Westpac New Zealand Limited

Disclosure Statement

For the year ended 30 September 2015

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General information and definitions

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

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**').
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Bank as at 30 September 2015 are set out in Note 24.

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

General matters

Registered Bank

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

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

At 30 September 2015, WNZGL has a direct qualifying interest in 100% of the voting securities of the Bank. The Ultimate Parent Bank has an indirect qualifying interest in 100% of the voting securities of the Bank.

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

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

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

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

Limits on material financial support by the Ultimate Parent Bank

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

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

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

General matters (continued)

Limits on material financial support by the Ultimate Parent Bank (continued)

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

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

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

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

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

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

APRA has allowed a period of five years commencing on 1 January 2016 to transition to be less than the five percent limit. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures. Further, APRA imposed two conditions over the transition period – the percentage excess above the five percent limit as at 30 June 2015, is to reduce by at least one fifth by the end of each calendar year over the transition period, and the absolute amount of routine New Zealand non-equity exposure is not to increase from the 30 June 2015 level until the Ultimate Parent Bank is, and expects to remain, below the five percent limit. For the purposes of assessing this exposure, the five percent limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries. As at 30 September 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 Ultimate Parent Bank.

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

Directorate

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

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

General matters (continued)

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

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

Changes to Directorate

David Alexander McLean was appointed as a Director of the Bank on 2 February 2015. Peter David Wilson retired as Chair of the Board on 19 February 2015 and retired as a Director of the Bank on 28 February 2015. Janice Amelia Dawson was appointed Chair of the Board on 19 February 2015. Jonathan Parker Mason was appointed as a Director of the Bank on 18 June 2015. There have been no other changes in the composition of the Board of Directors of the Bank since 30 September 2014.

Conflicts of interest policy

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

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

Interested transactions

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

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

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

Credit ratings

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

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Service	Aa3	Stable
Standard & Poor's	AA-	Stable

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

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

Descriptions of credit rating scales[1]

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

Guarantee arrangements

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

Conditions of registration

The conditions of registration imposed on the Bank, which applied from 1 October 2014, are as follows:

1. That:

   (a) the Total Capital ratio of the Banking Group is not less than 8 percent;

   (b) the Tier One Capital ratio of the Banking Group is not less than 6 percent;

   (c) the Common Equity Tier One Capital ratio of the Banking Group is not less than 4.5 percent;

   (d) the Total Capital of the Banking Group is not less than $30 million; and

   (e) the process in Subpart 2H of the Reserve Bank document: 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated October 2014 is followed for the recognition and repayment of capital.

   For the purposes of this condition of registration,—

   the scalar referred to in the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated October 2014 is 1.06.

   'Total Capital ratio', 'Tier One Capital ratio', 'Common Equity Tier One Capital ratio', and 'Total Capital' must be calculated in accordance with the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated October 2014.

1A. That:

   (a) the Bank has an internal capital adequacy assessment process ('**ICAAP**') that accords with the requirements set out in the document 'Guidelines on a Bank's Internal Capital Adequacy Assessment Process ('**ICAAP**')' (BS12) dated December 2007;

   (b) under its ICAAP the Bank identifies and measures its 'other material risks' defined as all material risks of the Banking Group that are not explicitly captured in the calculation of Common Equity Tier One Capital ratio, the Tier One Capital ratio and Total Capital ratio under the requirements set out in the document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated October 2014; and

   (c) the Bank determines an internal capital allocation for each identified and measured 'other material risk'.

1B. That the Banking Group complies with all requirements set out in the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated October 2014.

1C. That, if the buffer ratio of the Banking Group is 2.5% or less, the Bank must:

   (a) according to the following table, limit the aggregate distributions of the Bank's earnings to the percentage limit to distributions that corresponds to the Banking Group's buffer ratio:

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

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

   (c) have the capital plan approved by the Reserve Bank.

   For the purposes of this condition of registration,—

   'buffer ratio', 'distributions', and 'earnings' have the same meaning as in Part 3 of the Reserve Bank document: 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated October 2014.

   the scalar referred to in the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated October 2014 is 1.06.

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

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

Conditions of registration (continued)

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

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

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

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

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

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

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

   For the purposes of this condition of registration, —

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

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

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

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

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

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

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank document entitled 'Connected Exposures Policy' (BS8) dated October 2014.

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

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

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

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

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

   (d) an alternate director:

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

      (ii) for an independent director must be independent;

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

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

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

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

Conditions of registration (continued)

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

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

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

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

Conditions of registration (continued)

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

For the purposes of this condition:

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

'SPV' means a person:

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

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

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

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

17. That:

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

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

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

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

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

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

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

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

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

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

(i) all liabilities are frozen in full; and

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

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

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

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

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

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

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

19. That the Bank has an Implementation Plan that:

(a) is up-to-date; and

(b) demonstrates that the Bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: 'Open Bank Resolution Pre-positioning Requirements Policy' (BS 17).

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

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

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

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

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

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

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

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

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

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

Conditions of registration (continued)

22. That, for a loan-to-valuation measurement period, the total of the Bank's qualifying new mortgage lending 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.
23. That the Bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the Bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.
24. That the Bank 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.
25. That the Bank must not provide a residential mortgage loan if the residential property to be mortgaged to the 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.
26. That the Bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

In these conditions of registration:

- 'Banking Group'—
  (a) means Westpac New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act (unless paragraph (b) applies); or
  (b) means Westpac New Zealand Limited's financial reporting group as defined in section 2(1) of the Financial Reporting Act 1993 if the Financial Reporting Act 1993 applies to the Bank:
- '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 Bank is required to prepare financial statements in accordance with that practice.
- In conditions of registration 22 to 26,—
  '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:
- 'loan-to-valuation measurement period' means—
  (a) the six calendar month period ending on the last day of March 2014; and
  (b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2014.

The conditions of registration were amended on 28 October 2015 with effect from 1 November 2015. The key 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 also 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;
- refer to a revised version of the Capital Adequacy Framework (Internal Models Based Approach) ('**BS2B**'). The changes to BS2B include a new asset classification and capital treatment for residential mortgage loans which are for property investment purposes and an asset classification and capital treatment of reverse mortgages;
- refer to a revised version of "Application for Capital Recognition or Repayment" (BS16) and include in the conditions that the Bank must receive a notice of non-objection from the Reserve Bank before recognising any Additional Tier 1 or Tier 2 instrument as capital and meet certain notification and capital repayment approval obligations; and
- remove superseded references to the Financial Reporting Act 1993 from the conditions and from BS2B.

Other material matters

There are no matters relating to the business or affairs of the Bank and the 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 Bank or any member of the Banking Group is the issuer.

Auditors

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

Historical summary of financial statements

$ 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
	The Banking Group				
Income statement					
Interest income	**4,397**	3,979	3,768	3,881	3,521
Interest expense	**(2,607)**	(2,339)	(2,232)	(2,382)	(2,205)
Net interest income	**1,790**	1,640	1,536	1,499	1,316
Non-interest income	**399**	480	371	356	308
Net operating income	**2,189**	2,120	1,907	1,855	1,624
Operating expenses	**(888)**	(817)	(810)	(807)	(771)
Impairment charges on loans	**(47)**	(26)	(107)	(190)	(224)
Operating profit	**1,254**	1,277	990	858	629
Share of profit of associate accounted for using the equity method	**-**	1	1	1	1
Profit before income tax expense	**1,254**	1,278	991	859	630
Income tax expense	**(343)**	(337)	(277)	(246)	(197)
Profit after income tax expense	**911**	941	714	613	433
Profit after income tax expense attributable to:					
Owners of the Banking Group	**908**	938	711	610	429
Non-controlling interests	**3**	3	3	3	4
	911	941	714	613	433
Dividends paid or provided	**(608)**	(378)	(4)	(484)	(2)
Balance sheet					
Total assets	**79,925**	74,449	70,641	68,822	60,656
Total impaired assets	**282**	346	573	867	794
Total liabilities	**73,534**	67,844	64,062	63,026	56,160
Total equity	**6,391**	6,605	6,579	5,796	4,496

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

Directors' statement

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

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

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that, over the year ended 30 September 2015:

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

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

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

This Disclosure Statement has been signed by all the Directors:

Janice Amelia Dawson

David Alexander McLean

Malcolm Guy Bailey

Philip Matthew Coffey

Jonathan Parker Mason

Christopher John David Moller

Dated this 3rd day of December 2015

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Income statement for the year ended 30 September

$ millions	Note	The Banking Group Year Ended 30-Sep-15	Year Ended 30-Sep-14
Interest income	2	**4,397**	3,979
Interest expense	2	**(2,607)**	(2,339)
Net interest income		**1,790**	1,640
Non-interest income	3	**399**	480
Net operating income		**2,189**	2,120
Operating expenses	4	**(888)**	(817)
Impairment charges on loans	6	**(47)**	(26)
Operating profit		**1,254**	1,277
Share of profit of associate accounted for using the equity method		**-**	1
Profit before income tax expense		**1,254**	1,278
Income tax expense	7	**(343)**	(337)
Profit after income tax expense		**911**	941
Profit after income tax expense attributable to:			
Owners of the Banking Group		**908**	938
Non-controlling interests		**3**	3
		911	941

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	The Banking Group Year Ended 30-Sep-15	 Year Ended 30-Sep-14
Profit after income tax expense	**911**	941
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	**(152)**	(58)
Transferred to the income statement	**23**	32
Income tax effect	**37**	7
Total other comprehensive expense which may be reclassified subsequently to the income statement	**(111)**	(90)
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	**(116)**	(87)
Total comprehensive income	**795**	854
Total comprehensive income attributable to:		
Owners of the Banking Group	**792**	851
Non-controlling interests	**3**	3
	795	854

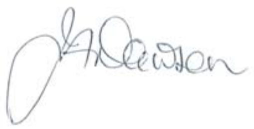
The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Balance sheet as at 30 September

$ millions	Note	The Banking Group 2015	2014
Assets			
Cash and balances with central banks		**857**	1,903
Due from other financial institutions	9	**18**	553
Trading securities and other financial assets designated at fair value	10	**2,085**	1,216
Derivative financial instruments	25	**618**	73
Available-for-sale securities	11	**3,421**	3,010
Loans	12,13	**69,155**	64,582
Due from related entities	24	**2,587**	1,852
Investment in associate	24	**-**	48
Property, plant and equipment		**164**	178
Deferred tax assets	14	**183**	144
Goodwill and other intangible assets	15	**607**	662
Other assets	16	**230**	228
Total assets		**79,925**	74,449
Liabilities			
Due to other financial institutions	17	**490**	201
Deposits and other borrowings	18	**52,986**	50,570
Other financial liabilities at fair value through income statement		**-**	90
Derivative financial instruments	25	**203**	186
Debt issues	19	**14,685**	12,592
Current tax liabilities		**25**	45
Due to related entities	24	**3,405**	3,437
Provisions	20	**83**	76
Other liabilities	21	**514**	647
Total liabilities excluding subordinated notes		**72,391**	67,844
Subordinated notes	22	**1,143**	-
Total liabilities		**73,534**	67,844
Net assets		**6,391**	6,605
Equity			
Share capital	23	**3,750**	4,150
Retained profits		**2,700**	2,397
Available-for-sale securities reserve		**16**	35
Cash flow hedge reserve		**(75)**	17
Total equity attributable to owners of the Banking Group		**6,391**	6,599
Non-controlling interests		**-**	6
Total equity		**6,391**	6,605
Interest earning and discount bearing assets		**77,961**	72,893
Interest and discount bearing liabilities		**68,088**	62,989

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.



J.A. Dawson
3 December 2015

C.J.D. Moller
3 December 2015

Statement of changes in equity for the year ended 30 September

	The Banking Group						
$ millions	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total Before Non-controlling Interests	Non-controlling Interests	Total
As at 1 October 2013	4,600	1,831	106	36	6,573	6	6,579
Year ended 30 September 2014							
Profit after income tax expense	-	938	-	-	938	3	941
Net gains/(losses) from changes in fair value	-	-	24	(58)	(34)	-	(34)
Income tax effect	-	-	(4)	16	12	-	12
Exchange differences	-	-	(3)	-	(3)	-	(3)
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	(88)	32	(56)	-	(56)
Income tax effect	-	-	-	(9)	(9)	-	(9)
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	-	941	(71)	(19)	851	3	854
Transaction with owners:							
Share capital repurchased (refer to Note 23)	(450)	-	-	-	(450)	-	(450)
Dividends paid on ordinary shares	-	(375)	-	-	(375)	(3)	(378)
As at 30 September 2014	4,150	2,397	35	17	6,599	6	6,605
Year ended 30 September 2015							
Profit after income tax expense	**-**	**908**	**-**	**-**	**908**	**3**	**911**
Net (losses) from changes in fair value	**-**	**-**	**(8)**	**(152)**	**(160)**	**-**	**(160)**
Income tax effect	**-**	**-**	**3**	**43**	**46**	**-**	**46**
Transferred to the income statement	**-**	**-**	**(19)**	**23**	**4**	**-**	**4**
Income tax effect	**-**	**-**	**5**	**(6)**	**(1)**	**-**	**(1)**
Remeasurement of employee defined benefit obligations	**-**	**(7)**	**-**	**-**	**(7)**	**-**	**(7)**
Income tax effect	**-**	**2**	**-**	**-**	**2**	**-**	**2**
Total comprehensive income for the year ended 30 September 2015	**-**	**903**	**(19)**	**(92)**	**792**	**3**	**795**
Transaction with owners:							
Share capital issued (refer to Note 23)	**600**	**-**	**-**	**-**	**600**	**-**	**600**
Share capital repurchased (refer to Note 23)	**(1,000)**	**-**	**-**	**-**	**(1,000)**	**-**	**(1,000)**
Dividends paid on ordinary shares (refer to Note 23)	**-**	**(600)**	**-**	**-**	**(600)**	**(8)**	**(608)**
Derecognition of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(1)**	**(1)**
As at 30 September 2015	**3,750**	**2,700**	**16**	**(75)**	**6,391**	**-**	**6,391**

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	The Banking Group Year Ended 30-Sep-15	Year Ended 30-Sep-14
Cash flows from operating activities			
Interest income received		**4,416**	3,965
Interest expense paid		**(2,488)**	(2,409)
Non-interest income received		**398**	390
Operating expenses paid		**(765)**	(729)
Income tax paid		**(325)**	(274)
Cash flows from operating activities before changes in operating assets and liabilities		**1,236**	943
Net (increase)/decrease in:			
Due from other financial institutions		**144**	11
Trading securities and other financial assets designated at fair value		**(871)**	488
Loans		**(4,538)**	(3,051)
Due from related entities		**(796)**	(34)
Other assets		**-**	(1)
Net increase/(decrease) in:			
Due to other financial institutions		**289**	101
Deposits and other borrowings		**2,375**	2,392
Other financial liabilities at fair value through income statement		**(90)**	90
Other liabilities		**(10)**	3
Net movement in external and related entity derivative financial instruments		**741**	(426)
Net cash (used in)/provided by operating activities	39	**(1,520)**	516
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 a subsidiary	24	**7**	-
Cash receipts from associate	24	**48**	-
Purchase of capitalised computer software		**(38)**	(59)
Proceeds from disposal of software		**2**	-
Purchase of property, plant and equipment		**(24)**	(40)
Net cash used in investing activities		**(429)**	(358)
Cash flows from financing activities			
Issue of ordinary share capital		**600**	-
Share capital repurchased		**(1,000)**	(450)
Net increase in debt issues		**651**	736
Net increase in due to related entities		**(255)**	424
Settlement of promissory note	24	**(48)**	-
Proceeds from issuance of subordinated notes	22	**1,172**	-
Payment of dividends to ordinary shareholders	23	**(600)**	(375)
Payment of dividends to minority shareholders		**(8)**	(3)
Net cash provided by financing activities		**512**	332
Net (decrease)/increase in cash and cash equivalents		**(1,437)**	490
Cash and cash equivalents at beginning of the year		**2,294**	1,804
Cash and cash equivalents at end of the year	39	**857**	2,294

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:

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

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

These financial statements were authorised for issue by the Board of Directors of the Bank (the '**Board**') on 3 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 (New Zealand 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 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 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 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 Banking Group's balance sheet.

b. Principles of consolidation

The Banking Group controls and accordingly consolidates an entity (subsidiaries) 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 Banking Group are eliminated. Non-controlling interests and equity of non-wholly-owned subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, balance sheet and statement of changes in equity. Subsidiaries are fully consolidated from the date on which control commences and are de-consolidated from the date that control ceases.

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

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

(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 Banking Group's equity interest in the acquiree, over the fair value of the identifiable net assets acquired.

(ii) Foreign currency translation

Functional and presentational currency

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

Transactions and balances

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

(iii) Reserves and non-controlling interests

Available-for-sale securities reserve

This comprises the changes in the fair value of available-for-sale financial securities, net of tax. 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 Banking Group commits to purchase or sell the asset. Loans and receivables are recognised on settlement date when cash is advanced to the borrowers.

Financial liabilities are recognised when an obligation arises.

(ii) Classification and measurement

The Banking Group classifies its significant financial assets into the following categories: trading securities and other financial assets designated at fair value, derivative financial instruments, available-for-sale securities and loans and receivables. The Banking Group has not classified any of its financial assets as held-to-maturity investments.

The 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 notes.

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 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 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 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 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' or 'Due from related entities', depending on the counterparty.

d. Critical accounting assumptions and estimates

The application of the 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 Banking Group. The nature of significant assumptions and estimates used are noted below.

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

(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 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 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 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 Banking Group's assessment of factors that market participants would consider in setting the fair value.

In determining the fair value of derivatives, the 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 Banking Group to reduce any differences between loss estimates and actual loss experience.

There are two components to the 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 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 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 sheet 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 20. The impairment charge on loans reflected in the income statement is disclosed in Note 6.

(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 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.

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

The carrying amount and the primary assumptions used in the calculation of superannuation defined benefit obligation are disclosed in Note 21 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 20. 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 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 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 Banking Group's deferred tax balances.

(vii) Securitisation and the consolidation of structured entities

The 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 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.

e. Future accounting developments

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

NZ IFRS 9 *Financial Instruments* (September 2014) ('**NZ IFRS 9**') will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* ('**NZ IAS 39**'). It includes a 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 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 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 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.

	The Banking Group	
$ millions	**Year Ended 30-Sep-15**	Year Ended 30-Sep-14
Interest income		
Cash and balances with central banks	**50**	44
Trading securities and other financial assets designated at fair value	**83**	73
Available-for-sale securities	**141**	117
Loans[1]	**4,077**	3,699
Due from related entities	**46**	46
Total interest income[2]	**4,397**	3,979
Interest expense		
Due to other financial institutions	**1**	1
Deposits and other borrowings	**1,772**	1,588
Debt issues	**318**	369
Subordinated notes	**4**	-
Other[3]	**512**	381
Total interest expense[4]	**2,607**	2,339
Net interest income	**1,790**	1,640

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 are not at fair value through profit or loss is $4,291 million (30 September 2014: $3,884 million).
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 are not at fair value through profit or loss is $2,529 million (30 September 2014: $2,282 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).

Dividend income

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

Note 3 Non-interest income (continued)

$ millions	The Banking Group Year Ended 30-Sep-15	Year Ended 30-Sep-14
Fees and commissions		
Transaction fees and commissions	**262**	284
Lending fees (loan and risk)	**61**	64
Management fees received from related entities	**7**	6
Other non-risk fee income	**38**	32
Total fees and commissions	**368**	386
Net ineffectiveness on qualifying hedges	**(4)**	-
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	**399**	480

[1] During the year ended 30 September 2015, the Bank 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 realised in respect of available-for-sale overseas equity securities which were sold to Westpac Banking Corporation (the '**Ultimate Parent 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 20.

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 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 $28 million which otherwise would have been recognised over the forthcoming 8 years.

Note 4 Operating expenses (continued)

$ millions	The Banking Group Year Ended 30-Sep-15	 Year Ended 30-Sep-14
Salaries and other staff expenses		
Employee remuneration, entitlements and on-costs	**391**	372
Superannuation costs:		
Defined contribution scheme	**30**	28
Defined benefit scheme	**1**	2
Share-based payments	**4**	4
Restructuring costs	**1**	2
Other	**8**	7
Total salaries and other staff expenses	**435**	415
Equipment and occupancy expenses		
Operating lease rentals	**66**	64
Depreciation	**38**	31
Equipment repairs and maintenance	**10**	10
Other	**11**	10
Total equipment and occupancy expenses	**125**	115
Other expenses		
Software amortisation costs	**91**	57
Litigation and non-lending losses	**2**	4
Purchased services	**69**	58
Stationery	**12**	12
Postage and freight	**17**	16
Advertising	**11**	23
Outsourcing	**98**	91
Related entities - management fees (refer to Note 24)	**3**	2
Other	**25**	24
Total other expenses	**328**	287
Total operating expenses	**888**	817

Note 5 Auditors' remuneration

$'000s	The Banking Group Year Ended 30-Sep-15	 Year Ended 30-Sep-14
Audit and audit related services		
Audit and review of financial statements[1]	**1,205**	1,211
Other audit related services[2]	**34**	88
Total remuneration for audit and other audit related services	**1,239**	1,299
Other services[3]	**146**	142
Total remuneration for non-audit services	**146**	142
Total remuneration for audit, other audit related services and non-audit services	**1,385**	1,441

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

Note 6 Impairment charges on loans

Accounting policy

The 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.

	The 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**

	The 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 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.

Note 7 Income tax expense (continued)

$ millions	The Banking Group Year Ended 30-Sep-15	Year Ended 30-Sep-14
Income tax expense		
Current tax:		
Current year	**343**	302
Prior year adjustments	**(3)**	1
Deferred tax (refer to Note 14):		
Current year	**7**	34
Prior year adjustments	**(4)**	-
Total income tax expense	**343**	337
Profit before income tax expense	**1,254**	1,278
Tax calculated at tax rate of 28%	**351**	358
Income not subject to tax	**(2)**	(24)
Expenses not deductible for tax purposes	**1**	1
Prior year adjustments	**(7)**	1
Other items	**-**	1
Total income tax expense	**343**	337

Note 8 Imputation credit account

$ millions	The Banking Group 2015	2014
Imputation credits available for use in subsequent reporting periods	**744**	774

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.

$ millions	The Banking Group 2015	2014
Loans and advances to other banks	**18**	553
Total due from other financial institutions	**18**	553
Due from other financial institutions:		
At call	**-**	266
Term	**18**	287
Total due from other financial institutions	**18**	553
Amounts expected to be recovered within 12 months	**18**	553
Amounts expected to be recovered after 12 months	**-**	-
Total due from other financial institutions	**18**	553

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).

	The Banking Group	
$ millions	**2015**	2014
Government and semi-government securities	**944**	337
Debt securities	**1,141**	879
Total trading securities and other financial assets designated at fair value	**2,085**	1,216
Amounts expected to be recovered within 12 months	**2,085**	1,216
Amounts expected to be recovered after 12 months	**-**	-
Total trading securities and other financial assets designated at fair value	**2,085**	1,216

As at 30 September 2015, no trading securities and other financial assets designated at fair value were encumbered through repurchase agreements with the New Zealand Branch of the Ultimate Parent Bank ('**NZ Branch**') (30 September 2014: nil). As at 30 September 2015, no trading securities and other financial assets designated at fair value were encumbered through repurchase agreements with third parties (30 September 2014: nil).

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 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.

	The 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, $4 million of available-for-sale securities (30 September 2014: $457 million) were pledged as collateral for the Banking Group's liabilities under repurchase agreements. Of this amount $4 million was pledged as collateral to the NZ Branch (30 September 2014: $367 million) which is recorded within due to related entities and nil was to third parties (30 September 2014: $90 million) which is recorded as other financial liabilities at fair value through income statement.

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.

	The 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	**42,152**	39,702
Non-housing	**22,475**	21,146
Other	**771**	536
Total gross loans	**69,570**	65,024
Provisions for impairment charges on loans	**(415)**	(442)
Total net loans	**69,155**	64,582
Amounts expected to be recovered within 12 months	**7,893**	7,448
Amounts expected to be recovered after 12 months	**61,262**	57,134
Total net loans	**69,155**	64,582

As at 30 September 2015, $4,821 million of housing loans were used by the Banking Group to secure the obligations of Westpac Securities NZ Limited ('**WSNZL**') under the Bank's Global Covered Bond Programme ('**CB Programme**') (30 September 2014: $4,002 million). These housing loans were not derecognised from the Banking Group's financial statements in accordance with the accounting policies 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 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 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 Banking Group's critical accounting assumptions and estimates as described in Note 1d.

	The Banking Group 2015				The 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	**41,205**	**1,982**	**24,837**	**68,024**	38,525	1,819	22,777	63,121
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]	**42,152**	**2,112**	**25,306**	**69,570**	39,702	1,968	23,354	65,024
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 20)	**-**	**-**	**(32)**	**(32)**	-	-	(31)	(31)
Total provisions for impairment charges on loans	**69**	**77**	**269**	**415**	85	71	286	442
Total net loans	**42,083**	**2,035**	**25,037**	**69,155**	39,617	1,897	23,068	64,582

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

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

Notes to the financial statements

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.

	The 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**	11
Cash flow hedges	**29**	(8)
Other temporary differences	**5**	7
Balance at end of the year	**183**	144
To be recovered within 12 months	**99**	97
To be recovered after 12 months	**84**	47
Balance at end of the year	**183**	144
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)**	(32)
Provision for employee entitlements	**1**	1
Other temporary differences	**(5)**	4
Total deferred tax charge in income tax expense	**(3)**	(34)
The deferred tax credit/(charge) in other comprehensive income comprises the following temporary differences:		
Cash flow hedges	**37**	8
Provision for employee entitlements	**2**	(1)
Other temporary differences	**3**	(4)
Total deferred tax credit in other comprehensive income	**42**	3

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.

	The Banking Group	
$ millions	**2015**	2014
Goodwill		
Cost	**477**	477
Accumulated impairment	**-**	-
Net carrying amount of goodwill	**477**	477
Computer software		
Cost	**562**	538
Accumulated amortisation and impairment	**(432)**	(353)
Net carrying amount of computer software	**130**	185
Total goodwill and other intangible assets	**607**	662

Goodwill has been allocated to the Consumer Banking and Wealth operating segment. 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 Banking Group's projections of future pre-tax cash flows discounted by the 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 CGU's carrying amount to exceed its recoverable amount.

Note 16 Other assets

	The Banking Group	
$ millions	**2015**	2014
Accrued interest receivable	**150**	154
Trade debtors and prepayments	**45**	26
Other	**35**	48
Total other assets	**230**	228
Amounts expected to be recovered within 12 months	**223**	223
Amounts expected to be recovered after 12 months	**7**	5
Total other assets	**230**	228

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.

$ millions	The Banking Group 2015	2014
Interest bearing interbank deposits	**487**	200
Non-interest bearing, repayable at call	**3**	1
Total due to other financial institutions	**490**	201
Due to other financial institutions:		
At call	**3**	1
Term	**487**	200
Total due to other financial institutions	**490**	201
Amounts expected to be settled within 12 months	**490**	201
Amounts expected to be settled after 12 months	**-**	-
Total due to other financial institutions	**490**	201

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 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 Bank'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.

$ millions	The Banking Group 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

Priority of financial liabilities in the event of liquidation

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

Note 19 Debt issues

Accounting policy

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

	The 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 20 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.

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).

Note 20 Provisions (continued)

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 Banking Group's critical accounting assumptions and estimates as detailed in Note 1d.

	The 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	**6**	**33**	**6**	**-**	**31**	**76**
Additional provisions recognised	**2**	**31**	**2**	**8**	**2**	**45**
Utilised during the year	**(2)**	**(30)**	**(2)**	**(3)**	**(1)**	**(38)**
Balance as at 30 September 2015	**6**	**34**	**6**	**5**	**32**	**83**
For the year ended 30 September 2014						
Balance as at 1 October 2013	6	35	1	-	35	77
Additional provisions recognised	1	26	8	-	-	35
Utilised during the year	(1)	(28)	(3)	-	(4)	(36)
Balance as at 30 September 2014	6	33	6	-	31	76

Provisions expected to be utilised beyond 12 months as at 30 September 2015 are $38 million (30 September 2014: $36 million).

Note 21 Other liabilities

	The Banking Group	
$ millions	2015	2014
Accrued interest payable	**339**	333
Securities purchased but not yet delivered	**-**	113
Credit card loyalty programme	**35**	31
Retirement benefit obligations (refer to Note 30)	**19**	11
Trade creditors and other accrued expenses	**71**	64
Other	**50**	95
Total other liabilities	**514**	647
Amounts expected to be settled within 12 months	**490**	629
Amounts expected to be settled after 12 months	**24**	18
Total other liabilities	**514**	647

Note 22 Subordinated notes

Accounting policy

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

Tier Two Notes

On 8 September 2015, the Bank issued 1,040,000 subordinated notes at a face value of A$1,000 each ('**Tier Two Notes**') to the London Branch of the Ultimate Parent Bank ('**London Branch**'). The Tier Two Notes are convertible, redeemable, subordinated and unsecured debt securities of the Bank. The Tier Two Notes rank equally amongst themselves and are subordinated to the claims of depositors and other unsubordinated creditors of the Bank. The Tier Two Notes mature on 22 March 2026. The Tier Two Notes qualify for Tier 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 the Bank being solvent at the time of the interest payment and immediately following the interest payment.

Conversion

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

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

Redemption

The Bank may 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 23 Share capital

Accounting policy

Ordinary shares

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

Ordinary shares fully paid

	The Banking Group	
	2015 Number of Shares Issued and Authorised	2014 Number of Shares Issued and Authorised
Balance at beginning of the year	**4,150,001,000**	4,600,001,000
Share capital issued	**600,000,000**	-
Share capital repurchased	**(1,000,000,000)**	(450,000,000)
Balance at end of the year	**3,750,001,000**	4,150,001,000

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

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

On 4 December 2014, the Bank repurchased 450 million ordinary shares from its immediate parent company, Westpac New Zealand Group Limited ('**WNZGL**'). Each share was repurchased for $1 per share. These shares were immediately cancelled on repurchase. On 19 August 2015, the Directors of the Bank paid a dividend of $600 million on the ordinary shares on issue to WNZGL (16.22 cents per share). Immediately after this payment the Bank issued 600 million ordinary shares to WNZGL for $1 per share. On 8 September 2015, the Bank issued Tier Two Notes of A$1,040 million to the London Branch (refer to Note 22). On receipt of the proceeds from the issue of the Tier Two Notes, the Bank repurchased 550 million ordinary shares from its immediate parent company WNZGL at $1 per share. These shares were immediately cancelled on repurchase.

Notes to the financial statements

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.

Banking Group

The Bank is a controlled entity of WNZGL. The Ultimate Parent Bank of the Bank is Westpac Banking Corporation.

The Banking Group consists of the Bank and all of its controlled entities. As at 30 September 2015, the Bank had the following controlled entities:

Name of Entity	Principal Activity	Notes
Westpac NZ Operations Limited[1]	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	9.5% owned[2]
Westpac NZ Covered Bond Limited	Guarantor	9.5% owned[2]
Westpac NZ Securitisation Holdings Limited	Holding company	9.5% owned[3]
Westpac NZ Securitisation Limited	Funding company	9.5% owned[3]
Westpac NZ Securitisation No.2 Limited	Non-active company	9.5% owned[3]
Westpac Term PIE Fund	Portfolio investment entity	Not owned[4]
Westpac Cash PIE Fund	Portfolio investment entity	Not owned[4]
Westpac Notice Saver PIE Fund	Portfolio investment entity	Not owned[4]. Established on 1 December 2014

1 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 Banking Group's financial position or results of operations for the year ended 30 September 2014 or 30 September 2015.

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

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

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

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

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

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

Investment in associate

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

On 30 September 2015, Cards NZ ceased to operate as a business and distributed its remaining net assets to its shareholders. The Banking Group received $48 million from Cards NZ on 30 September 2015.

Nature of transactions

The Banking Group has intragroup transactions with members of the Ultimate Parent Bank Group on commercial terms, including the provision of management and administrative services and data processing facilities.

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

Transactions with the Ultimate Parent Bank

Management fees are paid by the Banking Group to the Ultimate Parent Bank for management and administration services (consisting of salaries and other head office expenses) provided by the Ultimate Parent Bank. The total amount charged by the Ultimate Parent Bank for the year ended 30 September 2015 was $3 million (30 September 2014: $2 million).

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

Included in interest expense - other for the year ended 30 September 2015 is interest expense of $96 million (30 September 2014: $86 million) on the $2.1 billion funding provided by the NZ Branch to finance the Banking Group's acquisition of business activities transferred to it by the NZ Branch.

The NZ Branch provides financial market services, foreign currency, trade and interest rate risk products to the customers of the Banking Group. The Banking Group receives commission from these sales. Commission received for the year ended 30 September 2015 was $50 million (30 September 2014: $46 million).

Note 24 Related entities (continued)

Transactions with the Ultimate Parent Bank (continued)

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

Management fees are paid by the NZ Branch for certain operating costs incurred by the Banking Group. Management fees paid to the Banking Group for the year ended 30 September 2015 were $3 million (30 September 2014: $3 million).

During the year ended 30 September 2014, the Banking Group realised a gain of $41 million upon the sale of its holding of available-for-sale overseas equity securities to the Ultimate Parent 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 20). The Ultimate Parent Bank will ultimately bear the cost of this restructuring provision and therefore the provision did not impact the Banking Group's income statement. Consequently, the Banking Group has recorded a receivable of $8 million within due from related entities.

Transactions with other controlled entities of the Ultimate Parent Bank

Management fees are paid by members of the Ultimate Parent Bank Group for certain operating costs incurred by the Banking Group. Management fees paid to the Banking Group for the year ended 30 September 2015 were $4 million (30 September 2014: $3 million).

Managed fund products are sold by the Banking Group on behalf of members of the Ultimate Parent Bank Group. The Banking Group receives distribution fees from these sales. Distribution fees received for the year ended 30 September 2015 were $10 million (30 September 2014: $9 million).

Life and general insurance products are sold by the Banking Group on behalf of other members of the Ultimate Parent Bank Group. The Banking Group receives distribution fees on these sales. Life and general insurance distribution fees received for the year ended 30 September 2015 were $26 million and $15 million respectively from Westpac Life-NZ- Limited (30 September 2014: $25 million and $14 million respectively).

BTNZ holds a 32-day deposit placement with the Banking Group as part of its cash management activities. Interest paid on these deposits included in interest expense-other amounted to $2 million for the year ended 30 September 2015 (30 September 2014: $1 million).

Refer to Note 22 for details of the subordinated notes issued by the Banking Group which are held by related entities. Interest expense paid on the subordinated notes amounted to $4 million for the year ended 30 September 2015 (30 September 2014: nil).

Refer to Note 23 for the details of share capital transactions and dividend payments made by the Bank to its immediate parent company, WNZGL.

Due from and to related entities

$ millions	The Banking Group 2015	2014
Due from related entities		
Parent companies[1]	**2,577**	1,843
Other members of the Overseas Banking Group	**10**	9
Total due from related entities	**2,587**	1,852
Due from related entities at amortised cost	**1,438**	863
Due from related entities at fair value	**1,149**	989
Total due from related entities	**2,587**	1,852
Amounts expected to be recovered within 12 months	**2,512**	1,796
Amounts expected to be recovered after 12 months	**75**	56
Total due from related entities	**2,587**	1,852
Due to related entities		
Parent companies[1]	**3,360**	3,342
Other members of the Overseas Banking Group	**45**	47
Associates of the Banking Group	**-**	48
Total due to related entities	**3,405**	3,437
Due to related entities at amortised cost	**2,846**	2,810
Due to related entities at fair value	**559**	627
Total due to related entities	**3,405**	3,437
Amounts expected to be settled within 12 months	**2,965**	1,049
Amounts expected to be settled after 12 months	**440**	2,388
Total due to related entities	**3,405**	3,437

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

Other group investments

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

Note 24 Related entities (continued)

The total carrying amount of the Banking Group's significant non-controlling shareholdings in the above investments, and their contribution to the results of the 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 Banking Group as part of its asset and liability management activities, mainly to hedge its exposures to interest rates and foreign currency risk, including exposures arising from forecast transactions. The Banking Group uses hedge accounting techniques where possible to eliminate the volatility which would otherwise arise due to accounting mismatches. This activity is principally carried out by Treasury within the risk management framework of limits, practices and procedures set and overseen by the Bank's Executive Risk Committee.

Where the criteria for hedge accounting as defined under NZ IAS 39 are met, the 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.

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.

Fair value hedges

The 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 interest rate swaps. The Banking Group also hedges part of its interest rate risk exposure from medium-term debt denominated in local currency through the use of interest rate swaps.

The change in the fair value of hedging instruments designated as fair value hedges for the year ended 30 September 2015 was a $283 million loss (30 September 2014: $23 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 $285 million gain (30 September 2014: $23 million gain).

Cash flow hedges

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

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

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

	The 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)	-	1	10	30	20	5	24	10
Cash outflows (liabilities)	-	-	11	37	20	1	24	7

[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 $6 million loss (30 September 2014: nil).

Note 25 Derivative financial instruments (continued)

Dual fair value and cash flow hedges

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

Derivatives held with external counterparties

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

	The Banking Group 2015									
		Fair Value[1]								
				Hedging						
	Notional	Trading		Fair Value		Cash Flow		Total		
$ millions	**Amount**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**	
Interest rate contracts										
Swap agreements	**3,742**	**4**	**-**	**19**	**(193)**	**-**	**-**	**23**	**(193)**	
Total interest rate contracts	**3,742**	**4**	**-**	**19**	**(193)**	**-**	**-**	**23**	**(193)**	
Foreign exchange contracts										
Cross currency swap agreements	**7,357**	**-**	**-**	**96**	**3**	**499**	**(13)**	**595**	**(10)**	
Total foreign exchange contracts	**7,357**	**-**	**-**	**96**	**3**	**499**	**(13)**	**595**	**(10)**	
Total of gross derivatives	**11,099**	**4**	**-**	**115**	**(190)**	**499**	**(13)**	**618**	**(203)**	
Impact of netting arrangements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Total of net derivatives	**11,099**	**4**	**-**	**115**	**(190)**	**499**	**(13)**	**618**	**(203)**	
Amounts expected to be settled within 12 months								**36**	**(5)**	
Amounts expected to be settled after 12 months								**582**	**(198)**	
Total derivatives held with external counterparties								**618**	**(203)**	

[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.

	The Banking Group 2014								
		Fair Value[1]							
				Hedging					
	Notional	Trading		Fair Value		Cash Flow		Total	
$ millions	Amount	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)
Interest rate contracts									
Swap agreements	3,075	3	-	3	(95)	-	-	6	(95)
Total interest rate contracts	3,075	3	-	3	(95)	-	-	6	(95)
Foreign exchange contracts									
Cross currency swap agreements	4,572	-	-	6	91	61	(182)	67	(91)
Total foreign exchange contracts	4,572	-	-	6	91	61	(182)	67	(91)
Total of gross derivatives	7,647	3	-	9	(4)	61	(182)	73	(186)
Impact of netting arrangements	-	-	-	-	-	-	-	-	-
Total of net derivatives	7,647	3	-	9	(4)	61	(182)	73	(186)
Amounts expected to be settled within 12 months								-	(16)
Amounts expected to be settled after 12 months								73	(170)
Total derivatives held with external counterparties								73	(186)

Note 25 Derivative financial instruments (continued)

Derivatives held with related entities

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

[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.

	The Banking Group 2014								
		Fair Value[1]							
				Hedging					
	Notional	Trading		Fair Value		Cash Flow		Total	
$ millions	Amount	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)
Interest rate contracts									
Swap agreements	46,648	38	(3)	1	(10)	153	(82)	192	(95)
Total interest rate contracts	46,648	38	(3)	1	(10)	153	(82)	192	(95)
Foreign exchange contracts									
Cross currency swap agreements	5,408	239	(3)	2	100	9	(262)	250	(165)
Total foreign exchange contracts	5,408	239	(3)	2	100	9	(262)	250	(165)
Total of gross derivatives	52,056	277	(6)	3	90	162	(344)	442	(260)
Impact of netting arrangements	-	-	-	-	-	-	-	-	-
Total of net derivatives	52,056	277	(6)	3	90	162	(344)	442	(260)
Amounts expected to be settled within 12 months								386	(20)
Amounts expected to be settled after 12 months								56	(240)
Total derivatives held with related enttiies								442	(260)

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 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 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 Banking Group's critical accounting assumptions and estimates as detailed in Note 1d.

Fair Valuation Control Framework

The 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 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 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.

- 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, securities purchased under agreement to resell with related entities, securities sold under agreement to repurchase with related entities, and trading and available-for-sale debt securities including certificates of deposit, corporate bonds, local authority and NZ public securities and securities purchased under agreement to resell; and
  - derivatives including interest rate swaps and cross currency swaps, with external and related parties.

- 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.

  There are no financial instruments included in the Level 3 category (30 September 2014: 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:

- *Derivative products*

  These are products linked to either interest rates (for example, Bank Bill Mid-Market Settlement Rate ('**BKBM**') or London Interbank Offer Rate ('**LIBOR**') or inflation indices) or foreign exchange market or both. These include interest rate swaps and cross currency swaps.

  Interest rate swap 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.

  Cross currency swap valuations are derived from market observable inputs or consensus pricing providers using industry standard models. In general, interest rate swaps and cross currency swaps 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.

- *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 forecast and market trading multiples. These were classified as Level 3 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 the Bank. These instruments are classified as Level 2 instruments.

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

	The Banking Group							
	2015				2014			
$ millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3[1]	Total
Financial assets								
Trading securities and other financial assets designated at fair value	**-**	**2,085**	**-**	**2,085**	-	1,216	-	1,216
Derivative financial instruments	**-**	**618**	**-**	**618**	-	73	-	73
Available-for-sale securities	**1,619**	**1,802**	**-**	**3,421**	1,975	993	42	3,010
Due from related entities	**-**	**1,149**	**-**	**1,149**	-	989	-	989
Total financial assets carried at fair value	**1,619**	**5,654**	**-**	**7,273**	1,975	3,271	42	5,288
Financial liabilities								
Deposits at fair value	**-**	**1,070**	**-**	**1,070**	-	1,154	-	1,154
Other financial liabilities at fair value through income statement	**-**	**-**	**-**	**-**	-	90	-	90
Derivative financial instruments	**-**	**203**	**-**	**203**	-	186	-	186
Debt issues at fair value	**-**	**2,716**	**-**	**2,716**	-	3,019	-	3,019
Due to related entities	**-**	**559**	**-**	**559**	-	627	-	627
Total financial assets carried at fair value	**-**	**4,548**	**-**	**4,548**	-	5,076	-	5,076

[1] Balances within this category of the fair value hierarchy are not considered material to the total available-for-sale securities balance.

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs that were recognised in the income statement or the statement of comprehensive income of the 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 Banking Group's financial instruments not measured at fair value:

	The Banking Group 2015				
	Carrying	Fair Value			
$ millions	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Cash and balances with central banks	**857**	**857**	**-**	**-**	**857**
Due from other financial institutions	**18**	**18**	**-**	**-**	**18**
Loans	**69,155**	**-**	**-**	**69,335**	**69,335**
Due from related entities	**1,438**	**-**	**1,428**	**10**	**1,438**
Other assets	**182**	**-**	**-**	**182**	**182**
Total financial assets carried at amortised cost	**71,650**	**875**	**1,428**	**69,527**	**71,830**
Financial liabilities					
Due to other financial institutions	**490**	**487**	**3**	**-**	**490**
Deposits and other borrowings	**51,916**	**-**	**51,542**	**470**	**52,012**
Debt issues	**11,969**	**-**	**12,038**	**-**	**12,038**
Due to related entities	**2,846**	**-**	**2,874**	**-**	**2,874**
Other liabilities	**412**	**-**	**-**	**412**	**412**
Subordinated notes	**1,143**	**-**	**1,143**	**-**	**1,143**
Total financial liabilities carried at amortised cost	**68,776**	**487**	**67,600**	**882**	**68,969**

	The Banking Group 2014				
	Carrying	Fair Value			
$ millions	Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and balances with central banks	1,903	1,903	-	-	1,903
Due from other financial institutions	553	162	391	-	553
Loans	64,582	-	-	64,452	64,452
Due from related entities	863	-	854	9	863
Other assets	192	-	-	192	192
Total financial assets carried at amortised cost	68,093	2,065	1,245	64,653	67,963
Financial liabilities					
Due to other financial institutions	201	-	201	-	201
Deposits and other borrowings	49,416	-	48,619	840	49,459
Debt issues	9,573	-	9,704	-	9,704
Due to related entities	2,810	-	2,788	66	2,854
Other liabilities	548	-	-	548	548
Total financial liabilities carried at amortised cost	62,548	-	61,312	1,454	62,766

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 subordinated notes*

  Fair values are calculated using a discounted cash flow model. The discount rates applied reflect the terms of the instruments, the timing of the estimated cash flows and are adjusted for any changes in the applicable credit spreads.
- *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 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 Banking Group are further explained in the 'Credit risk' section under Note 35.1.

	The Banking Group 2015						
	Effects of Offsetting on Balance Sheet			Amounts Subject to Enforceable Netting Arrangements But Not Offset			
$ millions	**Gross Amounts**	**Amounts Offset**	**Net Amounts Reported on the Balance Sheet**	**Other Recognised Financial Instruments**	**Cash Collateral**	**Financial Instrument Collateral**	**Net Amount**
Assets							
Derivative financial instruments	**618**	**-**	**618**	**(155)**	**(463)**	**-**	**-**
Due from related entities - securities purchased under agreement to resell[1]	**773**	**-**	**773**	**-**	**-**	**(773)**	**-**
Due from related entities - derivative financial instruments[1]	**376**	**-**	**376**	**(376)**	**-**	**-**	**-**
Total assets	**1,767**	**-**	**1,767**	**(531)**	**(463)**	**(773)**	**-**
Liabilities							
Securities sold under agreement to repurchase [2]	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**203**	**-**	**203**	**(155)**	**(18)**	**-**	**30**
Due to related entities - securities sold under agreement to repurchase[3]	**4**	**-**	**4**	**-**	**-**	**(4)**	**-**
Due to related entities - derivative financial instruments[3]	**555**	**-**	**555**	**(376)**	**-**	**-**	**179**
Total liabilities	**762**	**-**	**762**	**(531)**	**(18)**	**(4)**	**209**

	The 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							
Derivative financial instruments	73	-	73	(70)	-	-	3
Due from related entities - securities purchased under agreement to resell[1]	547	-	547	-	-	(547)	-
Due from related entities - derivative financial instruments[1]	442	-	442	(260)	-	-	182
Total assets	1,062	-	1,062	(330)	-	(547)	185
Liabilities							
Securities sold under agreement to repurchase[2]	90		90	-	-	(90)	-
Derivative financial instruments	186	-	186	(70)	(111)	-	5
Due to related entities - securities sold under agreement to repurchase[3]	367	-	367	-	-	(367)	-
Due to related entities - derivative financial instruments[3]	260	-	260	(260)	-	-	-
Total liabilities	903	-	903	(330)	(111)	(457)	5

1 Forms part of due from related entities in the balance sheet (refer to Note 24).
2 Forms part of other financial liabilities at fair value through income statement in the balance sheet.
3 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 disclose 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 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:

	Banking Group	
$ millions	**2015**	2014
Cash	**18**	162
Securities pledged under repurchase agreements	**4**	457
Total amount pledged to secure liabilities	**22**	619

Collateral received

Cash held as collateral, recognised on the Banking Group's balance sheet as at 30 September 2015 was $487 million in 2015 (2014: nil). Securities received as collateral under reverse repurchase agreements as at 30 September 2015 was $774 million (2014: $547 million). Securities received as collateral are not recognised on the 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 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 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.

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

	The Banking Group	
$ millions	**2015**	2014
Commitments for capital expenditure		
Due within one year	**2**	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]	**181**	241
Trade letters of credit[2]	**112**	118
Non-financial guarantees[3]	**561**	611
Commitments to extend credit[4]	**23,791**	21,514
Other commitments[5]	**40**	150
Total credit risk-related instruments	**24,685**	22,634

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 Banking Group may hold cash as collateral for certain guarantees issued.

2 Trade letters of credit are undertakings by the 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 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 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 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 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 Banking Group's option.

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

The Banking Group takes collateral where it is considered necessary to support both on and off-balance sheet financial instruments with credit risk. The 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 Banking Group is obliged to repurchase any loan sold to and:

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

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

- (i) it is discovered that there has been a material breach of a sale warranty (or any such sale warranty is materially untrue);
- (ii) the loan becomes materially impaired or is enforced prior to the second monthly covered bond payment date falling after the assignment of the loan; or
- (iii) at the cut-off date relating to the loan, there were arrears of interest and that loan subsequently becomes a delinquent loan prior to the second monthly covered bond payment date falling after the assignment of the loan.

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

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

Other contingent liabilities

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

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

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

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

WNZIL, a subsidiary of the Bank, leases the majority of the properties occupied by the Bank. As is normal practice, the lease agreements contain 'make good' provisions which require WNZIL, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by WNZIL upon vacation of all leased premises subject to these provisions as at 30 September 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 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.

As disclosed in Note 24, the Bank has an agreement with NZ Branch whereby the Bank will reimburse the NZ Branch for any credit losses incurred by it due to certain customers of the Bank defaulting on certain financial market and international products.

Note 29 Segment information

Accounting policy

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

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

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

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

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

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

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

Reconciling items primarily represent:

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

Note 29 Segment information (continued)

$ millions	The Banking Group Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items [1]	Total
Year ended 30 September 2015					
Net interest income/(expense)	**933**	**619**	**(8)**	**246**	**1,790**
Non-interest income	**198**	**166**	**120**	**(85)**	**399**
Net operating income	**1,131**	**785**	**112**	**161**	**2,189**
Net operating income from external customers	**1,488**	**1,219**	**120**	**(638)**	**2,189**
Net internal interest expense	**(357)**	**(434)**	**(8)**	**799**	**-**
Net operating income	**1,131**	**785**	**112**	**161**	**2,189**
Depreciation	**-**	**-**	**-**	**(38)**	**(38)**
Software amortisation costs	**-**	**-**	**-**	**(91)**	**(91)**
Other operating expenses	**(162)**	**(91)**	**(13)**	**(493)**	**(759)**
Total operating expenses	**(162)**	**(91)**	**(13)**	**(622)**	**(888)**
Impairment charges/(recoveries) on loans	**(29)**	**(21)**	**-**	**3**	**(47)**
Share of profit of associate accounted for using the equity method	**-**	**-**	**-**	**-**	**-**
Profit before income tax expense	**940**	**673**	**99**	**(458)**	**1,254**
Total gross loans	**37,847**	**31,672**	**-**	**51**	**69,570**
Total deposits	**31,048**	**20,868**	**-**	**1,070**	**52,986**
Year ended 30 September 2014					
Net interest income/(expense)	849	610	(6)	187	1,640
Non-interest income	215	150	116	(1)	480
Net operating income	1,064	760	110	186	2,120
Net operating income from external customers	1,399	1,137	114	(530)	2,120
Net internal interest expense	(335)	(377)	(4)	716	-
Net operating income	1,064	760	110	186	2,120
Depreciation	-	-	-	(31)	(31)
Software amortisation costs	-	(1)	-	(56)	(57)
Other operating expenses	(160)	(89)	(13)	(467)	(729)
Total operating expenses	(160)	(90)	(13)	(554)	(817)
Impairment charges/(recoveries) on loans	(37)	(1)	-	12	(26)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
Profit before income tax expense	867	669	97	(355)	1,278
Total gross loans	36,021	29,117	-	(114)	65,024
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 21.

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

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

	The Banking Group	
%	**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 Banking Group. The information disclosed relating to the key management personnel includes transactions with those individuals, their close family members and their controlled entities.

	The Banking Group	
$'000s	**Year Ended 30-Sep-15**	Year Ended 30-Sep-14
Salaries and other short-term benefits	**9,322**	9,274
Post-employment benefits	**502**	433
Other termination benefits	**758**	502
Share-based payments	**2,048**	2,025
Total key management personnel compensation	**12,630**	12,234
Loans to key management personnel	**26,302**	6,495
Deposits from key management personnel	**1,619**	3,774
Interest income on amounts due from key management personnel	**445**	335
Interest expense on amounts due to key management personnel	**61**	139

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

Loans and deposits with key management personnel

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

As at 30 September 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 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 Banking Group's critical accounting assumptions and estimates as described in Note 1d.

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

The 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 the Bank's internal residential mortgage-backed securitisation programme. Under this programme the Bank sold the rights (but not the obligations) of a pool of housing loans to WNZSL. The purchase was funded by WNZSL's issuance of residential mortgage-backed securities ('**RMBS**'). These RMBS are currently held by the Bank and are included in its 'Due from related entities'. The housing loans were not derecognised from the Bank's separate financial statements in accordance with the accounting policies set out in Note 1. Accordingly, an equivalent amount of liabilities associated with the transferred rights of the pool of housing loans is recognised (in the form of a 'deemed loan' from WNZSL). The RMBS and the liability to WNZSL are fully eliminated in the Banking Group's financial statements. Refer to Note 28 for a description of the Banking Group's obligation to repurchase certain housing loans sold to WNZSL.

The Bank currently has a $5,000 million (30 September 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 Bank to maintain a readily available source of cash should market conditions become difficult. The Bank takes advantage of the Reserve Bank's guidelines for its overnight reverse repo facility and open market operations, which allows banks in New Zealand to offer RMBS as collateral for the Reserve Bank's repurchase agreements.

Covered bonds

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

The cover pool is comprised of housing loans up to a value of $5,500 million as at 30 September 2015 (30 September 2014: $4,500 million). The intercompany loan made by the Bank to WNZCBL to fund the initial purchase (and subsequent further purchases which increased the cover pool) is included in the Bank's 'Due from related entities'. The housing loans purchased by WNZCBL were not derecognised from the Bank's financial statements (and therefore the Bank and the Banking Group recognises these housing loans) in accordance with the accounting policies outlined in Note 1. For this reason, the Bank recognises a liability owed to WNZCBL (in the form of a 'deemed loan' from WNZCBL) of an amount equivalent to the sum of the value of the housing loans, cash and unpaid accrued interest arising from, and in respect of, the housing loans and the asset performance fee, and is included in the Bank's 'Due to related entities'. The intercompany loan made by the Bank to WNZCBL and the liability representing the deemed loan from WNZCBL to the Bank are fully eliminated in the Banking Group's financial statements.

Over time, the composition of the cover pool will include, in addition to housing loans, accrued interest (representing accrued and unpaid interest on the outstanding housing loans) and cash (representing collections of principal and interest from the underlying housing loans). As at 30 September 2015, the assets of WNZCBL were $5,520 million (30 September 2014: $4,520 million), comprising housing loans, accrued interest and cash.

Funds managed by a member of the Ultimate Parent Bank Group

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

Non-contractual financial support

The Banking Group 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.

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

Unconsolidated structured entities

As at 30 September 2015, the Banking Group had securitised housing loans amounting to $85 million (30 September 2014: $115 million), which had been sold by the Banking Group to external parties being the Westpac Home Loan Trust ('**HLT**') and the Westpac Mortgage Investment Fund ('**MIF**') via HLT.

HLT and MIF were established pursuant to trust deeds between BTNZ and The New Zealand Guardian Trust Company Limited ('**NZGT**'), as trustee for HLT and MIF, and were designed to enable investors to obtain investment exposure to housing loans. The purchase of these housing loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand. The Banking Group receives fees for various services provided to HLT and MIF on standard commercial terms, including servicing fees. These fees are recognised over the financial periods in which the costs are borne. The securitised assets have been derecognised from the financial statements of the Banking Group as the risks and rewards of the assets have been substantially transferred to external parties. Pursuant to the terms of the servicing agreements for HLT and MIF, any cash collected by the Bank in respect of the securitised assets is held on behalf of NZGT, as trustee for HLT and MIF until the relevant monthly payment date when this cash is paid to NZGT. As at 30 September 2015, the amount so held by the Bank was $1 million (30 September 2014: $1 million).

In addition to the above, the 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 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 Banking Group.

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 Banking Group in other unconsolidated structured entities, not disclosed elsewhere in these financial statements, generally comprise loans and other credit commitments. The Banking Group provides lending facilities to other unconsolidated structured entities, in the normal course of its lending business to earn income in the form of interest and lending fees. The other unconsolidated structured entities mainly comprise securitisation vehicles originated or sponsored by third parties, where the primary source of debt service, security and repayment is derived from the underlying assets of the entity, and investment funds. All loans and credit commitments are subject to the Banking Group's credit approval process with collateral specific to the circumstances of each loan. The carrying amount of loans (net of provisions) recognised 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 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 Banking Group.

Non-contractual financial support

The 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 Banking Group would be deemed to sponsor an entity where it is involved in its creation or establishment and promotion (including use of the 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 Banking Group did not sponsor any structured entity during the year in which it had no interest.

Funds management and other fiduciary activities

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

The PIE Funds are administered by the Banking Group (refer to Note 24 for further details) and invest in deposits with the Bank. The Bank is considered to control the PIE Funds, and as such they are consolidated within the financial statements of the Banking Group. As at 30 September 2015, $2,359 million (30 September 2014: $1,922 million) of funds under management were invested by the PIE Funds in the Bank's deposits.

Marketing and distribution of insurance products

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

Risk management

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

Furthermore, during the year ended 30 September 2015:

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

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

Peak aggregate funding provided to entities

During the year ended 30 September 2015, the Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product marketing and distribution activities described in this note (30 September 2014: nil).

Note 33 Insurance business

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

Note 34 Capital adequacy

The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) issued by the Reserve Bank.

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

During the year ended 30 September 2015, the Banking Group complied in full with all its externally imposed capital requirements.

Capital management

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

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

The Banking Group undertook the following capital initiatives during the year ended 30 September 2015 to actively manage regulatory capital:

- repurchased a total of $1,000 million ordinary shares (refer to Note 23);
- paid a dividend of $600 million on the ordinary shares (refer to Note 23);
- issued $600 million of ordinary share capital (refer to Note 23); and
- issued A$1,040 million of subordinated notes (refer to Note 22).

No changes were made in the objectives, policies and processes during the year ended 30 September 2015.

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

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

Note 34 Capital adequacy (continued)

The Banking Group's capital summary

$ millions	The Banking Group 2015 Unaudited
Tier One Capital	
Common Equity Tier One Capital	
Paid-up ordinary shares issued by the Bank plus related share premium	**3,750**
Retained earnings (net of appropriations)	**2,700**
Accumulated other comprehensive income and other disclosed reserves[1]	**(59)**
Less deductions from Common Equity Tier One Capital	
Goodwill	**(477)**
Other intangible assets	**(130)**
Cash flow hedge reserve	**75**
Deferred tax asset deduction	**(183)**
Expected loss excess over eligible allowance	**(172)**
Total Common Equity Tier One Capital	**5,504**
Additional Tier One Capital	
Interests arising from ordinary shares issued by fully consolidated subsidiaries and held by third parties	**-**
Total Tier One Capital	**5,504**
Tier Two Capital	
Tier Two Capital instruments (refer to Note 22)	**1,143**
Revaluation reserves	**-**
Eligible impairment allowance in excess of expected loss	**-**
Total Tier Two Capital	**1,143**
Total Capital	**6,647**

1 Accumulated other comprehensive income and other disclosed reserves consist of available-for-sale securities reserve and cash flow hedge reserve as disclosed in the balance sheet.

Note 34 Capital adequacy (continued)

Capital ratios

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

The table below is disclosed under the Reserve Bank's Basel III framework in accordance with Clause 15 of Schedule 11 to the Order and represents the capital adequacy calculation based on the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B).

%	The Banking Group 2015 Unaudited	2014 Unaudited
Capital adequacy ratios		
Common Equity Tier One Capital ratio	**11.1**	11.9
Tier One Capital ratio	**11.1**	11.9
Total Capital ratio	**13.4**	11.9
Reserve Bank minimum ratios		
Common Equity Tier One Capital ratio	**4.5**	4.5
Tier One Capital ratio	**6.0**	6.0
Total Capital ratio	**8.0**	8.0
Buffer ratios		
Buffer ratio	**5.1**	3.9
Buffer ratio requirement	**2.5**	2.5

Banking Group Pillar 1 total capital requirement

$ millions	2015 Total Exposure After Credit Risk Mitigation Unaudited	2015 Risk-weighted Exposure or Implied Risk-weighted Exposure Unaudited	2015 Total Capital Requirement Unaudited
Credit risk			
Exposures subject to the internal ratings based approach	**93,811**	**37,496**	**2,997**
Equity exposures	**-**	**-**	**-**
Specialised lending subject to the slotting approach	**6,431**	**5,979**	**479**
Exposures subject to the standardised approach	**3,506**	**1,078**	**86**
Total credit risk[1]	**103,748**	**44,553**	**3,562**
Operational risk	**N/A**	**4,500**	**360**
Market risk	**N/A**	**733**	**59**
Supervisory adjustment	**N/A**	**-**	**-**
Total	**103,748**	**49,786**	**3,981**

[1] As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06.

Solo capital adequacy

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

The table below represents the solo capital adequacy calculation based on the Reserve Bank's Basel III framework as contained in the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B).

%	The Bank 2015 Unaudited	2014 Unaudited
Capital adequacy ratios		
Common Equity Tier One Capital ratio	**8.9**	9.8
Tier One Capital ratio	**8.9**	9.8
Total Capital ratio	**10.8**	9.8

Note 34 Capital adequacy (continued)

Capital for other material risk

Summary of ICAAP

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

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

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

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

	The Banking Group	
$ millions	**2015 Unaudited**	2014 Unaudited
Internal capital allocation		
Other material risk	**711**	644

Ultimate Parent Bank Group Basel III capital adequacy ratios

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

%	**2015 Unaudited**	2014 Unaudited
Ultimate Parent Bank 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
Ultimate Parent 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 Ultimate Parent Bank Group and the Ultimate Parent Bank (Extended Licensed Entity) are publicly available in the Ultimate Parent Bank Group's Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

The Ultimate Parent Bank Group is accredited by APRA to apply the Advanced Internal Ratings Based ('**Advanced IRB**') approach for credit risk, the Advanced Measurement Approach ('**AMA**') for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations this methodology is referred to as Basel III (internal models based approach). With this accreditation the Ultimate Parent Bank Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au). The aim is to allow the market to better assess the Ultimate Parent Bank Group's risk and reward assessment process and hence increase the scrutiny of this process.

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

Note 35 Risk management

General

The Banking Group regards the management of risk to be a fundamental management activity performed at all levels of its business. Supporting this approach is a risk management strategy that includes core risk principles as well as policies and processes for measuring and monitoring risk (‘**Risk Management Strategy**’).

Risk management strategy and governance

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

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

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

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

The Bank’s Risk Management Strategy is designed to reflect that everyone in the Bank is responsible for identifying and managing risk and operating within the Bank's desired risk profile. Effective risk management is about achieving a balanced approach to risk and reward, and enables the Bank 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.

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

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

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

Accountability and responsibility for risk management starts with the area that originates or initiates the risk be it a 'front line' business unit, an operations unit or support area. 1st line management should be able to demonstrate the effectiveness of their controls over the risks within their mandate and authority.

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

Separate risk and compliance advisory, control and monitoring functions which establish frameworks, policies, limits and processes for the management, monitoring and reporting of risk and compliance. Also 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

An independent assurance function that evaluates and opines on the adequacy and effectiveness of both 1st and 2nd Line risk management approaches and tracks remediation progress, with the aim of providing the WNZL Board, and senior executives, with comfort that WNZL's end to end risk identification, management and controls are adequate and operating effectively.

Core risk principles

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

The essential elements of sound risk management include:

- a sound risk culture with strong support from the Board, the Chief Executive (‘**CE**’) 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;

Note 35 Risk management (continued)

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

- Credit risk: the risk of financial loss when a customer or counterparty fails to meet their financial obligations;
- Compliance risk: the risk of legal or regulatory sanction, financial loss or loss to reputation arising from the Banking Group's failure to abide by the compliance obligations required of the 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 Bank will be unable to fund assets and meet obligations as they come due.

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

Other risks include:

- Business risk: the risk associated with the vulnerability of a line of business to changes in the business environment;
- Environmental, social and governance risk: the risk that the Bank damages its reputation or financial performance (or opportunity costs) due to failure to recognise or address material existing or emerging environmental social or governance factors;
- Reputation risk: the risk to earnings or capital arising from negative public opinion, resulting from the loss of reputation or public trust and standing; and
- Subsidiary (contagion) risk: the risk that problems arising in other members of the Banking Group may compromise the financial and operational position of the Bank.

Management assurance programme

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

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

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

Independent New Zealand Audit unit

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

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

Reviews in respect of risk management systems

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

The Ultimate Parent Bank Group Audit's Credit 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 Ultimate Parent Bank's Group Audit unit, also periodically reviews the Bank's Operational, Compliance, Market, Funding and Liquidity Risk Frameworks.

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

Note 35 Risk management (continued)

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

Credit risk management

The Banking Group adopts two approaches to managing credit risk depending upon the nature of the customer and product:

- **Transaction-managed approach**

  For larger customers, the Banking Group evaluates credit requests by undertaking detailed individual customer and transaction risk analysis (the '**transaction-managed**' approach). Such customers are assigned a customer risk grade ('**CRG**') based on the 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 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 Banking Group is responsible for implementing and operating within established risk management frameworks and policies and has adapted the Ultimate Parent Bank Group's credit risk policy to the Banking Group's customer and product set. Accordingly, the Banking Group has its own credit manuals and delegated approval authorities which are approved by the Ultimate Parent Bank Group.

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

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

Credit risk mitigation, collateral and other credit enhancements

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

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

Note 35 Risk management (continued)

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 typically entered into with major derivatives counterparties to avoid the potential build up of excessive mark-to-market positions.
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.
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

The Banking Group reduces credit risk exposure to a customer through either:

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

Collateral valuation and management

The Banking Group revalues exposures and collateral related to financial markets positions 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 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 Banking Group the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the Bank'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 Banking Group has entered into legally enforceable master dealing agreements which allow such netting in specified jurisdictions. Payment netting allows the Bank 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 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-.

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 Banking Group is exposed.

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

Note 35 Risk management (continued)

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

Banking Group's CRG	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
Banking Group rating			
E	Watchlist		Weak
F	Specific mention		Weak
G	Substandard/default		Weak/default
H	Default		Default

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

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

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

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

Use of internal credit risk estimates

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

Economic capital

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

Pricing

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

Provisioning

Impairment provisions are reserves held by the Banking Group to cover credit losses that are incurred in the loan portfolio. Individual provisions are calculated on impaired loans taking into account management's best estimate of the present value of future cash flows. Collective provisions are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and emergence periods. Transaction-managed portfolio provisions use the risk grading framework and suitable 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 purposes.

Overview of internal credit risk ratings process by portfolio

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

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

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

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

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

Note 35 Risk management (continued)

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

PD

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

LGD

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

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

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

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

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

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

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

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

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

PD

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

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

LGD

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

EAD

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

TCE

TCE represents the sum of on-balance sheet and off-balance sheet exposures.

Note 35 Risk management (continued)

Maximum exposure to credit risk

	The Banking Group	
$ millions	2015	2014
Financial assets		
Cash and balances with central banks	**857**	1,903
Due from other financial institutions	**18**	553
Trading securities and other financial assets designated at fair value	**2,085**	1,216
Derivative financial instruments	**618**	73
Available-for-sale securities	**3,421**	2,968
Loans	**69,155**	64,582
Due from related entities	**2,587**	1,852
Other assets	**182**	192
Total financial assets	**78,923**	73,339
Credit risk-related instruments		
Standby letters of credit and financial guarantees	**181**	241
Trade letters of credit	**112**	118
Non-financial guarantees	**561**	611
Commitments to extend credit	**23,791**	21,514
Other commitments	**40**	150
Total credit risk-related instruments	**24,685**	22,634
Total maximum credit risk exposure	**103,608**	95,973

Mapping of Basel categories to the Banking Group portfolios

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

Note 35 Risk management (continued)

Credit risk exposures by asset class

The Banking Group's credit risk exposures by asset class as at 30 September 2015 (Unaudited)

PD Band (%)	TCE $ millions	EAD $ millions	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Capital $ millions
Residential mortgages							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	2,496	2,139	0.18	21.59	8.51	182	15
0.25 to 1.0	24,680	23,576	0.54	21.59	19.03	4,486	359
1.0 to 2.5	18,505	17,970	1.40	21.59	36.67	6,589	527
2.5 to 10.0	4,364	4,296	4.37	21.59	73.25	3,147	252
10.0 to 99.99	-	-	-	-	-	-	-
Default	264	259	100.00	21.59	223.94	580	46
Total	50,309	48,240	1.72	21.59	31.06	14,984	1,199
Other retail (Credit cards, personal loans, personal overdrafts)							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	688	470	0.14	40.63	13.62	64	5
0.25 to 1.0	1,895	1,149	0.36	63.81	39.86	458	37
1.0 to 2.5	2,185	2,236	2.19	67.77	92.17	2,061	165
2.5 to 10.0	365	349	5.40	84.45	133.24	465	37
10.0 to 99.99	261	266	19.62	71.92	150.75	401	32
Default	13	14	105.20	72.96	121.43	17	1
Total	5,407	4,484	3.11	65.47	77.30	3,466	277
Small business							
0.00 to 0.10	199	140	0.03	73.76	7.86	11	1
0.10 to 0.25	-	-	-	-	-	-	-
0.25 to 1.0	609	606	0.32	20.96	18.32	111	9
1.0 to 2.5	1,601	1,568	1.84	21.84	29.66	465	37
2.5 to 10.0	228	229	4.95	20.34	31.88	73	6
10.0 to 99.99	30	30	16.49	23.38	50.00	15	1
Default	39	39	100.00	23.69	297.44	116	9
Total	2,706	2,612	3.29	24.33	30.28	791	63

1 As required by the conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 5.

Note 35 Risk management (continued)

PD Grade	TCE $ millions	EAD $ millions	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Capital $ millions
Banking Group - Corporate/Business lending							
AAA	287	287	0.03	30.37	11.85	34	3
AA	2,404	2,347	0.03	38.43	13.00	305	24
A	4,307	4,315	0.08	45.87	27.11	1,170	94
BBB	6,554	6,389	0.20	43.51	44.48	2,842	227
BB	13,032	12,994	1.53	36.34	80.60	10,473	838
B	527	530	3.70	37.85	109.62	581	46
Other	790	797	21.74	45.70	234.00	1,865	149
Default	238	259	100.00	41.61	214.67	556	44
Total	28,139	27,918	2.39	39.91	63.85	17,826	1,425
Sovereign							
AAA	1,139	1,149	0.01	10.00	2.52	29	2
AA	4,287	4,268	0.02	8.55	2.41	103	8
A	519	518	0.06	21.08	8.30	43	3
BBB	-	-	-	-	-	-	-
BB	70	70	0.07	47.15	18.57	13	1
B	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	6,015	6,005	0.02	10.36	3.13	188	14
Bank							
AAA	-	-	-	-	-	-	-
AA	820	806	0.03	60.00	17.62	142	11
A	413	414	0.05	60.00	23.91	99	8
BBB	2	2	0.13	12.04	-	-	-
BB	-	-	-	-	-	-	-
B	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	1,235	1,222	0.04	59.92	19.72	241	19
Total credit risk exposures subject to the internal ratings based approach	93,811	90,481				37,496	2,997

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

$ millions	Undrawn Commitments and Other Off-balance Sheet Amounts Value	EAD	Market Related Contracts Value	EAD
Residential mortgages	8,389	6,320	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	3,313	2,389	-	-
Small business	1,051	957	-	-
Corporate/Business lending	9,948	9,663	-	-
Sovereign	950	919	-	-
Bank	35	17	-	-
Total	23,686	20,265	-	-

Equity	TCE $ millions	EAD $ millions	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Capital $ millions
Equity holdings (not deducted from capital) that are not publicly traded	-	-	-	-	-	-	-

1 As required by the conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 5.

Note 35 Risk management (continued)

The Banking Group's Specialised lending: Project and property finance credit risk exposures as at 30 September 2015 (Unaudited)

Supervisory slotting grade	TCE $ millions	EAD $ millions	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Regulatory Capital $ millions
Strong	1,900	1,812	74.23	1,345	108
Good	3,183	3,189	95.39	3,042	243
Satisfactory	1,082	1,084	121.96	1,322	106
Weak	102	102	264.71	270	22
Default	164	206	-	-	-
Total	**6,431**	**6,393**	**93.52**	**5,979**	**479**

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

	TCE $ millions	EAD $ millions	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Regulatory Capital $ millions
Undrawn commitments and other off-balance sheet exposures	999	920	89.00	823	66

The Banking Group's credit risk exposures subject to the standardised approach as at 30 September 2015 (Unaudited)

Calculation of on-balance sheet exposures

	TCE $ millions	EAD $ millions	Average Risk Weight %	Risk-weighted Exposure $ millions	Required Regulatory Capital $ millions
Property, plant and equipment and other assets	257	257	100.00	257	21
Related parties	2,211	2,211	20.00	442	35
Total on-balance sheet exposures	**2,468**	**2,468**		**699**	**56**

Calculation of off-balance sheet exposures

	Total Principal Amount $ millions	Credit Equivalent Amount $ millions	Average Risk Weight %	Risk-weighted Exposure $ millions	Required Regulatory Capital $ millions
Market related contracts subject to the standardised approach					
Foreign exchange contracts	13,675	968	20.00	194	15
Interest rate contracts	31,540	70	20.00	14	1
Credit value adjustment				110	9
Total market related contracts subject to the standardised approach	**45,215**	**1,038**		**318**	**25**
Standardised subtotal (on and off balance sheet)	**47,683**	**3,506**		**1,017**	**81**
After adjustment for scalar [1]				**1,078**	**86**

1 As required by the conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 5.

The 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 Banking Group utilises its loan origination system.

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

LVR range ($ millions)	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	16,628	7,647	10,317	5,154	2,100	41,846
Undrawn commitments and other off-balance sheet exposures	5,105	1,371	1,312	442	159	8,389
Value of exposures	**21,733**	**9,018**	**11,629**	**5,596**	**2,259**	**50,235**

Note 35 Risk management (continued)

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

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

$ millions	The Banking Group 30-Sep-15 Unaudited
Term loans - Housing (as disclosed in Note 12) and Residential mortgages - total gross loans (as disclosed in Note 13)	**42,152**
Reconciling items:	
Unamortised deferred fees and expenses	**(169)**
Fair value hedge adjustments	**(137)**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**8,389**
Residential mortgages by LVR	**50,235**
Reconciling item:	
Accrued interest receivable	**74**
Residential mortgages - TCE (as disclosed in Credit risk exposures by asset class)	**50,309**

Credit quality of financial assets

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

All the financial assets of the Banking Group as at 30 September 2015 and 2014, other than loans (as disclosed in Note 13) are neither past due nor impaired.

The following analysis shows the Bank'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 Bank'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 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%.

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

Financial assets that are neither past due nor impaired

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

	The Banking Group							
	2015				2014			
$ millions	**Strong**	**Good/ Satisfactory**	**Weak**	**Total**	Strong	Good/ Satisfactory	Weak	Total
Trading securities (refer to Note 10)	**2,074**	**11**	**-**	**2,085**	1,203	13	-	1,216
Loans (refer to Note 13)	**21,111**	**45,865**	**1,048**	**68,024**	19,694	42,424	1,003	63,121

Note 35 Risk management (continued)

35.2 Compliance and operational risk

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

Compliance risk

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

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

Operational risk

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

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

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

Calculating operational risk capital

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

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

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

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

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

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

	2015	
$ millions	Implied Risk-weighted Exposure Unaudited	Total Operational Risk Capital Requirement Unaudited
Methodology implemented		
Advanced Measurement Approach		
Operational risk	**4,500**	**360**

Note 35 Risk management (continued)

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 and equity prices. As the Ultimate Parent Bank's financial markets business in New Zealand is conducted by the NZ Branch, the market risks faced by the Banking Group are only of a non-traded nature (interest rate risk in the banking book). The Banking Group does not carry material foreign currency or equity price risk due to the risks being hedged.

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

Approach

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

Asset and liability management

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

NII sensitivity

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

Limits

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

Risk reporting

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

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

Risk mitigation

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

Market risk notional capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) and is calculated on a six monthly basis. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information.

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six 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 (Internal Models Based Approach)' (BS2B).

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

	The Banking Group 2015 Unaudited	
$ millions	Implied Risk-weighted Exposure	Aggregate Capital Charge
End-of-period		
Interest rate risk	**733**	**59**
Foreign currency risk	**-**	**-**
Equity risk	**-**	**-**
	733	**59**
Peak end-of-day		
Interest rate risk	**1,070**	**86**
Foreign currency risk	**-**	**-**
Equity risk	**48**	**4**

Note 35 Risk management (continued)

VaR

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

$ millions	2015	2014
Interest rate risk	1.01	0.88

Interest rate sensitivity

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

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 30 September 2015. The Banking Group uses this contractual repricing information as a base which is then altered to take account of consumer behaviour to manage its interest rate risk.

	The Banking Group 2015						
$ millions	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Financial assets							
Cash and balances with central banks	691	-	-	-	-	166	857
Due from other financial institutions	18	-	-	-	-	-	18
Trading securities and other financial assets designated at fair value	2,085	-	-	-	-	-	2,085
Derivative financial instruments	-	-	-	-	-	618	618
Available-for-sale securities	-	-	308	80	3,033	-	3,421
Loans	37,468	3,479	8,665	13,920	6,038	(415)	69,155
Due from related entities	2,176	-	-	-	-	411	2,587
Other assets	-	-	-	-	-	182	182
Total financial assets	42,438	3,479	8,973	14,000	9,071	962	78,923
Non-financial assets							1,002
Total assets							79,925
Financial liabilities							
Due to other financial institutions	487	-	-	-	-	3	490
Deposits and other borrowings	36,623	5,786	4,701	1,196	648	4,032	52,986
Derivative financial instruments	-	-	-	-	-	203	203
Debt issues	7,053	11	1,765	1,436	4,420	-	14,685
Due to related entities	2,819	-	-	-	-	586	3,405
Other liabilities	-	-	-	-	-	412	412
Subordinated notes	1,143	-	-	-	-	-	1,143
Total financial liabilities	48,125	5,797	6,466	2,632	5,068	5,236	73,324
Non-financial liabilities							210
Total liabilities							73,534
On-balance sheet interest rate repricing gap	(5,687)	(2,318)	2,507	11,368	4,003		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	15,353	(1,373)	(3,139)	(7,618)	(3,223)		
Net interest rate repricing gap	9,666	(3,691)	(632)	3,750	780		

Note 35 Risk management (continued)

35.4 Funding and liquidity risk

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

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

The Bank aims to operate a mix of retail and wholesale funding, with emphasis on the value of core funding consistent with the principles inherent in BS13.

Key aspects of the liquidity management strategy are as follows:

Liquidity risk management framework

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

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

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

Daily liquidity modelling and reporting

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

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

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

- a going concern scenario; and
- a name crisis scenario.

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

Annual funding plan

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

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

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

Contingency planning

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

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

Note 35 Risk management (continued)

Sources of liquidity

The principal sources of liquidity for the Bank are:

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

Wholesale funding

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

	The Banking Group					
	2015			2014		
Markets	**Issuer**	**Programme Type**	**Programme Limit**	Issuer	Programme Type	Programme Limit
Euro market	**Ultimate Parent Bank / WSNZL[1]**	**Euro Commercial Paper and Certificate of Deposit Programme**	**US$20 billion**	Ultimate Parent Bank / WSNZL[1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion
Euro market	**WSNZL[1]**	**Programme for Issuance of Debt Instruments**	**US$7.5 billion**	WSNZL[1]	Programme for Issuance of Debt Instruments	US$7.5 billion
Euro market	**WSNZL[1]**	**Global Covered bond Programme**	**€5.0 billion**	WSNZL[1]	Global Covered bond Programme	€5.0 billion
United States	**WSNZL[1]**	**Section 4(2) US Commercial Paper Programme**	**US$10 billion**	WSNZL[1]	Section 4(2) US Commercial Paper Programme	US$10 billion
New Zealand	**The Bank**	**Medium-term Note Programme and Registered Certificate of Deposit Programme**	**No limit**	The Bank	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit

[1] Notes issued by WSNZL are guaranteed by the Bank.

Liquid assets

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

	The Banking Group	
$ millions	**2015**	2014
Cash and balances with central banks	**857**	1,903
Due from other financial institutions	**-**	391
Due from other financial institutions (included in due from related entities)	**738**	330
Supranational securities	**1,176**	491
NZ Government securities	**2,388**	2,066
NZ public securities	**1,518**	644
NZ corporate securities	**1,193**	960
Residential mortgage-backed securities	**3,992**	3,992
Total liquid assets	**11,862**	10,777

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

Other financial instruments at fair value through income statement are not all managed for liquidity purposes on the basis of their contractual maturity. The financial instruments that are managed based on their contractual maturity are presented on a contractual undiscounted basis in the tables below:

	The Banking Group 2015						
$ millions	On Demand	Up to 1 Month	Over 1 Month and up to 3 Months	Over 3 Months and up to 1 Year	Over 1 Year and up to 5 Years	Over 5 Years	Total
Financial assets							
Cash and balances with central banks	857	-	-	-	-	-	857
Due from other financial institutions	-	18	-	-	-	-	18
Trading securities and other financial assets designated at fair value	-	504	1,117	86	424	-	2,131
Derivative financial instruments:							
Held for trading	4	-	-	-	-	-	4
Held for hedging purposes (net settled)	-	1	-	3	16	-	20
Held for hedging purposes (gross settled):							
Cash outflow	-	(11)	(48)	(1,923)	(4,450)	-	(6,432)
Cash inflow	-	3	3	1,863	4,784	-	6,653
Available-for-sale securities	-	6	30	420	3,020	275	3,751
Loans	5,621	6,304	5,308	6,276	25,043	56,792	105,344
Due from related entities:							
Non-derivative balances	1,438	773	-	-	-	-	2,211
Derivative financial instruments:							
Held for trading	283	-	-	-	-	-	283
Held for hedging purposes (net settled)	-	4	(7)	47	51	-	95
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(22)	-	-	-	(22)
Cash inflow	-	-	25	-	-	-	25
Other assets	-	32	-	-	-	-	32
Total undiscounted financial assets	8,203	7,634	6,406	6,772	28,888	57,067	114,970
Financial liabilities							
Due to other financial institutions	3	487	-	-	-	-	490
Deposits and other borrowings	28,040	3,848	9,022	10,842	1,992	-	53,744
Other financial liabilities at fair value through income statement	-	-	-	-	-	-	-
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	3	8	52	132	9	204
Held for hedging purposes (gross settled):							
Cash outflow	-	-	9	25	139	897	1,070
Cash inflow	-	-	-	(4)	(13)	(888)	(905)
Debt issues	-	19	1,018	4,181	9,182	888	15,288
Due to related entities:							
Non-derivative balances	678	4	66	2,171	6	-	2,925
Derivative financial instruments:							
Held for trading	7	-	-	-	-	-	7
Held for hedging purposes (net settled)	-	17	32	194	219	-	462
Held for hedging purposes (gross settled):							
Cash outflow	-	-	37	101	1,781	1,212	3,131
Cash inflow	-	-	(17)	(93)	(1,615)	(1,178)	(2,903)
Other liabilities	-	73	-	-	-	-	73
Subordinated notes	-	-	17	41	239	1,178	1,475
Total undiscounted financial liabilities	28,728	4,451	10,192	17,510	12,062	2,118	75,061
Total contingent liabilities and commitments							
Commitments to extend credit	23,791	-	-	-	-	-	23,791
Other commitments	40	-	-	-	-	-	40
Total undiscounted contingent liabilities and commitments	23,831	-	-	-	-	-	23,831

Note 35 Risk management (continued)

	The Banking Group 2014						
$ millions	On Demand	Up to 1 Month	Over 1 Month and up to 3 Months	Over 3 Months and up to 1 Year	Over 1 Year and up to 5 Years	Over 5 Years	Total
Financial assets							
Cash and balances with central banks	1,903	-	-	-	-	-	1,903
Due from other financial institutions	266	287	-	-	-	-	553
Trading securities and other financial assets designated at fair value	-	83	756	110	305	-	1,254
Derivative financial instruments:							
Held for trading	3	-	-	-	-	-	3
Held for hedging purposes (net settled)	-	-	1	-	3	-	4
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(17)	(52)	(1,476)	(323)	(1,868)
Cash inflow	-	-	-	13	1,269	318	1,600
Available-for-sale securities	42	14	57	533	2,374	386	3,406
Loans	5,452	6,006	4,621	6,532	23,336	53,428	99,375
Due from related entities:							
Non-derivative balances	863	547	-	-	-	-	1,410
Derivative financial instruments:							
Held for trading	243	-	-	-	-	-	243
Held for hedging purposes (net settled)	-	114	47	(9)	40	1	193
Held for hedging purposes (gross settled):	-						
Cash outflow	-	-	(5)	(410)	(2)	-	(417)
Cash inflow	-	-	-	412	2	-	414
Other assets	-	38	-	-	-	-	38
Total undiscounted financial assets	8,772	7,089	5,460	7,129	25,851	53,810	108,111
Financial liabilities							
Due to other financial institutions	1	200	-	-	-	-	201
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	-	90	-	-	-	-	90
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	11	6	24	56	8	105
Held for hedging purposes (gross settled):							
Cash outflow	-	6	35	553	2,909	-	3,503
Cash inflow	-	(1)	(1)	(499)	(2,664)	-	(3,165)
Debt issues	-	379	1,070	3,551	7,971	318	13,289
Due to related entities:							
Non-derivative balances	586	415	72	81	2,238	-	3,392
Derivative financial instruments:							
Held for trading	4	-	-	-	-	-	4
Held for hedging purposes (net settled)	-	14	52	(27)	57	-	96
Held for hedging purposes (gross settled):							
Cash outflow	-	-	22	122	1,619	-	1,763
Cash inflow	-	-	(1)	(103)	(1,334)	-	(1,438)
Other liabilities	-	215	-	-	-	-	215
Total undiscounted financial liabilities	24,818	5,782	10,005	15,470	13,002	326	69,403
Total contingent liabilities and commitments							
Commitments to extend credit	21,514	-	-	-	-	-	21,514
Other commitments	150	-	-	-	-	-	150
Total undiscounted contingent liabilities and commitments	21,664	-	-	-	-	-	21,664

Note 36 Concentration of funding

$ millions	The Banking Group 2015	2014
Funding consists of		
Due to other financial institutions	**490**	201
Deposits and other borrowings	**52,986**	50,570
Other financial liabilities at fair value through income statement	**-**	90
Debt issues[1]	**14,685**	12,592
Subordinated notes	**1,143**	-
Due to related entities[2]	**2,815**	2,777
Total funding	**72,119**	66,230
Analysis of funding by geographical areas[1]		
New Zealand	**55,546**	54,100
Australia	**845**	489
United Kingdom	**9,897**	5,907
United States of America	**3,045**	3,254
Other	**2,786**	2,480
Total funding	**72,119**	66,230
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	**24,829**	22,252
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	**4,471**	3,110
Subtotal	**69,304**	63,453
Due to related entities[2]	**2,815**	2,777
Total funding	**72,119**	66,230

1 The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programme is used as a proxy for the location of the original purchaser. When 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

	The Banking Group	
$ millions	2015	2014
On-balance sheet credit exposures consists of		
Cash and balances with central banks	**857**	1,903
Due from financial institutions	**18**	553
Trading securities and other financial assets designated at fair value	**2,085**	1,216
Derivative financial instruments	**618**	73
Available-for-sale securities	**3,421**	2,968
Loans	**69,155**	64,582
Due from related entities	**2,587**	1,852
Other assets	**182**	192
Total on-balance sheet credit exposures	**78,923**	73,339
Analysis of on-balance sheet credit exposures by geographical areas		
New Zealand	**76,580**	71,396
Australia	**697**	529
United States of America	**146**	456
Other	**1,500**	958
Total on-balance sheet credit exposures	**78,923**	73,339
Analysis of on-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**595**	488
Agriculture	**7,770**	6,919
Construction	**1,317**	1,190
Finance and insurance	**5,615**	4,333
Forestry and fishing	**341**	339
Government, administration and defence	**4,203**	4,787
Manufacturing	**2,622**	2,284
Mining	**468**	563
Property	**12,248**	11,520
Property services and business services	**2,195**	1,962
Services	**2,549**	2,319
Trade	**3,352**	3,174
Transport and storage	**1,472**	1,164
Utilities	**1,305**	1,280
Retail lending	**30,667**	29,569
Subtotal	**76,719**	71,891
Provisions for impairment charges on loans	**(415)**	(442)
Due from related entities	**2,587**	1,852
Other assets	**32**	38
Total on-balance sheet credit exposures	**78,923**	73,339
Off-balance sheet credit exposures		
Credit risk-related instruments	**24,685**	22,634
Total off-balance sheet credit exposures	**24,685**	22,634
Analysis of off-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**115**	89
Agriculture	**710**	707
Construction	**627**	516
Finance and insurance	**2,319**	2,109
Forestry and fishing	**56**	61
Government, administration and defence	**600**	988
Manufacturing	**1,689**	2,040
Mining	**84**	117
Property	**1,982**	2,070
Property services and business services	**734**	757
Services	**1,487**	1,243
Trade	**3,162**	1,999
Transport and storage	**975**	472
Utilities	**1,405**	1,433
Retail lending	**8,740**	8,033
Total off-balance sheet credit exposures	**24,685**	22,634

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

- as at 30 September 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 Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity:

- as at 30 September 2015 was one counterparty with a credit rating of A- or A3 or above, or its equivalent, having an aggregate credit exposure between 15-19%; and
- for the three months ended 30 September 2015 were three counterparties with a credit rating of A- or A3 or above, or its equivalent, with one having a peak end-of-day aggregate credit exposure between 10-14%, one having a peak end-of-day aggregate credit exposure between 15% and 19%, and the third having a peak end-of-day aggregate credit exposure between 20%-24%.

The peak end-of-day aggregate credit exposure to each individual counterparty or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period and then dividing that by the Banking Group's equity as at the end of the period.

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

Note 38 Credit exposures to connected persons and non-bank connected persons

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

The Reserve Bank defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits. Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the year ended 30 September 2015 and then dividing that amount by the Banking Group's Tier One Capital as at 30 September 2015.

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

	The Banking Group	
$ millions	As at 30-Sep-15	Peak End-of-day for the Year Ended 30-Sep-15
Credit exposures to connected persons:		
On gross basis, before netting	**2,855**	**3,224**
As a percentage of Tier One Capital of the Banking Group at end of the year	**51.9%**	**58.6%**
Amount that has been netted off in determining the net exposure	**1,271**	**1,377**
As a percentage of Tier One Capital of the Banking Group at end of the year	**23.1%**	**25.0%**
On partial bilateral net basis	**1,584**	**1,847**
As a percentage of Tier One Capital of the Banking Group at end of the year	**28.8%**	**33.6%**
Credit exposures to non-bank connected persons	**9**	**12**
As a percentage of Tier One Capital of the Banking Group at end of the year	**0.2%**	**0.2%**

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

The limits on aggregate credit exposures to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times during the year ended 30 September 2015.

Where a bank is funding a large loan it is common practice to share the risk of a customer default through risk transfer to an acceptable entity. These arrangements are called risk lay-off arrangements. As at 30 September 2015, the Banking Group had no material aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons).

The aggregate amount of the Banking Group's individual credit provisions provided against credit exposures to connected persons was nil as at 30 September 2015.

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 Banking Group.

Cash and cash equivalents

	The Banking Group	
$ millions	**Year ended 30-Sep-15**	Year ended 30-Sep-14
Cash and cash equivalents at end of the year comprise:		
Cash on hand	**166**	153
Balances with central banks	**691**	1,750
Due from other financial institutions	**-**	391
Cash and cash equivalents at end of the year	**857**	2,294

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

	The 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	**911**	941
Adjustments:		
Impairment charges on loans	**47**	26
Computer software amortisation costs	**91**	57
Depreciation on property, plant and equipment	**38**	31
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	**4**	4
Movement in other assets	**(1)**	(25)
Movement in other liabilities and provisions	**10**	9
Movement in current and deferred tax	**17**	63
Movement in due from other financial institutions	**144**	11
Movement in trading securities and other financial assets designated at fair value	**(869)**	488
Movement in net loans	**(4,538)**	(3,051)
Movement in due from related entities	**(796)**	(34)
Movement in due to other financial institutions	**289**	101
Movement in deposits and other borrowings	**2,375**	2,388
Movement in other financial liabilities at fair value through income statement	**(90)**	90
Movement in external and related entity derivative financial instruments	**867**	(495)
Net cash flows (used in)/provided by operating activities	**(1,520)**	516

Note 40 Events after the reporting date

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

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Independent Auditors' Report

To the shareholder of Westpac New Zealand Limited

Report on the Financial Statements (excluding Supplementary Information Relating to Capital Adequacy)

We have audited pages 13 to 77 of the Disclosure Statement of Westpac New Zealand Limited (the 'Bank') which consists of the financial statements required by Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order') and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 34 and 35) required by Schedules 4, 7, 13, 14, 15 and 17 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 Banking Group. The 'Banking Group' comprises the Bank and the entities it controlled at 30 September 2015 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors of Westpac New Zealand Limited (the 'Directors') are responsible for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 24 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, 13, 14, 15 and 17 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 capital adequacy disclosed in Notes 34 and 35) disclosed in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15 and 17 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 Bank'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 Bank'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 Banking Group. We carry out other assignments on behalf of the Banking Group in the areas of other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the Banking Group. We have no other interests in the Banking Group or Westpac Banking Corporation Group.

Opinion

In our opinion, the financial statements on pages 13 to 77 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11, 13, 14, 15 and 17 of the Order and included within the balance sheet and Notes 13, 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 Banking Group as at 30 September 2015, and its financial performance and cash flows for the year then ended.

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Independent auditors' report (continued)

In our opinion, the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and included within the balance sheet and Notes 13, 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 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 Capital Adequacy)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements (excluding the supplementary information relating to capital adequacy disclosed in Notes 34 and 35) 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 Banking Group as far as appears from an examination of those records.

Report on the Supplementary Information Relating to Capital Adequacy

We have reviewed the supplementary information relating to capital adequacy required by Schedule 11 of the Order as disclosed in Notes 34 and 35 of the financial statements of the Banking Group for the year ended 30 September 2015.

Directors' Responsibility for the Supplementary Information Relating to Capital Adequacy

The Directors are responsible for the preparation of the supplementary information relating to capital adequacy that is prepared in accordance with the Bank's conditions of registration and the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand and is disclosed in accordance with Schedule 11 of the Order.

Auditors' Responsibility

Our responsibility is to express an opinion on the supplementary information relating to 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 capital adequacy, disclosed in Notes 34 and 35, is not, in all material respects:

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

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

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

The review of the supplementary information relating to 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 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 capital adequacy disclosed in Notes 34 and 35, as required by Schedule 11 of the Order, is not in all material respects:

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

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

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

Restriction on Distribution or Use

This report is made solely to the Bank's shareholder. Our work has been undertaken so that we might state to the Bank's shareholder 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 Bank and the Bank's shareholder, for our audit work, for this report, or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
3 December 2015

Auckland