		**506**	171
Proceeds from disposal of subsidiary	24	**7**	-
Cash receipts from associate	24	**48**	-
Net decrease/(increase) in life insurance assets		**32**	(8)
Purchase of capitalised computer software		**(39)**	(59)
Proceeds from disposal of software		**2**	-
Purchase of property, plant and equipment		**(24)**	(39)
Net cash used in investing activities		**(398)**	(365)
Cash flows from financing activities			
Net increase in debt issues		**651**	736
Net decrease in due to related entities		**(743)**	(1,923)
Settlement of promissory note	24	**(48)**	-
Proceeds from issuance of subordinated debentures	23	**1,172**	-
Payment of dividends to ordinary shareholders		**(151)**	(248)
Payment of dividends to minority shareholders		**(8)**	(3)
Net cash provided by/(used in) financing activities		**873**	(1,438)
Net (decrease)/increase in cash and cash equivalents		**(1,306)**	495
Cash and cash equivalents at beginning of the year		**2,343**	1,848
Cash and cash equivalents at end of the year	39	**1,037**	2,343

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Basis of preparation and critical accounting assumptions and estimates

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

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

These financial statements are consolidated financial statements for the NZ Banking Group.

These financial statements were authorised for issue by the Overseas Bank's Board of Directors (the '**Board**') on 10 December 2015. 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 (Overseas Incorporated Registered Banks) Order 2014 ('**Order**').

These financial statements comply with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), 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**').

The NZ Banking Group's significant accounting policies relating to specific financial statement items are set out under the relevant notes. Accounting policies that affect the financial statements as a whole and details of critical accounting assumptions and estimates are set out below. Details of changes in accounting standards impacting the financial statements are set out in Note a(v) below.

(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) classified at fair value through income statement. The going concern concept and the accrual basis of accounting have been adopted.

(iii) Comparative revisions

Certain comparative information has been revised where appropriate to conform to changes in the presentation in the current year to enhance comparability. Where there has been a material restatement of comparative information the nature of, and the reason for, the restatement is disclosed in the relevant note.

(iv) Rounding of amounts

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

(v) Changes in accounting standards

To make the financial statements and notes easier to understand, the NZ Banking Group has changed the location of certain accounting policies within the notes, changed the order of certain notes and removed or aggregated certain immaterial disclosures.

In applying materiality to financial statement disclosures, we consider both the amount and nature of each item. Comparatives have been restated where relevant.

An amendment to NZ IAS 32 *Financial Instruments: Presentation* was applied by the NZ Banking Group from 1 October 2014. It clarified the conditions for applying the offsetting criteria of NZ IAS 32 including what constitutes a 'currently legally enforceable right of set-off' and the circumstances in which gross settlement systems may be considered the equivalent to net settlement. The application of NZ IAS 32 has not resulted in any material changes to the netting of balances presented on the NZ Banking Group's balance sheet.

b. Basis of aggregation

The NZ Banking Group as at 30 September 2015 has been aggregated by combining the sum of the capital and reserves of the NZ Branch, Hastings Forestry Investments Limited and the consolidated capital and reserves of BT Financial Group (NZ) Limited, Westpac Financial Services Group-NZ-Limited, Westpac Group Investment-NZ-Limited, Capital Finance New Zealand Limited, Westpac New Zealand Group Limited and their subsidiaries (including structured entities). For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

Subsidiaries (including structured entities) are those entities over which the NZ Banking Group has control. Control exists when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. All transactions between entities within the NZ 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.

Note 1 Basis of preparation and critical accounting assumptions and estimates (continued)

The interest of non-controlling shareholders is stated at their proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly by the NZ Banking Group. 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. The cost of an acquisition is measured as the aggregate of the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of acquisition. 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 total consideration transferred, the amount of any non-controlling interest and the fair value of any previous NZ 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 NZ Branch'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.

(iii) Head office account, share capital, reserves and non-controlling interests

Head office account - Branch capital

Branch capital comprises funds provided by the Overseas Bank. It is non-interest bearing and there is no fixed date for repatriation.

Ordinary shares

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

Available-for-sale securities reserve

This comprises the changes in the fair value of available-for-sale financial securities, net of tax. These changes are transferred to non-interest income in the income statement when the asset is either derecognised or impaired.

Cash flow hedge reserve

This comprises the effective portion of the fair value gains and losses associated with the 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 NZ 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 NZ Banking Group classifies its significant financial assets into the following categories: due from other financial institutions, trading securities and other financial assets designated at fair value, derivative financial instruments, available-for-sale securities and loans and receivables. The NZ Banking Group has not classified any of its financial assets as held-to-maturity investments.

The NZ Banking Group classifies significant financial liabilities into 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 and subordinated debentures.

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

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the NZ 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 together with the transfer of substantially all the risks and rewards of ownership.

Where the NZ Banking Group has neither transferred nor retained substantially all the risks and rewards of ownership but has retained control, the asset continues to be recognised on the balance sheet to the extent of the NZ 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 profit or loss through the income statement.

(iv) Repurchase and reverse repurchase agreements (including securities borrowed and lent)

Where securities are sold subject to an agreement to repurchase at a predetermined price ('repos'), they remain recognised on balance sheet in their original category (i.e. 'Trading securities and other financial assets designated at fair value' or 'Available-for-sale'). A liability ('Securities sold under agreement to repurchase') is recognised in respect of the cash consideration received. Where the underlying securities are part of a trading portfolio, the associated liability is recognised as part of 'Other financial liabilities at fair value through income statement'. Where the underlying

Note 1 Basis of preparation and critical accounting assumptions and estimates (continued)

securities are classified as 'Available-for-sale', the associated liability is recognised in 'Due to other financial institutions', 'Deposits and other borrowings' or 'Due to related entities', depending on the counterparty.

Securities purchased under agreements to resell ('reverse repos') are not recognised on the balance sheet and the cash consideration paid is recorded as part of 'Trading securities and other financial assets designated at fair value'.

d. Critical accounting assumptions and estimates

The application of the NZ Banking Group's accounting policies necessarily requires the use of judgment, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values would change, impacting the net assets and income of the NZ Banking Group. The nature of significant assumptions and estimates used are noted below.

(i) Fair value of financial instruments

Financial instruments classified as held for trading (including derivatives) or designated at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value.

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 on the measurement date.

The best evidence of fair value is a quoted price in an active market. Wherever possible the NZ Banking Group determines the fair value of a financial instrument based on the quoted price.

Where no direct quoted price in an active market is available, the NZ Banking Group applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

The majority of models used by the NZ 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.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity of market modelling and the nature and complexity of the transaction (bespoke or generic). To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can require more judgement, dependent on the significance of the unobservable input to the overall valuation. Unobservable inputs are determined based on the best information available. These inputs are generally derived and extrapolated from other relevant market data and calibrated against industry standards, economic models and observed transaction prices.

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

In determining the fair value of derivatives, the NZ Banking Group adjusts the mid-market valuations produced by derivative pricing models to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads and credit valuation adjustments. They also include funding valuation adjustments on the uncollateralised derivative portfolio.

The fair value of financial instruments is provided in Note 26, as well as the mechanism by which fair value has been derived.

(ii) Provisions for impairment charges on loans and credit commitments

Provisions for credit impairment represent management's estimate of the impairment charges incurred in the loan portfolios and on undrawn contractually committed credit facilities and guarantees provided as at the balance sheet date. Changes to the provisions are reported in the income statement as part of impairment charges on loans. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the NZ Banking Group to reduce any differences between loss estimates and actual loss experience.

There are two components to the NZ Banking Group's loan impairment provisions, individual and collective, as follows:

(a) Individual component – all impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the NZ Banking Group's portfolio of commercial loans to medium and large businesses. Impairment is recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate for fixed rate loans and the loan's current effective interest rate for variable rate loans). Relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the NZ Banking Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgments are made in this process. Furthermore, judgments can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.

(b) Collective component – this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and loan impairments that have been incurred but have not been separately identified at the balance date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience, current economic conditions, expected defaults and timing of recovery based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence periods. The emergence period for each loan product type is determined through studies of loss emergence patterns. Loan files where losses have emerged are reviewed to identify the average time period between observable loss indicator events and the loss becoming identifiable. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on consumer spending, unemployment levels, payment behaviour and bankruptcy rates.

The provisions for impairment charges on loans are disclosed in Note 12 and Note 13, whilst the provisions for impairment on credit commitments are disclosed in Note 21. The impairment charge on loans reflected in the income statement is disclosed in Note 6.

Note 1 Basis of preparation and critical accounting assumptions and estimates (continued)

(iii) Goodwill

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgment. Different fair values would result in changes to the goodwill balance and to the post-acquisition performance of the acquisition.

To determine if goodwill is impaired, the carrying value of the identified Cash Generating Unit ('**CGU**') to which the goodwill is allocated is compared to its recoverable amount, which is determined on a value-in-use basis. Value-in-use is the present value of expected future cash flows from the CGU, and the determination of the appropriate cash flows and discount rates to use is subjective.

The key assumptions applied to determine if any impairment exists are outlined in Note 15.

(iv) Superannuation obligations

The NZ Banking Group operates a defined benefit superannuation scheme for staff in New Zealand. For this scheme, an independent actuarial valuation of the scheme's obligations using the projected unit credit method and the fair value measurements of the scheme's assets are performed at least annually.

The actuarial valuation of scheme obligations is dependent upon a series of assumptions, the key ones being price inflation, salaries' growth, mortality, morbidity, investment returns and discount rate assumptions. Different assumptions could significantly alter the amount of the difference between scheme assets and obligations, and the superannuation cost charged to the income statement.

The carrying amount and the primary assumptions used in the calculation of superannuation defined benefit obligation are disclosed in Note 22 and Note 30 respectively.

(v) Provisions (other than loan impairment)

Provisions are held in respect of a range of obligations such as employee entitlements, restructuring costs, litigation provisions, non-lending losses and onerous contracts as disclosed in Note 21. Some of the provisions involve significant judgment about the likely outcome of various events and estimated future cash flows. The deferral of these costs involves the exercise of management judgments about the ultimate outcomes of the transactions. 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.

(vi) Income taxes

The NZ Banking Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgment is required in determining the provision for income taxes, based on the NZ Banking Group's understanding of the relevant tax law. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax outcome is unclear. For such transactions and calculations, provisions for tax are held. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period when such determinations are made.

Refer to Note 14 for details of the NZ Banking Group's deferred tax balances.

(vii) Net insurance policy assets from life insurance contracts

Net insurance policy assets arising from life insurance contracts are computed using statistical and mathematical methods. These computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of the life insurance business written.

The key factors that affect the estimation of these liabilities are:

- the cost of providing benefits and administrating the contracts;
- mortality and morbidity experience;
- discontinuance experience, which affects the NZ Banking Group's ability to recover the cost of acquiring new business over the life of the contracts; and
- the rate at which projected future cash flows are discounted.

In addition, factors such as regulation, competition, interest rates, taxes, securities markets conditions and general economic conditions affect the level of these balances.

(viii) Securitisation and the consolidation of structured entities

The NZ Banking Group assesses at inception and periodically, whether an entity (particularly a structured entity) should be consolidated. The determination of control of structured entities will involve significant judgment as voting rights are often not the decisive factor in decisions over the relevant activities. Judgment may involve assessing the purpose and design of the entity, and consideration as to whether the NZ Banking Group, or another involved party with power over relevant activities, is acting as a principal in its own right or as an agent on behalf of others. Refer to Note 32 for further information about structured entities.

Note 1 Basis of preparation and critical accounting assumptions and estimates (continued)

e. Future accounting developments

The following new standards and interpretations which may have a material impact on the NZ Banking Group have been issued, but are not yet effective and have not been early adopted by the NZ 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 revised classification and measurement model, a forward looking 'expected loss' impairment model and modifies the approach to hedge accounting. Unless early adopted, the standard will be effective for the 30 September 2019 financial year. The major changes under the standard are:

- replaces the multiple classification and measurement models in NZ IAS 39 with a single model that has two measurement categories: amortised cost and fair value;
- a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;
- if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
- 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;
- interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired;
- there will be no separation of an embedded derivative where the instrument is a financial asset;
- equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present the fair value changes on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however, dividends from such investments will continue to be recognised in profit or loss;
- if an entity holds an investment in asset-backed securities it must determine the classification of that investment by looking through to the underlying assets and assess the credit quality of the investment compared with the underlying portfolio of assets. If an entity is unable to look through to the underlying assets, then the investment must be measured at fair value;
- where the fair value option is used for valuing financial liabilities the change in fair value relating to the entity's own credit risk is presented in other comprehensive income, except where it would create an accounting mismatch. If such a mismatch is created or enlarged, all changes in fair value (including the effects of changes in the credit risk) is recognised in profit or loss. The NZ Banking Group early adopted this amendment from 1 October 2013; and
- aligns hedge accounting more closely with risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The NZ 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* was issued in 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 NZ Banking Group.

Note 2 Net interest income

Accounting policy

Interest income and expense for all interest bearing financial assets and financial liabilities (including those instruments measured at fair value) is recognised using the effective interest rate method. Interest expense also includes the net result of treasury's interest rate risk management activities, including gains and losses on both derivatives and liquid assets.

The effective interest rate method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over its expected life. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (for example, prepayment options), but do not consider future credit losses. The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the effective interest rate (for example, loan establishment fees), transaction costs and all other premiums or discounts.

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. This rate is also used to discount the future cash flows for the purpose of measuring impairment charges.

Interest income on finance leases is brought to account progressively over the life of the lease, consistent with the outstanding investment and unearned income balance.

	NZ Banking Group	
$ millions	**Year Ended 30-Sep-15**	Year Ended 30-Sep-14
Interest income		
Cash and balances with central banks	**48**	40
Due from other financial institutions	**6**	5
Trading securities and other financial assets designated at fair value	**149**	145
Available-for-sale securities	**141**	117
Loans [1]	**4,103**	3,727
Due from related entities	**4**	3
Total interest income [2]	**4,451**	4,037
Interest expense		
Due to other financial institutions	**15**	12
Deposits and other borrowings	**1,772**	1,588
Other financial liabilities at fair value through income statement	**18**	11
Debt issues	**318**	369
Subordinated debentures	**42**	33
Other [3]	**505**	434
Total interest expense [4]	**2,670**	2,447
Net interest income	**1,781**	1,590

1 Interest income on loans includes interest income of $20 million (30 September 2014: $28 million) on impaired assets.

2 Total interest income for financial assets that were not at fair value through profit or loss was $4,302 million (30 September 2014: $3,892 million) for the NZ Banking Group.

3 Includes interest expense due to related entities (refer to Note 24) and the net impact of Treasury balance sheet management activities.

4 Total interest expense for financial liabilities that were not at fair value through profit or loss was $2,584 million (30 September 2014: $2,385 million).

Note 3 Non-interest income

Accounting policy

Fees and commission income

Fees and commission income is recognised as follows:

- Income earned on the execution of a significant act is recognised when the act has been completed (for example, advisory or arrangement services);
- Income earned for providing ongoing services is recognised as the services are provided (for example, maintaining and administering existing facilities); and
- 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 net interest income (for example, loan origination fees).

Trading income

Realised and unrealised gains or losses arising from changes in the fair value of trading assets and liabilities are recognised in the period in which they arise except day-one profits or losses which are deferred where certain valuation inputs are unobservable. Dividend income on the trading portfolio is recorded as part of non-interest income. Interest income or interest expense on the trading portfolio is recognised as part of net interest income. Trading income related to Treasury's interest rate and liquidity management activities is included in net interest income rather than in non-interest income.

Dividend income

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

Net life insurance income and change in policy liabilities

Net insurance policy assets relating to life insurance contracts are calculated by using the margin on service methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 *Determination of Life Insurance Policy Liabilities*. Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each major product line using applied assumptions at each reporting date. Profit margins are released in line with the service that has been provided.

Premium income

Life insurance premiums with a regular due date are recognised as revenue on an accrual basis. Premiums with no due date are recognised on a cash received basis.

Claims expense

Life insurance contract claims are recognised as an expense when a liability has been established.

	NZ Banking Group	
$ millions	**Year Ended 30-Sep-15**	Year Ended 30-Sep-14
Fees and commissions		
Transaction fees and commissions	**194**	226
Lending fees (loan and risk)	**65**	68
Other non-risk fee income	**45**	38
Total fees and commissions	**304**	332
Wealth management revenue		
Fees from trust and other fiduciary activities	**38**	34
Net life insurance income and change in policy liabilities	**100**	97
Total wealth management revenue	**138**	131
Trading income		
Foreign exchange trading	**103**	88
Other trading products	**14**	29
Total trading income	**117**	117
Net ineffectiveness on qualifying hedges	**(4)**	3
Other non-interest income		
Dividend income	**2**	2
Gain on sale of available-for-sale securities[1]	**19**	88
Gain on disposal of a subsidiary (refer to Note 24)	**4**	-
Other	**10**	4
Total other non-interest income	**35**	94
Total non-interest income	**590**	677

1 During the year ended 30 September 2015, Westpac New Zealand realised a gain of $19 million upon the sale of its holding of available-for-sale equity securities (30 September 2014: $88 million). Of the gain realised during the year ended 30 September 2014, $41 million was in respect of available-for-sale overseas equity securities which were sold to the Overseas Bank.

Note 4 Operating expenses

Accounting policy

Operating expenses are recognised as the relevant service is rendered or asset is consumed or once a liability is incurred.

Salaries and other staff expenses

Salaries and wages are recognised over the period the employee renders the service to receive the benefit.

The accounting policy for superannuation obligations is included in Note 30. The accounting policy for other employee benefits is included in Note 21.

Operating lease rentals

Operating lease payments are recognised in the income statement as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit received. Incentives received on entering into operating leases are recorded as liabilities and amortised as a reduction of rental expense on a straight-line basis over the lease term.

Depreciation, amortisation and impairment

Depreciation and amortisation are calculated using the straight-line or diminishing balance method (using the Sum of Years Digits) to allocate the cost of assets less any residual value over their estimated useful lives as follows:

- Leasehold improvements Up to 10 years
- Furniture and equipment 3 to 15 years
- Computer software 3 to 8 years

An impairment charge is recognised as part of operating expenses whenever the carrying amount of the asset exceeds its recoverable amount.

In the current period, the NZ Banking Group reviewed both the amortisation method and useful life of certain computer software assets. This resulted in increased amortisation of software assets in the current period of $31 million which otherwise would have been recognised over the forthcoming 8 years.

	NZ Banking Group	
	Year Ended	Year Ended
$ millions	**30-Sep-15**	30-Sep-14
Salaries and other staff expenses		
Employee remuneration, entitlements and on-costs	**420**	399
Superannuation costs:		
Defined contribution scheme	**32**	31
Defined benefit scheme	**1**	2
Share-based payments	**5**	5
Restructuring costs	**2**	2
Other	**8**	8
Total salaries and other staff expenses	**468**	447
Equipment and occupancy expenses		
Operating lease rentals	**67**	64
Depreciation	**38**	31
Equipment repairs and maintenance	**10**	10
Other	**11**	10
Total equipment and occupancy expenses	**126**	115
Other expenses		
Software amortisation costs	**95**	58
Litigation and non-lending losses	**2**	5
Purchased services	**76**	66
Stationery	**13**	13
Postage and freight	**18**	17
Advertising	**11**	23
Outsourcing	**100**	92
Related entities - management fees (refer to Note 24)	**8**	7
Other	**26**	25
Total other expenses	**349**	306
Total operating expenses	**943**	868

Note 5 Auditors' remuneration

$'000s	NZ Banking Group Year Ended 30-Sep-15	NZ Banking Group Year Ended 30-Sep-14
Audit and audit related services		
Audit and review of financial statements[1]	**2,050**	2,098
Other audit related services[2]	**43**	97
Total remuneration for audit and other audit related services	**2,093**	2,195
Other services[3]	**167**	148
Total remuneration for non-audit services	**167**	148
Total remuneration for audit, other audit related services and non-audit services	**2,260**	2,343

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 advisory services relating to other regulatory and compliance matters.

The amounts in the table above are presented exclusive of GST. It is the NZ 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 NZ Banking Group is important.

The external auditors also provide audit and non-audit services to non-consolidated entities, including non-consolidated trusts of which a member of the NZ Banking Group is manager or responsible entity and non-consolidated superannuation funds or pension funds. During the year ended 30 September 2015, the fees in respect of these services were approximately $577,000 (30 September 2014: $587,000).

Note 6 Impairment charges on loans

Accounting policy

The NZ Banking Group assesses at each balance date whether there is any objective evidence of impairment of its loan portfolio. An impairment charge is incurred if there is objective evidence of impairment as a result of one or more loss events which have an impact on the estimated cash flows of the financial asset that can be reliably estimated. Objective evidence includes significant financial difficulties of an obligor, adverse changes in the payment status of borrowers or national or local economic conditions that correlate with defaults on a group of loans. The amount of the charge is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of a provision account which is either individually assessed or collectively assessed (refer to Note 12 and Note 13) and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate.

When a loan or a part of a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the charge for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment charge decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment charge is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

	NZ Banking Group For the year ended 30 September 2015			
$ millions	**Residential Mortgages**	**Other Loans for Consumer Purposes**	**Loans for Business Purposes**	**Total**
Collectively assessed provisions	**(14)**	**(2)**	**(7)**	(23)
Individually assessed provisions	**9**	**-**	**25**	34
Bad debts written off directly to the income statement	**3**	**31**	**2**	36
Total impairment (recoveries)/charges on loans	**(2)**	**29**	**20**	**47**

	NZ Banking Group For the year ended 30 September 2014			
$ millions	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Collectively assessed provisions	(5)	(6)	(41)	(52)
Individually assessed provisions	7	-	32	39
Bad debts written off/(recovered) directly to the income statement	2	38	(1)	39
Total impairment charges/(recoveries) on loans	4	32	(10)	26

Note 7 Income tax expense

Accounting policy

Income tax expense for the year comprises current tax and movement in deferred tax balances. 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 other comprehensive income.

Current tax is the expected tax payable on the taxable income for the financial year using tax rates and laws that have been enacted or substantively enacted as at the balance date, and any adjustment to tax payable in respect of previous years.

Goods and services tax

Revenue, expenses and assets are recognised net of goods and services tax ('**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.

	NZ Banking Group	
$ millions	**Year Ended 30-Sep-15**	Year Ended 30-Sep-14
Income tax expense		
Current tax:		
Current year	**367**	325
Deferred tax (refer to Note 14):		
Current year	**14**	30
Prior year adjustments	**(6)**	-
Total income tax expense	**375**	355
Profit before income tax expense	**1,381**	1,374
Tax calculated at tax rate of 28%	**387**	385
Income not subject to tax	**(7)**	(32)
Expenses not deductible for tax purposes	**2**	1
Prior year adjustments	**(6)**	-
Other items	**(1)**	1
Total income tax expense	**375**	355

Note 8 Imputation credit account

	NZ Banking Group	
$ millions	**2015**	2014
Imputation credits available for use in subsequent reporting periods	**1,365**	1,390

Note 9 Due from other financial institutions

Accounting policy

Due from other financial institutions are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include collateral placed, loans and settlement account balances due from other financial institutions. These financial assets are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method.

	NZ Banking Group	
$ millions	**2015**	2014
Loans and advances to other banks	**168**	591
Total due from other financial institutions	**168**	591
Due from other financial institutions:		
At call	**98**	291
Term	**70**	300
Total due from other financial institutions	**168**	591
Amounts expected to be recovered within 12 months	**168**	591
Amounts expected to be recovered after 12 months	**-**	-
Total due from other financial institutions	**168**	591

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

Accounting policy

Trading securities are acquired principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking. It includes debt and equity instruments which are actively traded.

Other financial assets designated at fair value at inception include securities purchased under agreement to resell that are part of a trading portfolio and are managed on a fair value basis to reduce or eliminate an accounting mismatch.

These financial assets are recognised at fair value with gains and losses included in the income statement. Interest earned on Government and other debt securities is recognised within net interest income (Note 2).

	NZ Banking Group	
$ millions	**2015**	**2014**
Government and semi-government securities	**1,813**	1,215
Debt securities	**2,124**	1,922
Securities purchased under agreement to resell	**278**	377
Total trading securities and other financial assets designated at fair value	**4,215**	3,514
Amounts expected to be recovered within 12 months	**4,215**	3,514
Amounts expected to be recovered after 12 months	**-**	-
Total trading securities and other financial assets designated at fair value	**4,215**	3,514

As at 30 September 2015, $219 million of trading securities and other financial assets designated at fair were encumbered through repurchase agreements as part of standard terms of transactions with other banks (30 September 2014: $377 million).

Note 11 Available-for-sale securities

Accounting policy

Available-for-sale securities include debt and equity securities that are designated as available-for-sale or that are not classified as either financial assets at fair value through profit or loss or loans and receivables. Gains and losses arising from changes in the fair value of available-for-sale securities are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established.

The NZ Banking Group assesses at each reporting date whether there is objective evidence of impairment. Impairment exists if there is objective evidence of impairment as a result of one or more loss events which have an impact on the estimated cash flows of the available-for-sale security that can be reliably estimated. For debt instruments classified as available-for-sale, evidence of impairment includes significant financial difficulties or adverse changes in the payment status of an issuer or national or local economic conditions that correlate with defaults on a group of financial assets. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale securities, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment charge on that financial asset previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment event, the impairment charge is reversed through the income statement. Subsequent reversal of impairment charges on equity instruments are not recognised in the income statement until the instrument is disposed of.

	NZ Banking Group	
$ millions	**2015**	**2014**
Government and semi-government securities	**2,148**	2,350
Debt securities	**1,273**	618
Equity securities	**-**	42
Total available-for-sale securities	**3,421**	3,010
Amounts expected to be recovered within 12 months	**308**	475
Amounts expected to be recovered after 12 months	**3,113**	2,535
Total available-for-sale securities	**3,421**	3,010

As at 30 September 2015, no available-for-sale securities were pledged as collateral for the NZ Banking Group's liabilities (30 September 2014: $90 million).

Note 12 Loans

Accounting policy

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus directly attributable transaction costs. Subsequent to initial recognition, loans are 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 on a gross basis in the balance sheet, segregating the loan and deposit component into the respective balance sheet line items as they do not meet the criteria to be offset. Interest earned on this product 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.

	NZ Banking Group	
$ millions	**2015**	2014
Overdrafts	**1,249**	1,153
Credit card outstandings	**1,537**	1,405
Money market loans	**1,386**	1,082
Term loans:		
Housing	**42,121**	39,705
Non-housing	**22,475**	21,146
Other	**1,223**	978
Total gross loans	**69,991**	65,469
Provisions for impairment charges on loans	**(415)**	(442)
Total net loans	**69,576**	65,027
Amounts expected to be recovered within 12 months	**8,218**	7,781
Amounts expected to be recovered after 12 months	**61,358**	57,246
Total net loans	**69,576**	65,027

As at 30 September 2015, $4,821 million of housing loans were used by the NZ Banking Group to secure the obligations of Westpac Securities NZ Limited ('**WSNZL**') under Westpac New Zealand's Global Covered Bond Programme ('**CB Programme**') (30 September 2014: $4,002 million). These housing loans were not derecognised from Westpac New Zealand's balance sheet in accordance with the accounting polices outlined in Note 1. As at 30 September 2015, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $4,022 million (30 September 2014: $3,360 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 NZ Banking Group has individually assessed provisions and collectively assessed provisions. Individually assessed provisions are made against loans that exceed specified thresholds and which have been individually assessed as impaired. If the NZ Banking Group determines that no objective evidence of impairment exists for an individually assessed loan, it includes that loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The determination of the provision for impairment is one of the NZ Banking Group's critical accounting assumptions and estimates as described in Note 1d.

	NZ Banking Group 2015				NZ Banking Group 2014			
$ millions	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Neither past due nor impaired	**41,174**	**1,982**	**25,289**	**68,445**	38,528	1,819	23,219	63,566
Past due assets								
Less than 30 days past due	**762**	**93**	**180**	**1,035**	924	104	222	1,250
At least 30 days but less than 60 days past due	**67**	**18**	**7**	**92**	100	21	29	150
At least 60 days but less than 90 days past due	**34**	**8**	**12**	**54**	46	9	12	67
At least 90 days past due	**35**	**11**	**37**	**83**	50	15	25	90
Total past due assets[1]	**898**	**130**	**236**	**1,264**	1,120	149	288	1,557
Individually impaired assets[2]								
Balance at beginning of the year	**57**	**-**	**289**	**346**	93	-	480	573
Additions	**64**	**-**	**124**	**188**	78	-	141	219
Amounts written off	**(14)**	**-**	**(48)**	**(62)**	(18)	-	(112)	(130)
Returned to performing or repaid	**(58)**	**-**	**(132)**	**(190)**	(96)	-	(220)	(316)
Balance at end of the year	**49**	**-**	**233**	**282**	57	-	289	346
Total gross loans[3]	**42,121**	**2,112**	**25,758**	**69,991**	39,705	1,968	23,796	65,469
Individually assessed provisions								
Balance at beginning of the year	**19**	**-**	**125**	**144**	30	-	203	233
Impairment charges on loans:								
New provisions	**20**	**-**	**35**	**55**	23	-	73	96
Recoveries	**(6)**	**-**	**(7)**	**(13)**	(7)	-	(7)	(14)
Reversal of previously recognised impairment charges on loans	**(5)**	**-**	**(3)**	**(8)**	(9)	-	(34)	(43)
Amounts written off	**(14)**	**-**	**(48)**	**(62)**	(18)	-	(112)	(130)
Interest adjustments	**-**	**-**	**2**	**2**	-	-	2	2
Balance at end of the year	**14**	**-**	**104**	**118**	19	-	125	144
Collectively assessed provisions								
Balance at beginning of the year	**66**	**71**	**192**	**329**	68	67	219	354
Impairment (reversals)/charges on loans	**(14)**	**(2)**	**(7)**	**(23)**	(5)	(6)	(41)	(52)
Interest adjustments	**3**	**10**	**12**	**25**	3	10	14	27
Disposal of a subsidiary	**-**	**(2)**	**-**	**(2)**	-	-	-	-
Balance at end of the year	**55**	**77**	**197**	**329**	66	71	192	329
Total provisions for impairment charges on loans and credit commitments	**69**	**77**	**301**	**447**	85	71	317	473
Provision for credit commitments (refer to Note 21)	**-**	**-**	**(32)**	**(32)**	-	-	(31)	(31)
Total provisions for impairment charges on loans	**69**	**77**	**269**	**415**	85	71	286	442
Total net loans	**42,052**	**2,035**	**25,489**	**69,576**	39,620	1,897	23,510	65,027

1 Past due assets are not impaired assets under NZ IFRS.

2 The NZ Banking Group had undrawn commitments of $103 million (30 September 2014: $56 million) to counterparties for whom drawn balances are classified as individually impaired assets under loans for business purposes as at 30 September 2015.

3 The NZ Banking Group does not have other assets under administration as at 30 September 2015.

Note 14 Deferred tax assets

Accounting policy

Deferred tax is accounted for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts attributed to those assets and liabilities for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the 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
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is determined using the tax rates and laws enacted or substantively enacted at the balance date which are expected to apply in the periods in which the assets will be realised or the liabilities settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority on the same taxable entity or different entities in the same taxable group and where there is a legal right and intention to settle on a net basis.

	NZ Banking Group	
$ millions	**2015**	2014
Deferred tax assets are attributable to the following:		
Property, plant and equipment	**7**	2
Provisions for impairment charges on loans	**128**	132
Provision for employee entitlements	**14**	12
Life insurance policy liabilities	**(28)**	(23)
Cash flow hedges	**46**	(4)
Other temporary differences	**-**	1
Balance at end of the year	**167**	120
To be recovered within 12 months	**122**	96
To be recovered after 12 months	**45**	24
Balance at end of the year	**167**	120
The deferred tax credit/(charge) in income tax expense comprises the following temporary differences:		
Property, plant and equipment	**5**	(7)
Provisions for impairment charges on loans	**(4)**	(33)
Provision for employee entitlements	**-**	1
Life insurance policy liabilities	**(5)**	(5)
Other temporary differences	**(4)**	14
Total deferred tax charge in income tax expense	**(8)**	(30)
The deferred tax credit/(charge) in other comprehensive income comprises the following temporary differences:		
Cash flow hedges	**50**	1
Provision for employee entitlements	**2**	(1)
Other temporary differences	**3**	(4)
Total deferred tax credit/(charge) in other comprehensive income	**55**	(4)

Note 15 Goodwill and other intangible assets

Accounting policy

Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the net identifiable assets acquired.

All goodwill is considered to have an indefinite life. Goodwill is allocated to CGUs for the purpose of impairment testing based on management's analysis of where the synergies resulting from an acquisition are expected to arise. It is tested for impairment annually and whenever there is an indication of impairment, and is carried at cost or deemed cost less accumulated impairment. An impairment charge is recognised whenever the carrying amount of a CGU to which goodwill is allocated exceeds its recoverable amount, which is determined on a value-in-use basis.

Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The determination of goodwill and any impairment is one of the Group's critical accounting assumptions and estimates as detailed in Note 1d.

Note 15 Goodwill and other intangible assets (continued)

Other intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets are recognised when they are separable or arise from contractual or other legal rights, when their cost can be measured reliably and where it is probable that future economic benefits attributable to the assets will flow from their use.

Other intangible assets represent computer software.

Computer software includes purchased and internally generated software. The capitalised cost of internally generated software comprises only costs that are directly attributable to development of the software. Costs incurred in the research phase or in ongoing maintenance of the software are expensed as incurred. Computer software is capitalised at cost and classified as property, plant and equipment where it is integral to the operation of the associated hardware.

All intangible assets are measured at cost less any accumulated amortisation and any impairment losses.

All finite life intangible assets are tested for impairment if there is indication that the carrying amount may be greater than the recoverable amount. An assessment is made at each reporting date to determine if any such indicators exist.

An impairment charge is recognised whenever the carrying amount of the intangible asset exceeds its recoverable amount, which is determined on a value-in-use basis.

	NZ Banking Group	
$ millions	**2015**	2014
Goodwill		
Cost	**547**	547
Accumulated impairment	**(22)**	(22)
Net carrying amount of goodwill	**525**	525
Computer software		
Cost	**571**	545
Accumulated amortisation and impairment	**(438)**	(355)
Net carrying amount of computer software	**133**	190
Total goodwill and other intangible assets	**658**	715

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

The recoverable amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. The recoverable amount of the CGU is determined based on the NZ Banking Group's projections of future pre-tax cash flows discounted by the NZ Banking Group's after tax return on equity rate of 11.0% (30 September 2014: 11.0%), adjusted to a pre-tax rate of 15.3% (30 September 2014: 15.3%). All future cash flows are based on management approved two-year forecasts (30 September 2014: two years). All cash flows beyond the two-year forecast period have an assumed growth rate of zero for the purpose of goodwill impairment testing. The strategic business plan assumes certain economic conditions and business performance in determining the forecast, which are considered appropriate as they are consistent with observable historical information and current market expectations of the future. The forecasts applied by management are not reliant on any one particular assumption and no impairment would arise even if zero growth is achieved over the two-year forecast period.

A reasonably possible change in these key assumptions would not cause the CGUs' carrying amount to exceed their recoverable amounts.

Goodwill has been allocated to the following CGUs, which are equal to the operating segments of the same names as described in Note 29:

	NZ Banking Group	
$ millions	**2015**	2014
Consumer Banking & Wealth	**512**	512
Investments & Insurance	**13**	13
Net carrying amount of goodwill	**525**	525

Note 16 Other assets

	NZ Banking Group	
$ millions	**2015**	2014
Accrued interest receivable	**160**	168
Securities sold not yet delivered	**108**	40
Trade debtors and prepayments	**49**	29
Other	**61**	64
Total other assets	**378**	301
Amounts expected to be recovered within 12 months	**367**	296
Amounts expected to be recovered after 12 months	**11**	5
Total other assets	**378**	301

Included in accrued interest receivable as at 30 September 2015 were balances that amounted to $11 million (30 September 2014: $9 million) which relate to accrued interest on housing loans sold to a special purpose entity under the CB Programme (refer to Note 32 for details of the CB Programme).

Note 17 Due to other financial institutions

Accounting policy

Due to other financial institutions includes interbank borrowings, cash collateral and deposits (including vostro, settlement and clearing account balances) due to central and other banks. These financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

	NZ Banking Group	
$ millions	**2015**	2014
Interest bearing interbank deposits	**831**	1,116
Non-interest bearing, repayable at call	**6**	25
Total due to other financial institutions	**837**	1,141
Due to other financial institutions:		
At call	**176**	250
Term	**661**	891
Total due to other financial institutions	**837**	1,141
Amounts expected to be settled within 12 months	**837**	1,141
Amounts expected to be settled after 12 months	**-**	-
Total due to other financial institutions	**837**	1,141

Note 18 Deposits and other borrowings

Accounting policy

Deposits and other borrowings are measured at either amortised cost using the effective interest rate method or at fair value through the income statement where they are designated as such on initial recognition.

The NZ Banking Group designates certain deposits and other borrowings at fair value when those liabilities are managed on a fair value basis (as part of a trading portfolio), where an accounting mismatch is eliminated or reduced (which arises from associated derivatives executed for risk management purposes), or where the instrument contains an embedded derivative. These liabilities are measured at fair value with changes in fair value (except own credit) recognised through the income statement in the period in which they arise. The change in the portion of the fair value that is attributable to the NZ Banking Group's own credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised through the income statement.

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

	NZ Banking Group	
$ millions	**2015**	2014
Deposits and other borrowings at fair value		
Certificates of deposit	**1,070**	1,154
Total deposits and other borrowings at fair value	**1,070**	1,154
Deposits and other borrowings at amortised cost		
Non-interest bearing, repayable at call	**4,032**	3,607
Other interest bearing:		
At call	**23,871**	20,620
Term	**24,013**	25,189
Total deposits and other borrowings at amortised cost	**51,916**	49,416
Total deposits and other borrowings	**52,986**	50,570
Amounts expected to be settled within 12 months	**51,142**	48,585
Amounts expected to be settled after 12 months	**1,844**	1,985
Total deposits and other borrowings	**52,986**	50,570

The NZ Branch held no retail deposits and other borrowings from individuals as at 30 September 2015 (30 September 2014: nil).

Note 19 Other financial liabilities at fair value through income statement

Accounting policy

Securities sold under agreements to repurchase and securities sold short are classified as other financial liabilities at fair value through income statement. They are accounted for as financial liabilities at fair value through income statement.

	NZ Banking Group	
$ millions	**2015**	2014
Held for trading		
Securities sold short	**60**	605
Securities sold under agreements to repurchase	**219**	467
Total other financial liabilities at fair value through income statement	**279**	1,072
Amounts expected to be settled within 12 months	**279**	1,072
Amounts expected to be settled after 12 months	**-**	-
Total other financial liabilities at fair value through income statement	**279**	1,072

Note 20 Debt issues

Accounting policy

Debt issues are bonds, notes and commercial paper that have been issued by the NZ Banking Group. They are either accounted for at amortised cost or designated at fair value through income statement.

Subsequent to initial recognition, debt issues are measured at either amortised cost using the effective interest rate method or at fair value through income statement where they are designated as such on initial recognition. The NZ Banking Group designates certain debt issues at fair value to reduce or eliminate an accounting mismatch which arises from associated derivatives executed for risk management purposes. These financial liabilities are measured at fair value with changes in fair value (except own credit) recognised through the income statement in the period in which they arise. The change in the portion of the fair value that is attributable to the NZ Banking Group's own credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised through the income statement.

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

	NZ Banking Group	
$ millions	**2015**	2014
Short-term debt		
Commercial paper	**2,716**	3,019
Total short-term debt	**2,716**	3,019
Long-term debt		
Non-domestic medium-term notes	**5,024**	3,063
Covered Bonds	**4,022**	3,360
Domestic medium-term notes	**2,923**	3,150
Total long-term debt	**11,969**	9,573
Total debt issues	**14,685**	12,592
Debt issues at amortised cost	**11,969**	9,573
Debt issues at fair value	**2,716**	3,019
Total debt issues	**14,685**	12,592
Movement in debt issues		
Balance at beginning of the year	**12,592**	11,645
Issuance during the year	**7,775**	10,023
Repayments during the year	**(7,124)**	(9,287)
Effect of foreign exchange movements during the year	**1,464**	218
Effect of fair value movements and amortisation adjustments during the year	**(22)**	(7)
Balance at end of the year	**14,685**	12,592
Amounts expected to be settled within 12 months	**4,935**	4,716
Amounts expected to be settled after 12 months	**9,750**	7,876
Total debt issues	**14,685**	12,592

Note 21 Provisions

Accounting policy

Provisions are recognised for present obligations arising as a consequence of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated.

Employee benefits

Provisions for wages and salaries, including non-monetary benefits, annual leave and any associated on-costs (i.e. payroll tax) expected to be settled within 12 months from the balance date are recognised in respect of employees' services up to the balance date and are measured at the amounts expected to be paid when the liabilities are settled.

No provision is made for non-vesting sick leave as the pattern of sick leave taken indicates that no additional liability will arise for non-vesting sick leave.

Note 21 Provisions (continued)

Provisions for long service leave expected to be settled within 12 months from the balance date are measured at the amounts expected to be paid when the liabilities are settled. Provisions for long service leave and other deferred employee benefits expected to be settled more than 12 months from the balance date are measured at the present value of future payments expected to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Expected future payments are discounted to their net present value using market yields at the balance date on government bonds with terms that match as closely as possible to the estimated timing of future cash flows.

Provision for litigation and non-lending losses

A provision for litigation is recognised where it is probable that there will be an outflow of economic resources. Non-lending losses are any losses that have not arisen as a consequence of an impaired credit decision. Those provisions include litigation and associated costs, frauds and the correction of operational issues.

Provision for impairment on credit commitments

A provision for impairment is recognised on undrawn contractually committed facilities and guarantees provided it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced. The amount is calculated using the same methodology as the provision for impairment charges on loans (refer to Note 6).

Provision for restructuring

A provision for restructuring (including termination benefits) is recognised where there is a demonstrable commitment and a detailed plan such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated. The majority of restructuring provisions are expected to be settled within 12 months and are measured at amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the balance date are measured at the present value of the estimated cash outflows, where the effect of discounting is material.

The measurement of provisions is one of the NZ Banking Group's critical accounting assumptions and estimates as detailed in Note 1d.

	NZ Banking Group					
$ millions	**Long Service Leave**	**Annual Leave and Other Employee Benefits**	**Litigation and Non-lending Losses**	**Restructuring (refer Note 24)**	**Impairment on Credit Commitments**	**Total**
For the year ended 30 September 2015						
Balance as at 1 October 2014	**7**	**41**	**8**	**-**	**31**	**87**
Additional provisions recognised	**2**	**38**	**2**	**8**	**2**	**52**
Utilised during the year	**(2)**	**(37)**	**(4)**	**(3)**	**(1)**	**(47)**
Balance as at 30 September 2015	**7**	**42**	**6**	**5**	**32**	**92**
For the year ended 30 September 2014						
Balance as at 1 October 2013	7	44	1	-	35	87
Additional provisions recognised	1	32	10	-	-	43
Utilised during the year	(1)	(35)	(3)	-	(4)	(43)
Balance as at 30 September 2014	7	41	8	-	31	87

Provisions expected to be utilised beyond 12 months as at 30 September 2015 are $39 million (30 September 2014: $38 million).

Note 22 Other liabilities

	NZ Banking Group	
$ millions	**2015**	2014
Accrued interest payable	**341**	347
Securities purchased but not yet delivered	**226**	123
Claims reserves	**25**	16
Credit card loyalty programme	**35**	31
Retirement benefit obligations (refer to Note 30)	**19**	11
Trade creditors and other accrued expenses	**78**	73
Other	**51**	96
Total other liabilities	**775**	697
Amounts expected to be settled within 12 months	**748**	679
Amounts expected to be settled after 12 months	**27**	18
Total other liabilities	**775**	697

Note 23 Subordinated debentures

Accounting policy

Subordinated debentures issued by the NZ Banking Group are initially measured 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.

	NZ Banking Group	
$ millions	**2015**	2014
Subordinated debentures	**841**	710
Tier Two Notes	**1,143**	-
Total subordinated debentures	**1,984**	710

Subordinated debentures

On 5 April 2004 the NZ Branch issued US$525 million of junior subordinated convertible debentures to the trustee of the Tavarua Funding Trust IV ('**Funding Trust IV**'), a member of the Overseas Banking Group. The investment by Funding Trust IV in the subordinated convertible debentures was ultimately funded from the proceeds (net of issue costs) of approximately US$525 million of Trust Preferred Securities issued by the Overseas Banking Group in the United States of America.

The subordinated convertible debentures are unsecured obligations of the NZ Branch and rank subordinate and junior in the right of payment of principal and distributions to certain of the NZ Branch's obligations to its depositors and creditors, including other subordinated creditors, other than subordinated creditors holding subordinated indebtedness that ranks equally with, or junior to, the holders of subordinated convertible debentures.

The subordinated convertible debentures will pay semi-annual distributions (31 March and 30 September) in arrears at the annual rate of 5.256% up to, but excluding, 31 March 2016. From, and including, 31 March 2016 the subordinated convertible debentures will pay quarterly distributions (31 December, 31 March, 30 June and 30 September) in arrears at a floating rate equal to London InterBank Offer Rate ('**LIBOR**') plus 1.7675% per annum. The subordinated convertible debentures will only pay distributions to the extent they are declared by the Board, or an authorised committee of the Board. Any distribution is subject to the Overseas Bank having sufficient distributable profits unless approved by the Australian Prudential Regulation Authority ('**APRA**'). If certain other conditions exist a distribution is not permitted to be declared.

Conversion

The subordinated convertible debentures have no stated maturity, but will automatically convert into American Depositary Receipts ('**ADRs**'), each representing 40 Overseas Bank preference shares (non-cumulative preference shares with a liquidation amount of US$25 per share) on 31 March 2053, or earlier in the event that a distribution is not made or certain other events occur. The holders of the ADRs will, in certain circumstances, have the right to convert their Overseas Bank preference shares into a variable number of Overseas Bank ordinary shares on 31 March 2054 by giving notice to the Overseas Bank. The price at which Overseas Bank ordinary shares will be issued is based on the share price determined over a 20 day period prior to the optional conversion date and includes a 5% discount.

Redemption

With the prior written consent of APRA, if required, the Overseas Bank may elect to redeem the subordinated convertible debentures for cash before 31 March 2016, in whole, upon the occurrence of certain specific events, and in whole or in part on any distribution date on or after 31 March 2016. The holders of the subordinated convertible debentures do not have the option to require redemption of these instruments.

Tier Two Notes

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

Interest payable

Interest is payable quarterly in arrears commencing 22 December 2015, 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 Westpac New Zealand being solvent at the time of the interest payment and immediately following the interest payment.

Conversion

If a non-viability trigger event occurs, Westpac New Zealand must convert such number of the Tier Two Notes into a variable number of ordinary shares issued (calculated by reference to the net assets of Westpac New Zealand 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 Westpac New Zealand to convert all or some of its own capital instruments that qualify for Tier One or Tier Two regulatory capital recognition under the Reserve Bank Capital Adequacy Framework ('**Capital Instruments**') or Westpac New Zealand is declared subject to statutory management pursuant to section 117 of the Reserve Bank Act and the statutory manager decides Westpac New Zealand 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

Westpac New Zealand may redeem all or some of the Tier Two Notes 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 but not some 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 Related entities

Accounting policy

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. The definition includes subsidiaries, associates, joint ventures and superannuation plans as well as key management personnel and persons connected with key management personnel.

NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of the Overseas Banking Group including the NZ Branch and the following controlled entities as at 30 September 2015 whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business:

Name of Entity	Principal Activity	Notes
BT Financial Group (NZ) Limited	Holding company	
BT Funds Management (NZ) Limited	Funds management company	
Capital Finance New Zealand Limited	Finance company	Acquired on 31 December 2013[1]
Sie-Lease (New Zealand) Pty Limited	Leasing company	Acquired on 31 December 2013[1]
Hastings Forestry Investments Limited	Non-active company	
Westpac Financial Services Group-NZ-Limited	Holding company	
Westpac Life-NZ- Limited	Life insurance company	
Westpac Nominees-NZ-Limited	Nominee company	
HLT Custodian Trust	Custodian entity	
MIF Custodian Trust	Custodian entity	
Westpac Superannuation Nominees-NZ-Limited	Nominee company	
Westpac Group Investment-NZ-Limited	Holding company	
Westpac Holdings-NZ-Limited	Holding company	
Westpac Capital-NZ-Limited	Finance company	
Westpac Equity Investments NZ Limited	Non-active company	
Westpac New Zealand Group Limited	Holding company	
Westpac New Zealand Limited	Registered bank	
Westpac NZ Operations Limited[2]	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 NZ Covered Bond Holdings Limited	Holding company	19% owned[3]
Westpac NZ Covered Bond Limited	Guarantor	19% owned[3]
Westpac NZ Securitisation Holdings Limited	Holding company	19% owned[4]
Westpac NZ Securitisation Limited	Funding company	19% owned[4]
Westpac NZ Securitisation No.2 Limited	Non-active company	19% owned[4]
Westpac Term PIE Fund	Portfolio investment entity	Not owned[5]
Westpac Cash PIE Fund	Portfolio investment entity	Not owned[5]
Westpac Notice Saver PIE Fund	Portfolio investment entity	Not owned[5]. Established on 1 December 2014

1 The Overseas Banking Group acquired select businesses of Lloyds Banking Group Australia on 31 December 2013. Included in the acquisition was BOS International (Australia) Limited New Zealand Branch ('**BOSILNZ**') which was removed from the New Zealand Companies Register on 7 January 2014. The acquisitions and the subsequent removal of BOSILNZ from the New Zealand Companies Register did not have a significant impact on the NZ Banking Group's financial position or results of operations for the years ended 30 September 2014 or 30 September 2015.

2 Westpac NZ Leasing Limited was amalgamated into Westpac NZ Operations Limited ('**WNZO**') on 15 September 2014. The amalgamation did not have a significant impact on the NZ Banking Group's financial position or results of operations for the years ended 30 September 2014 or 30 September 2015.

3 The NZ Banking Group, through its subsidiaries, WNZO (9.5%) and Westpac Holdings-NZ-Limited (9.5%), has a total qualifying interest of 19% in Westpac NZ Covered Bond Holdings Limited ('**WNZCBHL**') and its wholly-owned subsidiary company, Westpac NZ Covered Bond Limited ('**WNZCBL**'). Westpac New Zealand 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 NZ Banking Group.

4 The NZ Banking Group, through its subsidiaries, WNZO (9.5%) and Westpac Holdings-NZ-Limited (9.5%), has a total qualifying interest of 19% in Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiaries, Westpac NZ Securitisation Limited ('**WNZSL**') and Westpac NZ Securitisation No.2 Limited ('**WNZSL2**'). Westpac New Zealand 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 NZ Banking Group.

5 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**') is the manager and issuer. The manager has appointed Westpac New Zealand to perform all customer management and account administration for the PIE Funds. Westpac New Zealand is the PIE Funds' registrar and administration manager. Westpac New Zealand does not hold any units in the PIE Funds however is considered to control them based on contractual arrangements put in place, and as such the PIE Funds are consolidated in the financial statements of the NZ Banking Group.

All entities in the NZ Banking Group are 100% owned unless otherwise stated. All the entities within the NZ Banking Group have a balance date of 30 September and are incorporated in New Zealand, except 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 a cash consideration of $7 million and the gain on sale amounted to $4 million.

Other significant related entities of the NZ Banking Group include branches of the Overseas Bank based in London, Sydney and New York.

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

Note 24 Related entities (continued)

Investment in associate

The NZ Banking Group had on issue a promissory note to 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 NZ Banking Group received $48 million from Cards NZ on 30 September 2015.

Nature of transactions

The NZ Banking Group has transactions with members of the Overseas Banking 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 NZ Branch and the Overseas Bank to members of the NZ 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 Overseas Bank

Management fees are paid by the NZ Banking Group to the Overseas Bank for management and administration services (consisting of salaries and other head office expenses) provided by the Overseas Bank. The total fees paid to the Overseas Bank by the NZ Banking Group for the year ended 30 September 2015 was $8 million (30 September 2014: $7 million).

The NZ Banking Group enters into derivative transactions with the Overseas Bank. They are accounted for as trading derivatives except for two cross currency swaps which are designated in a hedging relationship and are discussed below.

The Overseas Bank provides funding to the NZ Banking Group.

The NZ Banking Group receives funding from the London Branch on an as needs basis.

In September 2014, Westpac New Zealand Group Limited repaid $930 million of intercompany borrowings to the London Branch.

During the year ended 30 September 2015, the following transactions occurred:

- Westpac New Zealand Group Limited received funding of A$284 million from the London Branch. A derivative is in place with the Overseas bank, designated in a cash flow hedge relationship, to hedge the currency risk exposure of this funding;
- Westpac New Zealand issued A$1,040 million of Tier Two Notes to the London Branch (refer to Note 23). A derivative is in place with the Overseas bank, designated in a cash flow hedge relationship, to hedge the currency risk exposure of this funding; and
- NZ Branch repaid $871 million funding owing to the Overseas Bank.

During the year ended 30 September 2014, Westpac New Zealand realised a gain of $41 million from the sale of its holding of available-for-sale overseas equity securities to the Overseas Bank (refer to Note 3).

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

Transactions with other controlled entities of the Overseas Bank

During 2015, Westpac Group Investment-NZ-Limited paid a dividend of $66 million (30 September 2014: $185 million) to Westpac Overseas Holdings Pty Limited and Westpac Custodian Nominees Limited.

During 2015, Westpac Financial Services Group-NZ-Limited paid a dividend of $85 million to Westpac Equity Holdings Pty Limited (30 September 2014: $63 million).

For the year ended 30 September 2015, the NZ Banking Group paid fees of $5 million to Advance Asset Management Limited, a subsidiary of the Overseas Bank, for investment management services (30 September 2014: $4 million).

Note 24 Related entities (continued)

Due from and to related entities

$ millions	NZ Banking Group 2015	2014
Due from related entities		
Overseas Bank	**3,451**	1,767
Other members of the Overseas Banking Group	**-**	3
Total due from related entities	**3,451**	1,770
Due from related entities at amortised cost	**2,421**	165
Due from related entities at fair value	**1,030**	1,605
Total due from related entities	**3,451**	1,770
Amounts expected to be recovered within 12 months	**3,451**	1,316
Amounts expected to be recovered after 12 months	**-**	454
Total due from related entities	**3,451**	1,770
Due to related entities		
Overseas Bank	**4,283**	5,098
Other members of the Overseas Banking Group	**5**	11
Associates of the NZ Banking Group	**-**	48
Total due to related entities	**4,288**	5,157
Due to related entities at amortised cost	**2,930**	3,741
Due to related entities at fair value	**1,358**	1,416
Total due to related entities	**4,288**	5,157
Amounts expected to be settled within 12 months	**3,928**	4,097
Amounts expected to be settled after 12 months	**360**	1,060
Total due to related entities	**4,288**	5,157
Total liabilities excluding subordinated debentures and due to related entities	**76,396**	70,312

Other group investments

The NZ Banking Group had significant non-controlling shareholdings in the following New Zealand based entities as at 30 September 2015:

Name	Shares held by	Beneficial Interest	Nature of Business
Paymark Limited	Westpac NZ Operations Limited	25%	EFTPOS Settlements
Payments NZ Limited	Westpac New Zealand Limited	23%	Payment Rules

The NZ Banking Group does not have significant influence over these entities, and therefore, they are not classified as associates.

The total carrying amount of the NZ Banking Group's significant non-controlling shareholdings in the above investments, and their contribution to the results of the NZ Banking Group, are not material either individually or in aggregate.

Note 25 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 can include forwards, futures, swaps and options.

Derivatives are recognised initially and subsequently measured at fair value with gains or losses recognised through the income statement in the period in which they arise, unless the derivative is designated into 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.

Derivatives are used by the NZ 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 NZ 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 NZ Banking Group's Executive Risk Committee.

Where the criteria for hedge accounting as defined under NZ IAS 39 are met, the NZ Banking Group designates these derivatives into one of two hedge accounting relationships: fair value hedge and cash flow hedge. These hedging designations and associated accounting are as follows:

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The changes in the fair value of the hedged asset and liability are adjusted against their carrying value.

If the hedge no longer meets the criteria for hedge accounting, it is discontinued and any previous adjustment to the carrying value of a hedged item is amortised to the income statement over the period to maturity. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Note 25 Derivative financial instruments (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve through other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in profit or loss in the period in which the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

The NZ Banking Group uses derivatives in two distinct capacities; as a trader and as an end-user as part of its asset and liability management activities.

Derivatives of the NZ Banking Group are mainly held either in the NZ Branch or Westpac New Zealand. Derivatives with related parties are included in due from/due to related entities.

Trading

As a trader, the NZ Branch's primary objective is to derive income from the sale of derivatives to meet the NZ Banking Group's customers' needs. In addition to the sale of derivatives to customers, the NZ Branch also undertakes market making and risk management activities. Market making involves providing quotes to other dealers, who reciprocate by providing the NZ Branch with their own quotes. This process provides liquidity in the key markets in which the NZ Branch operates.

Fair value hedges

The NZ Banking Group hedges a proportion of its interest rate risk resulting from any potential changes in the fair value of fixed rate assets denominated in local currency using swaps. The NZ Banking Group also hedges part of its interest rate risk exposure from fixed medium-term debt denominated in local currency and subordinated debentures denominated in foreign currencies through the use of interest rate swaps and cross currency swaps.

The change in the fair value of hedging instruments designated as fair value hedges for the year ended 30 September 2015 was a $271 million loss (30 September 2014: $43 million loss) while the change in the fair value of the hedged items attributed to the hedged risk for the year ended 30 September 2015 was a $274 million gain (30 September 2014: $45 million gain).

Cash flow hedges

The NZ Banking Group hedges a portion of the cash flows from floating-rate customer deposits, term deposits and loans using interest rate swaps. The NZ Banking Group also hedges exposure to foreign currency principal and interest cash flows from floating-rate medium-term debt, covered bonds and Tier Two 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:

	NZ 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)	-	1	23	35	14	14	4	9
Cash outflows (liabilities)	-	1	24	36	13	13	4	9

	NZ Banking Group 2014[1]							
%	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)	-	2	17	26	28	4	16	7
Cash outflows (liabilities)	-	1	18	28	32	2	15	4

[1] Dual designated hedges (which are designated in both fair value hedge and cash flow hedge relationships) had been previously presented as fair value hedges. As at 30 September 2015, dual designated hedges have been reported separately into their respective fair value hedge and cash flow hedge categories and the comparative information has been revised to improve comparability.

For the year ended 30 September 2015, the hedge ineffectiveness recognised in relation to cash flow hedges was a $7 million loss (30 September 2014: $1 million gain).

Dual fair value and cash flow hedges

The NZ 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.

Note 25 Derivative financial instruments (continued)

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:

	NZ Banking Group 2015[2]								
		Fair Value[1]							
				Hedging					
	Notional	Trading		Fair Value		Cash Flow		Total	
$ millions	**Amount**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**
Interest rate contracts									
Futures contracts[3]	**8,821**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Forward rate agreements	**112**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Swap agreements	**350,798**	**5,167**	**(4,753)**	**35**	**(340)**	**63**	**(315)**	**5,265**	**(5,408)**
Options	**215**	**1**	**-**	**-**	**-**	**-**	**-**	**1**	**-**
Total interest rate contracts	**359,946**	**5,168**	**(4,753)**	**35**	**(340)**	**63**	**(315)**	**5,266**	**(5,408)**
Foreign exchange contracts									
Spot and forward contracts	**27,540**	**709**	**(391)**	**-**	**-**	**-**	**-**	**709**	**(391)**
Cross currency swap agreements	**46,538**	**621**	**(2,614)**	**132**	**80**	**502**	**(155)**	**1,255**	**(2,689)**
Total foreign exchange contracts	**74,078**	**1,330**	**(3,005)**	**132**	**80**	**502**	**(155)**	**1,964**	**(3,080)**
Total of gross derivatives	**434,024**	**6,498**	**(7,758)**	**167**	**(260)**	**565**	**(470)**	**7,230**	**(8,488)**
Impact of netting arrangements[4]	**-**	**(1,771)**	**1,771**	**-**	**-**	**-**	**-**	**(1,771)**	**1,771**
Total of net derivatives	**434,024**	**4,727**	**(5,987)**	**167**	**(260)**	**565**	**(470)**	**5,459**	**(6,717)**
Amounts expected to be settled within 12 months								**4,739**	**(4,787)**
Amounts expected to be settled after 12 months								**720**	**(1,930)**
Total derivatives								**5,459**	**(6,717)**

	NZ Banking Group 2014[2]								
		Fair Value[1]							
				Hedging					
	Notional	Trading		Fair Value		Cash Flow		Total	
$ millions	Amount	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)
Interest rate contracts									
Futures contracts[3]	6,813	-	-	-	-	-	-	-	-
Forward rate agreements	2,772	1	-	-	-	-	-	1	-
Swap agreements	327,365	2,131	(1,938)	43	(102)	50	(66)	2,224	(2,106)
Options	209	-	(1)	-	-	-	-	-	(1)
Total interest rate contracts	337,159	2,132	(1,939)	43	(102)	50	(66)	2,225	(2,107)
Foreign exchange contracts									
Spot and forward contracts	31,454	840	(619)	-	-	-	-	840	(619)
Cross currency swap agreements	35,652	1,037	(1,025)	8	72	70	(444)	1,115	(1,397)
Total foreign exchange contracts	67,106	1,877	(1,644)	8	72	70	(444)	1,955	(2,016)
Total of gross derivatives	404,265	4,009	(3,583)	51	(30)	120	(510)	4,180	(4,123)
Impact of netting arrangements[4]	-	-	-	-	-	-	-	-	-
Total of net derivatives	404,265	4,009	(3,583)	51	(30)	120	(510)	4,180	(4,123)
Amounts expected to be settled within 12 months								3,742	(3,288)
Amounts expected to be settled after 12 months								438	(835)
Total derivatives								4,180	(4,123)

1 Dual designated hedges (which are designated in both fair value hedge and cash flow hedge relationships) had been previously presented as fair value hedges. As at 30 September 2015, dual designated hedges have been reported separately into their respective fair value hedge and cash flow hedge categories and the comparative information has been revised to improve comparability.

2 Excludes derivatives with related entities. Related entity derivatives in a hedging relationship are disclosed in Note 24.

3 The fair value differential of futures contracts are settled daily with the exchange. The notional balance represents open contracts as at 30 September.

4 Amounts offset against derivatives consist of NZ Branch derivative trades settled directly with a central clearing counterparty. The Overseas Bank became a direct clearing member of LCH.Clearnet Limited during the 2015 financial year.

Note 26 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 available in an active market to the contrary. If fair value can be evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or is based on a valuation technique whose inputs include only data from observable markets, then the instrument is recognised at the fair value derived from such observable market data. The difference between the transaction price and fair value is recognised as a gain or loss (day one profit or loss) in the income statement. In cases where use is made of data which is not observable, day one profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

For financial liabilities measured at fair value, the carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data.

Subsequent measurement of the fair value of a financial instrument is, wherever possible, determined by reference to a quoted market price for that instrument. Where quoted prices are not available, the NZ Banking Group applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

The majority of valuation models used by the NZ 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 determination of the fair value of financial assets and financial liabilities is one of the NZ Banking Group's critical accounting assumptions and estimates as detailed in Note 1d.

Fair Valuation Control Framework

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

Fair value hierarchy

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

- Level 1

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

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

  Financial instruments included in the Level 1 category are NZ Government Bonds, spot and exchange traded derivatives.

- Level 2

  Valuation techniques utilising observable market prices applied to these assets or liabilities include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.
  The financial instruments included in this category are mainly over-the-counter ('**OTC**') derivatives with observable market inputs and financial instruments with fair value derived from consensus pricing with sufficient contributors. Financial instruments included in the Level 2 category are:

  - deposits and other borrowings at fair value, other financial liabilities at fair value through income statement, debt issues at fair value, certain life insurance assets, reverse repurchase agreements with related parties, and trading and available-for-sale debt securities including certificates of deposit, corporate bonds, mortgage-backed securities, inflation-indexed government bonds, local authority securities, off-shore securities and securities purchased under agreement to resell; and
  - derivatives including interest rate swaps, interest rate forwards, interest rate options, foreign exchange forwards and foreign exchange swaps.

- Level 3

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

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

  Financial instruments included in the Level 3 category are residential mortgage-backed securities ('**RMBS**'), long-dated NZD caps and inflation indexed derivative instruments (30 September 2014: RMBS, long-dated NZD caps, inflation indexed derivative instruments and NZ unlisted equity securities).

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

Note 26 Fair value of financial instruments (continued)

Valuation techniques

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:

- *Interest rate derivative products*

  These are products linked to interest rates (for example, Bank Bill Mid-Market Settlement Rate ('**BKBM**') or London Interbank Offer Rate ('**LIBOR**')) or inflation indices. These include interest rate swaps, interest rate forwards, exchange traded interest rate futures and interest rate options.

  Exchange traded interest rate futures are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation. Exchange traded interest rate futures are classified as Level 1 instruments.

  Interest rate derivative cash flows are valued using interest rate curves whereby observable market data is used to construct the term structure of forward rates. This term structure is used to project and discount future cash flows based on the terms of the trade. Instruments with optionality are valued using market observable or consensus provided volatilities. Non-vanilla interest rate derivatives are valued using industry standard models based on market observable inputs which are determined separately for each parameter. Where unobservable, inputs will be set with reference to an observable proxy.

  In general, interest rate derivatives are classified as Level 2 instruments.

- *Foreign exchange products*

  These are products linked to the foreign exchange market. This includes FX spot, FX forward contracts and cross currency swaps.

  There are observable markets for spot contracts in major global currencies. No modelling or assumptions are used in the valuation of these instruments. These instruments are classified as Level 1 instruments.

  Cross currency swap and forward valuations are derived from market observable inputs or consensus pricing providers using industry standard models. FX forwards and cross currency swaps are classified as Level 2 instruments.

  FX options and other FX derivatives are valued using industry standard models and market observable inputs. Where unobservable, inputs will be set with reference to an observable proxy. In general, FX options and other FX derivatives are classified as Level 2 instruments.

- *Debt market products*

  There are observable markets for New Zealand Government bonds in which the NZ Branch is a primary dealer. New Zealand Government bonds are valued using unadjusted quoted market prices. These products are classified as Level 1 instruments.

  Other government securities, local government bonds, corporate bonds, commercial papers and other banks' issued certificates of deposit are valued using observable market prices which are sourced from consensus pricing services, broker quotes or inter-dealer prices. These products are classified as Level 2 instruments.

- *Asset backed products*

  These are debt products that are linked to the cash flows of a pool of referenced assets via securitisation and this category includes RMBS and other asset-backed securities ('**ABS**').

  The RMBS and ABS are valued using a market accepted model with observable inputs sourced from a consensus data provider. The main inputs to the model are the trading margin and the weighted average life of the security. They are classified as Level 2 instruments. Where consensus prices are not available, these products are valued using quotes provided by a third party broker or independent lead manager and classified as Level 3 instruments.

- *Equity instruments*

  At 30 September 2014, equity instruments included investments in unlisted equity securities. They were valued using pricing models which calculated the fair value based on observable and unobservable inputs including earnings forecasts and market trading multiples. These were classified as Level 3 instruments.

- *Life insurance assets*

  These assets include New Zealand Government bonds, investment grade corporate bonds and units in unlisted unit trusts.

  For New Zealand Government bonds, the Overseas Bank is a primary dealer and these are valued using unadjusted quoted market prices. These are classified as Level 1 instruments.

  Investment grade corporate bonds are valued utilising observable markets prices or other widely accepted valuation techniques utilising observable market inputs. These are classified as Level 2 instruments.

  Units in unlisted trusts are valued using the unit price as determined by the manager of the underlying unit trust. These are classified as Level 2 instruments.

- *Certificates of deposit*

  The fair value of certificates of deposit is determined using a discounted cash flow analysis using market rates offered for deposits of similar remaining maturities. Certificates of deposit are classified as Level 2 instruments.

- *Debt issues at fair value*

  Where a quoted price is not available, the fair value of debt issues is determined using a discounted cash flow approach, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of Westpac New Zealand. These instruments are classified as Level 2 instruments.

Note 26 Fair value of financial instruments (continued)

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

	NZ Banking Group							
	2015				2014			
$ millions	**Level 1**	**Level 2**	**Level 3[1]**	**Total**	Level 1	Level 2	Level 3[1]	Total
Financial assets								
Trading securities and other financial assets designated at fair value	**161**	**4,010**	**44**	**4,215**	390	3,078	46	3,514
Derivative financial instruments	**7**	**5,448**	**4**	**5,459**	11	4,166	3	4,180
Available-for-sale securities	**1,619**	**1,802**	**-**	**3,421**	1,975	993	42	3,010
Life insurance assets	**21**	**244**	**-**	**265**	31	266	-	297
Due from related entities	**-**	**1,030**	**-**	**1,030**	-	1,605	-	1,605
Total financial assets carried at fair value	**1,808**	**12,534**	**48**	**14,390**	2,407	10,108	91	12,606
Financial liabilities								
Deposits at fair value	**-**	**1,070**	**-**	**1,070**	-	1,154	-	1,154
Other financial liabilities at fair value through income statement	**41**	**238**	**-**	**279**	695	377	-	1,072
Derivative financial instruments	**4**	**6,708**	**5**	**6,717**	9	4,114	-	4,123
Debt issues at fair value	**-**	**2,716**	**-**	**2,716**	-	3,019	-	3,019
Due to related entities	**-**	**1,358**	**-**	**1,358**	-	1,416	-	1,416
Total financial liabilities carried at fair value	**45**	**12,090**	**5**	**12,140**	704	10,080	-	10,784

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

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the year ended 30 September 2015 (30 September 2014: no material changes in fair value).

There have been no significant transfers into/out of Level 3 during the year ended 30 September 2015 (30 September 2014: nil).

Transfers in and transfers out are reported using the end-of-period fair values.

Note 26 Fair value of financial instruments (continued)

Financial instruments not measured at fair value

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

	NZ Banking Group 2015				
	Carrying	Fair Value			
$ millions	Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and balances with central banks	**939**	**939**	**-**	**-**	**939**
Due from other financial institutions	**168**	**70**	**98**	**-**	**168**
Loans	**69,576**	**-**	**-**	**69,757**	**69,757**
Due from related entities	**2,421**	**-**	**2,421**	**-**	**2,421**
Other assets	**325**	**-**	**-**	**325**	**325**
Total financial assets carried at amortised cost	**73,429**	**1,009**	**2,519**	**70,082**	**73,610**
Financial liabilities					
Due to other financial institutions	**837**	**627**	**210**	**-**	**837**
Deposits and other borrowings	**51,916**	**-**	**51,542**	**470**	**52,012**
Debt issues	**11,969**	**-**	**12,038**	**-**	**12,038**
Other liabilities	**647**	**-**	**-**	**647**	**647**
Subordinated debentures	**1,984**	**-**	**1,977**	**-**	**1,977**
Due to related entities	**2,930**	**-**	**2,939**	**5**	**2,944**
Total financial liabilities carried at amortised cost	**70,283**	**627**	**68,706**	**1,122**	**70,455**

	NZ Banking Group 2014				
	Carrying	Fair Value			
$ millions	Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and balances with central banks	1,927	1,927	-	-	1,927
Due from other financial institutions	591	174	417	-	591
Loans	65,027	-	-	64,896	64,896
Due from related entities	165	-	162	3	165
Other assets	258	-	-	258	258
Total financial assets carried at amortised cost	67,968	2,101	579	65,157	67,837
Financial liabilities					
Due to other financial institutions	1,141	13	1,128	-	1,141
Deposits and other borrowings	49,416	-	48,619	840	49,459
Debt issues	9,573	-	9,704	-	9,704
Other liabilities	580	-	-	580	580
Subordinated debentures	710	-	700	-	700
Due to related entities	3,741	-	3,735	6	3,741
Total financial liabilities carried at amortised cost	65,161	13	63,886	1,426	65,325

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

- *Loans*

  The carrying value of loans is net of individually and collectively assessed provisions for impairment charges. The fair value of loans is based on observable market transactions, where available. In the absence of observable market transactions, 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*

  Deposits by customers' accounts are grouped by maturity. 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 Tier Two 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.

- *Subordinated debentures*

  Subordinated debentures are carried at amortised cost. The fair value of subordinated debentures is determined based on the quoted market price of Trust Preferred Securities issued by the Overseas Banking Group in the United States of America (refer to Note 23 for further details).

- *Other financial assets and financial liabilities*

  For all other financial assets and financial liabilities, the carrying value approximates to the fair value. These items are either short-term in nature or re-price frequently or are of a high credit rating.

Note 27 Offsetting financial assets and financial liabilities

Accounting policy

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following tables provide information on the impact of offsetting, as well as amounts subject to enforceable master netting agreements or similar arrangements that do not qualify for offsetting in the balance sheet. The tables below exclude amounts not subject to offsetting or enforceable netting arrangements and therefore may not tie back to the balance sheet. The amounts presented in this note do not represent the credit risk exposure of the NZ Banking Group (refer to Note 35.1 for information on credit risk management). The offsetting and collateral arrangements and other credit risk mitigation strategies used by the NZ Banking Group are further explained in the 'Credit risk' section under Note 35.1.

	NZ Banking Group 2015						
	Effects of Offsetting on Balance Sheet			Amounts Subject to Enforceable Netting Arrangements But Not Offset			
$ millions	**Gross Amounts**	**Amounts Offset[4]**	**Net Amounts Reported on the Balance Sheet**	**Other Recognised Financial Instruments**	**Cash Collateral**	**Financial Instrument Collateral**	**Net amount**
Assets							
Securities purchased under agreement to resell[1]	**278**	**-**	**278**	**-**	**-**	**(278)**	**-**
Derivative financial instruments	**7,230**	**(1,771)**	**5,459**	**(2,952)**	**(601)**	**-**	**1,906**
Due from related entities - derivative financial instruments[2]	**1,030**	**-**	**1,030**	**(1,030)**	**-**	**-**	**-**
Total assets	**8,538**	**(1,771)**	**6,767**	**(3,982)**	**(601)**	**(278)**	**1,906**
Liabilities							
Securities sold under agreement to repurchase[3]	**219**	**-**	**219**	**-**	**-**	**(219)**	**-**
Derivative financial instruments	**8,488**	**(1,771)**	**6,717**	**(2,952)**	**(70)**	**-**	**3,695**
Due to related entities - derivative financial instruments[5]	**1,358**	**-**	**1,358**	**(1,030)**	**-**	**-**	**328**
Total liabilities	**10,065**	**(1,771)**	**8,294**	**(3,982)**	**(70)**	**(219)**	**4,023**

	NZ Banking Group 2014						
	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							
Securities purchased under agreement to resell[1]	377	-	377	-	-	(377)	-
Derivative financial instruments	4,180	-	4,180	(2,730)	(10)	-	1,440
Due from related entities - derivative financial instruments[2]	1,605	-	1,605	(1,377)	-	-	228
Total assets	6,162	-	6,162	(4,107)	(10)	(377)	1,668
Liabilities							
Securities sold under agreement to repurchase[3]	467	-	467	-	-	(467)	-
Derivative financial instruments	4,123	-	4,123	(2,730)	(122)	-	1,271
Due to related entities - derivative financial instruments[5]	1,416	-	1,416	(1,377)	-	-	39
Total liabilities	6,006	-	6,006	(4,107)	(122)	(467)	1,310

1 Forms part of trading securities and other financial assets designated at fair value in the balance sheet (refer to Note 10).

2 Forms part of due from related entities in the balance sheet (refer to Note 24).

3 Forms part of other financial liabilities at fair value through income statement in the balance sheet (refer to Note 19).

4 Amounts offset against derivatives consist of NZ branch derivative trades settled directly with a central clearing counterparty. The Overseas Bank became a direct clearing member of LCH.Clearnet Limited during the 2015 year.

5 Forms part of due to related entities in the balance sheet (refer to Note 24).

Note 27 Offsetting financial assets and financial liabilities (continued)

Effects of offsetting on balance sheet

Amounts offset are in accordance with the criteria described in the above accounting policy and are limited to the gross carrying values of the financial instrument.

Amounts subject to enforceable netting arrangements but not offset

Other recognised financial instruments

Other recognised financial instruments discloses financial assets and financial liabilities recognised on balance sheet that are not offset but are subject to enforceable master netting agreements, whereby the rights of set-off and close-out netting can be applied in the event of default, or if other predetermined events occur.

Cash collateral and Financial instrument collateral

Cash collateral and Financial instrument collateral disclose amounts received or pledged in relation to the gross amount of assets and liabilities. Financial instrument collateral typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default; they are reflected at fair value. These forms of collateral are also subject to enforceable netting arrangements, but are not offset due to the collateral being realised only in the event of default or if other predetermined events occur.

For the purposes of disclosure, the 'amounts subject to enforceable netting arrangements but not offset', have been limited to the net amounts of financial assets/(liabilities) presented on the balance sheet so as not to reflect the impact of over-collateralisation. As a result, the amounts for cash collateral and financial instrument collateral may not equal the amount disclosed below.

Assets pledged

In addition to assets supporting securitisation and covered bond programs, the NZ Banking Group has provided collateral to secure liabilities as part of standard terms of transaction with other financial institutions. The carrying value of financial assets pledged as collateral to secure liabilities is:

	NZ Banking Group	
$ millions	**2015**	2014
Cash	**70**	175
Securities pledged under repurchase agreements	**220**	467
Total amount pledged to secure liabilities	**290**	642

Collateral received

Cash held as collateral, recognised on the NZ Banking Group's balance sheet as at 30 September 2015 was $628 million in 2015 (2014: $13 million). Securities received as collateral under reverse repurchase agreements as at 30 September 2015 was $278 million (2014: $377 million). Securities received as collateral are not recognised on the NZ Banking Group's balance sheet.

Note 28 Contingent liabilities, contingent assets and credit commitments

Accounting policy

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by uncertain future events that are not wholly within the control of the NZ Banking Group; or are present obligations arising from past events where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the outflow of economic resources is remote.

Operating lease commitments

An operating lease is a lease where substantially all the risks and rewards of the leased asset remain with the lessor.

In its capacity as a lessee, the NZ Banking Group mainly leases property, plant and equipment under operating leases. Payments due to the lessor under operating leases are charged to equipment and occupancy expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received.

	NZ Banking Group	
$ millions	**2015**	2014
Commitments for capital expenditure		
Due within one year	**5**	3
Lease commitments (all leases are classified as operating leases)		
Premises and sites	**233**	277
Motor vehicles	**5**	7
Total lease commitments	**238**	284
Lease commitments are due as follows:		
One year or less	**58**	64
Between one and five years	**146**	162
Over five years	**34**	58
Total lease commitments	**238**	284
Credit risk-related instruments		
Standby letters of credit and financial guarantees[1]	**447**	510
Trade letters of credit[2]	**224**	247
Non-financial guarantees[3]	**561**	611
Commitments to extend credit[4]	**23,834**	21,569
Other commitments[5]	**220**	150
Total credit risk-related instruments	**25,286**	23,087

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

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

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

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

5 Other commitments include underwriting facilities.

The NZ Banking Group is party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers and in managing its own risk profile. These financial instruments include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

The NZ Banking Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities can be cancelled or revoked at any time at the NZ Banking Group's option.

The NZ Banking Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments.

The NZ Banking Group takes collateral where it is considered necessary to support both on and off-balance sheet financial instruments with credit risk. The NZ Banking Group evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, on the provision of a financial facility is based on management's credit evaluation of the counterparty. The collateral taken varies, but may include cash deposits, receivables, inventory, plant and equipment, real estate and investments.

The NZ 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 NZ Banking Group will arise from these obligations.

Note 28 Contingent liabilities, contingent assets and credit commitments (continued)

Westpac New Zealand guarantees the due and punctual payment of all sums payable to the holders of the debt securities issued by its indirect wholly-owned subsidiary, WSNZL, the proceeds of which are immediately on-lent to Westpac New Zealand. The aggregate amount of outstanding principal and interest is already reflected in the balance sheet as part of the amounts due from related entities.

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. Westpac New Zealand 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 Westpac New Zealand cannot be determined with any certainty.

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

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

Westpac (NZ) Investments Limited ('**WNZIL**'), a subsidiary of Westpac New Zealand, leases the majority of the properties occupied by the NZ Banking Group. 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 2015 was estimated to be $32 million (30 September 2014: $32 million).

No amount has been recognised for the $32 million in estimated maximum vacation payments as the NZ 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.

Note 29 Segment information

Accounting policy

Operating segments are presented on a basis that is consistent with information provided internally to the NZ Banking Group's chief operating decision-makers and reflects the management of the business, rather than the legal structure of the NZ 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 NZ Banking Group has determined that the NZ Banking Group 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 NZ Banking Group operates predominantly in the consumer banking and wealth, commercial, corporate and institutional banking, and investments and insurance sectors within New Zealand. On this basis, no geographical segment 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 NZ Banking Group does not rely on any single major customer for its revenue base.

The NZ Banking Group's operating segments have changed in the current reporting period as a result of an internal re-organisation of the business. Comparative information has been restated to ensure consistent presentation with the current reporting period. The NZ Banking Group's operating segments are defined by the customers they serve and the services they provide. The NZ Banking Group has identified the following main operating segments:

- Consumer Banking and Wealth provides financial services predominantly for individuals;
- Commercial, Corporate and Institutional Banking provides a broad range of financial services for commercial, corporate, agricultural, institutional, government and small to medium sized enterprise customers, and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand, and;
- Investments and Insurance provides funds management and insurance services.

Reconciling items primarily represent:

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

Note 29 Segment information (continued)

$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items[1]	Total
	NZ Banking Group				
Year ended 30 September 2015					
Net interest income/(expense)	**933**	**642**	**(8)**	**214**	**1,781**
Non-interest income	**198**	**259**	**120**	**13**	**590**
Net operating income	**1,131**	**901**	**112**	**227**	**2,371**
Net operating income from external customers	**1,488**	**1,357**	**120**	**(594)**	**2,371**
Net internal interest expense	**(357)**	**(456)**	**(8)**	**821**	**-**
Net operating income	**1,131**	**901**	**112**	**227**	**2,371**
Depreciation	**-**	**-**	**-**	**(38)**	**(38)**
Software amortisation costs	**-**	**(1)**	**-**	**(94)**	**(95)**
Other operating expenses	**(162)**	**(121)**	**(13)**	**(514)**	**(810)**
Total operating expenses	**(162)**	**(122)**	**(13)**	**(646)**	**(943)**
Impairment charges on loans	**(29)**	**(21)**	**-**	**3**	**(47)**
Share of profit of associate accounted for using the equity method	**-**	**-**	**-**	**-**	**-**
Profit before income tax expense	**940**	**758**	**99**	**(416)**	**1,381**
Total gross loans	**37,847**	**32,124**	**-**	**20**	**69,991**
Total deposits	**31,048**	**20,868**	**-**	**1,070**	**52,986**
Year ended 30 September 2014					
Net interest income/(expense)	849	639	(6)	108	1,590
Non-interest income	215	254	116	92	677
Net operating income	1,064	893	110	200	2,267
Net operating income from external customers	1,399	1,298	114	(544)	2,267
Net internal interest expense	(335)	(405)	(4)	744	-
Net operating income	1,064	893	110	200	2,267
Depreciation	-	-	-	(31)	(31)
Software amortisation costs	-	(1)	-	(57)	(58)
Other operating expenses	(160)	(119)	(13)	(487)	(779)
Total operating expenses	(160)	(120)	(13)	(575)	(868)
Impairment charges on loans	(38)	-	-	12	(26)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
Profit before income tax expense	866	773	97	(362)	1,374
Total gross loans	36,021	29,559	-	(111)	65,469
Total deposits	28,300	21,116	-	1,154	50,570

[1] Included in the reconciling items for total operating expenses is $633 million (30 September 2014: $587 million) of head office operating expenses, which are not allocated to a business unit that meets the definition of an operating segment.

Note 30 Superannuation commitments

Accounting policy

Retirement benefit obligations

The liability recognised in the balance sheet in respect of the defined benefit superannuation plan is the present value of the defined benefit obligation as at the reporting date less the fair value of the plan's assets. The present value of the defined benefit obligation is determined by discounting the estimated pre-tax future cash flows 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 relating to the defined benefit superannuation plan comprises of service cost (including current and past service cost and gains and losses on curtailments and settlements) and net interest expense (income). Remeasurements (including actuarial gains and losses and the difference between the interest income and the return on plan assets) are recognised in other comprehensive income.

The determination of the defined benefit obligation is one of the NZ Banking Group's critical accounting assumptions and estimates as described in Note 1d.

The defined benefit scheme has been closed to new members since 1 April 1990. Contributions, as specified in the rules of the scheme, are made by the NZ Banking Group based on the funding valuation performed annually. The last actuarial assessment of the funding status was undertaken on 30 June 2015. 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 NZ 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:

	NZ Banking Group	
%	**2015**	2014
Primary actuarial assumptions used		
Discount rate	**3.3**	4.2
Rate of increase in salaries	**3.0**	3.0
Rate of increase for pensions	**2.2**	2.3
Asset allocation		
Australasian Equity	**15.4**	14.8
International Equity	**27.3**	33.0
Fixed Income	**32.3**	31.6
Property & Infrastructure	**9.8**	7.6
Other	**5.4**	4.7
Cash	**9.8**	8.3
Total asset allocation	**100.0**	100.0

Note 31 Key management personnel

Key management personnel compensation

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

	NZ Banking Group	
$'000s	**Year Ended 30-Sep-15**	Year Ended 30-Sep-14
Salaries and other short-term benefits	**9,812**	9,728
Post-employment benefits	**539**	468
Other termination benefits	**758**	502
Share-based payments	**2,243**	2,190
Total key management personnel compensation	**13,352**	12,888
Loans to key management personnel	**26,910**	6,495
Deposits from key management personnel	**1,624**	3,774
Interest income on amounts due from key management personnel	**473**	335
Interest expense on amounts due to key management personnel	**61**	139

Where the Directors of the Overseas Bank have received remuneration from the NZ Banking Group, the amounts are included above. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2015 Annual Financial Report.

Loans and deposits with key management personnel

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

As at 30 September 2015, no provisions have been recognised in respect of loans given to key management personnel and their related parties (30 September 2014: nil).

Note 31 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 32 Structured entities, securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Accounting policy

A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity (for example, when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements). Structured entities are generally created to achieve a specific and well defined objective with restrictions over their ongoing activities. Where structured entities are used to facilitate the purchase of specific assets, they are commonly financed by issuing debt or equity securities that are collateralised by and/or indexed to those underlying assets. The debt and equity securities issued by structured entities may include tranches with varying levels of subordination.

The NZ Banking Group engages in various transactions with both consolidated and unconsolidated structured entities that are mainly involved in securitisations, asset backed and other financing structures and managed investment funds.

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 1.

The determination of control for structured entities is one of the NZ Banking Group's critical accounting assumptions and estimates as described in Note 1d.

The NZ 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 NZ Banking Group, 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 is included in loans and debt issues respectively.

Consolidated structured entities

Securitisation

In October 2008, WNZSL was set up as part of Westpac New Zealand's internal residential mortgage-backed securitisation programme. Under this programme Westpac New Zealand 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 Westpac New Zealand and are included in its 'Due from related entities'. The housing loans were not derecognised from Westpac New Zealand's 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 NZ Banking Group's financial statements. Refer to Note 28 for a description of the NZ Banking Group's obligation to repurchase certain housing loans sold to WNZSL.

The NZ Banking Group currently has a $5,000 million (30 September 2014: $5,000 million) internal residential mortgage-backed securitisation programme. The most senior rated securities at 30 September 2015 of $4,750 million (30 September 2014: $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 NZ Banking Group to maintain a readily available source of cash should market conditions become difficult. Westpac New Zealand 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 NZ 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 Westpac New Zealand) 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 $5,500 million as at 30 September 2015 (30 September 2014: $4,500 million). The intercompany loan made by Westpac New Zealand to WNZCBL to fund the initial purchase (and subsequent further purchases which increased the cover pool) is included in Westpac New Zealand's 'Due from related entities'. The housing loans purchased by WNZCBL were not derecognised from Westpac New Zealand's financial statements (and therefore, Westpac New Zealand and the NZ Banking Group records these housing loans) in accordance with the accounting policies outlined in Note 1. For this reason, Westpac New Zealand 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 Westpac New Zealand's 'Due to related entities'. The intercompany loan made by Westpac New Zealand to WNZCBL and the liability representing the deemed loan from WNZCBL to Westpac New Zealand are fully eliminated in the NZ 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 2015, the assets of WNZCBL were $5,520 million (30 September 2014: $4,520 million), comprising housing loans, accrued interest and cash.

Note 32 Structured entities, securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products (continued)

NZ Banking Group managed funds

As disclosed in Note 24 and the 'Funds management and fiduciary activities' section, the PIE Funds are consolidated within the financial statements of the NZ Banking Group.

Non-contractual financial support

The NZ Banking Group has not provided any non-contractual financial support during the period to consolidated structured entities and does not anticipate providing such support in the future.

Unconsolidated structured entities

As at 30 September 2015, the NZ Banking Group had securitised housing loans amounting to $85 million (30 September 2014: $115 million) which had been sold by the NZ 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 NZ 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 NZ 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 Westpac New Zealand 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 2015, the amount so held by Westpac New Zealand was $1 million (30 September 2014: $1 million).

In addition to the above, the NZ Banking Group has entered into transactions with other unconsolidated structured entities in the normal course of business to facilitate customer transactions for liquidity management purposes and for specific investment opportunities.

Interests in other structured entities comprise any form of contractual or non-contractual involvement in an entity which creates variability in returns for the NZ Banking Group arising from the performance of the entity. These include holdings of debt or equity instruments, guarantees, liquidity and other credit support arrangements, loan commitments and derivatives that transfer financial risks from the entity to the NZ Banking Group and investment management agreements.

The following are not considered to constitute an interest in a structured entity and have been excluded from the disclosures below:

- derivatives that are not complex (for example, interest rate swaps and cross currency swaps);
- instruments that are deemed to create rather than absorb variability in the unconsolidated structured entity (for example, purchase of credit protection under a credit default swap); and
- commercial loans to a structured entity where recourse on default is to a wider operating entity rather than secured only on the underlying assets of the entity.

The main types of interests held by the NZ Banking Group in other unconsolidated structured entities, not disclosed elsewhere in these financial statements, generally comprise the following:

- Trading securities and other financial assets designated at fair value: the NZ Banking Group buys and sells interests in structured entities as part of its normal trading activities and includes RMBS or other asset-backed securities. The carrying amount of RMBS and asset-backed securities in the balance sheet included in trading securities and other financial assets designated at fair value is $44 million (refer to Note 10) (30 September 2014: $132 million). These securities represent the senior tranche of notes issued by the structured entities and are rated investment grade. They are typically held as part of a larger trading portfolio and the NZ Banking Group would normally have no other involvement with the structured entity. The maximum exposure to loss is limited to the carrying value of these instruments at reporting date. The size of the structured entities, which is based on the total value of the notes on issue, is $200 million (30 September 2014: $455 million). The NZ Banking Group derives interest income on these securities, and also recognises realised and unrealised gains or losses arising from a change in fair value through trading income;
- Loans and other credit commitments: The NZ 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 (including NZ Banking Group managed funds). All loans and credit commitments are subject to the NZ Banking Group's credit approval process with collateral specific to the circumstances of each loan. The carrying amount of loans (net of provisions) recognised in the balance sheet and off-balance sheet commitments relating to interest in other unconsolidated structured entities amounted to $1,215 million and $854 million respectively (30 September 2014: $871 million and $1,025 million respectively). The maximum exposure to loss is the NZ Banking Group's total committed exposure to these entities of $2,069 million as at 30 September 2015 (30 September 2014: $1,896 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 NZ Banking Group; and
- Investment management agreements: As part of its normal funds management activities, the NZ Banking Group establishes and manages a number of funds that provide customers with investment opportunities. The NZ Banking Group also manages superannuation funds established for its employees. As the fund manager, the NZ Banking Group is entitled to receive on-going management and performance fee income based on the value of the assets under management. As at 30 September 2015, the accrued receivable included in 'Other assets' is $4 million (30 September 2014: $2 million). The NZ Banking Group also retains units in these funds, which are primarily held by its consolidated life insurance entity. The carrying value of these units included in life insurance assets amounts to $157 million (30 September 2014: $193 million), which is also the NZ Banking Group's maximum exposure to loss. The NZ Banking Group derives fund distribution income from these holdings and recognises fair value movements (through non-interest income) where the instruments are held at fair value through the income statement. The size of the entities, represented by the value of assets subject to funds management and other fiduciary activities (excluding the PIE Funds as they are consolidated in NZ Banking Group's balance sheet) is $7,090 million (refer to the 'Funds management and other fiduciary activities' section) (30 September 2014: $6,002 million). The NZ Banking Group (through NZ Branch) also guarantees the repayment of capital in the Capital Protection Plan Funds, except in certain limited circumstances. The amount of guarantees provided by the NZ Branch is included in off-balance sheet commitments above. The size of the Capital Protection Plan Funds is $65 million (30 September 2014: $65 million) which is included in the value of funds under management under 'Retirement plans' (refer to the 'Funds management and other fiduciary activities' section).

Note 32 Structured entities, securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products (continued)

Non-contractual financial support

The NZ Banking Group has not provided any non-contractual financial support during the period to unconsolidated structured entities and does not anticipate providing such support in the future.

Sponsored entities

The NZ Banking Group would be deemed to sponsor an entity where it is involved in its creation or establishment and promotion (including use of the NZ Banking Group's name in the name of the entity or on the products issued by the entity), and facilitates its on-going success through the transfer of assets (if any), or the provision of explicit or implicit financial, operational or other support.

The NZ Banking Group did not sponsor any structured entity during the year in which it had no interest.

Funds management and other fiduciary activities

The NZ Banking Group conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the NZ Banking Group and accordingly are not included in these financial statements, with the exception of the PIE Funds which are treated as controlled entities of Westpac New Zealand (refer to Note 24 for further details) and life insurance assets owned by Westpac Life-NZ- Limited ('**Westpac Life**') which are included in wholesale client portfolios. Where controlled entities incur certain liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements.

The PIE Funds are managed by a member of the NZ Banking Group (refer to Note 24 for further details) and invest in deposits with Westpac New Zealand. Westpac New Zealand is considered to control the PIE Funds, and as such they are consolidated within the financial statements of the NZ Banking Group.

The value of assets subject to funds management and other fiduciary activities as at the reporting date were as follows:

$ millions	2015	2014
Private and priority	**462**	404
Retirement plans	**3,750**	3,070
Retail unit trusts	**2,241**	2,001
Wholesale client portfolios	**637**	527
Term PIE	**1,186**	962
Cash PIE	**1,056**	960
Notice Saver PIE	**116**	-
Total funds under management	**9,448**	7,924

The value of assets in retail unit trusts described above includes the assets of HLT and MIF.

Marketing and distribution of insurance products

The NZ Banking Group markets and distributes both life and general insurance products. The insurance products are distributed through the NZ Banking Group's distribution channels. The life insurance products are underwritten by Westpac Life and by external third party insurance companies. The general insurance products are fully underwritten by external third party insurance companies. Disclosure statements are made in all marketing material that the products are underwritten by those companies and that the Overseas Banking Group does not guarantee the obligations of, or any products issued by, those companies.

Risk management

The NZ Banking Group's risk management strategy (refer to Note 35) will help minimise the possibility that any difficulties arising from the above activities would impact adversely on the NZ Banking Group.

Note 33 Insurance business

Accounting policy

Life insurance assets consist of investments held by the NZ Banking Group's life insurance company and net insurance policy assets relating to life insurance contracts.

Assets held by the NZ Banking Group's life insurance company, including investments in funds managed by the NZ Banking Group, are designated at fair value through profit or loss. Changes in fair value are included in the income statement.

It is a requirement of the Insurance (Prudential Supervision) Act 2010 ('**IPSA**') that a life insurance company must have at least one statutory fund in respect of its life insurance business. A statutory fund was established by Westpac Life-NZ- Limited on 1 October 2012. The statutory fund is subject to restrictions imposed under IPSA. A core requirement is that the assets in the statutory fund are only available to meet the liabilities and expenses of the life insurance business and cannot be used to support any other business of the life insurance company. Distribution of the retained profits of a statutory fund may only be made when certain solvency and other requirements are met.

Refer to Note 3 for details on the accounting policy related to net life insurance income and change in policy liabilities.

The NZ Banking Group conducts insurance business through one of its controlled entities, Westpac Life. Westpac Life's primary insurance activities are the development, underwriting and management of products under life insurance legislation which provide insurance cover against the risks of death, disability, redundancy and bankruptcy. Westpac Life also manages insurance agency arrangements whereby general insurance and life insurance products are made available to NZ Banking Group customers. The insurance business of Westpac Life comprises less than one percent of the total assets of the NZ Banking Group.

The following table presents the aggregate amount of the NZ Banking Group's insurance business calculated in accordance with the Overseas Bank's conditions of registration as at the reporting date:

$ millions	2015	2014
Total assets	**206**	253
As a percentage of total assets of the NZ Banking Group	**0.23%**	0.31%

The Overseas Bank does not conduct any insurance or non-financial activities in New Zealand outside of the NZ Banking Group.

Notes to the financial statements

Note 34 Capital adequacy

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

%	2015 Unaudited	2014 Unaudited
Overseas Banking Group[1, 2]		
Common Equity Tier One Capital ratio	**9.5**	9.0
Additional Tier One Capital ratio	**1.9**	1.6
Tier One Capital ratio	**11.4**	10.6
Tier Two Capital ratio	**1.9**	1.7
Total Regulatory Capital ratio	**13.3**	12.3
Overseas Bank (Extended Licensed Entity)[1, 2]		
Common Equity Tier One Capital ratio	**9.7**	9.2
Additional Tier One Capital ratio	**2.1**	1.8
Tier One Capital ratio	**11.8**	11.0
Tier Two Capital ratio	**2.1**	1.9
Total Regulatory Capital ratio	**13.9**	12.9

1 The capital ratios represent information mandated by APRA.

2 The capital ratios of the Overseas Banking Group and the Overseas Bank (Extended License Entity) are publicly available in the Overseas Banking Group's Pillar 3 report. This information is made available to users via the Overseas Bank's website (www.westpac.com.au)

The Overseas Banking 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 Overseas Banking Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Overseas Banking Group's website (www.westpac.com.au). The aim is to allow the market to better assess the Overseas Banking Group's risk and reward assessment process and hence increase the scrutiny of this process.

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity) as defined by APRA, exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2015. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

The Overseas Banking Group's approach seeks to balance the fact that capital is an expensive form of funding with the need to be adequately capitalised. The Overseas Banking Group considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans.

The Overseas Banking Group evaluates these considerations through an Internal Capital Adequacy Assessment Process, the key features of which include:

- the development of a capital management strategy, including preferred capital range, capital buffers and contingency plans;
- consideration of both economic and regulatory capital requirements;
- a process that challenges the capital measures, coverage and requirements which incorporates amongst other things, the impact of adverse economic scenarios; and
- consideration of the perspectives of external stakeholders including rating agencies and equity and debt investors.

Note 35 Risk management

General

The NZ Banking Group regards the management of risk to be a fundamental management activity performed at all levels. Supporting this approach is a framework of core risk principles, policies and processes for measuring and monitoring risk ('**Risk Management Strategy**').

Risk strategy and governance

The Board of the Overseas Bank ('**Group Board**') is responsible for determining the appetite for risk for the Overseas Banking Group. Group Board is supported by the Board Audit Committee ('**Group BAC**') and Board Risk and Compliance Committee ('**Group BRCC**'). The Group BRCC is a Group Board subcommittee that is responsible for setting the Overseas Banking Group's risk appetite and overseeing the Overseas Banking Group's risk profile. The Group BRCC was formerly known as the Board Risk Management Committee.

The Group BAC comprises four independent non-executive Directors of the Overseas Bank. The Group 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 Overseas Banking Group's auditors and monitors the relationship between management and the external auditors.

The Group BRCC comprises all of the independent non-executive Directors of the Overseas Bank. The Group BRCC has power delegated by the Group Board to set risk appetites and approve frameworks, policies and processes for the management of risk. The Group BRCC approves the Group Risk Management Strategy at least every two years.

The Group Risk Management Strategy is designed to reflect that everyone in the Overseas Banking Group is responsible for identifying and managing risk and operating within the desired risk profile. Effective risk management is about achieving a balanced approach to risk and reward, and enables the Overseas Banking Group to both increase financial growth opportunities and mitigate potential loss or damage. Optimisation and mitigation strategies are equally important, along with maintaining an appropriate segregation of duties.

Note 35 Risk management (continued)

The Group Risk Management Strategy applies to the entities that make up the Overseas Banking Group where it has not been deemed necessary to develop individual risk management strategies to suit local conditions, regulatory or legislative requirements.

The NZ Banking Group manages the risks that affect its business as they influence its performance, reputation and future success. The NZ 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 NZ Banking Group's desired risk profile. The NZ 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

Divisional business units 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

The 2nd Line of Defence is a separate risk 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, requires improvement and monitors the 1st Line's progress toward remediation of identified deficiencies.

The 3rd Line of Defence – independent assurance

The Group Audit function independently evaluates the adequacy and effectiveness of the Group's overall risk management framework and controls.

This approach allows risks within our risk appetite to be balanced against appropriate rewards.

Further to the Directors' Statement on page 9:

- the Overseas Bank and Westpac New Zealand together had systems in place to monitor and control adequately the material risks of the following relevant members of the NZ Banking Group:
  - BT Funds Management (NZ) Limited;
  - BT Financial Group (NZ) Limited;
  - Westpac Financial Services Group-NZ-Limited;
  - Westpac Life-NZ- Limited;
  - Westpac Nominees-NZ-Limited;
  - Westpac Superannuation Nominees-NZ-Limited;
  - Westpac Group Investment-NZ-Limited;
  - Westpac Holdings-NZ-Limited;
  - Westpac Capital-NZ-Limited; and
  - Westpac New Zealand Group Limited;
- the Overseas Bank, the NZ Branch and Westpac New Zealand together had systems in place to monitor and control adequately the material risks of the NZ Branch;
- the Overseas Bank had systems in place to monitor and control adequately the material risks of Capital Finance New Zealand Limited and Sie-Lease (New Zealand) Pty Limited; and
- the remaining relevant members of the NZ Banking Group are not considered to have material risks.

The NZ Banking Group has an Executive Risk Committee ('**ERC**') which meets quarterly, and which oversees the management of enterprise risks across the New Zealand incorporated entities within the Westpac Group of companies (excluding Westpac New Zealand and its subsidiaries which are overseen by the WNZL Executive Risk Committee). Enterprise risks include, but are not limited to, credit risk, compliance risk, operational risk, market risk, funding & liquidity risk, insurance risk, reputation risk and environmental, social and governance risk.

Westpac Life-NZ- Limited and BT Funds Management (NZ) Limited maintain separate Risk Management Frameworks. Both documents are approved by the respective Board of each entity and are closely aligned to the Group Risk Management Strategy whilst reflecting each entity's specific regulatory and operating environment.

Westpac New Zealand, a member of the NZ Banking Group, is a locally incorporated registered bank. Westpac New Zealand's Risk Management Strategy is closely aligned with that of the Overseas Banking Group, and the Board of Westpac New Zealand is responsible for the risk management of that bank and its subsidiaries.

The Boards of the other entities making up the NZ Banking Group have ultimate responsibility for overseeing the effective deployment of the Risk Management Strategy for these entities.

Note 35 Risk management (continued)

Core risk principles

The NZ Banking Group's core risk principles are the key guidelines for all risk management within the NZ Banking Group. These principles reflect the standards and ideals expressed in the NZ 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 with strong support from the individual entities' Boards, as well as the Board of Westpac New Zealand, its Chief Executive and the Executive Team;
- observable linkages between strategy, risk appetite, risk and reward, and capital adequacy;
- clearly defined accountabilities, responsibilities and authorities;
- an appropriate level of risk management resources with the skills and tools (or infrastructure) required to fulfil their responsibilities and support the strategy;
- clearly defined operating structures, reporting lines and governance structures;
- clear goals, objectives and incentives, including an appropriate risk-focused component of employee performance measurement;
- processes and systems that facilitate:
  - risk identification, analysis, evaluation and quantification;
  - consideration of risk avoidance or mitigation;
  - acceptance and management of residual risk;
  - capture and reporting of risk data for both internal and external purposes;
  - risk-adjusted measurement where there are rewards for taking risk; and
  - risk oversight and analysis, including stress testing; 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 key risks that the NZ Banking Group is subject to are specific banking risks and risks arising from the general business environment of each entity. These risks may include:

- 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 or loss to reputation arising from the NZ Banking Group's failure to abide by the compliance obligations required of the NZ Banking Group;
- 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 to earnings from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices; and
- Liquidity risk: the risk that the NZ Banking Group 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:

- 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 NZ Banking Group 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;
- Insurance risk: the risk of mis-estimation of the expected cost of incurred events, volatility in the number or severity of insured events, and mis-estimation of the cost of incurred claims;
- 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 NZ Banking Group may compromise the financial and operational position of the NZ Banking Group.

Group Audit

Group Audit for the Overseas Banking Group ('**Group Audit**') comprises the Group Audit, Credit Risk Assurance and Model Risk Assurance functions. Group Audit provides an independent assessment of the adequacy and effectiveness of management's controls over operational, market, liquidity and compliance risks. Credit Risk Assurance provides an independent assessment of the effectiveness of the NZ Banking Group's credit management activities and the adequacy of credit provisioning. Model Risk Assurance provides an independent assessment over compliance with Group model risk policy. The New Zealand Audit function comprises a New Zealand based Audit team, supported by the Overseas Banking Group's Credit Risk Assurance and Model Risk Assurance functions. Group Audit reports on a quarterly basis, or more often as deemed appropriate, to the Group BAC, to agree the budget and the annual assurance plan and to report its findings. In addition, the Group BAC has private sessions with the General Manager Group Audit. Furthermore, the General Manager Group Audit reports to the Chair of the Group BAC, and for administrative purposes to the Overseas Bank's Chief Financial Officer, a member of the Overseas Bank's Executive Team.

As independent functions, New Zealand Audit and Group Audit have no direct authority over the activities of management. They have unlimited access to all the NZ 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 NZ Banking Group. The level of operational risk determines the scope and frequency of individual audits. New Zealand Audit periodically reviews the adequacy and effectiveness of management's controls over market risk and liquidity risk.

Note 35 Risk management (continued)

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.

Group Audit's Credit Risk Assurance and Model Risk Assurance functions have a rolling programme of credit and model risk reviews throughout the financial year. New Zealand Audit, with support from the Overseas Bank's Group Audit unit, also periodically reviews the NZ Banking Group's Operational, Compliance, Market, Funding and Liquidity Risk Frameworks. These reviews are not conducted by a party which is external to the NZ Banking Group or the Overseas Bank, though they are independent and have no direct authority over the activities of management.

35.1 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 NZ Banking Group. It arises from the NZ Banking Group's lending, interbank, treasury and international trade activities.

Credit risk management

The Board approves major prudential policies and limits that govern large customer exposures, country risk, industry concentration and dealings with related entities. The Board delegates approval authorities to the Westpac New Zealand Chief Executive and the Group Chief Risk Officer, who in turn appoint independent credit officers in each business area. These credit specialists work with line managers to ensure that approved policies are applied appropriately so as to optimise the balance between risk and reward. The Credit Risk Assurance unit provides independent assessments of the quality of the NZ Banking Group's credit portfolio.

In applying its Control Principles of Credit, the NZ 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 NZ Banking Group evaluates credit requests by undertaking detailed individual customer and transaction risk analysis (the '**transaction-managed**' approach). Such customers are assigned a customer risk grade ('**CRG**') based on the NZ Banking Group's estimate of their Probability of Default ('**PD**'). Each facility is assigned a Loss Given Default ('**LGD**') taking into account the realistic distress value of assets over which the NZ 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 NZ Banking Group is responsible for implementing and operating within established risk management frameworks and policies and has adapted the Overseas Banking Group's credit risk policy to the NZ Banking Group's customer and product set. Accordingly, the NZ Banking Group has its own credit manuals and delegated approval authorities which are approved by the Overseas Banking Group.

The NZ Banking Group monitors its portfolio to guard against the development of risk concentrations. This process allows the NZ Banking Group's credit risk to be well diversified throughout the New Zealand economy. The NZ 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 Board and the Group BRCC, along with a strategy addressing the ongoing management of the excess.

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 Overseas Bank ('**Overseas Bank Group Risk**'). Compliance with these policies is administered locally.

Overseas 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 NZ Banking Group has its own credit approval limits approved by the Board of Westpac New Zealand and delegated by the Overseas 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.

Note 35 Risk management (continued)

Credit risk mitigation, collateral and other credit enhancements

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

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

Financial assets	Nature of collateral
Cash and other balances held with central banks, including regulatory deposits	These exposures are generally considered to be low risk due to the nature of the counterparties. These balances are not collateralised.
Due from other financial institutions	These exposures are mainly to relatively low risk banks (Rated A+, AA– or better). These balances are not collateralised.
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.
Trading securities and other financial assets designated at fair value	These exposures are carried at fair value which reflects the credit risk. No collateral is sought directly from the issuer or counterparty.
Available-for-sale securities	These exposures are carried at fair value which reflects the credit risk. Collateral is not sought directly with respect to these exposures.
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.
Life insurance assets	These assets are carried at fair value, which reflects the credit risk. No collateral is sought directly from the issuer or counterparty.
Due from related entities	These exposures are generally considered to be low risk due to the nature of the counterparties. These balances are not collateralised.
Other assets	Collateral is generally not sought on these balances except on accrued interest receivable which is assumed to follow the principal amount recorded in Loans.

Risk reduction

In certain circumstances, the NZ Banking Group reduces credit risk exposure to a customer through either:

- collateralisation, where the exposure is secured by eligible collateral; or
- formal set-off arrangements.

Collateral valuation and management

The Overseas Bank manages collateral centrally for all branches of the Overseas Bank. Westpac New Zealand manages its collateral on a stand-alone basis. Exposures and collateral are revalued on a daily basis to monitor the net risk position, and formal processes are in place to ensure calls for collateral top-up or exposure reduction are made promptly. An independent operational unit has responsibility for monitoring these positions. The collateralisation arrangements are documented via the Support Annex of the International Swaps and Derivatives Association dealing agreements.

The NZ Banking Group recognises the following as eligible collateral for credit risk mitigation by way of risk reduction:

- cash; and
- prescribed government securities.

Netting

Risk reduction by way of current account set-offs is recognised for exposures to creditworthy customers domiciled in New Zealand only. Customers are required to enter into formal agreements giving the NZ Banking Group the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the NZ Banking Group's net exposure within New Zealand.

Payment and close-out netting is undertaken for off-balance sheet financial market transactions with counterparties with whom the NZ Banking Group has entered into legally enforceable master dealing agreements which allow such netting in specified jurisdictions. Payment netting allows the NZ Banking Group to net settle on any day to reduce cash flow exchanges between counterparties. Close-out netting effectively aggregates pre-settlement risk exposure at the time of default, thus reducing overall exposure.

Risk transfer

For mitigation by way of risk transfer, the NZ 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;
- ADIs and overseas banks; and
- other entities with a minimum risk grade equivalent of A3/A-.

Note 35 Risk management (continued)

Internal credit risk rating system

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

The NZ Banking Group's internal credit risk rating system for transaction-managed customers is based on the Overseas Banking Group's internal credit risk rating system and 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 and Standard & Poor's external senior ranking unsecured ratings. This mapping is reviewed annually and allows the NZ 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 NZ Banking Group's CRGs, the corresponding external rating and the supervisory slotting grade. Note that only high-level CRG groupings are shown.

NZ Banking Group's CRG	Standard & Poor's 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
NZ 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 NZ 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 Group BRCC.

To ensure the credit risk rating system is applied consistently across the NZ Banking Group, the Overseas Banking 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 Overseas Banking Group's model risk policy.

Specific credit risk estimates (including PD, LGD and EAD levels) are overseen and approved by a subcommittee of the Overseas Banking Group Credit Risk Committee.

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 NZ 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 ('**TCE**') and loan tenor as well as measures of portfolio composition not reflected in regulatory capital formulae[1].

Pricing

The NZ 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 NZ 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 PD, LGD 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 the NZ IFRS accounting standards.

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.

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.

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

Note 35 Risk management (continued)

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 NZ 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

(i) PD

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

(ii) LGD

The LGD represents an estimate of the expected severity of a loss to the NZ Banking Group should a customer default occur during an economic downturn. The NZ 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 NZ 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.

*(iii) 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) 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

Note 35 Risk management (continued)

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

(i) PD

PDs are assigned at the 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.

(ii) 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.

(iii) 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.

Market and/or credit risk concentrations

All exposures to risk transfer counterparties are separately approved under the NZ Banking Group's usual credit approval process with the amount and tenor of mitigation recorded against the counterparty in the NZ Banking Group's exposure management systems. The credit quality of mitigation providers is reviewed regularly in accordance with the NZ Banking Group's usual periodic review processes.

Market risks arising from credit risk mitigation activities are managed similarly to market risks arising from any other trading activities. These risks are managed under either the market risk banking book or trading book frameworks as appropriate.

The banking book is managed by credit limits to restrict credit exposure. Net interest positions are managed within the banking book market risk framework by Value at Risk ('**VaR**') and structural risk limits. The structural risk limits restrict the size of market risk exposures that can be taken on any part of the yield curve.

In the trading book, market risk flowing from credit risk mitigation deals is combined with the underlying market risk and assessed against structural (and VaR) risk limits. The structural risk limits include volume, basis point, 'greeks' and other limits to avoid undue concentration of market risk. These are set and overseen by the independent market risk management unit. The structural risk limits are set taking into account business strategy, trader experience and market liquidity.

Foreign exchange and derivative credit risk management

Foreign exchange and derivative activities expose the NZ Banking Group to pre-settlement and settlement risk. A real-time global limits system is used to record exposure against limits for these risk types. Pre-settlement risk is the risk that the counterparty to a contract defaults prior to settlement when the value of the contract is positive. Both the current replacement cost and the potential future credit risk are taken into consideration in the assessment of pre-settlement risk. 'Close out' netting is used to reduce gross credit exposures for counterparties where legally enforceable netting agreements are in place. In a close out netting situation, the positive and negative mark-to-market values of all eligible foreign exchange and derivative contracts with the same counterparty are netted in the event of default and regardless of maturity.

The NZ Banking Group increasingly executes derivative transactions through central clearing counterparties. The NZ Banking Group's credit exposure to central clearing counterparties is mitigated through the risk management framework employed by the central clearing counterparties which includes stringent membership requirements, initial margin collected on all trades and the structure of the default waterfall. These membership and margin requirements are managed centrally by the Overseas Bank.

Maximum exposure to credit risk

	NZ Banking Group	
$ millions	**2015**	2014
Financial assets		
Cash and balances with central banks	**939**	1,927
Due from other financial institutions	**168**	591
Trading securities and other financial assets designated at fair value	**4,215**	3,514
Derivative financial instruments	**5,459**	4,180
Available-for-sale securities	**3,421**	2,968
Loans	**69,576**	65,027
Life insurance assets	**28**	42
Due from related entities	**3,451**	1,770
Other assets	**325**	258
Total financial assets	**87,582**	80,277
Credit risk-related instruments		
Standby letters of credit and financial guarantees	**447**	510
Trade letters of credit	**224**	247
Non-financial guarantees	**561**	611
Commitments to extend credit	**23,834**	21,569
Other commitments	**220**	150
Total credit risk-related instruments	**25,286**	23,087
Total maximum credit risk exposure	**112,868**	103,364

Note 35 Risk management (continued)

The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 30 September 2015 (unaudited)

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the NZ 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. For these loans, the NZ Banking Group utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 90% plus category in accordance with the requirements of the Order.

	NZ Banking Group 2015 Unaudited			
LVR Range ($ millions)	**Does Not Exceed 80%**	**Exceeds 80% And Not 90%**	**Exceeds 90%**	**Total**
On-balance sheet exposures	**34,592**	**5,154**	**2,100**	**41,846**
Undrawn commitments and other off-balance sheet exposures	**7,788**	**442**	**159**	**8,389**
Value of exposures	**42,380**	**5,596**	**2,259**	**50,235**

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

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

$ millions	NZ Banking Group 2015 Unaudited
Term loans - Housing (as disclosed in Note 12) and Residential mortgages - total gross loans (as disclosed in Note 13)	**42,121**
Reconciling items:	
Unamortised deferred fees and expenses	**(169)**
Fair value hedge adjustments	**(106)**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**8,389**
Residential mortgages by LVR	**50,235**

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 NZ Banking Group. The NZ 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 NZ Banking Group as at 30 September 2015 and 2014 other than loans (as disclosed in Note 13) are neither past due nor impaired.

The following analysis shows the NZ Banking Group's assessment of the coverage provided by collateral held in support of loan balances. The estimated realisable value of collateral held is based on a combination of:

- formal valuations currently held in respect of such collateral; and
- management's assessment of the estimated realisable value of all collateral held given its experience with similar types of assets in similar situations and the circumstances peculiar to the subject collateral.

This analysis also takes into consideration any other relevant knowledge available to management at the time. It is the NZ Banking Group's practice to obtain updated valuations when either management considers that it cannot satisfactorily estimate a realisable value or when it is determined to be necessary to move to a forced sale of the collateral.

In the table below, a loan is deemed to be 'fully secured' where the ratio of the asset amount to the NZ Banking Group's current estimated net present value of the realisable collateral is less than or equal to 100%. Such assets are deemed to be 'partially secured' when this ratio exceeds 100% but not more than 150%, and 'unsecured' when either no security is held (for example, can include credit cards, personal loans, and exposure to highly rated corporate entities) or where the secured loan to estimated recoverable value exceeds 150%.

	NZ Banking Group	
%	**2015**	2014
Fully secured	**75**	74
Partially secured	**13**	13
Unsecured	**12**	13
Total net loans	**100**	100

Note 35 Risk management (continued)

Financial assets that are neither past due nor individually impaired

The credit quality of financial assets of the NZ 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 NZ Banking Group that are neither past due nor impaired fall into the 'Strong' category except those disclosed below:

	NZ Banking Group							
	2015				2014			
$ 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)	**4,202**	**13**	**-**	**4,215**	3,501	13	-	3,514
Derivative financial instruments (refer to Note 25)	**5,348**	**102**	**9**	**5,459**	4,087	81	12	4,180
Loans (refer to Note 13)	**21,213**	**46,132**	**1,100**	**68,445**	19,820	42,720	1,026	63,566

35.2 Compliance and operational risk

Compliance risk

The NZ Banking Group 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 NZ Banking Group's control.

Effective compliance risk management enables the NZ Banking Group to identify emerging issues and, where necessary, put in place preventative measures.

The Compliance Management Framework outlines business requirements for managing compliance and mitigating compliance risk with respect to governance, risk identification, controls and documentation, reporting and monitoring, and continual improvement. This Framework is approved by the Overseas Bank's BRCC.

Westpac New Zealand operates its own Compliance Management Framework that is closely aligned with that of the Overseas Bank. The Westpac New Zealand Framework is approved by the Westpac New Zealand Board Risk and Compliance Committee ('**Westpac New Zealand BRCC**'). The Westpac New Zealand BRCC was formerly known as the Westpac New Zealand Board Risk Management Committee.

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 NZ Banking Group's financial performance, customer service and/or reputation in the community or cause other damage to the business.

The Operational Risk Management Framework outlines the business requirements for managing operational risk with respect to governance, risk and control assessments, incident management, and reporting and monitoring. This Framework is approved by the Overseas Bank's BRCC.

Westpac New Zealand has its own Operational Risk Management Framework that is closely aligned with that of the Overseas Bank. The Westpac New Zealand Framework is approved by the Westpac New Zealand BRCC.

35.3 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, commodity prices and equity prices. The NZ Banking Group's exposure to market risk arises out of its Financial Markets and Treasury activities.

Traded market risk

Approach

The NZ Banking Group's exposure to traded market risk arises out of its financial markets and treasury trading activities. These activities are controlled by the Overseas Banking Group's Market Risk Management Framework approved by the Group BRCC. Westpac New Zealand operates its own Market Risk Management Framework that is closely aligned with that of the Group. The Westpac New Zealand Framework is approved by the Westpac New Zealand BRCC. VaR is the primary mechanism for measuring and controlling market risk. Market risk is managed using VaR and structural risk limits (including volume limits and basis point value limits) in conjunction with scenario analysis and stress testing. Market risk limits are allocated to business management based upon business strategies and experience, in addition to market liquidity and concentration risks. All trades are fair valued daily, using independently sourced or reviewed rates. Rates that have limited independent sources are reviewed at least on a monthly basis.

Financial Markets ('**FM**') trading book activity represents dealings that encompass book running and distribution activity. The types of market risk arising from FM trading activity include interest rate risk, foreign exchange risk, credit spread risk and volatility risk.

Treasury's trading activity represents dealings that include the management of interest rate, foreign exchange and credit spread risks associated with the wholesale funding task, liquid asset portfolios and foreign exchange repatriations.

VaR limits

Market risks arising from trading book activities are primarily measured using VaR based on historical simulation methodology. VaR is the potential loss in earnings from an adverse market movement calculated using a 99% confidence level, with a minimum of one year of historical rate data and a one-day time horizon. VaR takes account of all material market variables that may cause a change in the value of the trading portfolio, including interest rates, foreign exchange rates, price change, volatility and the correlations between these variables.

The Group BRCC has approved a VaR limit for the combined trading activities of the Overseas Banking Group's FM and Group Treasury units.

Note 35 Risk management (continued)

Backtesting

Daily backtesting of VaR results is performed to ensure model integrity is maintained. A review of the potential profit and loss outcomes is also undertaken to monitor any skew created by the historical data.

Stress testing

Daily stress testing against pre-determined scenarios is performed to analyse potential losses beyond the 99% confidence level. An escalation framework around selective stress tests is approved by the Overseas Banking Group's Risk Committee ('**RISKCO**').

Profit and loss notification framework

The Group BRCC has approved a profit and loss notification framework. Included in this framework are levels of escalation in accordance with the size of the profit or loss. Triggers are applied to both a 1-day and a rolling 20-day cumulative total.

Structure and organisation

An independent Market Risk Management unit ('**Market Risk Management**') is responsible for the daily measurement and monitoring of market risk exposures. This unit performs daily stress tests on the trading portfolios to quantify the impact of extreme or unexpected movements in market factors. Stress tests include historical market movements, tests defined by one of the market risk committees or management and independent scenarios developed by the Overseas Banking Group's economics department.

Risk reporting

Daily monitoring of current exposure and limit utilisation is conducted independently by Market Risk Management, which monitors market risk exposures against VaR and structural limits. Daily VaR position reports are produced by risk type, by product lines and by geographic region. These are supplemented by structural risk reporting, advice of profit and loss trigger levels and stress test escalation trigger points. Model accreditation has been granted by APRA for the use of the internal model approach for the determination of regulatory capital for the key classes of interest rate (general market), foreign exchange, commodity and equity (including specific risk) risks. Specific risk refers to the variations in individual security prices that cannot be explained by general market movements and event and default risk.

Risk mitigation

Market risk positions are managed by the trading desks consistent with delegated trading and product authorities. Risks are consolidated into portfolios based on product and risk type. Risk management is carried out by suitably qualified personnel with varying levels of seniority commensurate with the nature and scale of market risks under management.

The following controls allow for continuous monitoring of market risks by management:

- trading authorities and responsibilities are clearly delineated at all levels to ensure accountability;
- a structured system of limits and reporting of exposures;
- all new products and significant product variations undergo a rigorous approval process to ensure business risks have been identified prior to launch;
- models that are used to determine risk or profit and loss for the NZ Banking Group's accounts are independently reviewed; and
- duties are segregated to ensure that employees involved in the origination, processing and valuation of transactions operate under separate reporting lines, minimising the opportunity for collusion.

Segregation of duties is a significant feature of the NZ Banking Group's internal controls. Separation of persons executing transactions from those responsible for processing contracts, confirming transactions, settling transactions, approving the accounting methodology or entries and performing revaluations minimises opportunities for fraud or embezzlement.

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, currency risk and funding and liquidity risk are inherent in these activities. Westpac New Zealand Treasury is responsible for managing the interest rate risk arising from these activities.

Asset and liability management

Westpac New Zealand Treasury manages the structural interest rate mismatch associated with the transfer priced balance sheet, including the investment of the NZ Banking Group'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 under the direction of Group RISKCO with oversight from the NZ Branch's Trading Risk Management unit and conducted within a risk framework and appetite set down by the Group 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 NZ Banking Group'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 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 Group BRCC has approved NaR and VaR limits for banking book risk across the Overseas Banking Group. A NaR sub limit has been assigned to the NZ Banking Group and, in addition, structural limits, expressed as interest rate delta, are also in place for the NZ Banking Group.

Note 35 Risk management (continued)

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 Overseas Banking Group's Market Risk Management unit, which monitors market risk exposures against VaR and NaR limits. Oversight of risk specific to the NZ Banking Group is monitored by the NZ Branch's Trading Risk Management unit. 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 senior management market risk forums of Group RISKCO and Group 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. Hedging of the NZ Banking Group's exposure to interest rate risk is undertaken using derivatives. The hedge accounting strategy adopted is to utilise a combination of the cash flow and fair value hedge approaches. Some derivatives held for economic hedging purposes do not meet the criteria for hedge accounting, and therefore, are accounted for in the same way as derivatives held for trading.

The same controls as used to monitor traded market risk allow for continuous monitoring by management.

Market risk notional capital charges

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Standardised Approach) (BS2A)' and is calculated on a six monthly basis.

For each category of market risk, the NZ Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six month period ended 30 September 2015 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Standardised Approach) (BS2A)'.

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at balance date and the peak end-of-day notional capital charges by risk type for the six months ended 30 September 2015.

	NZ Banking Group 2015 Unaudited	
$ millions	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	**3,513**	**281**
Foreign currency risk	**13**	**1**
Equity risk	**-**	**-**
Peak end-of-day		
Interest rate risk	**7,175**	**574**
Foreign currency risk	**48**	**4**
Equity risk	**48**	**4**

VaR

The NZ Banking Group applies a VaR methodology to its portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. VaR is an estimate of the potential loss in value, to a 99% confidence level assuming positions were held unchanged for one day. The NZ Banking Group uses a historical simulation method to calculate VaR taking into account all material market variables. Actual outcomes are monitored and the model is back-tested daily. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The following table provides a summary of VaR as at balance date by risk type for the NZ Banking Group's trading and non-trading activities.

Trading

	NZ Banking Group	
$ millions	2015	2014
Interest rate risk	**0.7**	1.8
Foreign exchange risk	**0.5**	0.1
Price risk	**-**	-
Volatility risk	**-**	-
Net market risk	**0.9**	1.8

Non-trading

	NZ Banking Group	
$ millions	2015	2014
Interest rate risk	**0.7**	0.4

Note 35 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 NZ Banking Group policy guidelines.

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 30 September 2015. The NZ 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.

	NZ Banking Group 2015						
$ millions	Up to 3 Months	Over 3 Months and Up to 6 Months	Over 6 Months and Up to 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	691	-	-	-	-	248	939
Due from other financial institutions	168	-	-	-	-	-	168
Trading securities and other financial assets designated at fair value	3,236	599	-	9	371	-	4,215
Derivative financial instruments	-	-	-	-	-	5,459	5,459
Available-for-sale securities	-	-	308	80	3,033	-	3,421
Loans	37,707	3,568	8,671	13,927	6,118	(415)	69,576
Life insurance assets	12	3	13	-	-	237	265
Due from related entities	2,411	-	-	-	-	1,040	3,451
Other assets	-	-	-	-	-	325	325
Total financial assets	44,225	4,170	8,992	14,016	9,522	6,894	87,819
Non-financial assets							1,042
Total assets							88,861
Financial liabilities							
Due to other financial institutions	805	-	26	-	-	6	837
Deposits and other borrowings	36,623	5,786	4,701	1,196	648	4,032	52,986
Other financial liabilities at fair value through income statement	279	-	-	-	-	-	279
Derivative financial instruments	-	-	-	-	-	6,717	6,717
Debt issues	7,053	11	1,765	1,436	4,420	-	14,685
Other liabilities	-	-	-	-	-	647	647
Subordinated debentures	1,143	841	-	-	-	-	1,984
Due to related entities	2,890	-	-	-	-	1,398	4,288
Total financial liabilities	48,793	6,638	6,492	2,632	5,068	12,800	82,423
Non-financial liabilities							245
Total liabilities							82,668
On-balance sheet interest rate repricing gap	(4,568)	(2,468)	2,500	11,384	4,454		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	13,895	(6,096)	2,545	(6,630)	(3,714)		
Net interest rate repricing gap	9,327	(8,564)	5,045	4,754	740		

Foreign currency exposures

The net open position in each foreign currency, detailed in the table below, represents the net on-balance sheet assets and liabilities in that foreign currency aggregated with the net expected future cash flows from off-balance sheet purchases and sales from foreign exchange transactions in that foreign currency. Amounts are stated in New Zealand dollar equivalents translated using year end spot foreign exchange rates.

	NZ Banking Group	
$ millions	2015	2014
Receivable/(payable)		
Australian dollar	-	-
Euro	-	(2)
British pound	(1)	2
Japanese yen	1	(1)
US dollar	(6)	(4)
Others	5	3

Note 35 Risk management (continued)

35.4 Funding and liquidity risk

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

Overall responsibility for liquidity risk management is delegated to the Overseas Banking Group's Treasury unit ('**Group Treasury**'), under the oversight of the Overseas Banking Group's Asset and Liability Committee ('**Group ALCO**'). Group Treasury manages liquidity on a daily basis and submits monthly reports to Group ALCO and quarterly reports to the Group BRCC. Regular liquidity reports are provided to both the Reserve Bank and APRA. Westpac New Zealand's Chief Financial Officer is responsible for managing Westpac New Zealand's funding and liquidity position under the Westpac New Zealand BRCC approved Liquidity Risk Management Framework.

Key aspects of the NZ Banking Group's liquidity risk management strategy are as follows:

Liquidity risk management framework

The Group BRCC has approved the Liquidity Risk Management Framework which applies to the NZ Banking Group. In addition, the Westpac New Zealand BRCC has approved a Liquidity Risk Management Framework for Westpac New Zealand's balance sheet which is consistent with the Overseas Banking Group framework but also meets New Zealand specific requirements. The frameworks cover all aspects of liquidity risk management including:

- roles and responsibilities;
- referencing contingency planning arrangements (covered in the separate Contingency Management Action Plan);
- principal framework components, policies and reports along with the frequency of review and authority for approval;
- measurement and modelling approaches;
- scenarios covered;
- liquidity risk limits;
- reporting and escalation processes; and
- minimum holdings of liquid assets.

The frameworks are reviewed at least every two years and submitted to the appropriate committee for approval.

Daily liquidity modelling and reporting

The NZ Banking Group's liquidity position is modelled and reported on a daily basis covering:

- the level of liquid assets held;
- a going concern scenario; and
- a crisis funding scenario.

Westpac New Zealand is required to comply with the quantitative measures specified in the Reserve Bank document 'Liquidity Policy' (BS13). Accordingly, the following metrics have been calculated and reported daily by Westpac New Zealand in accordance with BS13:

- the level of BS13 liquid assets held;
- the one-week mismatch ratio;
- the one-month mismatch ratio; and
- the one-year core funding ratio.

Reports are circulated daily to senior Treasury, Finance and Risk personnel within both Westpac New Zealand and the Overseas Banking Group. Specific oversight of the NZ Banking Group's liquidity risk profile is provided by the NZ Branch's Trading Risk Management unit.

Annual funding plan

Each financial year Group Treasury undertakes a comprehensive review of the Overseas Banking Group's funding strategy. In addition, Westpac New Zealand's Treasury unit undertakes an annual review of Westpac New Zealand's funding strategy. These reviews cover areas such as:

- trends in global debt markets;
- funding alternatives;
- peer analysis;
- estimation of wholesale funding task;
- estimated market capacity;
- funding risk analysis; and
- allocation of funding costs.

The output of the reviews is the annual funding plans for the Overseas Banking Group and Westpac New Zealand. The funding plans are approved by the Group BRCC and the Westpac New Zealand BRCC respectively.

Contingency planning

Group Treasury maintains a Crisis Management Action Plan detailing the broad actions that should be taken in the event of a funding crisis affecting the Overseas Banking Group. Additionally, Westpac New Zealand's Treasury unit maintains a Crisis Management Action Plan specific to Westpac New Zealand. These action plans:

- define a committee of senior executives to manage a crisis;
- allocate responsibility to individuals for key tasks;
- include a media relations strategy;
- provide a contingent funding plan; and
- contain detailed contact lists outlining key regulatory, government, ratings agencies, equity and debt investor contact points.

Note 35 Risk management (continued)

Sources of liquidity

The principal sources of the NZ Banking Group's liquidity are as follows:

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

Liquid assets

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

	NZ Banking Group	
$ millions	**2015**	2014
Cash and balances with central banks	**939**	1,927
Due from other financial institutions	**98**	416
Trading securities and other financial assets designated at fair value	**1,176**	491
NZ Government securities	**2,388**	2,086
NZ public securities	**1,518**	644
NZ corporate securities	**1,998**	1,774
Residential mortgage-backed securities	**3,992**	3,992
Total liquid assets	**12,109**	11,330

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 contractual undiscounted cash flows, whereas the NZ Banking Group manages inherent liquidity risk based on expected cash flows.

Cash flows associated with these 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 35 Risk management (continued)

The following liquidity analysis for financial assets and financial liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at the reporting date to the contractual maturity. The total balances in the tables below may not agree to the balance sheet totals as the tables incorporate all cash flows on an undiscounted basis, and include both principal and associated future interest income/expense accruals.

	NZ Banking Group 2015						
$ millions	On Demand	Up to 1 Month	Over 1 Months 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	939	-	-	-	-	-	939
Due from other financial institutions	98	70	-	-	-	-	168
Trading securities and other financial assets designated at fair value	-	778	1,945	693	771	207	4,394
Derivative financial instruments:							
Held for trading	4,727	-	-	-	-	-	4,727
Held for hedging purposes (net settled)	-	(13)	(9)	75	49	-	102
Held for hedging purposes (gross settled):							
Cash outflow	-	(11)	(72)	(2,715)	(4,450)	-	(7,248)
Cash inflow	-	3	30	2,689	4,784	-	7,506
Available-for-sale securities	-	6	30	420	3,020	275	3,751
Loans	5,621	6,421	5,462	6,366	25,163	56,792	105,825
Life insurance assets	237	5	7	16	-	-	265
Due from related entities:							
Non-derivative balances	19	2,402	-	-	-	-	2,421
Derivative financial instruments:							
Held for trading	1,030	-	-	-	-	-	1,030
Other assets	-	165	-	-	-	-	165
Total undiscounted financial assets	**12,671**	**9,826**	**7,393**	**7,544**	**29,337**	**57,274**	**124,045**
Financial liabilities							
Due to other financial institutions	176	635	-	26	-	-	837
Deposits and other borrowings	28,040	3,848	9,022	10,842	1,992	-	53,744
Other financial liabilities at fair value through income statement	279	-	-	-	-	-	279
Derivative financial instruments:							
Held for trading	5,987	-	-	-	-	-	5,987
Held for hedging purposes (net settled)	-	22	32	273	343	10	680
Held for hedging purposes (gross settled):							
Cash outflow	-	-	26	75	1,632	897	2,630
Cash inflow	-	-	-	(56)	(1,390)	(888)	(2,334)
Debt issues	-	19	1,018	4,181	9,182	888	15,288
Other liabilities	-	308	-	-	-	-	308
Subordinated debentures	-	-	17	41	239	2,002	2,299
Due to related entities:							
Non-derivative balances	2,612	-	4	9	53	320	2,998
Derivative financial instruments:							
Held for trading	1,311	-	-	-	-	-	1,311
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	24	61	354	1,542	1,981
Cash inflow	-	-	(20)	(50)	(292)	(1,498)	(1,860)
Total undiscounted financial liabilities	**38,405**	**4,832**	**10,123**	**15,402**	**12,113**	**3,273**	**84,148**
Total contingent liabilities and commitments							
Commitments to extend credit	23,834	-	-	-	-	-	23,834
Other commitments	220	-	-	-	-	-	220
Total undiscounted contingent liabilities and commitments	**24,054**	**-**	**-**	**-**	**-**	**-**	**24,054**

Notes to the financial statements

Note 35 Risk management (continued)

	NZ Banking Group 2014						
$ millions	On Demand	Up to 1 Month	Over 1 Months 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	1,927	-	-	-	-	-	1,927
Due from other financial institutions	291	300	-	-	-	-	591
Trading securities and other financial assets designated at fair value	-	416	1,848	172	921	368	3,725
Derivative financial instruments:							
Held for trading	4,009	-	-	-	-	-	4,009
Held for hedging purposes (net settled)	-	19	29	5	43	-	96
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(22)	(463)	(1,476)	(323)	(2,284)
Cash inflow	-	-	-	424	1,269	318	2,011
Available-for-sale securities	42	14	57	533	2,374	386	3,406
Loans	5,452	6,134	4,753	6,616	23,354	53,554	99,863
Life insurance assets	255	17	20	5	-	-	297
Due from related entities:							
Non-derivative balances	15	150	-	-	-	-	165
Derivative financial instruments:							
Held for trading	1,605	-	-	-	-	-	1,605
Other assets	-	90	-	-	-	-	90
Total undiscounted financial assets	13,596	7,140	6,685	7,292	26,485	54,303	115,501
Financial liabilities							
Due to other financial institutions	250	891	-	-	-	-	1,141
Deposits and other borrowings	24,227	4,453	8,750	11,768	2,150	-	51,348
Other financial liabilities at fair value through income statement	982	90	-	-	-	-	1,072
Derivative financial instruments:							
Held for trading	3,582	-	-	-	-	-	3,582
Held for hedging purposes (net settled)	-	19	25	33	93	9	179
Held for hedging purposes (gross settled):							
Cash outflow	-	6	65	705	5,338	-	6,114
Cash inflow	-	(1)	(4)	(609)	(4,676)	-	(5,290)
Debt issues	-	379	1,070	3,551	7,971	318	13,289
Other liabilities	-	247	-	-	-	-	247
Subordinated debentures	-	-	-	-	-	672	672
Due to related entities:							
Non-derivative balances	3,693	48	-	-	-	-	3,741
Derivative financial instruments:							
Held for trading	1,416	-	-	-	-	-	1,416
Total undiscounted financial liabilities	34,150	6,132	9,906	15,448	10,876	999	77,511
Total contingent liabilities and commitments							
Commitments to extend credit	21,569	-	-	-	-	-	21,569
Other commitments	150	-	-	-	-	-	150
Total undiscounted contingent liabilities and commitments	21,719	-	-	-	-	-	21,719

Note 36 Concentration of funding

$ millions	NZ Banking Group 2015	2014
Funding consists of		
Due to other financial institutions	**837**	1,141
Deposits and other borrowings	**52,986**	50,570
Other financial liabilities at fair value through income statement	**279**	1,072
Debt issues[1]	**14,685**	12,592
Subordinated debentures	**1,984**	710
Due to related entities[2]	**2,907**	3,715
Total funding	**73,678**	69,800
Analysis of funding by geographical areas[1]		
New Zealand	**53,148**	53,067
Australia	**3,453**	4,210
United Kingdom	**10,244**	5,932
United States of America	**3,907**	4,004
Other	**2,926**	2,587
Total funding	**73,678**	69,800
Analysis of funding by industry sector		
Accommodation, cafes and restaurants	**265**	221
Agriculture	**1,163**	1,134
Construction	**1,482**	1,216
Finance and insurance	**25,949**	24,622
Forestry and fishing	**173**	145
Government, administration and defence	**1,637**	1,685
Manufacturing	**1,454**	1,410
Mining	**45**	69
Property services and business services	**5,079**	4,539
Services	**3,959**	4,395
Trade	**1,381**	1,579
Transport and storage	**442**	390
Utilities	**461**	631
Households	**22,463**	20,677
Other	**4,818**	3,372
Subtotal	**70,771**	66,085
Due to related entities[2]	**2,907**	3,715
Total funding	**73,678**	69,800

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 programme 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 intra group deposits and borrowings and exclude amounts which relate to intra group derivatives and other liabilities.

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

Note 37 Concentration of credit exposures

$ millions	NZ Banking Group 2015	2014
On-balance sheet credit exposures consists of		
Cash and balances with central banks	**939**	1,927
Due from other financial institutions	**168**	591
Trading securities and other financial assets designated at fair value	**4,215**	3,514
Derivative financial instruments	**5,459**	4,180
Available-for-sale securities	**3,421**	2,968
Loans	**69,576**	65,027
Life insurance assets	**28**	42
Due from related entities	**3,451**	1,770
Other assets	**325**	258
Total on-balance sheet credit exposures	**87,582**	80,277
Analysis of on-balance sheet credit exposures by geographical areas		
New Zealand	**79,448**	74,555
Australia	**4,655**	2,161
United Kingdom	**1,334**	1,779
United States of America	**282**	534
Others	**1,863**	1,248
Total on-balance sheet credit exposures	**87,582**	80,277
Analysis of on-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**596**	488
Agriculture	**7,850**	6,956
Construction	**1,326**	1,196
Finance and insurance	**10,319**	8,738
Forestry and fishing	**342**	343
Government, administration and defence	**5,783**	6,286
Manufacturing	**2,954**	2,541
Mining	**469**	563
Property	**12,318**	11,598
Property services and business services	**2,235**	2,078
Services	**2,619**	2,340
Trade	**3,616**	3,404
Transport and storage	**1,599**	1,211
Utilities	**1,793**	1,575
Retail lending	**30,649**	29,579
Other	**21**	3
Subtotal	**84,489**	78,899
Provisions for impairment charges on loans	**(415)**	(442)
Due from related entities	**3,451**	1,770
Other assets	**57**	50
Total on-balance sheet credit exposures	**87,582**	80,277
Off-balance sheet credit exposures		
Credit risk-related instruments	**25,286**	23,087
Total off-balance sheet credit exposures	**25,286**	23,087
Analysis of off-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**115**	89
Agriculture	**710**	707
Construction	**635**	521
Finance and insurance	**2,331**	2,121
Forestry and fishing	**56**	61
Government, administration and defence	**626**	1,033
Manufacturing	**1,745**	2,114
Mining	**84**	117
Property	**1,982**	2,070
Property services and business services	**755**	761
Services	**1,490**	1,246
Trade	**3,227**	2,065
Transport and storage	**1,164**	481
Utilities	**1,626**	1,668
Retail lending	**8,740**	8,033
Total off-balance sheet credit exposures	**25,286**	23,087

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

Note 37 Concentration of credit exposures (continued)

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

- as at 30 September 2015 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 September 2015 was nil.

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

- as at 30 September 2015 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 September 2015 was nil.

The peak end-of-day aggregate credit exposures have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2015 (refer to Note 38).

Credit exposures to individual counterparties (not being members of a group of closely related counterparties), and to groups of closely related counterparties exclude exposures to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any bank with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the NZ Banking Group (excluding exposures booked outside New Zealand) and were calculated net of individually assessed provisions.

Note 38 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2015.

Profitability	**2015**
Net profit after tax for the year ended 30 September 2015 (A$millions)	**8,068**
Net profit after tax (for the year ended 30 September 2015) as a percentage of average total assets	**1.0%**

Total assets and equity	**2015**
Total assets (A$millions)	**812,156**
Percentage change in total assets over the year ended 30 September 2015	**5.4%**
Total equity (A$millions)	**53,915**

Asset quality	**2015**
Total individually impaired assets[1, 2] (A$millions)	**1,895**
As a percentage of total assets	**0.2%**
Total individual credit impairment allowance[3] (A$millions)	**877**
As a percentage of total individually impaired assets	**46.3%**
Total collective credit impairment allowance[3] (A$millions)	**2,663**

1 Total individually impaired assets are before allowances for credit impairment loss and net of interest held in suspense. Total individually impaired assets includes A$440 million of assets which are determined to be impaired, but which are not individually significant, and therefore have been grouped into pools of assets for the purpose of collectively calculating an impairment provision.

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

3 Total individual credit impairment allowance and total collective credit impairment allowance both include A$208 million of credit impairment allowance that has been calculated collectively on groups of assets which have been determined to be impaired, but which are not individually significant.

Note 39 Notes to the statement of cash flows

Accounting policy

Cash and balances with central banks include cash at branches, central bank settlement account balances and nostro balances. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate. These balances have a maturity of less than three months.

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 NZ Banking Group.

Cash and cash equivalents

	NZ Banking Group	
$ millions	**Year Ended 30-Sep-15**	Year Ended 30-Sep-14
Cash and cash equivalents comprise:		
Cash on hand	**249**	177
Cash and balances with central banks	**690**	1,750
Due from other financial institutions	**98**	416
Cash and cash equivalents at end of the year	**1,037**	2,343

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

	NZ Banking Group	
$ millions	**Year Ended 30-Sep-15**	Year Ended 30-Sep-14
Reconciliation of net cash (used in)/provided by operating activities to profit after income tax expense		
Profit after income tax expense	**1,006**	1,019
Adjustments:		
Impairment charges on loans	**47**	26
Computer software amortisation costs	**95**	58
Depreciation on property, plant and equipment	**38**	31
Other non-cash items	**(29)**	77
Loss from hedging ineffectiveness	**4**	-
Gain on sale of available-for-sale securities	**(19)**	(88)
Gain on disposal of a subsidiary	**(4)**	-
Share-based payments	**5**	5
Movement in other assets	**(75)**	(40)
Movement in other liabilities and provisions	**220**	14
Movement in current and deferred tax	**6**	37
Movement in due from other financial institutions	**105**	(2)
Movement in trading securities and other financial assets designated at fair value	**(701)**	950
Movement in net loans	**(4,489)**	(3,036)
Movement in due from related entities	**(2,250)**	(138)
Movement in due to other financial institutions	**(304)**	806
Movement in deposits and other borrowings	**2,375**	2,388
Movement in other financial liabilities at fair value through income statement	**(793)**	574
Movement in external and related entity derivative financial instruments	**2,982**	(383)
Net cash (used in)/provided by operating activities	**(1,781)**	2,298

Note 40 Events after the reporting date

The NZ Banking Group's conditions of registration were amended on 28 October 2015 with effect from 1 November 2015 (refer to Conditions of Registration for details).

Independent auditors' report

pwc

Independent Auditors' Report

To the Directors of Westpac Banking Corporation

Report on the Financial Statements (excluding Supplementary Information Relating to Credit and Market Risk Exposures and Capital Adequacy)

We have audited pages 11 to 74 of the Disclosure Statement of Westpac Banking Corporation – New Zealand Branch (the 'NZ Branch') which consists of the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the 'Order') and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 34 and 35) required by Schedules 4, 7, 10, 11 and 13 of the Order. The financial statements comprise the balance sheet as at 30 September 2015, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the aggregated results of Westpac Banking Corporation - New Zealand Banking Group (the 'NZ Banking Group'). The NZ Banking Group comprises the New Zealand operations of Westpac Banking Corporation Group.

Directors' Responsibility for the Financial Statements

The Directors of Westpac Banking Corporation (the 'Directors') are responsible for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and generally accepted accounting practice in New Zealand 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 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, 10, 11 and 13 of the Order.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 34 and 35) disclosed in accordance with Clause 25 and Schedules 4, 7, 10, 11 and 13 of the Order and presented to us by the Directors. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the NZ Branch's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NZ Branch's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We are independent of the NZ Banking Group We carry out other assignments on behalf of the NZ Banking Group in the areas of other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the NZ Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the NZ Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the NZ Banking Group. We have no other interests in the NZ Banking Group or Westpac Banking Corporation Group.

Opinion

In our opinion, the financial statements on pages 11 to 74 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 10, 11 and 13 of the Order and included within the balance sheet and Notes 13, 32, 33, 34, 35, 37 and 38):

(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 NZ Banking Group as at 30 September 2015, and its financial performance and cash flows for the year then ended.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Independent auditors' report (continued)

pwc

In our opinion, the supplementary information disclosed in accordance with Schedules 4, 7, 10, 11 and 13 and included within the balance sheet and Notes 13, 32, 33, 35, 37 and 38:

(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 NZ Banking Group; and

(iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

Report on Other Legal and Regulatory Requirements (excluding Supplementary Information Relating to Credit and Market Risk Exposures and Capital Adequacy)

We also report in accordance with 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 credit and market risk exposures and capital adequacy disclosed in Notes 35 and 36) for the year ended 30 September 2015:

(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 NZ Banking Group as far as appears from an examination of those records.

Report on the Supplementary Information Relating to Credit and Market Risk Exposures and Capital Adequacy

We have reviewed the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in Notes 34 and 35 of the financial statements of the NZ Banking Group for the year ended 30 September 2015.

Directors' Responsibility for the Supplementary Information Relating to Credit and Market Risk Exposures and Capital Adequacy

The Directors are responsible for the preparation of supplementary information relating to credit and market risk exposures and capital adequacy that is prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A) and is disclosed in accordance with Schedule 9 of the Order.

Auditors' Responsibility

Our responsibility is to express an opinion on the supplementary information relating to credit and market risk exposures and capital adequacy, disclosed in Notes 34 and 35, based on our review.

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'). NZ SRE 2410 requires us to conclude whether anything has come to our attention that would cause us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy, disclosed in Notes 34 and 35, is not, in all material respects:

(i) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and

(ii) disclosed in accordance with Schedule 9 of the Order.

The review of the supplementary information relating to credit and market risk exposures and capital adequacy, 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 International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 34 and 35.

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 credit and market risk exposures and capital adequacy disclosed in Notes 34 and 35, as required by Schedule 9 of the Order, is not in all material respects:

(i) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and

(ii) disclosed in accordance with Schedule 9 of the Order.

Restriction on Distribution or Use

This report is made solely to the Directors, as a body. Our work has been undertaken so that we might state to the Directors those matters which we are required to state to them in an auditors' 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 NZ Branch and the Directors as a body, for our audit work, for this report, or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
10 December 2015

Auckland