Westpac Banking Corporation - New Zealand Banking Group

Disclosure Statement

For the year ended 30 September 2014

Index

General information and definitions

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

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

- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac);
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank (carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations);
- Westpac Banking Corporation - New Zealand Banking Group (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business. Controlled entities of the NZ Banking Group as at 30 September 2014 are set out in Note 25 Related entities;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities; and
- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.

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

General matters

Registered Bank

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

Overseas Bank

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

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

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

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

As a registered bank, Westpac New Zealand is required to produce its own disclosure statement. Accordingly, further information on Westpac New Zealand is available in Westpac New Zealand's Disclosure Statement for the year ended 30 September 2014.

Registered bank: Directorate

Directors

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

Name: Lindsay Philip Maxsted, DipBus (Gordon), FCA, FAICD
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Chairman of each of Transurban Holdings Limited, Transurban Infrastructure Management Limited and Transurban International Limited. Managing Director of Align Capital Pty Ltd. Director of each of BHP Billiton Limited, BHP Billiton plc, Align Investments Pty Ltd, Baker IDI Heart and Diabetes Institute Holdings Limited, Belmont Pty Ltd, Centip Pty Ltd, Continuum Investments Pty Ltd, Jacobite Investments Pty Ltd and 139 Pty Ltd.

General matters (continued)

Name: Gail Patricia Kelly, HigherDipEd, BA, MBA with Distinction

Non-executive: No

Country of Residence: Australia

Primary Occupation: Managing Director & Chief Executive Officer, Westpac Banking Corporation

Secondary Occupations: Director

Board Audit Committee Member: No

Independent Director: No

External Directorships: Chairman of the Australian Bankers' Association Incorporated. Director of each of the Business Council of Australia, The Financial Markets Foundation for Children, G & A Kelly Investments Pty Limited, Hills 246 Pty Limited, Kelly Futures Pty Limited and Kelly Longterm Investments Pty Limited. Director of the Global Board of Advisers at the US Council on Foreign Relations and member of the Sydney Cricket and Sports Ground Trust. CARE Australia's Ambassador for Women's Empowerment. Member of the Indigenous Advisory Council and Group of Thirty. Vice President of the International Monetary Conference.

Name: Elizabeth Blomfield Bryan AM, BA (Econ.), MA (Econ.)

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: No

Independent Director: Yes

External Directorships: Chairman of each of Caltex Australia Limited, Caltex Australia Petroleum Pty Ltd and Caltex Australia Custodians Pty Ltd. Director of the E. Bryan Superannuation Fund Pty Ltd. Member of the Takeovers Panel, Powerhouse Museum, Australian Treasury Advisory Council and Director Advisory Panel to the Australian Securities and Investments Commission.

Name: Ewen Graham Wolseley Crouch AM, BEc (Hons.), LLB, FAICD

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: No

Independent Director: Yes

External Directorships: Chairman of Mission Australia. Director of each of City Mission Employees Retirement Fund Pty Limited, Mission Australia Capital Fund Pty Ltd, Sydney Symphony Orchestra Holdings Pty Limited, Sydney Symphony Orchestra, Wersley Investments Pty Limited, Wersley Pty Limited and Bluescope Steel Limited. Alternate Director of Working Links (Employment) Limited. Member of the Takeovers Panel, the AICD's Law Committee and the Corporations Committee of the Law Council of Australia.

Name: Catriona Alison Deans, BA, MBA, GAICD

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: No

Independent Director: Yes

External Directorships: Director of Insurance Australia Group Limited, Chessholme Pty Ltd, Ascog Pty Ltd and kikki.K Holdings Pty Ltd. Member of the National Broadband Network Panel of Experts.

Name: Robert George Elstone, BA (Hons.), MA (Econ.), MCom

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes, Chairman

Independent Director: Yes

External Directorships: Director of each of R & S Elstone Pty Ltd, Elstone Investments Pty Limited and R Elstone Pty Limited. Board Member of the University of Western Australia Business School. Adjunct Professor of the University of Western Australia Business School and University of Sydney School of Business.

Name: Peter John Oswin Hawkins, BCA (Hons.), SF Fin, FAIM, ACA (NZ), FAICD

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

External Directorships: Director of each of Clayton Utz, Joshawk Investments Pty Ltd, Liberty Financial Pty Ltd, Liberty Fiduciary Ltd, Lynter Investments Pty Ltd, LFI Group Pty Ltd, Minerva Financial Group Pty Limited, Mirvac Funds Limited, Mirvac Limited, Murray Goulburn Co-operative Co. Limited, Petlyn Holdings Pty Ltd and the Treasury Corporation of Victoria.

General matters (continued)

Name: Peter Ralph Marriott, BEc (Hons.), FCA
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Chairman of Austraclear Ltd. Director of each of ASX Limited, ASX Settlement Corporation Limited, ASX Clear (Futures) Pty Limited, ASX Clear Pty Limited, ASX Clearing Corporation Limited, ASX Settlement Pty Limited, P. & E. Marriott Investments Pty Ltd, P. & E. Marriott Holdings Pty Ltd and P. & E. Marriott Pty Ltd. Member of the Review Panel of the Banking Finance Oath Limited.

Name: Ann Darlene Pickard, BA, MA
Non-executive: Yes
Country of Residence: United States of America
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: No
Independent Director: Yes

External Directorships: Nil.

The following changes in the composition of the Board have been effected since 30 September 2013:

- Gordon Cairns retired from the Board on 13 December 2013;
- Catriona Alison Deans was appointed to the Board, effective 1 April 2014; and
- John Curtis retired from the Board on 25 April 2014.

On 13 November 2014, the Overseas Bank announced that Gail Kelly will retire as Managing Director on 1 February 2015, and that Brian Hartzer has been appointed as Managing Director effective 2 February 2015.

Ann Pickard has announced that she will retire from the Board at the conclusion of the Overseas Bank's 2014 Annual General Meeting on 12 December 2014.

Chief Executive Officer, NZ Branch

Name: Karen Lee Ann Silk, B.Com
Country of Residence: New Zealand
Primary Occupation: Chief Executive Officer, NZ Branch
Secondary Occupations: General Manager, Corporate and Institutional, Westpac New Zealand
External Directorships: Director of Waianiwa Pastoral Limited

Responsible person

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

Name: David Alexander McLean, LLB (Hons.)
Country of Residence: New Zealand
Primary Occupation: Acting Chief Executive, Westpac New Zealand
Secondary Occupations: None

Address for communications

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

Conflicts of interest policy

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

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

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

General matters (continued)

Interested transactions

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

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

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

Auditors

NZ Banking Group

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland

New Zealand

Credit ratings

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

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

In the two years prior to 30 September 2014, there have been no changes to the Overseas Bank's credit ratings or ratings outlook as outlined above.

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

Credit ratings (continued)

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.

Ratings stated in **bold** indicate the Overseas Bank's current position within the credit rating scales.

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

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

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2014 and can be accessed at the internet address www.westpac.com.au.

Historical summary of financial statements

$ millions	NZ Banking Group **Year Ended 30-Sep-14**	Year Ended 30-Sep-13	Year Ended 30-Sep-12	Year Ended 30-Sep-11	Year Ended 30-Sep-10[1]
Income statement					
Interest income	**4,037**	3,801	3,965	4,016	3,972
Interest expense	**(2,447)**	(2,223)	(2,440)	(2,482)	(2,562)
Net interest income	**1,590**	1,578	1,525	1,534	1,410
Non-interest income	**677**	585	582	509	532
Net operating income	**2,267**	2,163	2,107	2,043	1,942
Operating expenses	**(868)**	(877)	(872)	(845)	(788)
Impairment charges on loans	**(26)**	(105)	(184)	(226)	(332)
Operating profit	**1,373**	1,181	1,051	972	822
Share of profit of associate accounted for using the equity method	**1**	1	1	1	1
Profit before income tax expense	**1,374**	1,182	1,052	973	823
Income tax expense	**(355)**	(327)	(293)	(307)	(60)
Profit after income tax expense	**1,019**	855	759	666	763
Profit after income tax expense attributable to:					
Head office account and owners of the NZ Banking Group	**1,016**	852	756	662	760
Non-controlling interests	**3**	3	3	4	3
	1,019	855	759	666	763
Dividends paid on ordinary share capital	**(251)**	(327)	(4)	(2)	(4)
Dividends paid on convertible debentures (net of tax)	**-**	(66)	(72)	(70)	(70)
Balance sheet					
Total assets	**81,678**	77,554	77,854	78,293	72,529
Total impaired assets	**346**	573	868	919	890
Total liabilities	**76,179**	72,757	72,339	73,532	68,401
Total head office account	**1,750**	1,639	1,513	1,389	1,192
Total equity	**5,499**	4,797	5,515	4,761	4,128

[1] During the year ended 30 September 2010, the NZ Branch repatriated $500 million of capital to the Overseas Bank.

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

Guarantee arrangements

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

Ranking of local creditors in liquidation

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

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

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

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

Section 13A(3) of the Australian Banking Act affects all unsecured liabilities of the NZ Branch, which, as at 30 September 2014, amounted to $13,748 million (30 September 2013: $12,978 million).

Section 13A(4) of the Australian Banking Act also provides that it is an offence for an ADI not to hold assets (other than goodwill and any assets or other amount excluded by the prudential standards) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the year ended 30 September 2014, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

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

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

Pending proceedings or arbitration

There are no pending legal proceedings or arbitration at the date of this Disclosure Statement involving any member of the NZ Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Overseas Bank or the NZ Banking Group.

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

On 12 December 2013, the Commerce Commission notified the Overseas Bank and Westpac New Zealand that it intends filing proceedings against them under the Fair Trading Act 1986 in relation to the marketing and sale of interest rate swaps to rural customers. To date, no such proceedings have been filed. At this stage the impact of this notification cannot be determined with any certainty.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 30 September 2014 Annual Financial Report.

Other material matters

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

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

Conditions of registration

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

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration:

   - 'insurance business' means the undertaking or assumption of liability as an insurer under a contract of insurance;
   - 'insurer' and 'contract of insurance' have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

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

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

   (a) the Reserve Bank of New Zealand ('**Reserve Bank**') has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

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

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

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

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

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

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

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

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

10. That the business of the registered bank in New Zealand must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

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

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

Conditions of registration (continued)

13. That the business of the registered bank in New Zealand must not—

    (a) act as broker or arrange a residential mortgage loan for the business of the registered bank outside New Zealand or for an associated person of the registered bank outside New Zealand; or

    (b) facilitate the drawdown of a residential mortgage loan the registered bank originated as part of its business outside New Zealand or by an associated person of the registered bank outside New Zealand without notifying the Reserve Bank of this activity in the manner and form specified by the Reserve Bank.

In these conditions of registration:

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

The above conditions of registration came into effect on 1 July 2014. The principal changes from those in effect on 30 June 2014 were to refer to revised versions of Reserve Bank documents. Further details are included in the Disclosure Statement for the nine months ended 30 June 2014.

The conditions of registration were further amended on 31 October 2014 with effect from 1 November 2014 to update the reference to BS19 to the latest version dated October 2014. BS19 was revised to update a reference to the Capital Adequacy Framework (Internal Models Based Approach) BS2B. That reference is only relevant to New Zealand incorporated banks that use that approach so has no policy implications for the Overseas Bank.

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

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

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

(b) is not false or misleading.

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, over the year ended 30 September 2014:

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

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

Refer to Note 36 for further detail regarding the entities which had systems in place to monitor and control the material risks of relevant members of NZ Banking Group.

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

David McLean

David Alexander McLean

Karen Lee Ann Silk

Dated this the 11th day of December 2014

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Income statements for the year ended 30 September

$ millions	Note	NZ Banking Group **Year Ended 30-Sep-14**	 Year Ended 30-Sep-13	NZ Branch **Year Ended 30-Sep-14**	 Year Ended 30-Sep-13
Interest income	2	**4,037**	3,801	**295**	276
Interest expense	2	**(2,447)**	(2,223)	**(203)**	(84)
Net interest income		**1,590**	1,578	**92**	192
Non-interest income	3	**677**	585	**104**	133
Net operating income		**2,267**	2,163	**196**	325
Operating expenses	4	**(868)**	(877)	**(44)**	(47)
Impairment (charges)/recoveries on loans	6	**(26)**	(105)	**-**	2
Operating profit		**1,373**	1,181	**152**	280
Share of profit of associate accounted for using the equity method		**1**	1	**-**	-
Profit before income tax expense		**1,374**	1,182	**152**	280
Income tax expense	7	**(355)**	(327)	**(41)**	(79)
Profit after income tax expense		**1,019**	855	**111**	201
Profit after income tax expense attributable to:					
Head office account and owners of the NZ Banking Group		**1,016**	852	**111**	201
Non-controlling interests		**3**	3	**-**	-
		1,019	855	**111**	201

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Statements of comprehensive income for the year ended 30 September

$ millions	NZ Banking Group Year Ended 30-Sep-14	NZ Banking Group Year Ended 30-Sep-13	NZ Branch Year Ended 30-Sep-14	NZ Branch Year Ended 30-Sep-13
Profit after income tax expense	**1,019**	855	**111**	201
Other comprehensive (expense)/income which may be reclassified subsequently to the income statement:				
Available-for-sale securities:				
Net unrealised gains from changes in fair value of available-for-sale securities	**24**	23	**-**	-
Transferred to the income statement (refer to Note 3)	**(88)**	-	**-**	-
Exchange differences	**(3)**	1	**-**	-
Income tax effect	**(4)**	2	**-**	-
Cash flow hedges:				
Net (losses)/gains from changes in fair value of cash flow hedges	**(52)**	34	**-**	-
Transferred to the income statement	**49**	30	**-**	-
Income tax effect	**1**	(18)	**-**	-
Total other comprehensive (expense)/income which may be reclassified subsequently to the income statement	**(73)**	72	**-**	-
Other comprehensive income which will not be reclassified subsequently to the income statement:				
Remeasurement of employee defined benefit obligations	**4**	39	**-**	-
Income tax effect	**(1)**	(11)	**-**	-
Total other comprehensive income which will not be reclassified subsequently to the income statement	**3**	28	**-**	-
Total other comprehensive (expense)/income, net of tax	**(70)**	100	**-**	-
Total comprehensive income	**949**	955	**111**	201
Total comprehensive income attributable to:				
Head office account and owners of the NZ Banking Group	**946**	952	**111**	201
Non-controlling interests	**3**	3	**-**	-
	949	955	**111**	201

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity for the year ended 30 September

	NZ Banking Group									
	NZ Branch			Other Members of the NZ Banking Group						
	Head Office Account									
$ millions	Branch Capital	Retained Profits	Convertible Debentures	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total before Non-controlling Interests	Non-controlling Interests	Total Equity
As at 1 October 2012 as previously reported	1,300	213	1,284	139	2,526	80	(34)	5,508	7	5,515
Adjustments due to amendments in NZ IAS 19 (refer to Note 1)	-	-	-	-	16	-	-	16	-	16
As at 1 October 2012 (Restated)	1,300	213	1,284	139	2,542	80	(34)	5,524	7	5,531
Year ended 30 September 2013										
Profit after income tax expense	-	201	-	-	651	-	-	852	3	855
Net gains from changes in fair value	-	-	-	-	-	23	34	57	-	57
Income tax effect	-	-	-	-	-	2	(10)	(8)	-	(8)
Exchange differences	-	-	-	-	-	1	-	1	-	1
Income tax effect	-	-	-	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	-	-	-	30	30	-	30
Income tax effect	-	-	-	-	-	-	(8)	(8)	-	(8)
Remeasurement of employee defined benefit obligations	-	-	-	-	39	-	-	39	-	39
Income tax effect	-	-	-	-	(11)	-	-	(11)	-	(11)
Total comprehensive income for the year ended 30 September 2013	-	201	-	-	679	26	46	952	3	955
Transactions with owners:										
Redemption of convertible debentures	-	(9)	(1,284)	-	-	-	-	(1,293)	-	(1,293)
Dividends paid on convertible debentures (net of tax)	-	(66)	-	-	-	-	-	(66)	-	(66)
Dividends paid on ordinary shares	-	-	-	-	(323)	-	-	(323)	(4)	(327)
As at 30 September 2013	1,300	339	-	139	2,898	106	12	4,794	6	4,800
Adjustments due to amendments in NZ IAS 19 (refer to Note 1)	-	-	-	-	(3)	-	-	(3)	-	(3)
As at 30 September 2013 (Restated)	1,300	339	-	139	2,895	106	12	4,791	6	4,797
Profit after income tax expense	**-**	**111**	**-**	**-**	**905**	**-**	**-**	**1,016**	**3**	**1,019**
Net gains/(losses) from changes in fair value	**-**	**-**	**-**	**-**	**-**	**24**	**(52)**	**(28)**	**-**	**(28)**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**(4)**	**15**	**11**	**-**	**11**
Exchange differences	**-**	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**	**-**	**(3)**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transferred to the income statement	**-**	**-**	**-**	**-**	**-**	**(88)**	**49**	**(39)**	**-**	**(39)**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**-**	**(14)**	**(14)**	**-**	**(14)**
Remeasurement of employee defined benefit obligations	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**4**	**-**	**4**
Income tax effect	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(1)**	**-**	**(1)**
Total comprehensive income for the year ended 30 September 2014	**-**	**111**	**-**	**-**	**908**	**(71)**	**(2)**	**946**	**3**	**949**
Transactions with owners:										
Aggregation of new entities (refer to Note 25)	**-**	**-**	**-**	**4**	**-**	**-**	**-**	**4**	**-**	**4**
Dividends paid on ordinary shares	**-**	**-**	**-**	**-**	**(248)**	**-**	**-**	**(248)**	**(3)**	**(251)**
As at 30 September 2014	**1,300**	**450**	**-**	**143**	**3,555**	**35**	**10**	**5,493**	**6**	**5,499**

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity (continued) for the year ended 30 September

$ millions	NZ Branch			
	Head Office Account			
	Branch Capital	Retained Profits	Convertible Debentures	Total Equity
As at 1 October 2012	1,300	213	1,284	2,797
Year ended 30 September 2013				
Profit after income tax expense	-	201	-	201
Total comprehensive income for the year ended 30 September 2013	-	201	-	201
Transaction with owners:				
Redemption of convertible debentures	-	(9)	(1,284)	(1,293)
Dividends paid on convertible debentures (net of tax)	-	(66)	-	(66)
As at 30 September 2013	1,300	339	-	1,639
Year ended 30 September 2014				
Profit after income tax expense	**-**	**111**	**-**	**111**
Total comprehensive income for the year ended 30 September 2014	**-**	**111**	**-**	**111**
As at 30 September 2014	**1,300**	**450**	**-**	**1,750**

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Balance sheets as at 30 September

$ millions	Note	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Assets					
Cash and balances with central banks		**1,927**	1,848	**24**	44
Due from other financial institutions	9	**591**	173	**38**	-
Trading securities	10	**3,514**	4,313	**2,298**	2,735
Derivative financial instruments	26	**4,180**	3,661	**4,107**	3,653
Available-for-sale securities	11	**3,010**	2,715	**-**	-
Loans	12,13	**65,027**	62,037	**341**	347
Life insurance assets		**297**	289	**-**	-
Due from related entities	25	**1,770**	1,036	**8,614**	7,654
Investment in associate	25	**48**	48	**-**	-
Property, plant and equipment		**178**	169	**-**	-
Deferred tax assets	14	**120**	154	**3**	2
Goodwill and other intangible assets	15	**715**	714	**5**	5
Other assets	16	**301**	397	**68**	177
Total assets		**81,678**	77,554	**15,498**	14,617
Liabilities					
Due to other financial institutions	17	**1,141**	335	**940**	235
Deposits	18	**50,570**	48,182	**-**	-
Trading liabilities	19	**1,072**	498	**982**	498
Derivative financial instruments	26	**4,123**	3,786	**3,937**	3,608
Debt issues	20	**12,592**	11,645	**-**	-
Current tax liabilities		**30**	24	**4**	27
Provisions	21	**87**	87	**10**	9
Other liabilities	22	**697**	671	**26**	121
Total liabilities excluding related entities liabilities		**70,312**	65,228	**5,899**	4,498
Subordinated debentures	23	**710**	693	**710**	693
Due to related entities	25	**5,157**	6,836	**7,139**	7,787
Total related entities liabilities		**5,867**	7,529	**7,849**	8,480
Total liabilities		**76,179**	72,757	**13,748**	12,978
Net assets		**5,499**	4,797	**1,750**	1,639
Equity					
Head office account					
Branch capital		**1,300**	1,300	**1,300**	1,300
Retained profits		**450**	339	**450**	339
Total head office account		**1,750**	1,639	**1,750**	1,639
NZ Banking Group equity					
Ordinary share capital		**143**	139	**-**	-
Retained profits		**3,555**	2,895	**-**	-
Available-for-sale securities reserve		**35**	106	**-**	-
Cash flow hedge reserve		**10**	12	**-**	-
Total equity attributable to owners of the NZ Banking Group		**3,743**	3,152	**-**	-
Non-controlling interests		**6**	6	**-**	-
Total equity		**5,499**	4,797	**1,750**	1,639
Interest earning and discount bearing assets		**74,494**	71,369	**8,498**	8,356
Interest and discount bearing liabilities		**66,117**	63,671	**7,780**	7,775

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Signed on behalf of the Board of Directors.

Director
11th December 2014

Gail Kelly
Director
11th December 2014

Statements of cash flows for the year ended 30 September

$ millions	NZ Banking Group		NZ Branch	
	Year Ended 30-Sep-14	Year Ended 30-Sep-13[1]	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13[1]
Cash flows from operating activities				
Interest income received	**4,013**	3,801	**286**	271
Interest expense paid	**(2,441)**	(2,225)	**(197)**	(82)
Non-interest income received	**560**	646	**78**	197
Operating expenses paid	**(775)**	(800)	**(45)**	(55)
Income tax paid	**(318)**	(305)	**(44)**	(32)
Cash flows from operating activities before changes in operating assets and liabilities	**1,039**	1,117	**78**	299
Net (increase)/decrease in:				
Due from other financial institutions	**(2)**	149	**(13)**	-
Trading securities	**973**	(363)	**484**	(817)
Loans	**(3,036)**	(2,250)	**6**	40
Due from related entities	**(138)**	(21)	**(691)**	685
Net increase/(decrease) in:				
Due to other financial institutions	**806**	121	**705**	24
Deposits	**2,388**	4,792	**-**	-
Trading liabilities	**574**	(20)	**484**	(20)
Net movement in external and related entity derivative financial instruments	**(306)**	757	**162**	1,011
Net cash provided by operating activities	**2,298**	4,282	**1,215**	1,222
Cash flows from investing activities				
Purchase of available-for-sale securities	**(430)**	(191)	**-**	-
Proceeds from maturities/sale of available-for-sale securities	**171**	26	**-**	-
Net increase in life insurance assets	**(8)**	(52)	**-**	-
Purchase of capitalised computer software	**(59)**	(98)	**(1)**	-
Purchase of property, plant and equipment	**(39)**	(37)	**-**	-
Net cash used in investing activities	**(365)**	(352)	**(1)**	-
Cash flows from financing activities				
Net increase/(decrease) in debt issues	**736**	(1,453)	**-**	-
Net (decrease)/increase in due to related entities	**(1,923)**	(632)	**(1,209)**	87
Net decrease in convertible debentures (refer to Note 24)	**-**	(1,293)	**-**	(1,293)
Dividends paid on convertible debentures	**-**	(91)	**-**	(91)
Payment of dividends	**(251)**	(327)	**-**	-
Net cash used in financing activities	**(1,438)**	(3,796)	**(1,209)**	(1,297)
Net increase/(decrease) in cash and cash equivalents	**495**	134	**5**	(75)
Cash and cash equivalents at beginning of the period/year	**1,848**	1,714	**44**	119
Cash and cash equivalents at end of the year	**2,343**	1,848	**49**	44
Cash and cash equivalents comprise:				
Cash and balances with central banks	**1,927**	1,848	**24**	44
Due from other financial institutions	**416**	-	**25**	-
Cash and cash equivalents at end of the year	**2,343**	1,848	**49**	44

[1] The presentation of the statement of cash flows has been revised to improve the classification of movements in cash and cash equivalents. Certain cash flows have been reclassified between operating, investing and financing activities. Certain balances due from/to other financial institutions have been reclassified out of cash and cash equivalents. Comparative figures have been revised in order to ensure consistency.

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

1.1 General accounting policies

Statutory base

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993, the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 ('**Order**').

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

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

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

These financial statements are for the NZ Branch as a separate reporting entity and the consolidated financial statements are for the NZ Banking Group.

These financial statements were authorised for issue by the Overseas Bank's Board of Directors ('**Board**') on 11 December 2014. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by applying fair value accounting to available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts in these financial statements have been rounded in millions of New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2013, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in Note 1.3 Changes in accounting policies.

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

Basis of aggregation

The NZ Banking Group as at 30 September 2014 has been aggregated by combining the sum of the capital and reserves of the NZ Branch, Hastings Forestry Investments Limited and the consolidated capital and reserves of BT Financial Group (NZ) Limited, Westpac Financial Services Group-NZ-Limited, Westpac Group Investment-NZ-Limited, Capital Finance New Zealand Limited, Westpac New Zealand Group Limited and their subsidiaries (including structured entities). For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

Subsidiaries (including structured entities) are those entities over which the NZ Banking Group has control. Control exists when the NZ Banking Group is exposed to, or has rights, to variable returns from its involvement with an entity, and has the ability to affect those returns through its power over that entity. The effects of all transactions between entities within the NZ Banking Group are eliminated. Non-controlling interests in the results 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 they are de-consolidated from the date that control ceases.

Changes in the NZ Banking Group's ownership interest in a subsidiary after control is obtained which do not result in a loss of control are accounted for as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in other reserves.

When the NZ Banking Group ceases to control a subsidiary any retained interest in the entity is remeasured to its fair value, with any resulting gain or loss recognised in the income statement.

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

Note 1 Statement of accounting policies (continued)

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the NZ Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the '**functional currency**'). The aggregated financial statements are presented in New Zealand dollars, which is the NZ Branch's functional and presentation currency.

Transactions and balances

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

1.2 Particular accounting policies

Revenue recognition

Interest income

Interest income for all interest earning financial assets, including those instruments measured at fair value, is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where 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 received or paid between parties to the contract that are an integral part of the effective interest rate (i.e. 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 after giving effect to impairment charges or for a variable rate loan, the current effective interest rate determined under the contract. This rate is also used to discount the future cash flows for the purpose of measuring impairment charges. For loans that have been impaired, this method results in cash receipts being apportioned between interest and principal.

Leasing

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.

Fee and commission income

Fees and commissions (except where included as an adjustment to the effective interest calculation on a financial instrument) are generally recognised on an accrual basis over the period during which the service is performed.

Trading income

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

Other dividend income

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

Gain or loss on disposal of property, plant and equipment

The gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between the sale proceeds less costs of disposal and the carrying amount of the respective asset and is recognised in the income statement as non-interest income.

Expense recognition

Interest expense

Interest expense for all interest and discount bearing financial liabilities (including those instruments measured at fair value), is recognised in the income statement using the effective interest method. Interest expense also includes the net impact of treasury's interest rate and liquidity management activities, including gains and losses on interest rate-related derivatives and other related trading activities.

Impairment charges on loans and receivables carried at amortised cost

The charge recognised in the income statement for impairment on loans and receivables carried at amortised cost reflects the net movement in the provisions for individually assessed and collectively assessed loans, write offs and recoveries of impairments previously written off.

Leasing

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.

Note 1 Statement of accounting policies (continued)

Commissions and other fees

External commissions and other costs paid to acquire loans are capitalised and amortised using the effective interest method. All other fees and commissions are recognised in the income statement over the period in which the related service is received.

Life insurance acquisition costs

Deferred acquisition costs associated with the life insurance business are the variable costs that are directly related to and incremental to the acquisition of new business. These costs are recorded as an asset and are amortised in the income statement on the same basis as the recognition of related revenue.

Share-based payments

Certain employees are entitled to participate in option and share ownership schemes granted by the Overseas Bank.

The fair value of performance options, performance share rights and unhurdled share rights provided to employees as share-based payments is recognised as an expense with a corresponding amount payable to the Overseas Bank. The fair value is measured at the grant date and is recognised over the period the services are received which is the expected vesting period during which the employees would become entitled to exercise the performance option, performance share right or unhurdled share right.

The fair value of performance options, performance share rights and unhurdled share rights is estimated at grant date using a Binomial/Monte Carlo simulation pricing model incorporating the vesting and market-related hurdle features of the grants. The fair value of the performance options, performance share rights and unhurdled share rights excludes the impact of any non-market vesting conditions such as the participants' continued employment with the NZ Banking Group. The non-market vesting conditions are included in assumptions used when determining the number of performance options, performance share rights and unhurdled share rights expected to become exercisable for which an expense is recognised. As at each reporting date these assumptions are revised and the expense recognised in each year takes into account the most recent estimates.

Taxation

Income tax

Income tax expense on the profit 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 other comprehensive income.

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

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 corresponding amounts used for taxation purposes. Except as noted below, deferred tax liabilities are recognised for all taxable temporary differences and 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 are not recognised if they arise from goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit (other than in a business combination), or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted as at the balance date that are expected to apply when the liability is settled or the asset is realised.

For presentation purposes deferred tax assets and liabilities have been offset where they relate to the same taxation authority on the same taxable entity or different entities in the same taxable group.

Goods and services tax

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

Business combinations

External acquisitions

The acquisition method of accounting is used for all business combinations (except common control transactions). Cost 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 exchange. Acquisition-related costs are expensed as incurred. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the acquisition date. For each business combination, the non-controlling interest is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the cost of acquisition, 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 identifiable net assets acquired is recorded as goodwill.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the NZ Banking Group's incremental borrowing rate.

Common control transactions

The predecessor method of accounting is used to account for business combinations between entities in the NZ Banking Group. Assets acquired and liabilities assumed in a common control transaction are measured initially at the acquisition date at the carrying value from the NZ Banking Group's perspective. The excess of cost of acquisition over the initial carrying values of the entity's share of the net assets acquired is recorded as part of a common control reserve.

Note 1 Statement of accounting policies (continued)

Assets

Financial assets

The NZ Banking Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale securities. Management determines the classification of its financial assets at initial recognition.

- ***Financial assets at fair value through profit or loss***

  This category has two sub-categories: trading securities and other financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term, if it is part of a portfolio of financial assets that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management. This designation may only be made if the financial asset contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy, or if designating it at fair value reduces an accounting mismatch.

- ***Loans and receivables***

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the NZ Banking Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

- ***Available-for-sale securities***

  Available-for-sale securities are non-derivative financial assets 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.

  Other investments, which comprise unlisted equity securities that do not have a quoted price in an active market and where fair value cannot be estimated within a reasonable range of probable outcomes, are carried at cost.

Recognition and measurement of financial assets

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale financial assets are recognised on the trade-date, the date on which the NZ Banking Group commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrower. Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method and are presented net of any provisions for impairment. Realised and unrealised gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets 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. Foreign exchange gains or losses and interest, calculated using the effective interest rate method, on available-for-sale debt instruments are also recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the NZ Banking Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full, without material delay, to a third party under a 'pass-through' arrangement and cannot sell or re-pledge the asset other than to the transferee; and
- either the NZ Banking Group has transferred substantially all the risks and rewards of the asset, or the NZ Banking Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the NZ Banking Group transfers its right to receive cash flows from an asset or has entered into a pass-through arrangement without transferring nor retaining substantially all the risks and rewards of ownership nor transferred control of these assets, the asset continues to be recognised on the balance sheet to the extent of the NZ Banking Group's continuing involvement in the asset.

Cash and balances with central banks

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.

Due from other financial institutions

Due from other financial institutions includes collateral placed, loans and settlement account balances due from other financial institutions. They are accounted for as loans and receivables.

Derivative financial instruments

Derivative financial instruments including forwards, futures, swaps and options are recognised in the balance sheet at fair value. In certain instances a derivative may be embedded in a host contract. If the host contract is not carried at fair value through profit or loss, the embedded derivative is separated from the host contract and accounted for as a standalone derivative instrument where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Note 1 Statement of accounting policies (continued)

Derivatives are measured, subsequent to initial recognition, 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.

The NZ Banking Group uses derivative instruments as part of its asset and liability management activities to hedge its exposures to interest rates and foreign currency risks, including exposures arising from forecast transactions. Where certain criteria are met, the NZ Banking Group designates these derivatives into one of two hedge accounting relationships: fair value hedge and cash flow hedge.

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.

Trading securities

Trading securities include debt instruments which are actively traded and form part of the NZ Banking Group's liquidity management activities. Trading securities also include securities purchased under an agreement to resell. They are accounted for as financial assets at fair value through profit or loss.

Available-for-sale securities

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. The accounting policy for available-for-sale securities is set out above.

Loans

Loans include advances, overdrafts, housing loans, credit card and other personal lending, term loans and leasing receivables. They are accounted for as loans and receivables.

Loan products that have both a mortgage 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. Interest earned on this product is presented on a net basis in the income statement as this reflects how the customer is charged.

Life insurance assets

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

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

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

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

Due from related entities

This amount includes amounts due from controlled entities of the NZ Banking Group and all other entities controlled by the Overseas Bank.

Impairment of financial assets

Impaired financial assets (including financial assets whose terms have been renegotiated) are defined as assets where an individual provision has been raised as a result of a loss event, which occurred after the initial recognition of the asset which impacts on the timing and amount of future cash flows.

Assets that are in arrears based upon their contractual terms, but not yet impaired, are reported separately as 'past due assets'.

Assets, not classified as impaired assets or past due assets, in which the counterparty is (a) in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or (b) in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction, are reported separately. These are known as 'other assets under administration'.

Note 1 Statement of accounting policies (continued)

The following accounting policies apply to the impairment of financial assets:

i) Assets carried at amortised cost

The NZ Banking Group assesses at each balance date whether there is any objective evidence of impairment. 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, local economic conditions that correlate with defaults on a group of financial assets. The amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The NZ Banking Group has individually assessed provisions and collectively assessed provisions. Individually assessed provisions are made against financial assets that exceed specified thresholds or which have been individually assessed as impaired. If the NZ Banking Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes that asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets 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.

When a loan or a part of a loan is uncollectable, 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.

ii) Available-for-sale

The NZ Banking Group assesses at each reporting date whether there is objective evidence of impairment. Impairment exists if there is objective evidence of impairment as a result of one or more loss events which have an impact on the estimated cash flows of the available-for-sale security that can be reliably estimated. For debt instruments classified as available-for-sale, evidence of impairment includes significant financial difficulties or adverse changes in the payment status of an issuer or national, 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 financial assets, 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 charge was recognised in the income statement, 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.

Non-financial assets

Investments in controlled entities and associates

Investments in controlled entities are initially recorded by the NZ Banking Group in the balance sheet at cost. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Investments in controlled entities are written-down to their recoverable amount, where appropriate.

Associates are entities over which the NZ Banking Group has significant influence, but not control. Investments in associates are accounted for in the parent entity financial statements at cost and subsequently held at the lower of cost and recoverable amount. Dividends receivable from associates are recognised as dividend income in the parent entity's income statement.

In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

The NZ Banking Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Any dividends received from associates reduce the carrying amount of the investment.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment. Cost is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is expensed as incurred.

Computer software is capitalised at cost and classified as property, plant and equipment where it is integral to the operation of associated hardware.

Depreciation is calculated using the straight-line method 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

Property, plant and equipment are reviewed at each balance date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount, being the higher of fair value less cost to sell and value-in-use, is estimated. An impairment charge is recognised as part of operating expenses whenever the carrying amount of the asset exceeds its recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds less costs of disposal, and the carrying amount of the asset, and is recognised as non-interest income.

Note 1 Statement of accounting policies (continued)

Goodwill and other intangible assets

Goodwill represents amounts arising on the acquisition of businesses. Prior to the revised NZ IFRS 3 *Business Combinations* ('**NZ IFRS 3**'), goodwill represented the excess of purchase consideration, including directly attributable expenses associated with the acquisition, over the fair value of the NZ Banking Group's share of the identifiable net assets of the acquired business. Goodwill arising on the acquisition of a business subsequent to the adoption of the revised NZ IFRS 3, 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 acquisition date fair value of net identifiable assets acquired.

All goodwill is considered to have an indefinite life. Goodwill is allocated to Cash Generating Units ('**CGUs**') 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.

Other intangible assets consist of acquired and internally developed computer software and are stated at cost less accumulated amortisation and impairment.

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are recognised as intangible assets when it is probable that they will generate future economic benefits attributable to the NZ Banking Group. These assets are amortised using the straight-line method over their estimated useful lives of three years.

Other assets

Other assets include accrued interest receivable, trade debtors and prepayments.

Liabilities

Financial liabilities

The NZ Banking Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

- ***Financial liabilities at fair value through profit or loss***
  This category has two sub-categories: financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial liability is classified in this category if incurred principally for repurchasing it in the near term, if it is part of a portfolio of financial liabilities that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on initial recognition by management. This designation may only be made if the financial liability contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy, or if designating it at fair value reduces an accounting mismatch.
- ***Financial liabilities at amortised cost***
  This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost.

Recognition and measurement of financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs except where they are subsequently measured at fair value, in which case transaction costs are expensed as incurred. They are subsequently measured at amortised cost, except for derivatives and liabilities at fair value which are held at fair value through profit or loss. Financial liabilities are recognised when an obligation arises.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability 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 financial liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in the income statement.

Due to other financial institutions

Due to other financial institutions includes interbank lending, deposits, vostro balances, cash collateral received and settlement account balances due to other financial institutions. They are measured at amortised cost using the effective interest method.

Deposits

Deposits at fair value represent certificates of deposits. They are classified at fair value through profit or loss as they are managed on a fair value basis (as part of a trading portfolio).

Deposits at amortised cost include non-interest bearing deposits repayable at call and interest bearing deposits. They are measured at amortised cost using the effective interest method.

Derivative financial instruments

Refer to previous discussion on derivative financial instruments in the Assets section of Note 1.

Trading liabilities

Securities sold under repurchase agreements and securities sold short are classified as trading liabilities. They are accounted for as financial liabilities at fair value through profit or loss.

Note 1 Statement of accounting policies (continued)

Debt issues

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

Financial guarantees

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 New Zealand International Accounting Standard ('**NZ IAS**') 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of a financial guarantee contract is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

Other liabilities

Other liabilities include accrued interest payable, securities purchased but not yet delivered, claims reserves on insurance policies, amounts outstanding on the credit card loyalty programme, trade creditors, other accrued expenses and the deficit arising from the defined benefit superannuation scheme.

Subordinated debentures

Subordinated debentures issued by the NZ Banking Group are initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Due to related entities

This amount includes amounts due to controlled entities of the NZ Banking Group and all other entities controlled by the Overseas Bank.

Employee entitlements

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date are recognised as provisions 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.

Long service leave

Liabilities for long service leave expected to be settled within 12 months of the balance date are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for long service leave and other deferred employee benefits expected to be settled more than 12 months from the balance date are recognised in the provision for long service leave and 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.

Superannuation obligations

Obligations for contributions to the defined contribution superannuation scheme are recognised as an expense in the income statement as incurred.

The asset or liability recognised in the balance sheet in respect of the defined benefit superannuation scheme is the present value of the defined benefit obligation as at the reporting date less the fair value of the scheme's assets (disclosed within 'Other liabilities'). The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that have terms to maturity approximating the terms of the related superannuation liability. The calculation is performed annually by an independent qualified actuary using the projected unit credit method.

The superannuation expense relating to the defined benefit superannuation scheme 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.

Provisions

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.

Note 1 Statement of accounting policies (continued)

Provision for impairment on credit commitments

A provision for impairment is recognised on undrawn contractually committed facilities and guarantees provided. The amount is calculated using the same methodology as the impairment of financial assets carried at amortised cost discussed above.

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.

Provision for leasehold premises

The provision for leasehold premises covers unavoidable costs in relation to making good property to the same or similar state as when the lease was entered into at the end of the lease period or net outgoings on certain unoccupied leased premises or sub-let premises where projected rental income falls short of rental expense. The liability is determined on the basis of the present value of net future cash flows.

Head office account and equity

Ordinary shares

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

Head office account – Branch capital

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

Convertible debentures

Convertible debentures are recognised in the balance sheet at the amount of consideration received, net of issue costs.

Reserves

Available-for-sale securities reserve

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

Cash flow hedge reserve

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

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.

Recognition of deferred day one profit or loss

The best evidence of fair value at initial recognition is the transaction price, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets.

The NZ Banking Group may enter into transactions where fair value is determined using valuation models for which not all significant inputs are market observable. Such a financial instrument is initially recognised at the transaction price which is the best indicator of fair value. The difference between the transaction price and the model value, commonly referred to as 'day one profit or loss', is deferred and subsequently recognised in profit or loss over the life of the transaction or at the point when the instrument's fair value can be determined using market observable inputs. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits or losses.

Loan securitisation

The NZ Banking Group, through its loan securitisation programme, packages and sells loans (principally housing mortgage loans) as securities to investors. In such transactions, the NZ Banking Group provides an equitable interest in the loans to investors who provide funding to the NZ Banking Group. Securitised loans that do not qualify for derecognition and the associated funding are included in loans and debt issues respectively.

Funds management activities

Certain controlled entities within the NZ Banking Group conduct investment management and other fiduciary activities as custodian or manager on behalf of individuals, trusts, superannuation schemes and other institutions. These activities involve the management of assets in investment and superannuation schemes, and the holding or placing of assets on behalf of third parties.

Where controlled entities incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the assets and liabilities are not included in the consolidated financial statements.

The NZ Banking Group also manages life insurance statutory fund assets that are included in the life insurance assets in the consolidated financial statements.

Leases

Leases are classified as either finance leases or operating leases. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. In contrast, an operating lease exists where the risks of the leased assets remain with the lessor.

Note 1 Statement of accounting policies (continued)

In its capacity as a lessor, the NZ Banking Group primarily offers finance leases. The NZ Banking Group recognises the assets held under finance lease in the balance sheet as loans at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic return on the NZ Banking Group's net investment in the finance lease. Finance lease income is included within net interest income in the income statement.

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

Offsetting

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.

Repurchase or reverse repurchase agreements

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 or Available-for-sale). A liability (i.e. Securities sold under agreement to repurchase) is recognised in respect of the cash consideration received. Securities sold under agreement to repurchase are presented either as part of Trading liabilities 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 or Due from related entities, depending on the counterparty.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The NZ Banking Group has determined that the NZ Banking Group executive team is its chief operating decision-maker.

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

Statement of cash flows

Basis of presentation

The statement of cash flows has been presented in accordance with NZ IAS 7 *Statement of Cash Flows* with netting of certain items as disclosed below.

Cash and cash equivalents

For presentation purposes within the statement of cash flows, cash and cash equivalents include cash on hand, balances with central banks arising from the daily Reserve Bank of New Zealand ('**Reserve Bank**') settlement process and deposit and settlement accounts with other financial institutions.

Netting of cash flows

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

1.3 Changes in accounting policies

The following standards, interpretations and amendments have been adopted in the 2014 financial year as a result of the new and revised accounting standards which became operative for the year commencing 1 October 2013:

- NZ IFRS 9 *Financial Instruments* ('**NZ IFRS 9**')

  The NZ Banking Group has early adopted the recognition of the changes in the fair value of financial liabilities designated at fair value attributable to the NZ Banking Group's own credit risk in other comprehensive income except where it would create an accounting mismatch. Where an accounting mismatch occurs, all changes in fair value are recognised in the income statement.

  The impact of the change on individual line items in the financial statements is not material.

- NZ IFRS 10 *Consolidated Financial Statements* ('**NZ IFRS 10**'), NZ IFRS 11 *Joint Arrangements* ('**NZ IFRS 11**') and NZ IFRS 12 *Disclosure of Interests in Other Entities* ('**NZ IFRS 12**')

  NZ IFRS 10 replaces the guidance on control and consolidation in NZ IAS 27 *Consolidated and Separate Financial Statements* ('**NZ IAS 27**'). Under the new principles, the parent entity controls an entity 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.

  The NZ Banking Group has reviewed its investments in other entities to assess whether the accounting treatment with respect to consolidation of investments in other entities is different under NZ IFRS 10 than under NZ IAS 27. There is no material impact on the adoption of NZ IFRS 10.

  Under NZ IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The initial application of NZ IFRS 11 has not resulted in any material impact to the NZ Banking Group.

  NZ IFRS 12 sets out disclosures for interests in entities that are subsidiaries, associates, joint ventures and unconsolidated structured entities. The application of NZ IFRS 12 has not affected any of the amounts recognised in the financial statements but has resulted in additional disclosures as set out in Note 33. The NZ Banking Group has applied the transitional relief from disclosing comparatives for interests in unconsolidated structured entities when NZ IFRS 12 is applied for the first time.

Note 1 Statement of accounting policies (continued)

- NZ IFRS 13 *Fair Value Measurement* ('**NZ IFRS 13**')

  NZ IFRS 13 provides a single unified definition of fair value and a framework for measuring and disclosing fair value. In accordance with the transitional provisions, NZ IFRS 13 was applied prospectively from 1 October 2013 and the NZ Banking Group has not provided any comparative information for new disclosures. The application of NZ IFRS 13 in the current financial year has not had a material impact on the financial position nor performance of the NZ Banking Group, however has resulted in additional fair value disclosures provided in Note 27.

- NZ IAS 19 *Employee Benefits* ('**NZ IAS 19**')

  The amended standard has resulted in changes to the discount rate applied to the measurement of the NZ Banking Group's defined benefit superannuation obligation with retrospective application. The amended standard had no impact on NZ Branch.

  Adoption of the amendment has resulted in adjustments to comparative information as outlined below. The impact to the comparative consolidated income statements and consolidated statements of comprehensive income is not material and therefore these statements have not been restated. The adjustments outlined below reflect the changes in respect of the 30 September 2013 balance sheet.

	NZ Banking Group		
$ millions	Previously Reported 30-Sep-13	Increase/ (Decrease)	Restated 30-Sep-13
Balance sheet (extract)			
Deferred tax assets	159	(5)	154
Other liabilities	689	(18)	671
Retained profits	2,882	13	2,895

- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*)

  The amendments require additional disclosure of the effect or potential effect of netting arrangements on the NZ Banking Group's financial position. The amendment requires disclosure of recognised financial instruments that are subject to enforceable master netting agreements or similar arrangements, including associated cash and financial instrument collateral, even if assets and liabilities are not offset on the balance sheet.

  The retrospective application of the amendments has not affected any of the amounts recognised in the financial statements but has resulted in additional disclosure of certain netting arrangements as set out in Note 28.

1.4 Future accounting developments

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

NZ IFRS 9 was issued in September 2014. Unless early adopted as noted below, the standard will be effective for the 30 September 2019 financial year. The major changes under the standard are:

- the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* are replaced 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;
- an embedded derivative will not be separated 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;
- the portion of a change of fair value relating to the entity's own credit risk for financial liabilities designated at fair value is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, all changes in fair value (including the effects of changes in the credit risk) are recognised in profit or loss. The NZ Banking Group early adopted this amendment from 1 October 2013;
- hedge accounting is more closely aligned 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; and
- it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition, and, consequently, more timely information is provided about expected credit losses.

The IASB has a separate active project on accounting for macro hedging which it continues to work on.

NZ IFRS 9 will impact the classification and measurement of the NZ Banking Group's financial instruments and the amount of impairments recognised in the income statement when the remainder of the standard is adopted.

Note 1 Statement of accounting policies (continued)

NZ IFRS 15 *Revenue from Contracts with Customers* was issued in July 2014 and will be effective for the 30 September 2018 financial year. The standard provides a single comprehensive model for revenue recognition. It supersedes current recognition and related interpretations. The application of NZ IFRS 15 is not expected to have a material impact on the NZ Banking Group.

Offsetting Financial Assets and Financial Liabilities (Amendments to NZ IAS 32 *Financial Instruments: Presentation* (‘**NZ IAS 32**’)) was issued in February 2012 and will be effective to the NZ Banking Group for the 30 September 2015 financial year. The amendment provides application guidance to addressing inconsistencies applied to offsetting criteria provided in NZ IAS 32, including clarifying that the meaning of ‘current legal enforceable rights of set-off’ is legally enforceable in all circumstances and that some gross settlement systems (such as through a clearing house) may be considered as the equivalent to net settlement. The amendment is not expected to have a material impact on the NZ Banking Group.

1.5 Critical accounting estimates, judgments and assumptions

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

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.

Fair value is obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics. These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in Note 27, as well as the mechanism by which fair value has been derived.

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 date. Changes to the provisions are reported in the income statement as part of impairment charges on loans. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the NZ Banking Group to reduce any differences between loss estimates and actual loss experience.

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

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

(b) Collective component – this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan impairments that have been incurred but have not been separately identified at the balance date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence period. The emergence period for each loan product type is determined through detailed 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 customer spending, unemployment levels, payment behaviour and bankruptcy rates.

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

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 CGU to which the goodwill is allocated is compared to its recoverable amount. 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.

Goodwill was last tested for impairment as at 30 September 2014 and no impairment has been recognised in the income statement.

Note 1 Statement of accounting policies (continued)

Superannuation obligations

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

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

The carrying amount and the primary assumptions used in the calculation of superannuation defined benefit obligation are disclosed in Note 22 and Note 31.

Provisions (other than loan impairment losses)

Provisions are held in respect of a range of obligations such as employee entitlements, restructuring costs, litigation provisions, non-lending losses and onerous contracts, as disclosed in Note 21. Some of the provisions involve significant judgment about the likely outcome of various events and estimated future cash flows. Payments which 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.

Income taxes

The NZ Banking Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax outcome is unclear. Provisions for tax are held to reflect these uncertainties.

The NZ Banking Group estimates its tax liabilities based on the NZ Banking Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period when such determinations are made.

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

Net insurance policy assets from life insurance contracts

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

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

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

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

Securitisation and the consolidation of structured entities

The NZ Banking Group assesses at inception and periodically thereafter, whether an entity (particularly a structured entity) should be consolidated. The determination of control of structured entities will involve significant judgment as voting rights are often not the decisive factor in decisions over the relevant activities. Judgment may involve assessing the purpose and design of the entity, and consideration as to whether the NZ Banking Group, or another involved party with power over relevant activities, is acting as a principal in its own right or as an agent on behalf of others. Refer to Note 33 for further information regarding structured entities.

Note 2 Net interest income

$ millions	NZ Banking Group		NZ Branch	
	Year Ended 30-Sep-14	Year Ended 30-Sep-13	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13
Interest income				
Cash and balances with central banks	**40**	37	**-**	-
Due from other financial institutions	**5**	5	**1**	1
Trading securities	**145**	107	**72**	32
Available-for-sale securities	**117**	113	**-**	-
Loans[1]	**3,727**	3,538	**20**	19
Due from related entities[2]	**3**	1	**202**	224
Total interest income[3]	**4,037**	3,801	**295**	276
Interest expense				
Due to other financial institutions	**12**	9	**11**	9
Deposits	**1,588**	1,475	**-**	-
Trading liabilities	**11**	2	**11**	2
Debt issues	**369**	352	**-**	-
Subordinated debentures	**33**	34	**33**	34
Other[4]	**434**	351	**148**	39
Total interest expense[5]	**2,447**	2,223	**203**	84
Net interest income	**1,590**	1,578	**92**	192

1 Interest income on loans includes interest income of $28 million (30 September 2013: $43 million) for the NZ Banking Group and nil (30 September 2013: nil) for the NZ Branch on impaired assets.

2 Included in interest income – due from related entities for the year ended 30 September 2014 was interest income of $86 million (30 September 2013: $135 million) for the NZ Branch on related entity borrowings in relation to the transfer of additional banking operations (refer to Note 2 to the financial statements included in the Disclosure Statement for the year ended 30 September 2013).

3 Total interest income for financial assets that were not at fair value through profit or loss was $3,892 million (30 September 2013: $3,693 million) for the NZ Banking Group and $216 million (30 September 2013: $243 million) for the NZ Branch.

4 Includes interest expense due to related entities and the net impact of Treasury balance sheet management activities (refer to Note 25).

5 Total interest expense for financial liabilities that were not at fair value through profit or loss was $2,305 million (30 September 2013: $2,099 million) for the NZ Banking Group and $170 million (30 September 2013: $71 million) for the NZ Branch.

Note 3 Non-interest income

$ millions	NZ Banking Group		NZ Branch	
	Year Ended 30-Sep-14	Year Ended 30-Sep-13	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13
Fees and commissions				
Transaction fees and commissions	**226**	233	**13**	10
Lending fees (loan and risk)	**68**	66	**4**	4
Other non-risk fee income	**38**	35	**7**	6
Total fees and commissions	**332**	334	**24**	20
Wealth management revenue				
Fees from trust and other fiduciary activities	**34**	33	**-**	-
Net life insurance income and change in policy liabilities	**97**	82	**-**	-
Total wealth management revenue	**131**	115	**-**	-
Trading income				
Foreign exchange trading	**88**	86	**48**	77
Interest rate trading	**29**	39	**32**	38
Total trading income	**117**	125	**80**	115
Net ineffectiveness on qualifying hedges	**3**	(1)	**-**	(2)
Other non-interest income				
Net losses on derivatives held for risk management purposes[1]	**-**	(1)	**-**	(1)
Dividend income	**2**	2	**-**	-
Gain on sale of available-for-sale securities[2]	**88**	-	**-**	-
Other	**4**	11	**-**	1
Total other non-interest income	**94**	12	**-**	-
Total non-interest income	**677**	585	**104**	133

1 Net losses on derivatives held for risk management purposes reflects the impact of economic hedges where hedge accounting is not achieved.

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

Note 4 Operating expenses

$ millions	NZ Banking Group Year Ended 30-Sep-14	NZ Banking Group Year Ended 30-Sep-13	NZ Branch Year Ended 30-Sep-14	NZ Branch Year Ended 30-Sep-13
Salaries and other staff expenses				
Salaries and wages	**390**	400	**20**	22
Employee entitlements	**9**	11	**-**	-
Superannuation costs:				
Defined contribution scheme	**31**	30	**2**	2
Defined benefit scheme	**2**	-	**-**	-
Share-based payments	**5**	5	**1**	1
Restructuring costs	**2**	5	**-**	-
Other	**8**	9	**1**	-
Total salaries and other staff expenses	**447**	460	**24**	25
Equipment and occupancy expenses				
Operating lease rentals	**64**	66	**-**	1
Depreciation:				
Leasehold improvements	**17**	15	**-**	-
Furniture and equipment	**14**	12	**-**	-
Equipment repairs and maintenance	**10**	9	**-**	-
Electricity, water and rates	**2**	2	**-**	-
Other	**8**	9	**-**	-
Total equipment and occupancy expenses	**115**	113	**-**	1
Other expenses				
Software amortisation costs	**58**	36	**1**	1
Litigation and non-lending losses	**5**	2	**1**	-
Purchased services	**66**	70	**4**	6
Stationery	**13**	14	**-**	-
Postage and freight	**17**	19	**1**	1
Advertising	**23**	28	**-**	-
Training	**2**	3	**-**	-
Travel	**6**	7	**-**	-
Outsourcing	**92**	92	**2**	2
Related entities – management fees (refer to Note 25)	**7**	11	**8**	9
Other	**17**	22	**3**	2
Total other expenses	**306**	304	**20**	21
Total operating expenses	**868**	877	**44**	47

Note 5 Auditors' remuneration

$'000s	NZ Banking Group Year Ended 30-Sep-14	NZ Banking Group Year Ended 30-Sep-13	NZ Branch Year Ended 30-Sep-14	NZ Branch Year Ended 30-Sep-13
Auditor of the parent entity				
Audit and review of financial statements[1]	**2,098**	2,069	**725**	697
Other audit related work[2]	**97**	99	**-**	-
Total remuneration for audit and other audit related work	**2,195**	2,168	**725**	697
Other services[3]	**148**	260	**-**	-
Total remuneration for non-audit services	**148**	260	**-**	-
Total remuneration for audit, other audit related work and non-audit services	**2,343**	2,428	**725**	697

1 Fees for the annual audit of the financial statements and the review or other procedures performed on the interim financial statements and Sarbanes-Oxley reporting to the Overseas Banking Group 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.

Note 5 Auditors' remuneration (continued)

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

The external auditors also provide audit and non-audit services to non-consolidated entities, including non-consolidated trusts of which the NZ Banking Group is manager or responsible entity and non-consolidated superannuation funds or pension funds. During the year ended 30 September 2014, the fees in respect of these services were approximately $587,000 (30 September 2013: $613,000).

Note 6 Impairment charges on loans

	NZ Banking Group For the year ended 30 September 2014				NZ Branch For the year ended 30 September 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**
Collectively assessed provisions	**(2)**	**4**	**(27)**	**(25)**	**-**	**-**	**-**	**-**
Individually assessed provisions	**7**	**-**	**32**	**39**	**-**	**-**	**-**	**-**
Bad debts written off/(recovered) directly to the income statement	**2**	**38**	**(1)**	**39**	**-**	**-**	**-**	**-**
Interest adjustments	**(3)**	**(10)**	**(14)**	**(27)**	**-**	**-**	**-**	**-**
Total impairment charges/(recoveries) on loans	**4**	**32**	**(10)**	**26**	**-**	**-**	**-**	**-**

	NZ Banking Group For the year ended 30 September 2013				NZ Branch For the year ended 30 September 2013			
$ 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
Collectively assessed provisions	7	4	(23)	(12)	-	-	(2)	(2)
Individually assessed provisions	27	-	55	82	-	-	-	-
Bad debts written off directly to the income statement	3	39	21	63	-	-	-	-
Interest adjustments	(4)	(10)	(14)	(28)	-	-	-	-
Total impairment charges/(recoveries) on loans	33	33	39	105	-	-	(2)	(2)

Note 7 Income tax expense

	NZ Banking Group		NZ Branch	
$ millions	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13
Income tax expense				
Current tax:				
Current year	**325**	309	**43**	73
Prior year adjustments	**-**	(1)	**(1)**	(2)
Deferred tax (refer to Note 14):				
Current year	**30**	15	**(1)**	6
Prior year adjustments	**-**	4	**-**	2
Total income tax expense	**355**	327	**41**	79
Profit before income tax expense	**1,374**	1,182	**152**	280
Tax calculated at tax rate of 28%	**385**	331	**43**	78
Income not subject to tax	**(32)**	(8)	**-**	-
Expenses not deductible for tax purposes	**1**	-	**(1)**	1
Prior year adjustments	**-**	3	**(1)**	-
Other items	**1**	1	**-**	-
Total income tax expense	**355**	327	**41**	79

Note 8 Imputation credit account

	NZ Banking Group		NZ Branch	
$ millions	**2014**	2013	**2014**	2013
Imputation credits available for use in subsequent reporting periods	**1,204**	1,260	**563**	622

Note 9 Due from other financial institutions

	NZ Banking Group		NZ Branch	
$ millions	**2014**	2013	**2014**	2013
Loans and advances to other banks	**591**	173	**38**	-
Total due from other financial institutions	**591**	173	**38**	-
Due from other financial institutions:				
At call	**291**	4	**25**	-
Term	**300**	169	**13**	-
Total due from other financial institutions	**591**	173	**38**	-
Amounts expected to be recovered within 12 months	**591**	173	**38**	-
Amounts expected to be recovered after 12 months	**-**	-	**-**	-
Total due from other financial institutions	**591**	173	**38**	-

Note 10 Trading securities

	NZ Banking Group		NZ Branch	
$ millions	**2014**	2013	**2014**	2013
Certificates of deposit	**1,421**	2,314	**814**	1,422
Corporate bonds and asset backed securities	**455**	643	**183**	306
Mortgage-backed securities	**46**	3	**46**	3
NZ Government securities	**836**	480	**836**	479
Local authority securities	**379**	410	**42**	62
Off-shore securities	**-**	19	**-**	19
Securities purchased under agreement to resell	**377**	444	**377**	444
Total trading securities	**3,514**	4,313	**2,298**	2,735
Amounts expected to be recovered within 12 months	**3,233**	4,046	**2,298**	2,735
Amounts expected to be recovered after 12 months	**281**	267	**-**	-
Total trading securities	**3,514**	4,313	**2,298**	2,735

As at 30 September 2014, the NZ Banking Group and the NZ Branch had $377 million and $924 million (30 September 2013: $74 million and $534 million) of trading securities, respectively that were encumbered through repurchase agreements as part of standard terms of transactions with other banks.

Note 11 Available-for-sale securities

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
NZ Government securities	**1,975**	1,993	**-**	-
Local authority securities	**375**	109	**-**	-
NZ debt securities	**124**	80	**-**	-
NZ unlisted equity securities	**42**	-	**-**	-
Overseas debt securities	**494**	433	**-**	-
Overseas equity securities	**-**	100	**-**	-
Total available-for-sale securities	**3,010**	2,715	**-**	-
Amounts expected to be recovered within 12 months	**475**	165	**-**	-
Amounts expected to be recovered after 12 months	**2,535**	2,550	**-**	-
Total available-for-sale securities	**3,010**	2,715	**-**	-

As at 30 September 2014 $90 million of available-for-sale securities were pledged as collateral for the NZ Banking Group's liabilities (30 September 2013: nil).

Note 12 Loans

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Overdrafts	**1,153**	1,281	**-**	-
Credit card outstandings	**1,405**	1,352	**-**	-
Money market loans	**1,082**	997	**-**	-
Term loans:				
Housing	**39,705**	37,596	**-**	-
Non-housing	**21,146**	20,542	**-**	24
Other	**978**	821	**341**	323
Total gross loans	**65,469**	62,589	**341**	347
Provisions for impairment charges on loans	**(442)**	(552)	**-**	-
Total net loans	**65,027**	62,037	**341**	347
Amounts expected to be recovered within 12 months	**7,781**	8,008	**329**	294
Amounts expected to be recovered after 12 months	**57,246**	54,029	**12**	53
Total net loans	**65,027**	62,037	**341**	347

As at 30 September 2014, $4,002 million of housing loans are used by the NZ Banking Group to secure the obligations of Westpac Securities NZ Limited ('**WSNZL**') under Westpac New Zealand's Global Covered Bond Programme ('**CB Programme**') (30 September 2013: $4,172 million). These housing loans were not derecognised from Westpac New Zealand's balance sheet in accordance with the accounting polices outlined in Note 1. As at 30 September 2014, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $3,360 million (30 September 2013: $2,152 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

	NZ Banking Group 2014				NZ Branch 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	**38,528**	**1,819**	**23,219**	**63,566**	**-**	**-**	**341**	**341**
Past due assets								
Less than 30 days past due	924	104	222	1,250	-	-	-	-
At least 30 days but less than 60 days past due	100	21	29	150	-	-	-	-
At least 60 days but less than 90 days past due	46	9	12	67	-	-	-	-
At least 90 days past due	50	15	25	90	-	-	-	-
Total past due assets[1]	**1,120**	**149**	**288**	**1,557**	**-**	**-**	**-**	**-**
Individually impaired assets[2]								
Balance at beginning of the year	93	-	480	573	-	-	-	-
Additions	78	-	141	219	-	-	-	-
Amounts written off	(18)	-	(125)	(143)	-	-	-	-
Returned to performing or repaid	(96)	-	(207)	(303)	-	-	-	-
Balance at end of the year	**57**	**-**	**289**	**346**	**-**	**-**	**-**	**-**
Total gross loans[3]	**39,705**	**1,968**	**23,796**	**65,469**	**-**	**-**	**341**	**341**
Individually assessed provisions								
Balance at beginning of the year	30	-	203	233	-	-	-	-
Impairment charges on loans:								
New provisions	23	-	73	96	-	-	-	-
Recoveries	(7)	-	(7)	(14)	-	-	-	-
Reversal of previously recognised impairment charges on loans	(9)	-	(34)	(43)	-	-	-	-
Amounts written off	(18)	-	(112)	(130)	-	-	-	-
Interest adjustments	-	-	2	2	-	-	-	-
Balance at end of the year	**19**	**-**	**125**	**144**	**-**	**-**	**-**	**-**
Collectively assessed provisions								
Balance at beginning of the year	68	67	219	354	-	-	-	-
Impairment charges on loans	(2)	4	(27)	(25)	-	-	-	-
Balance at end of the year	**66**	**71**	**192**	**329**	**-**	**-**	**-**	**-**
Total provisions for impairment charges on loans and credit commitments	85	71	317	473	-	-	-	-
Provision for credit commitments (refer to Note 21)	-	-	(31)	(31)	-	-	-	-
Total provisions for impairment charges on loans	**85**	**71**	**286**	**442**	**-**	**-**	**-**	**-**
Total net loans	**39,620**	**1,897**	**23,510**	**65,027**	**-**	**-**	**341**	**341**

1 Past due assets are not impaired assets.

2 The NZ Banking Group had undrawn commitments of $56 million to counterparties for whom drawn balances are classified as individually impaired assets under loans for business purposes as at 30 September 2014. The NZ Branch had no undrawn commitments to counterparties for whom drawn balances are classified as individually impaired assets under loans for business purposes as at 30 September 2014.

3 The NZ Branch and NZ Banking Group did not have other assets under administration as at 30 September 2014.

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

$ millions	NZ Banking Group 2013				NZ Branch 2013			
	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	36,405	1,717	22,355	60,477	-	-	347	347
Past due assets								
Less than 30 days past due	916	108	217	1,241	-	-	-	-
At least 30 days but less than 60 days past due	90	20	5	115	-	-	-	-
At least 60 days but less than 90 days past due	42	10	2	54	-	-	-	-
At least 90 days past due	50	15	64	129	-	-	-	-
Total past due assets[1]	1,098	153	288	1,539	-	-	-	-
Individually impaired assets[2]								
Balance at beginning of the year	124	-	744	868	-	-	1	1
Additions	154	-	215	369	-	-	-	-
Amounts written off	(35)	-	(96)	(131)	-	-	(1)	(1)
Returned to performing or repaid	(150)	-	(383)	(533)	-	-	-	-
Balance at end of the year	93	-	480	573	-	-	-	-
Total gross loans[3]	37,596	1,870	23,123	62,589	-	-	347	347
Individually assessed provisions								
Balance at beginning of the year	38	-	239	277	-	-	-	-
Impairment charges on loans:								
New provisions	50	-	107	157	-	-	-	-
Recoveries	(13)	-	(4)	(17)	-	-	-	-
Reversal of previously recognised impairment charges on loans	(10)	-	(48)	(58)	-	-	-	-
Amounts written off	(35)	-	(96)	(131)	-	-	-	-
Interest adjustments	-	-	5	5	-	-	-	-
Balance at end of the year	30	-	203	233	-	-	-	-
Collectively assessed provisions								
Balance at beginning of the year	61	63	242	366	-	-	2	2
Impairment charges on loans	7	4	(23)	(12)	-	-	(2)	(2)
Balance at end of the year	68	67	219	354	-	-	-	-
Total provisions for impairment charges on loans and credit commitments	98	67	422	587	-	-	-	-
Provision for credit commitments (refer to Note 21)	-	-	(35)	(35)	-	-	-	-
Total provisions for impairment charges on loans	98	67	387	552	-	-	-	-
Total net loans	37,498	1,803	22,736	62,037	-	-	347	347

1 Past due assets are not impaired assets.

2 The NZ Banking Group had undrawn commitments of $27 million to counterparties for whom drawn balances are classified as individually impaired assets under loans for business purposes as at 30 September 2013. The NZ Branch had no undrawn commitments to counterparties for whom drawn balances are classified as individually impaired assets under loans for business purposes as at 30 September 2013.

3 The NZ Branch and NZ Banking Group did not have other assets under administration as at 30 September 2013.

Note 14 Deferred tax assets

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Deferred tax assets are attributable to the following:				
Property, plant and equipment	**2**	9	**(1)**	-
Provisions for impairment charges on loans	**132**	165	**-**	-
Provision for employee entitlements	**12**	12	**-**	-
Life insurance policy liabilities	**(23)**	(18)	**-**	-
Cash flow hedges	**(4)**	(5)	**-**	-
Other temporary differences	**1**	(9)	**4**	2
Balance at end of the year	**120**	154	**3**	2
To be recovered within 12 months	**96**	121	**(1)**	-
To be recovered after 12 months	**24**	33	**4**	2
Balance at end of the year	**120**	154	**3**	2
The deferred tax (charge)/credit in income tax expense comprises the following temporary differences:				
Property, plant and equipment	**(7)**	(3)	**(1)**	(2)
Provisions for impairment charges on loans	**(33)**	(16)	**-**	(1)
Provision for employee entitlements	**1**	(2)	**-**	(1)
Life insurance policy liabilities	**(5)**	2	**-**	-
Other temporary differences	**14**	-	**2**	(4)
Total deferred tax (charge)/credit	**(30)**	(19)	**1**	(8)
Other	**-**	(2)	**-**	-
Total deferred tax charge – other	**-**	(2)	**-**	-
The deferred tax charge in other comprehensive income comprises the following temporary differences:				
Cash flow hedges	**1**	(18)	**-**	-
Provision for employee entitlements	**(1)**	(11)	**-**	-
Other temporary differences	**(4)**	-	**-**	-
Total deferred tax charge in other comprehensive income	**(4)**	(29)	**-**	-

As at 30 September 2014, the aggregate temporary difference associated with investments in subsidiaries for which deferred tax liabilities have not been recognised was nil (30 September 2013: nil).

Note 15 Goodwill and other intangible assets

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Goodwill				
Cost	**547**	547	**-**	-
Accumulated impairment	**(22)**	(22)	**-**	-
Net carrying amount of goodwill	**525**	525	**-**	-
Computer software				
Cost	**545**	486	**7**	7
Accumulated amortisation and impairment	**(355)**	(297)	**(2)**	(2)
Net carrying amount of computer software	**190**	189	**5**	5
Total goodwill and other intangible assets	**715**	714	**5**	5

Goodwill is allocated to and tested at least annually for impairment as a part of identified Cash Generating Units ('**CGUs**').

The recoverable amount of the CGU is determined based on the NZ Banking Group's projections of future pre-tax cash flows discounted by the NZ Banking Group's after tax return on equity rate of 11.0% (30 September 2013: 11.0%), adjusted to a pre-tax rate of 15.3% (30 September 2013: 15.3%). All future cash flows are based on approved two year forecasts. All cash flows beyond the two-year 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, which are considered appropriate as they are consistent with observable historical information and current market expectations of the future. The forecasts applied by management are not reliant on any one particular assumption and no impairment would arise even if zero growth is achieved over the two year forecast period.

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

Goodwill has been allocated to the following CGUs, which are equal to the operating segments of the same names as described in Note 30:

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Retail banking	**512**	512	**-**	-
Business Bank and Wealth	**13**	13	**-**	-
Net carrying amount of goodwill	**525**	525	**-**	-

Note 16 Other assets

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Accrued interest receivable	**168**	145	**14**	5
Securities sold not yet delivered	**40**	175	**40**	162
Trade debtors and prepayments	**29**	24	**1**	2
Other	**64**	53	**13**	8
Total other assets	**301**	397	**68**	177
Amounts expected to be recovered within 12 months	**301**	397	**68**	177
Amounts expected to be recovered after 12 months	**-**	-	**-**	-
Total other assets	**301**	397	**68**	177

Included in accrued interest receivable of the NZ Banking Group were balances that amounted to $6 million (30 September 2013: $6 million) which related to accrued interest on housing loans sold to a special purpose entity under the CB Programme (refer to Note 25 for details of the CB Programme).

Note 17 Due to other financial institutions

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Interest bearing interbank deposits	**1,116**	327	**916**	227
Non-interest bearing, repayable at call	**25**	8	**24**	8
Total due to other financial institutions	**1,141**	335	**940**	235
Due to other financial institutions:				
At call	**250**	221	**249**	221
Term	**891**	114	**691**	14
Total due to other financial institutions	**1,141**	335	**940**	235
Amounts expected to be settled within 12 months	**1,141**	335	**940**	235
Amounts expected to be settled after 12 months	**-**	-	**-**	-
Total due to other financial institutions	**1,141**	335	**940**	235

Note 18 Deposits

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Deposits at fair value				
Certificates of deposit	**1,154**	1,534	**-**	-
Total deposits at fair value	**1,154**	1,534	**-**	-
Deposits at amortised cost				
Non-interest bearing, repayable at call	**3,607**	3,271	**-**	-
Other interest bearing:				
At call	**20,620**	18,488	**-**	-
Term	**25,189**	24,889	**-**	-
Total deposits at amortised cost	**49,416**	46,648	**-**	-
Total deposits	**50,570**	48,182	**-**	-
Amounts expected to be settled within 12 months	**48,585**	46,670	**-**	-
Amounts expected to be settled after 12 months	**1,985**	1,512	**-**	-
Total deposits	**50,570**	48,182	**-**	-

The NZ Branch held no retail deposits from individuals as at 30 September 2014 (30 September 2013: nil).

Note 19 Trading liabilities

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Held for trading				
Securities sold short	**605**	424	**605**	424
Securities sold under agreements to repurchase	**467**	74	**377**	74
Total trading liabilities	**1,072**	498	**982**	498
Amounts expected to be settled within 12 months	**1,072**	498	**982**	498
Amounts expected to be settled after 12 months	**-**	-	**-**	-
Total trading liabilities	**1,072**	498	**982**	498

Note 20 Debt issues

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Short-term debt				
Commercial paper	**3,019**	2,776	**-**	-
Total short-term debt	**3,019**	2,776	**-**	-
Long-term debt				
Non-domestic medium-term notes	**3,063**	2,976	**-**	-
Covered Bonds	**3,360**	2,152	**-**	-
Domestic medium-term notes	**3,150**	3,741	**-**	-
Total long-term debt	**9,573**	8,869	**-**	-
Total debt issues	**12,592**	11,645	**-**	-
Debt issues at amortised cost	**9,573**	8,869	**-**	-
Debt issues at fair value	**3,019**	2,776	**-**	-
Total debt issues	**12,592**	11,645	**-**	-
Movement in debt issues				
Balance at beginning of the year	**11,645**	12,914	**-**	-
Issuance during the year	**10,023**	7,641	**-**	-
Repayments during the year	**(9,287)**	(9,094)	**-**	-
Effect of foreign exchange movements during the year	**218**	277	**-**	-
Effect of fair value movements and amortisation adjustments during the year	**(7)**	(93)	**-**	-
Balance at end of the year	**12,592**	11,645	**-**	-
Amounts expected to be settled within 12 months	**4,716**	5,067	**-**	-
Amounts expected to be settled after 12 months	**7,876**	6,578	**-**	-
Total debt issues	**12,592**	11,645	**-**	-

As at 30 September 2014, the NZ Banking Group had no New Zealand Government guaranteed debt on issue (30 September 2013: $1,881 million).

Note 21 Provisions

$ millions	Long Service Leave	Annual Leave and Other Employee Benefits	Litigation and Non-lending Losses	Impairment on Credit Commitments	Total
NZ Banking Group					
For the year ended 30 September 2014					
Balance as at 1 October 2013	**7**	**44**	**1**	**35**	**87**
Additional provisions recognised	**1**	**32**	**10**	**-**	**43**
Utilised during the year	**(1)**	**(35)**	**(3)**	**(4)**	**(43)**
Balance as at 30 September 2014	**7**	**41**	**8**	**31**	**87**
For the year ended 30 September 2013					
Balance as at 1 October 2012	7	51	2	36	96
Additional provisions recognised	1	33	2	-	36
Utilised during the year	(1)	(40)	(3)	(1)	(45)
Balance as at 30 September 2013	7	44	1	35	87

$ millions	Long Service Leave	Annual Leave and Other Employee Benefits	Litigation and Non-lending Losses	Impairment on Credit Commitments	Total
NZ Branch					
For the year ended 30 September 2014					
Balance as at 1 October 2013	**1**	**8**	**-**	**-**	**9**
Additional provisions recognised	**-**	**5**	**2**	**-**	**7**
Utilised during the year	**-**	**(6)**	**-**	**-**	**(6)**
Balance as at 30 September 2014	**1**	**7**	**2**	**-**	**10**
For the year ended 30 September 2013					
Balance as at 1 October 2012	1	9	-	1	11
Additional provisions recognised	-	7	-	-	7
Utilised during the year	-	(8)	-	(1)	(9)
Balance as at 30 September 2013	1	8	-	-	9

Note 21 Provisions (continued)

Provisions represent costs the NZ Banking Group and the NZ Branch expect to incur as a result of past events, where the timing of payment is uncertain. Provisions expected to be utilised beyond 12 months as at 30 September 2014 are $38 million (30 September 2013: $42 million) for the NZ Banking Group and $1 million for the NZ Branch (30 September 2013: $1 million).

Note 22 Other liabilities

	NZ Banking Group		NZ Branch	
$ millions	**2014**	2013	**2014**	2013
Accrued interest payable	**347**	341	**13**	7
Securities purchased but not yet delivered	**123**	107	**10**	107
Claims reserves	**16**	17	**-**	-
Credit card loyalty programme	**31**	28	**-**	-
Retirement benefit obligations (refer to Note 31)	**11**	14	**-**	-
Trade creditors and other accrued expenses	**73**	70	**2**	1
Other	**96**	94	**1**	6
Total other liabilities	**697**	671	**26**	121
Amounts expected to be settled within 12 months	**686**	657	**26**	121
Amounts expected to be settled after 12 months	**11**	14	**-**	-
Total other liabilities	**697**	671	**26**	121

Note 23 Subordinated debentures

	NZ Banking Group		NZ Branch	
$ millions	**2014**	2013	**2014**	2013
Subordinated debentures	**710**	693	**710**	693

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

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

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

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

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

Note 24 Convertible debentures

On 13 August 2003, the NZ Branch issued $1,284 million (net of issue costs) of junior subordinated convertible debentures to the trustee of the Tavarua Funding Trust III (‘**Funding Trust III**’), being a member of the Overseas Banking Group. The investment by Funding Trust III in the convertible debentures was ultimately funded by the proceeds of approximately US$750 million of Trust Preferred Securities issued by the Overseas Banking Group in the United States of America.

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

Following NZ Branch’s election to redeem the convertible debentures on 30 September 2013, the convertible debentures, and ultimately the Trust Preferred Securities, were redeemed at par on this date. The difference between the carrying value and the par value at the time of redemption was recognised in retained profits.

Note 25 Related entities

NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of the Overseas Banking Group including the NZ Branch and the following controlled entities as at 30 September 2014 whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business:

Name of Entity	Principal Activity	Notes
BT Financial Group (NZ) Limited	Holding company	
BT Funds Management (NZ) Limited	Funds management company	
Capital Finance New Zealand Limited	Finance company	Acquired on 31 December 2013[1]
Sie-Lease (New Zealand) Pty Limited	Leasing company	Acquired on 31 December 2013[1]
Hastings Forestry Investments Limited	Non-active company	
Westpac Financial Services Group-NZ-Limited	Holding company	
Westpac Life-NZ- Limited	Life insurance company	
Westpac Nominees-NZ-Limited	Nominee company	
HLT Custodian Trust	Custodian entity	
MIF Custodian Trust	Custodian entity	
Westpac Superannuation Nominees-NZ-Limited	Nominee company	
Westpac Group Investment-NZ-Limited	Holding company	
Westpac Holdings-NZ-Limited	Holding company	
Westpac Capital-NZ-Limited	Finance company	
Westpac Equity Investments NZ Limited	Non-active company	
Westpac New Zealand Group Limited	Holding company	
Westpac New Zealand Limited	Registered bank	
Westpac NZ Operations Limited[2]	Holding company	
Aotearoa Financial Services Limited	Non-active company	
Number 120 Limited	Finance company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51% owned
Westpac (NZ) Investments Limited	Property company	
Westpac Securities NZ Limited	Funding company	
Westpac NZ Covered Bond Holdings Limited	Holding company	19% owned[3]
Westpac NZ Covered Bond Limited	Guarantor	19% owned[3]
Westpac NZ Securitisation Holdings Limited	Holding company	19% owned[4]
Westpac NZ Securitisation Limited	Funding company	19% owned[4]
Westpac NZ Securitisation No.2 Limited	Non-active company	19% owned – Established 2 November 2012[4]
Westpac Cash PIE Fund	Portfolio investment entity	Not owned – Established 14 November 2012[5]
Westpac Term PIE Fund	Portfolio investment entity	Not owned[5]

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

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

3 The NZ Banking Group, through its subsidiaries, WNZO (9.5%) and Westpac Holdings-NZ-Limited (9.5%), has a total qualifying interest of 19% in Westpac NZ Covered Bond Holdings Limited ('**WNZCBHL**') and its wholly-owned subsidiary company, Westpac NZ Covered Bond Limited ('**WNZCBL**'). Westpac New Zealand is considered to control both WNZCBHL and WNZCBL based on contractual arrangements put in place, and as such both WNZCBHL and WNZCBL are consolidated within the financial statements of the NZ Banking Group.

4 The NZ Banking Group, through its subsidiaries, WNZO (9.5%) and Westpac Holdings-NZ-Limited (9.5%), has a total qualifying interest of 19% in Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiaries, Westpac NZ Securitisation Limited ('**WNZSL**') and Westpac NZ Securitisation No.2 Limited ('**WNZSL2**'). Westpac New Zealand is considered to control WNZSHL, WNZSL and WNZSL2 based on contractual arrangements put in place, and as such WNZSHL, WNZSL and WNZSL2 are consolidated within the financial statements of the NZ Banking Group.

5 Westpac Term PIE Fund ('**Term PIE**') and Westpac Cash PIE Fund ('**Cash PIE**') were established as unit trusts under the Unit Trusts Act 1960. Term PIE and Cash PIE are Portfolio Investment Entities ('**PIE**'), where BT Funds Management (NZ) Limited ('**BTNZ**') is the manager and issuer. The manager has appointed Westpac New Zealand to perform all customer management and account administration for Term PIE and Cash PIE. Westpac New Zealand is the Term PIE and Cash PIE's registrar and administration manager. Westpac New Zealand does not hold any units in Term PIE or Cash PIE however is considered to control them based on contractual arrangements put in place, and as such these funds are consolidated in the financial statements of the NZ Banking Group.

All entities in the NZ Banking Group are 100% owned unless otherwise stated. All entities within the NZ Banking Group have a reporting date of 30 September except Term PIE and Cash PIE which have a reporting date of 31 March. All entities within the NZ Banking Group are incorporated and domiciled in New Zealand.

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

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

Note 25 Related entities (continued)

Investment in associate

Westpac New Zealand holds 18.8% (30 September 2013: 18.8%) of Cards NZ Limited's equity which includes one Visa Inc access preference share issued by Cards NZ Limited. Cards NZ Limited has a balance date of 30 September.

The NZ Banking Group has on issue a promissory note to Cards NZ Limited in relation to the purchase of Visa Inc shares. The promissory note bears interest at market rates and will be defeased through an in-kind distribution upon liquidation of Cards NZ Limited.

Nature of transactions

The NZ Banking Group has transactions with members of the Overseas Banking Group on commercial terms, including the provision of management and administrative services and data processing facilities. Such transactions are not considered to be material either individually or in aggregate.

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

Transactions with the Overseas Bank

Management fees are paid by the NZ Branch and Westpac New Zealand to the Overseas Bank for management and administration services (consisting of salaries and other head office expenses) provided by the Overseas Bank. The total fees paid to the Overseas Bank by the NZ Branch and Westpac New Zealand for the year ended 30 September 2014 were $5 million and $2 million, respectively (30 September 2013: $8 million and $3 million, respectively).

The Overseas Bank provides funding to the NZ Branch.

The NZ Banking Group receives funding from the London branch of the Overseas Bank on an as needs basis.

In September 2014, Westpac New Zealand Group Limited ('**WNZGL**') repaid the remaining $930 million of intercompany borrowings to the London branch of the Overseas Bank (30 September 2013: $1,139 million).

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

Transactions with controlled entities of the NZ Banking Group

The NZ Branch provides financial market services, foreign currency, trade and interest rate risk products to the customers of Westpac New Zealand. Westpac New Zealand receives commission from these sales. Commission received for the year ended 30 September 2014 was $46 million (30 September 2013: $11 million).

Management fees are paid by the NZ Branch for certain operating costs incurred by Westpac New Zealand. Management fees paid to Westpac New Zealand for the year ended 30 September 2014 were $3 million (30 September 2013: $1 million).

The NZ Branch provides loans to members of the NZ Banking Group.

During 2013, Westpac New Zealand repaid $970 million of the perpetual subordinated notes issued to WNZGL. These funds were used by WNZGL to partly repay the intercompany loan provided by the NZ Branch.

On 22 May 2014, Westpac New Zealand repurchased 450 million ordinary shares from its immediate parent company, WNZGL.

In September 2014, the NZ Branch provided $589 million (30 September 2013: $1,121 million) of intercompany loans to WNZGL in order to fund WNZGL's repayment of the intercompany borrowings to the London branch of the Overseas Bank (discussed above).

In September 2013, Westpac New Zealand repaid $1.0 billion of the $3.1 billion funding provided by the NZ Branch to finance Westpac New Zealand's acquisition of business activities transferred to it by the NZ Branch (refer to Note 2 to the financial statements included in the Disclosure Statement for the year ended 30 September 2013). The remaining loan's term was also extended and the margin was adjusted at that date. The proceeds of the repayment were used by the NZ Branch to fund the redemption of convertible debentures which also occurred in September 2013 (refer to Note 24).

The NZ Branch and other entities within the NZ Banking Group provide banking facilities to funds managed by the NZ Banking Group on normal commercial terms.

In October 2008, WNZSL was set up as part of Westpac New Zealand's internal mortgage-backed securitisation programme. Under this programme Westpac New Zealand sold the rights, but not the obligations of a pool of housing loans to WNZSL (refer to Note 33). The purchase was funded by WNZSL's issuance of residential mortgage-backed securities ('**RMBS**'). The housing loans were not derecognised from Westpac New Zealand's financial statements in accordance with the accounting polices outlined in Note 1. Accordingly, an equivalent amount of liabilities associated with the transferred rights of the pool of housing loans is recognised (in the form of a 'deemed loan' from WNZSL). The RMBS and the liability to WNZSL are fully eliminated in the NZ Banking Group's financial statements. Refer to Note 29 for a description of the NZ Banking Group's obligation to repurchase the rights on the pool of housing loans sold to WNZSL.

WNZCBL is a special purpose entity established to purchase from time to time, and hold the rights, but not the obligations of a pool of housing loans ('**cover pool**') and to provide a financial guarantee (in addition to that of Westpac New Zealand) in respect of obligations under the covered bonds issued from time to time by Westpac Securities NZ Limited ('**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 $4,500 million as at 30 September 2014 (30 September 2013: $4,500 million). The housing loans purchased by WNZCBL were not derecognised from Westpac New Zealand's financial statements (and therefore, Westpac New Zealand and the NZ Banking Group records these housing loans) in accordance with the accounting policies outlined in Note 1. For this reason, Westpac New Zealand recognises a liability owed to WNZCBL (in the form of a 'deemed loan' from WNZCBL) of an amount equivalent to the sum of the value of the housing loans, cash and unpaid accrued interest arising from, and in respect of, the housing loans and the asset performance fee, and is included in Westpac New Zealand's 'Due to related entities'. The intercompany loan made by Westpac New Zealand to WNZCBL to fund the initial purchase (and subsequent further purchases which increased the cover pool) is included in Westpac New Zealand's 'Due from related entities'.

Note 25 Related entities (continued)

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 2014, the assets of WNZCBL were $4,520 million (30 September 2013: $4,516 million), comprising housing loans, accrued interest and cash.

Refer to Note 12 and Note 16 for the amounts of housing loans and accrued interest receivable, respectively, relating to the assets securing the obligations of WSNZL under the CB Programme. Refer to Note 29 for a description of the NZ Banking Group's obligation to repurchase housing loans sold to WNZCBL.

Pursuant to the terms of the CB Programme, any cash collected by Westpac New Zealand in respect of the cover pool is held on trust for WNZCBL until such time as the monies are paid to WNZCBL. As at 30 September 2014, Westpac New Zealand held $87 million on trust for WNZCBL (30 September 2013: $94 million).

All loans sold by Westpac New Zealand to WNZSL and WNZCBL are legally owned by WNZSL and WNZCBL, respectively, and therefore Westpac New Zealand does not have any right to sell or grant security over those loans.

Transactions with associates

In 2008, the NZ Banking Group purchased Visa Inc shares from Cards NZ Limited at fair value totalling $48 million. The purchase was satisfied through the issue of an interest bearing promissory note. $1 million interest was paid on the promissory note during the year ended 30 September 2014 (30 September 2013: $1 million).

Transactions with other controlled entities of the Overseas Bank

The NZ Branch enters into derivative transactions with other members of the Overseas Banking Group, including the NZ Banking Group, in the normal course of business. Management systems and operational controls are in place in order 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.

During 2014, Westpac Group Investment-NZ-Limited paid a dividend of $185 million (30 September 2013: $303 million) to Westpac Overseas Holdings Pty Limited and Westpac Custodian Nominees Limited.

During 2014, Westpac Financial Services Group-NZ-Limited paid a dividend of $63 million to its new Australian parent entity, Westpac Equity Holdings Proprietary Limited (30 September 2013: $20 million paid to its former Australian parent entity, Westpac Financial Services Group Limited).

Due from and to related entities

	NZ Banking Group		NZ Branch	
$ millions	**2014**	2013	**2014**	2013
Due from related entities				
Overseas Bank	**1,767**	1,036	**1,767**	1,036
Controlled entities of the NZ Banking Group	**-**	-	**6,846**	6,618
Other controlled entities of the Overseas Bank	**3**	-	**1**	-
Total due from related entities	**1,770**	1,036	**8,614**	7,654
Due from related entities at amortised cost	**165**	25	**6,366**	5,991
Due from related entities at fair value	**1,605**	1,011	**2,248**	1,663
Total due from related entities	**1,770**	1,036	**8,614**	7,654
Amounts expected to be recovered within 12 months	**1,316**	1,036	**4,373**	2,591
Amounts expected to be recovered after 12 months	**454**	-	**4,241**	5,063
Total due from related entities	**1,770**	1,036	**8,614**	7,654
Due to related entities				
Overseas Bank	**5,098**	6,784	**5,087**	5,839
Controlled entities of the NZ Banking Group	**-**	-	**2,047**	1,944
Other controlled entities of the Overseas Bank	**11**	4	**5**	4
Associates of the NZ Banking Group	**48**	48	**-**	-
Total due to related entities	**5,157**	6,836	**7,139**	7,787
Due to related entities at amortised cost	**3,741**	5,652	**4,734**	6,008
Due to related entities at fair value	**1,416**	1,184	**2,405**	1,779
Total due to related entities	**5,157**	6,836	**7,139**	7,787
Amounts expected to be settled within 12 months	**4,097**	5,005	**6,073**	6,859
Amounts expected to be settled after 12 months	**1,060**	1,831	**1,066**	928
Total due to related entities	**5,157**	6,836	**7,139**	7,787
Total liabilities excluding subordinated debentures and due to related entities	**70,312**	65,228	**5,899**	4,498

Note 25 Related entities (continued)

Other group investments

The NZ Banking Group had significant non-controlling shareholdings in the following New Zealand based entities as at 30 September 2014:

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%	Payments Rules

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

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

Other transactions with related entities

In 2012, BTNZ, amongst other management activities, purchased a bond from a fund that it managed for its book value of $13 million at the date of purchase. This bond was included within other assets and was written off in 2013 with a loss of $10 million included in Other expenses-other within Operating expenses for the year ended 30 September 2013.

Note 26 Derivative financial instruments

Derivative contracts include forwards, futures, swaps and options, all of which are bilateral contracts or payment exchange agreements whose values are derived from the value of an underlying asset, reference rate or index. Derivatives are flexible and cost-effective tools for assisting in the management of interest rate and exchange rate risks.

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

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

Trading

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

Hedging

The NZ Banking Group enters into derivative transactions that are designated and qualify as either fair value hedges or cash flow hedges for recognised assets and liabilities or forecast transactions. It also enters into derivative transactions that provide economic hedges for risk exposures, but do not meet the requirements for hedge accounting treatment.

Fair value hedges

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

For the NZ Banking Group, the change in the fair value of hedging instruments designated as fair value hedges for the year ended 30 September 2014 was a $43 million loss (30 September 2013: $49 million loss) while the change in the fair value of the hedged items attributed to the hedge risk for the year ended 30 September 2014 was a $45 million gain (30 September 2013: $48 million gain).

For the NZ Branch, the change in the fair value of hedging instruments designated as fair value hedges for the year ended 30 September 2014 was a $22 million loss (30 September 2013: $27 million loss) while the change in the fair value of the hedged items attributed to the hedge risk for the year ended 30 September 2014 was a $22 million gain (30 September 2013: $25 million gain).

Note 26 Derivative financial instruments (continued)

Cash flow hedges

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

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

	NZ Banking Group 2014							
%	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 2 Years	2 Years to 3 Years	3 Years to 4 Years	4 Years to 5 Years	Over 5 Years
Cash inflows (assets)	2	4	33	17	41	3	-	-
Cash outflows (liabilities)	2	4	33	18	40	3	-	-

	NZ Banking Group 2013							
%	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 2 Years	2 Years to 3 Years	3 Years to 4 Years	4 Years to 5 Years	Over 5 Years
Cash inflows (assets)	2	3	19	55	9	7	4	1
Cash outflows (liabilities)	3	2	23	53	8	6	4	1

For the year ended 30 September 2014, the hedge ineffectiveness recognised in relation to cash flow hedges was a $1 million gain (30 September 2013: nil) in the NZ Banking Group.

Dual fair value and cash flow hedges

Fixed rate foreign currency denominated medium-term debt and covered bonds are hedged using cross-currency swaps, designated as fair value hedges of foreign interest rates and cash flow hedges of foreign exchange rates.

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

	NZ Banking Group 2014		
$ millions	Notional	Fair Value Asset	Fair Value (Liability)
Held for trading derivatives			
Interest rate derivatives			
Futures[1]	6,813	-	-
Forwards	2,772	1	-
Swaps	302,896	2,131	(1,938)
Options	209	-	(1)
Foreign exchange derivatives			
Forwards	31,454	840	(619)
Swaps	28,710	1,037	(1,025)
Total held for trading derivatives[3]	372,854	4,009	(3,583)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	5,982	43	(102)
Foreign exchange derivatives			
Swaps[2]	5,530	78	(361)
Total fair value hedging derivatives	11,512	121	(463)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	18,487	50	(66)
Foreign exchange derivatives			
Swaps	1,412	-	(11)
Total cash flow hedging derivatives	19,899	50	(77)
Total derivatives[3]	404,265	4,180	(4,123)
Amounts expected to be settled within 12 months		3,742	(3,288)
Amounts expected to be settled after 12 months		438	(835)
Total derivatives		4,180	(4,123)

1 The fair value of futures contracts are settled daily with the exchange. The notional balance represents open contracts as at 30 September 2014.
2 Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.
3 Excludes derivatives with related entities.

Note 26 Derivative financial instruments (continued)

$ millions	Notional	NZ Banking Group 2013 Fair Value Asset	Fair Value (Liability)
Held for trading derivatives			
Interest rate derivatives			
Futures[1]	4,610	-	-
Forwards	1,572	-	(14)
Swaps	192,472	2,540	(2,277)
Options	3,019	3	(4)
Foreign exchange derivatives			
Forwards	17,957	246	(376)
Swaps	20,431	730	(586)
Total held for trading derivatives[3]	240,061	3,519	(3,257)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	6,021	92	(120)
Foreign exchange derivatives			
Swaps[2]	3,959	9	(370)
Total fair value hedging derivatives	9,980	101	(490)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	10,706	41	(31)
Foreign exchange derivatives			
Swaps	434	-	(8)
Total cash flow hedging derivatives	11,140	41	(39)
Total derivatives[3]	261,181	3,661	(3,786)
Amounts expected to be settled within 12 months		3,182	(3,269)
Amounts expected to be settled after 12 months		479	(517)
Total derivatives		3,661	(3,786)

1 The fair value of futures contracts are settled daily with the exchange. The notional balance represents open contracts as at 30 September 2013.
2 Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.
3 Excludes derivatives with related entities.

$ millions	**Notional**	**NZ Branch 2014 Fair Value Asset**	**Fair Value (Liability)**
Held for trading derivatives			
Interest rate derivatives			
Futures[1]	**6,813**	**-**	**-**
Forwards	**2,772**	**1**	**-**
Swaps	**323,617**	**2,180**	**(2,010)**
Options	**209**	**-**	**(1)**
Foreign exchange derivatives			
Forwards	**31,454**	**840**	**(619)**
Swaps	**30,407**	**1,047**	**(1,187)**
Total held for trading derivatives[2]	**395,272**	**4,068**	**(3,817)**
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	**672**	**39**	**-**
Foreign exchange derivatives			
Swaps	**672**	**-**	**(120)**
Total fair value hedging derivatives	**1,344**	**39**	**(120)**
Total derivatives[2]	**396,616**	**4,107**	**(3,937)**
Amounts expected to be settled within 12 months		**3,742**	**(3,272)**
Amounts expected to be settled after 12 months		**365**	**(665)**
Total derivatives		**4,107**	**(3,937)**

1 The fair value of futures contracts are settled daily with the exchange. The notional balance represents open contracts as at 30 September 2014.
2 Excludes derivatives with related entities.

Note 26 Derivative financial instruments (continued)

	NZ Branch		
	2013		
$ millions	Notional	Fair Value Asset	Fair Value (Liability)
Held for trading derivatives			
Interest rate derivatives			
Futures[1]	4,610	-	-
Forwards	1,572	-	(14)
Swaps	205,676	2,604	(2,312)
Options	3,019	3	(4)
Foreign exchange derivatives			
Forwards	17,957	246	(376)
Swaps	22,126	739	(744)
Total held for trading derivatives[2]	254,960	3,592	(3,450)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	634	61	-
Foreign exchange derivatives			
Swaps	634	-	(158)
Total fair value hedging derivatives	1,268	61	(158)
Total derivatives[2]	256,228	3,653	(3,608)
Amounts expected to be settled within 12 months		3,182	(3,267)
Amounts expected to be settled after 12 months		471	(341)
Total derivatives		3,653	(3,608)

1 The fair value of futures contracts are settled daily with the exchange. The notional balance represents open contracts as at 30 September 2013.
2 Excludes derivatives with related entities.

Note 27 Fair value of financial instruments

Fair valuation control framework

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

The method of determining a fair value according to the Fair Valuation Control Framework differs depending on the information available.

Quoted price in an active market

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

Valuation techniques

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

The majority of models used by the NZ Banking Group employ only observable market data as inputs. However, for certain financial instruments data may be employed which is not readily observable in current markets. Typically in these instances valuation inputs will be derived using alternative means (including extrapolation from other relevant market data) and tested against historic transactions. The use of these inputs will require a high degree of management judgment.

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

When determining the fair value of financial instruments, adjustments are made to the mid-market valuations to cover credit risk and bid-offer spreads.

- Credit valuation adjustment ('**CVA**')

  The NZ Banking Group uses a Monte Carlo simulation methodology to calculate the expected future credit exposure for all derivative exposures including inputs regarding probabilities of default ('**PDs**') and loss given default ('**LGD**'). PDs are derived from market observed credit spreads by reference to credit default swap ('**CDS**') for individual or sector curves for the relevant tenors to calculate CVA, and the Overseas Bank's CDS curve for the relevant tenors to calculate debit valuation adjustment ('**DVA**'). PDs are then applied to the horizon of potential exposures to derive both the CVA and DVA.

- Bid-offer spreads

  The fair value of financial assets and financial liabilities reflects bid prices for assets and offer prices for liabilities. Prices are adjusted to reflect current bid-offer spreads.

  The fair values of large holdings of financial instruments are based on a multiple of the estimated value of a single instrument and do not include block adjustments for the size of the holding.

Note 27 Fair value of financial instruments (continued)

Fair value hierarchy

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

- Quoted market price ('**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 include certain NZ Government Securities, spot and exchange traded derivatives (30 September 2013: exchange traded equities, spot and exchange traded derivatives).

- Valuation techniques using observable inputs ('**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 at fair value, trading liabilities, debt issues at fair value, certain life insurance assets, reverse repurchase agreements with related parties, and trading and available-for-sale debt securities including certificates of deposit, corporate bonds, mortgage-backed securities, inflation-indexed government bonds, local authority securities, off-shore securities and securities purchased under agreements to resell; and
  - derivatives including interest rate swaps, interest rate forwards, interest rate options, foreign exchange forwards and foreign exchange swaps.

- Valuation techniques with significant non-observable inputs ('**Level 3**')

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

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

  Financial instruments included in the Level 3 category are NZ unlisted equity securities, RMBS, long-dated NZD caps and inflation indexed derivative instruments (30 September 2013: NZD caps and inflation indexed derivative instruments).

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

Valuation techniques

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

- *Interest rate ('**IR**') products*

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

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

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

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

- *FX products*

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

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

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

- *Debt market products*

  There are observable markets for New Zealand Government bonds in which the Overseas Bank 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 bonds, 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.

Note 27 Fair value of financial instruments (continued)

- *Asset backed products*

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

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

- *Equity instruments*

  Equity instruments include investments in unlisted equity securities. They are valued using pricing models which calculate the fair value based on observable and unobservable inputs including earnings forecast and market trading multiples. These are classified as Level 3 instruments.

- *Life insurance assets*

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

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

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

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

- *Certificates of deposit*

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

- *Debt issues at fair value*

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

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

	NZ Banking Group 2014				NZ Branch 2014			
$ millions	Level 1	Level 2	Level 3[1]	Total	Level 1	Level 2	Level 3[1]	Total
Financial assets								
Trading securities	390	3,078	46	3,514	390	1,862	46	2,298
Derivative financial instruments	11	4,166	3	4,180	11	4,093	3	4,107
Available-for-sale securities	1,975	993	42	3,010	-	-	-	-
Life insurance assets	31	266	-	297	-	-	-	-
Due from related entities	-	1,605	-	1,605	-	2,248	-	2,248
Total financial assets carried at fair value	2,407	10,108	91	12,606	401	8,203	49	8,653
Financial liabilities								
Deposits at fair value	-	1,154	-	1,154	-	-	-	-
Trading liabilities	695	377	-	1,072	605	377	-	982
Derivative financial instruments	9	4,114	-	4,123	9	3,928	-	3,937
Debt issues at fair value	-	3,019	-	3,019	-	-	-	-
Due to related entities	-	1,416	-	1,416	-	2,405	-	2,405
Total financial liabilities carried at fair value	704	10,080	-	10,784	614	6,710	-	7,324

1 Balances within this category of the fair value hierarchy are not considered material to the total Derivative financial instruments, total Trading securities or total Available-for-sale securities balances.

Note 27 Fair value of financial instruments (continued)

	NZ Banking Group 2013				NZ Branch 2013			
$ millions	Level 1	Level 2	Level 3[1]	Total	Level 1	Level 2	Level 3[1]	Total
Financial assets								
Trading securities	-	4,313	-	4,313	-	2,735	-	2,735
Derivative financial instruments	1	3,659	1	3,661	1	3,651	1	3,653
Available-for-sale securities	100	2,615	-	2,715	-	-	-	-
Life insurance assets	-	289	-	289	-	-	-	-
Due from related entities	-	1,011	-	1,011	-	1,663	-	1,663
Total financial assets carried at fair value	101	11,887	1	11,989	1	8,049	1	8,051
Financial liabilities								
Deposits at fair value	-	1,534	-	1,534	-	-	-	-
Trading liabilities	-	498	-	498	-	498	-	498
Derivative financial instruments	1	3,781	4	3,786	1	3,603	4	3,608
Debt issues at fair value	-	2,776	-	2,776	-	-	-	-
Due to related entities	-	1,184	-	1,184	-	1,779	-	1,779
Total financial liabilities carried at fair value	1	9,773	4	9,778	1	5,880	4	5,885

[1] Balances within this category of the fair value hierarchy are not considered material to the total Derivative financial instruments balances.

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs, that were recognised in the income statements of the NZ Banking Group and the NZ Branch during the year ended 30 September 2014 (30 September 2013: no material changes in fair value).

During the financial year to date, the Overseas Bank, being a primary dealer, has seen and participated in increased liquidity in the Government bond markets as part of its broader financial markets strategy. Therefore, financial assets (certain NZ Government securities) and financial liabilities (NZ Government securities sold short) relating to the NZ Banking Group of $2,396 million and $695 million respectively (NZ Branch: $390 million and $605 million respectively), have been transferred from Level 2 to Level 1 of the fair value hierarchy.

There have been no significant transfers into/out of Level 3 during the year ended 30 September 2014 (30 September 2013: nil).

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

Classification of financial instruments and estimates of fair value

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. NZ IFRS 7 requires the disclosure of the fair value of those financial instruments not already carried at fair value in the balance sheet. Fair value 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. The fair value disclosure does not cover those assets and liabilities that are not considered to be financial instruments from an accounting perspective, such as income tax and intangible assets.

The following table summarises the estimated fair values and fair value hierarchy of the NZ Branch and the NZ Banking Group's financial instruments not measured at fair value as at 30 September 2014:

	NZ Banking Group 2014					2013	
		Fair Value					
$ millions	Carrying Amount	Level 1	Level 2	Level 3	Total	Carrying Amount	Estimated Fair Value
Financial assets							
Cash and balances with central banks	**1,927**	**1,927**	**-**	**-**	**1,927**	1,848	1,848
Due from other financial institutions	**591**	**174**	**417**	**-**	**591**	173	173
Loans	**65,027**	**-**	**-**	**64,896**	**64,896**	62,037	61,935
Due from related entities	**165**	**-**	**162**	**3**	**165**	25	25
Other assets	**258**	**-**	**-**	**258**	**258**	370	370
Total financial assets carried at amortised cost	**67,968**	**2,101**	**579**	**65,157**	**67,837**	64,453	64,351
Financial liabilities							
Due to other financial institutions	**1,141**	**13**	**1,128**	**-**	**1,141**	335	335
Deposits	**49,416**	**-**	**48,619**	**840**	**49,459**	46,648	46,721
Debt issues	**9,573**	**-**	**9,704**	**-**	**9,704**	8,869	9,121
Other liabilities	**580**	**-**	**-**	**580**	**580**	557	557
Subordinated debentures	**710**	**-**	**700**	**-**	**700**	693	658
Due to related entities	**3,741**	**-**	**3,735**	**6**	**3,741**	5,652	5,652
Total financial liabilities carried at amortised cost	**65,161**	**13**	**63,886**	**1,426**	**65,325**	62,754	63,044

Note 27 Fair value of financial instruments (continued)

	NZ Branch						
	2014					2013	
		Fair Value					
$ millions	Carrying Amount	Level 1	Level 2	Level 3	Total	Carrying Amount	Estimated Fair Value
Financial assets							
Cash and balances with central banks	**24**	**24**	**-**	**-**	**24**	44	44
Due from other financial institutions	**38**	**13**	**25**	**-**	**38**	-	-
Loans	**341**	**-**	**-**	**341**	**341**	347	347
Due from related entities	**6,366**	**-**	**2,789**	**3,577**	**6,366**	5,991	5,991
Other assets	**61**	**-**	**-**	**61**	**61**	175	175
Total financial assets carried at amortised cost	**6,830**	**37**	**2,814**	**3,979**	**6,830**	6,557	6,557
Financial liabilities							
Due to other financial institutions	**940**	**13**	**927**	**-**	**940**	235	235
Other liabilities	**24**	**-**	**-**	**24**	**24**	121	121
Subordinated debentures	**710**	**-**	**700**	**-**	**700**	693	658
Due to related entities	**4,734**	**-**	**4,734**	**-**	**4,734**	6,008	6,008
Total financial liabilities carried at amortised cost	**6,408**	**13**	**6,361**	**24**	**6,398**	7,057	7,022

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*

  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 Overseas Bank's credit spreads.
- *Subordinated debentures*

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

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

Note 28 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are presented on a net basis on the balance sheet when they meet the offsetting criteria described in Note 1.2.

The following tables provide information on the impact of amounts subject to enforceable master netting agreements or similar arrangements that do not qualify for offsetting in the balance sheets. No financial assets and financial liabilities amounts are offset on the balance sheet as presented on page 16.

The tables below exclude amounts not subject to offsetting or enforceable netting arrangements and therefore may not tie back to the balance sheet.

The amounts presented in this note do not represent the credit risk exposure of the NZ Banking Group or NZ Branch, refer to Note 36.1 for information on credit risk management.

	NZ Banking Group 2014				
		Amounts subject to enforceable netting arrangements but not offset			
$ millions	**Gross amounts reported on the balance sheet**	**Other recognised financial instruments**	**Cash collateral**	**Financial instrument collateral**	**Net amount**
Assets					
Securities purchased under agreement to resell[1]	**377**	**-**	**-**	**(377)**	**-**
Derivative financial instruments	**4,180**	**(2,730)**	**(10)**	**-**	**1,440**
Due from related entities – derivative financial instruments[2]	**1,605**	**(1,377)**	**-**	**-**	**228**
Total assets	**6,162**	**(4,107)**	**(10)**	**(377)**	**1,668**
Liabilities					
Securities sold under agreement to repurchase[3]	**467**	**-**	**-**	**(467)**	**-**
Derivative financial instruments	**4,123**	**(2,730)**	**(122)**	**-**	**1,271**
Due to related entities – derivative financial instruments[4]	**1,416**	**(1,377)**	**-**	**-**	**39**
Total liabilities	**6,006**	**(4,107)**	**(122)**	**(467)**	**1,310**

	NZ Banking Group 2013				
		Amounts subject to enforceable netting arrangements but not offset			
$ millions	Gross amounts reported on the balance sheet	Other recognised financial instruments	Cash collateral	Financial instrument collateral	Net amount
Assets					
Securities purchased under agreement to resell[1]	444	-	-	(444)	-
Derivative financial instruments	3,661	(2,329)	(5)	-	1,327
Due from related entities – derivative financial instruments[2]	1,011	(1,011)	-	-	-
Total assets	5,116	(3,340)	(5)	(444)	1,327
Liabilities					
Securities sold under agreement to repurchase[3]	74	-	-	(74)	-
Derivative financial instruments	3,786	(2,329)	(167)	-	1,290
Due to related entities – derivative financial instruments[4]	1,184	(1,011)	-	-	173
Total liabilities	5,044	(3,340)	(167)	(74)	1,463

1 Forms part of Trading securities in the balance sheet (refer to Note 10).
2 Forms part of Due from related entities in the balance sheet (refer to Note 25).
3 Forms part of Trading liabilities in the balance sheet (refer to Note 19).
4 Forms part of Due to related entities in the balance sheet (refer to Note 25).

Note 28 Offsetting financial assets and financial liabilities (continued)

	NZ Branch 2014				
		Amounts subject to enforceable netting arrangements but not offset			
$ millions	**Gross amounts reported on the balance sheet**	**Other recognised financial instruments**	**Cash collateral**	**Financial instrument collateral**	**Net amount**
Assets					
Securities purchased under agreement to resell[1]	**377**	**-**	**-**	**(377)**	**-**
Derivative financial instruments	**4,107**	**(2,660)**	**(10)**	**-**	**1,437**
Due from related entities – securities purchased under agreement to resell[2]	**367**	**-**	**-**	**(367)**	**-**
Due from related entities – derivative financial instruments[2]	**1,868**	**(1,637)**	**-**	**-**	**231**
Total assets	**6,719**	**(4,297)**	**(10)**	**(744)**	**1,668**
Liabilities					
Securities sold under agreement to repurchase[3]	**377**	**-**	**-**	**(377)**	**-**
Derivative financial instruments	**3,937**	**(2,660)**	**(11)**	**-**	**1,266**
Due to related entities – securities sold under agreement to repurchase[4]	**547**	**-**	**-**	**(547)**	**-**
Due to related entities – derivative financial instruments[4]	**1,858**	**(1,637)**	**-**	**-**	**221**
Total liabilities	**6,719**	**(4,297)**	**(11)**	**(924)**	**1,487**

	NZ Branch 2013				
		Amounts subject to enforceable netting arrangements but not offset			
$ millions	Gross amounts reported on the balance sheet	Other recognised financial instruments	Cash collateral	Financial instrument collateral	Net amount
Assets					
Securities purchased under agreement to resell[1]	444	-	-	(444)	-
Derivative financial instruments	3,653	(2,327)	(5)	-	1,321
Due from related entities – securities purchased under agreement to resell[2]	-	-	-	-	-
Due from related entities – derivative financial instruments[2]	1,599	(1,147)	-	-	452
Total assets	5,696	(3,474)	(5)	(444)	1,773
Liabilities					
Securities sold under agreement to repurchase[3]	74	-	-	(74)	-
Derivative financial instruments	3,608	(2,327)	-	-	1,281
Due to related entities – securities sold under agreement to repurchase[4]	460	-	-	(460)	-
Due to related entities – derivative financial instruments[4]	1,319	(1,147)	-	-	172
Total liabilities	5,461	(3,474)	-	(534)	1,453

1 Forms part of Trading securities in the balance sheet (refer to Note 10).
2 Forms part of Due from related entities in the balance sheet (refer to Note 25).
3 Forms part of Trading liabilities in the balance sheet (refer to Note 19).
4 Forms part of Due to related entities in the balance sheet (refer to Note 25).

Amounts subject to enforceable netting arrangements but not offset

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

'Cash collateral' and 'Financial instrument collateral' disclose amounts received or pledged in relation to the gross amount of assets and liabilities. Financial instrument collateral is reflected at its 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) reported on the balance sheet so as not to reflect the impact of over-collateralisation.

The offsetting and collateral arrangements and other credit risk mitigation strategies used by the NZ Banking Group are explained further in the 'Credit risk management' section under Note 36.1.

Note 29 Commitments and contingent liabilities

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Commitments for capital expenditure				
Due within one year	**3**	3	**-**	-
Other expenditure commitments:				
One year or less	**121**	113	**-**	-
Between one and five years	**308**	219	**-**	-
Over five years	**44**	1	**-**	-
Total other expenditure commitments	**473**	333	**-**	-
Lease commitments (all leases are classified as operating leases)				
Premises and sites	**277**	302	**-**	-
Motor vehicles	**7**	8	**-**	-
Total lease commitments	**284**	310	**-**	-
Lease commitments are due as follows:				
One year or less	**64**	62	**-**	-
Between one and five years	**162**	166	**-**	-
Over five years	**58**	82	**-**	-
Total lease commitments	**284**	310	**-**	-
Contingent liabilities and commitments				
Direct credit substitutes	**354**	330	**269**	256
Loan commitments with certain drawdown	**236**	205	**-**	-
Transaction-related contingent items	**602**	818	**-**	-
Short-term, self liquidating trade-related contingent liabilities	**528**	386	**129**	-
Other commitments to provide financial services	**21,367**	19,460	**55**	91
Total contingent liabilities and commitments	**23,087**	21,199	**453**	347

The NZ Banking Group is a 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, financial guarantees, standby letters of credit and underwriting facilities.

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

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

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

The NZ Banking Group is obliged to repurchase any loans sold to and:

(a) held by the Westpac Home Loan Trust ('**HLT**') where it is discovered within 120 days of sale that those loans were not eligible for sale when sold;

(b) held by the WNZSL securitisation programme where the loan ceases to conform to certain terms and conditions of the WNZSL securitisation programme;

(c) 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 such loan; or

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

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

Westpac New Zealand guarantees the due and punctual payment of all sums payable to the holders of the debt securities issued by its indirect wholly-owned subsidiary, WSNZL, the proceeds of which are immediately on-lent to Westpac New Zealand. The aggregate amount of outstanding principal and interest as at 30 September 2014 was $9,335 million (30 September 2013: $7,784 million).

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

Other contingent liabilities

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

Note 29 Commitments and contingent liabilities (continued)

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

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

Westpac (NZ) Investments Limited ('**WNZIL**'), a subsidiary of Westpac New Zealand, leases the majority of the properties occupied by the NZ Banking Group. As is normal practice, the lease agreements contain 'make good' provisions, which require WNZIL, upon termination of a 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 2014 was estimated to be $27 million (30 September 2013: $22 million). No amount has been recognised for the $27 million in estimated maximum vacation payments as the NZ Banking Group believes it is highly unlikely that WNZIL would incur a material operating loss as a result of such 'make good' provisions in the normal course of its business operations.

Note 30 Segment information

The NZ Banking Group operates predominantly in the consumer, business and institutional banking sectors within New Zealand. On this basis no geographical segment information is provided.

The basis of segment reporting reflects the management of the business, rather than the legal structure of the NZ Banking Group. There is no difference in accounting measurement between the management and legal structures. The operating segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Intersegment pricing is determined on a cost recovery basis.

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

The NZ Banking Group's operating segments have changed in the current reporting period as a result of changes in the information provided to the 'chief operating decision maker'. Comparative information has been restated to ensure consistent presentation with the current reporting period. The NZ Banking Group's operating segments are defined by the customers they serve and the services they provide. The NZ Banking Group has identified the following main operating segments:

- Retail Banking provides financial services predominantly for individuals;
- Business Bank and Wealth provides financial services for small to medium sized enterprise customers and high net worth individuals, and provides funds management and insurance distribution services to a range of customers; and
- Corporate and Institutional provides a broad range of financial services to corporate, agricultural, institutional and government customers, and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand.

Reconciling items primarily represent:

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

Note 30 Segment information (continued)

$ millions	Retail Banking	Business Bank and Wealth	Corporate and Institutional	Reconciling Items[1]	Total
	NZ Banking Group				
Year ended 30 September 2014					
Net interest income	**738**	**338**	**405**	**109**	**1,590**
Non-interest income	**204**	**179**	**202**	**92**	**677**
Net operating income	**942**	**517**	**607**	**201**	**2,267**
Net operating income from external customers	**1,254**	**563**	**994**	**(544)**	**2,267**
Net internal interest expense	**(312)**	**(46)**	**(387)**	**745**	**-**
Net operating income	**942**	**517**	**607**	**201**	**2,267**
Depreciation	**-**	**-**	**-**	**(31)**	**(31)**
Software amortisation costs	**-**	**-**	**(1)**	**(57)**	**(58)**
Other operating expenses	**(156)**	**(76)**	**(78)**	**(469)**	**(779)**
Total operating expenses	**(156)**	**(76)**	**(79)**	**(557)**	**(868)**
Impairment charges on loans	**(36)**	**(2)**	**-**	**12**	**(26)**
Share of profit of associate accounted for using the equity method	**-**	**-**	**-**	**1**	**1**
Profit before income tax expense	**750**	**439**	**528**	**(343)**	**1,374**
Total gross loans	**30,204**	**14,111**	**21,258**	**(104)**	**65,469**
Total deposits	**23,212**	**13,491**	**12,707**	**1,160**	**50,570**
Year ended 30 September 2013					
Net interest income	701	312	411	154	1,578
Non-interest income	196	166	210	13	585
Net operating income	897	478	621	167	2,163
Net operating income from external customers	1,151	499	1,005	(492)	2,163
Net internal interest expense	(254)	(21)	(384)	659	-
Net operating income	897	478	621	167	2,163
Depreciation	-	-	-	(27)	(27)
Software amortisation costs	-	-	(1)	(35)	(36)
Other operating expenses	(160)	(79)	(82)	(493)	(814)
Total operating expenses	(160)	(79)	(83)	(555)	(877)
Impairment charges on loans	(63)	(2)	(41)	1	(105)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
Profit before income tax expense	674	397	497	(386)	1,182
Total gross loans	28,590	13,414	20,745	(160)	62,589
Total deposits	22,012	13,112	11,524	1,534	48,182

[1] Included in the reconciling items for total operating expenses is $569 million (30 September 2013: $582 million) of head office operating expenses, which are not allocated to a business unit that meets the definition of an operating segment.

Note 31 Superannuation commitments

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

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

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

	NZ Banking Group	
%	**2014**	2013
Primary actuarial assumptions used in the above calculations		
Discount rate	**4.2**	4.7
Rate of increase in salaries	**3.0**	3.0
Rate of increase for pensions	**2.3**	2.5
Asset allocation		
Australasian Equity	**14.8**	23.4
International Equity	**33.0**	41.6
Fixed Income	**31.6**	28.5
Property & Infrastructure	**7.6**	-
Other	**4.7**	-
Cash	**8.3**	6.5
Total asset allocation	**100.0**	100.0

The carrying value of the retirement benefit obligation is disclosed as part of Note 22.

Note 32 Key management personnel

Key management personnel compensation

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

	NZ Banking Group	
$'000s	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13
Salaries and other short-term benefits	**9,728**	10,798
Post-employment benefits	**468**	539
Other termination benefits	**502**	-
Share-based payments	**2,190**	3,950
Total key management personnel compensation	**12,888**	15,287
Loans to key management personnel	**6,495**	6,290
Deposits from key management personnel	**3,774**	4,284
Interest income on amounts due from key management personnel	**335**	305
Interest expense on amounts due to key management personnel	**139**	129

Where the Directors of the Overseas Bank have received remuneration from the NZ Banking Group, the amounts are included above. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2014 Annual Financial Report.

Loans and deposits with key management personnel

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

As at 30 September 2014, no provisions have been recognised in respect of loans given to key management personnel and their related parties (30 September 2013: nil).

Other key management personnel transactions

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

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

Structured entities

Under NZ IFRS 12, a structured entity is one which has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity (for example, when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements). Structured entities are generally created to achieve a specific and well defined objective with restrictions over their ongoing activities. Where structured entities are used to facilitate the purchase of specific assets, they are commonly financed by issuing debt or equity securities that are collateralised by and/or indexed to those underlying assets. The debt and equity securities issued by structured entities may include tranches with varying levels of subordination.

The NZ Banking Group engages in various transactions with both consolidated and unconsolidated structured entities which are mainly involved in securitisations 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.

Consolidated structured entities

Securitisation

The NZ Banking Group has a $5,000 million (30 September 2013: $5,000 million) internal mortgage-backed securitisation programme. WNZSL issued residential mortgage backed securities to fund the purchase of housing loans from Westpac New Zealand. Those securities are currently held by Westpac New Zealand. The most senior rated securities at 30 September 2014 of $4,750 million (30 September 2013: $4,750 million) qualify as eligible collateral for repurchase agreements with the Reserve Bank. Holding a portion of housing loans in securitised format enables the NZ Banking Group to maintain a readily available source of cash should market conditions become difficult. Westpac New Zealand takes advantage of the Reserve Bank's guidelines for its overnight reverse repo facility and open market operations, which allows banks in New Zealand to offer residential mortgage backed securities (secured by residential mortgage assets from their own balance sheets) as collateral for the Reserve Bank's repurchase agreements.

Covered bonds

The NZ Banking Group has a covered bond programme whereby selected pools of housing loans it originates are assigned to a bankruptcy remote structured entity (refer to Note 25).

NZ Banking Group managed funds

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

Unconsolidated structured entities

As at 30 September 2014, the NZ Banking Group had securitised housing loans amounting to $115 million (30 September 2013: $158 million) which had been sold by the NZ Banking Group to external parties being the 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**') and were designed to enable investors to obtain investment exposure to housing loans. The purchase of these housing loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand. The NZ Banking Group receives fees for various services provided to HLT and MIF on an arm's length basis, including servicing fees. These fees are recognised over the financial periods in which the costs are borne. The securitised assets have been derecognised from the financial statements of the NZ Banking Group as the risks and rewards of the assets have been substantially transferred to external parties. Pursuant to the terms of the servicing agreements for HLT and MIF, any cash collected by Westpac New Zealand in respect of the securitised assets is held on behalf of NZGT, as trustee for HLT and MIF until the relevant monthly payment date when this cash is paid to NZGT. As at 30 September 2014, the amount so held by Westpac New Zealand was $1 million (30 September 2013: $1 million).

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

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

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

- plain vanilla derivatives (for example, interest rate swaps and currency swaps);
- instruments that are deemed to absorb rather than create variability in the unconsolidated structured entity (for example, purchase of credit protection under a credit default swap); and
- commercial loans to a structured entity where recourse on default is to a wider operating entity rather than secured only on the underlying assets of the entity.

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

- Trading securities: the NZ Banking Group buys and sells interests in structured entities as part of its normal trading activities and includes RMBS or other asset-backed securities. The carrying amount of RMBS and asset-backed securities in the balance sheet included in Trading securities is $132 million (refer to Note 10). These securities represent the senior tranche of notes issued by the structured entities and are rated investment grade. They are typically held as part of a larger trading portfolio and the NZ Banking Group would normally have no other involvement with the structured entity. The maximum exposure to loss is limited to the carrying value of these instruments at reporting date. The size of the structured entities, which is based on the total value of the notes on issue, is $455 million. The NZ Banking Group derives interest income on these securities, and also recognises realised and unrealised gains or losses arising from a change in fair value through trading income;

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

- Loans and other credit commitments: The NZ Banking Group provides lending facilities to other unconsolidated structured entities, in the normal course of its lending business to earn income in the form of interest and lending fees. The other unconsolidated structured entities mainly comprise securitisation vehicles originated or sponsored by third parties, where the primary source of debt service, security and repayment is derived from the underlying assets of the entity, and investment funds (including NZ Banking Group managed funds). All loans and credit commitments are subject to the NZ Banking Group's credit approval process with collateral specific to the circumstances of each loan. The carrying amount of loans (net of provisions) recognised in the balance sheet and off-balance sheet commitments relating to interest in other unconsolidated structured entities amounted to $871 million and $1,025 million respectively. The maximum exposure to loss is the NZ Banking Group's total committed exposure to these entities of $1,896 million as at 30 September 2014. This amount represents the size of the structured entities as the information on the total assets of the entities is not available to the NZ Banking Group; and
- Investment management agreements: As part of its normal funds management activities, the NZ Banking Group establishes and manages a number of funds that provide customers with investment opportunities. The NZ Banking Group also manages superannuation funds established for its employees. As the fund manager, the NZ Banking Group is entitled to receive on-going management and performance fee income based on the value of the assets under management. As at 30 September 2014, the accrued receivable included in 'Other assets' is $2 million. The NZ Banking Group also retains units in these funds, which are primarily held by its consolidated life insurance entities. The carrying value of these units included in life insurance assets amounts to $193 million, which is also the NZ Banking Group's maximum exposure to loss. The NZ Banking Group derives fund distribution income from these holdings and recognises fair value movements (through non-interest income) where the instruments are held at fair value through the income statement. The size of the entities, represented by the value of assets subject to funds management and other fiduciary activities (excluding Term PIE and Cash PIE as they are consolidated in NZ Banking Group's balance sheet) is $6,002 million (refer to the 'Funds management and other fiduciary activities' section). The NZ Banking Group (through NZ Branch) also guarantees the repayment of capital in the Capital Protection Plan Funds, except in certain limited circumstances. The amount of guarantees provided by NZ Branch is included in off-balance sheet commitments above. The size of the Capital Protection Plan Funds is $65 million which is included in the value of funds under management under 'Retirement plans' (refer to the 'Funds management and other fiduciary activities' section).

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

Sponsored entities

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

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

Funds management and other fiduciary activities

The NZ Banking Group conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the NZ Banking Group and accordingly are not included in these financial statements, with the exception of Term PIE and Cash PIE which are treated as controlled entities of Westpac New Zealand (refer to Note 25 for further details) and life insurance assets owned by Westpac Life-NZ- Limited ('**Westpac Life**') which are included in wholesale client portfolios. Where controlled entities incur certain liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements.

Term PIE and Cash PIE are managed by a member of the NZ Banking Group (refer to Note 25 for further details) and invest in deposits with Westpac New Zealand. Westpac New Zealand is considered to control Term PIE and Cash PIE, and as such both are consolidated within the financial statements of the NZ Banking Group.

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

$ millions	2014	2013
Private and priority	**404**	392
Retirement plans	**3,070**	2,355
Retail unit trusts	**2,001**	1,840
Wholesale client portfolios	**527**	390
Term PIE	**962**	795
Cash PIE	**960**	521
Total funds under management	**7,924**	6,293

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

Marketing and distribution of insurance products

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

Risk management

The NZ Banking Group's risk management frameworks (refer to note 36) have been established to manage the risks associated with the above activities.

Note 34 Insurance business

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

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

$ millions	**2014**	2013
Total assets	**253**	258
As a percentage of total assets of the NZ Banking Group	**0.31%**	0.33%

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

Note 35 Capital adequacy

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

%	**2014 Unaudited**	2013 Unaudited
Overseas Banking Group[1, 2]		
Common Equity Tier One Capital ratio	**9.0**	9.1
Additional Tier One Capital ratio	**1.6**	1.6
Tier One Capital ratio	**10.6**	10.7
Tier Two Capital ratio	**1.7**	1.6
Total Regulatory Capital ratio	**12.3**	12.3
Overseas Bank (Extended Licensed Entity)[1, 2]		
Common Equity Tier One Capital ratio	**9.2**	9.3
Additional Tier One Capital ratio	**1.8**	1.7
Tier One Capital ratio	**11.0**	11.0
Tier Two Capital ratio	**1.9**	1.8
Total Regulatory Capital ratio	**12.9**	12.8

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

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

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity) as defined by APRA, exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2014. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

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

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

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

Note 36 Risk management

General

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

Note 36 Risk management (continued)

Risk strategy and governance

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

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

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

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

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

Further to the Directors' Statement on page 10:

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

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

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

Core risk principles

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

The essential elements of sound risk management include:

- a healthy risk culture with strong support from the Board, the Chief Executive and the Executive Team;
- observable linkages between strategy, risk appetite, risk and reward, and capital adequacy;
- clearly defined accountabilities, responsibilities and authorities;
- an appropriate level of risk management resources with the skills required to fulfil their responsibilities and support the strategy;
- clearly defined operating structures, reporting lines and governance structures;
- clear goals, objectives and incentives, including an appropriate risk-focused component of employee performance measurement;
- processes and systems that facilitate effective:
  - 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 ensure that risk-related practices and controls are appropriately embedded and are effective, and comply with internal, regulatory and legislative requirements.

Note 36 Risk management (continued)

Risk types

The key risks that the NZ Banking Group is subject to are specific banking risks and risks arising from the general business environment. The Risk Management Strategy identifies five broad main types of risk:

- Credit risk: the risk of financial loss where a customer or counterparty fails to meet their financial obligations;
- Compliance risk: the risk of legal or regulatory sanction, financial or reputational loss arising from the NZ Banking Group's failure to abide by the compliance obligations required of the NZ Banking Group;
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes, among other things, technology risk, model risk and outsourcing risk;
- Market risk: the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities; and
- Liquidity risk: the risk that the NZ Banking Group will not be able to fund its assets and meet obligations as they become due, without incurring unacceptable losses.

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 and risk arising from the NZ Banking Group's strategic objectives and business plans: the risk associated with the vulnerability of a line of business to changes in the business environment, strategic risk and risks specific to the NZ Banking Group's business plans and objectives;
- Environmental, social and governance risk: the risk that the NZ Banking Group damages its reputation or financial performance due to failure to recognise or address material existing or emerging sustainability related environmental, social and governance issues;
- 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 risk: the risk that problems arising in other members of the NZ Banking Group may compromise the financial and operating position of the NZ Banking Group (contagion risk).

Group Assurance

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

As independent functions, New Zealand Assurance and Group Assurance have no direct authority over the activities of management. They have unlimited access to all the NZ Banking Group's activities, records, property and employees. The scope of responsibility of New Zealand Assurance covers systems of management control across all business activities and support functions at all levels of management within the NZ Banking Group. The level of operational risk determines the scope and frequency of individual audits. New Zealand Assurance periodically reviews the adequacy and effectiveness of the market risk and liquidity risk systems controls.

Reviews in respect of risk management systems

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

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

36.1 Credit risk

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

Credit risk management

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

Note 36 Risk management (continued)

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

- **Transaction-managed approach**: For larger customers the NZ Banking Group evaluates credit requests by undertaking detailed individual customer and transaction risk analysis (the '**transaction-managed**' approach). Such customers are assigned a customer risk grade ('**CRG**') based on the NZ Banking Group's estimate of their PD. Each facility is assigned a LGD taking into account the realistic distress value of assets over which the NZ Banking Group holds security and considering the seniority of exposures in the capital and debt structure of the customer. The final assignment of CRGs and LGDs are approved by independent credit officers with appropriate authority. Divisional operational units are responsible for ensuring accurate and timely recording of all changes to customer and facility data.
- **Program-managed approach**: High-volume customer credit portfolios with homogenous credit risk characteristics are managed on a statistical basis according to predetermined objective criteria (the '**program-managed**' approach). Quantitative scorecards are used to assign application and behavioural scores to enable risk-based decision-making within these portfolios. The scorecard outcomes and decisions are regularly monitored and validated against subsequent customer performance and recalibrated (or rebuilt) when required. For capital estimation, and other purposes, risk-based customer segments are created based on expected PDs, and LGDs are assigned for each segment based on historic experience and management judgment.

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

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

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

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

Overseas Bank Group Risk establishes and maintains the group-wide credit risk management framework, policies and risk concentration limits which incorporate sound credit risk management practices, reflect approved risk appetite and strategy and meet relevant regulatory and legislative obligations. Within these boundaries the NZ Banking Group has its own credit approval limits as delegated by the Overseas Bank Group Credit 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 NZ Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes the NZ Banking Group's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

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

Cash and balances with central banks	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 are typically used to enable the effects of derivative assets and liabilities with the same counterparty to be offset when measuring these exposures. Additionally, collateralisation agreements are also typically entered into with major derivatives counterparties and central clearing counterparties to avoid the potential build up of excessive mark-to-market positions.
Trading securities	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	Collateral is not sought directly with respect to these exposures.
Loans	Housing and other loans for consumer purposes may be secured, partially secured or unsecured depending on the product. Security is typically taken by a fixed and/or floating charge over property or other assets. Loans for business purposes may be secured, partially secured or unsecured. Security is typically taken by way of a fixed and/or floating charge over property, business assets, or other assets. Other forms of credit protection may also be sought or taken out if warranted.
Life insurance assets	These assets are carried at fair value, which reflects the credit risk. No collateral is sought directly from the issuer or counterparty.
Due from related entities	These exposures are generally considered to be low risk due to the nature of the counterparties. These balances are not collateralised.
Other assets	Collateral is generally not sought on these balances except on accrued interest receivable which is assumed to follow the principal amount recorded in Loans.

Note 36 Risk management (continued)

Risk reduction

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

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

Collateral valuation and management

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

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

- cash; and
- prescribed government securities.

Netting

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

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

Risk transfer

For mitigation by way of risk transfer, the NZ Banking Group only recognises unconditional irrevocable guarantees or standby letters of credit issued by, or eligible credit derivative protection bought from, the following entities, provided they are not related to the underlying obligor:

- sovereign entities;
- public sector entities in Australia and New Zealand;
- ADIs and overseas banks; and
- other entities with a minimum risk grade equivalent of A3/A-.

Internal credit risk rating system

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

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

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

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

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

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

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

Note 36 Risk management (continued)

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

Use of internal credit risk estimates

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

Economic capital

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

Pricing

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

Provisioning

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

Credit approval authorities

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

Risk-adjusted performance measurement

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

Regulatory capital

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

Overview of the internal credit risk ratings process by portfolio

(a) Transaction-managed approach (including corporate, sovereign, banking, and specialised lending)

The process for assignment and approval of individual PDs and LGDs involves business unit representatives recommending 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 corporate, sovereign and banking exposures included within the transaction-managed portfolio approach:

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

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

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

(i) PD

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

(ii) LGD

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

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

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

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

Note 36 Risk management (continued)

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

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

EAD therefore, consists of the initial outstanding balances plus the CCF multiplied by undrawn commitments. For transaction-managed exposures CCF's are all 100%.

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

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

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

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

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

(i) PD

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

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

(ii) LGD

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

(iii) EAD

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

Market and/or credit risk concentrations

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

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

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

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

Foreign exchange and derivative credit risk management

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

Note 36 Risk management (continued)

Maximum exposure to credit risk

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Financial assets				
Cash and balances with central banks	**1,927**	1,848	**24**	44
Due from other financial institutions	**591**	173	**38**	-
Trading securities	**3,514**	4,313	**2,298**	2,735
Derivative financial instruments	**4,180**	3,661	**4,107**	3,653
Available-for-sale securities	**3,010**	2,715	**-**	-
Loans	**65,027**	62,037	**341**	347
Life insurance assets	**297**	289	**-**	-
Due from related entities	**1,770**	1,036	**8,614**	7,654
Other assets	**258**	370	**61**	175
Total financial assets	**80,574**	76,442	**15,483**	14,608
Contingent liabilities				
Direct credit substitutes	**354**	330	**269**	256
Loan commitments with certain drawdown	**236**	205	**-**	-
Transaction related contingent items	**602**	818	**-**	-
Short-term, self liquidating trade-related contingent liabilities	**528**	386	**129**	-
Other commitments to provide financial services	**21,367**	19,460	**55**	91
Total contingent liabilities and commitments	**23,087**	21,199	**453**	347
Total maximum credit risk exposure	**103,661**	97,641	**15,936**	14,955

The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 30 September 2014

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the NZ Banking Group utilises its loan origination system. For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore not available for disclosure. For these loans, the NZ Banking Group utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 90% plus category in accordance with the requirements of the Order.

	NZ Banking Group 2014 Unaudited			
LVR Range ($ millions)	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	**31,881**	**5,291**	**2,405**	**39,577**
Undrawn commitments and other off-balance sheet exposures	**7,142**	**421**	**168**	**7,731**
Value of exposures	**39,023**	**5,712**	**2,573**	**47,308**

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

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

$ millions	NZ Banking Group 2014 Unaudited
Term loans – Housing (as disclosed in Note 12) and Residential mortgages – total gross loans (as disclosed in Note 13)	**39,705**
Reconciling items:	
Unamortised deferred fees and expenses	**(128)**
Fair value hedge adjustments	**-**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**7,731**
Residential mortgages by LVR	**47,308**

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 tables below does not always align with the underlying basis by which credit risk is managed within the NZ Banking Group. The NZ Banking Group considers loans for business purposes to be delinquent after considering all relevant circumstances surrounding the customer. Residential mortgages and personal loans that are more than five days past due are considered to be delinquent.

All the financial assets of the NZ Banking Group and NZ Branch as at 30 September 2014 and 2013 other than loans (as disclosed in Note 13) are neither past due nor impaired.

Note 36 Risk management (continued)

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

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

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

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

	NZ Banking Group		NZ Branch	
%	**2014**	2013	**2014**	2013
Fully secured	**74**	71	**27**	32
Partially secured	**13**	15	**27**	31
Unsecured	**13**	14	**46**	37
Total net loans	**100**	100	**100**	100

Financial assets that are neither past due nor individually impaired

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

	NZ Banking Group							
	2014				2013			
$ millions	Strong	Good/ Satisfactory	Weak	Total	Strong	Good/ Satisfactory	Weak	Total
Trading securities	**3,501**	**13**	**-**	**3,514**	4,313	-	-	4,313
Available-for-sale securities	**2,968**	**42**	**-**	**3,010**	2,694	-	-	2,694
Derivative financial instruments	**4,087**	**81**	**12**	**4,180**	3,624	35	2	3,661
Loans	**19,820**	**42,720**	**1,026**	**63,566**	18,464	40,647	1,366	60,477

	NZ Branch							
	2014				2013			
$ millions	Strong	Good/ Satisfactory	Weak	Total	Strong	Good/ Satisfactory	Weak	Total
Trading securities	**2,298**	**-**	**-**	**2,298**	2,735	-	-	2,735
Derivative financial instruments	**4,014**	**81**	**12**	**4,107**	3,616	35	2	3,653
Loans	**25**	**293**	**23**	**341**	40	280	27	347

36.2 Compliance and operational risk

Compliance risk

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

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

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

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

Note 36 Risk management (continued)

Operational risk

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

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

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

36.3 Market risk

Market risk is the potential for loss arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices. The NZ Banking Group's exposure to market risk arises out of its Financial Markets and Treasury activities.

Traded market risk

Approach

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

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

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

VaR limits

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

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

Backtesting

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

Stress testing

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

Profit and loss notification framework

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

Structure and organisation

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

Risk reporting

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

Note 36 Risk management (continued)

Risk mitigation

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

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

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

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

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

Approach

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

Asset and liability management

Westpac New Zealand Treasury manages the structural interest rate mismatch associated with the transfer priced balance sheet, including the investment of the NZ Banking Group's capital to its agreed benchmark duration. A key risk management objective is to help ensure the reasonable stability of net interest income ('**NII**') over time. These activities are performed under the direction of Group RISKCO with oversight from the NZ Branch's Trading Risk Management unit and conducted within a risk framework and appetite set down by the Group BRCC.

NII sensitivity

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

A comparison between the NII outcomes from these modelled scenarios indicates the sensitivity to interest rate changes.

Limits

The Group BRCC has approved NaR and VaR limits for banking book risk across the Overseas Banking Group. A NaR sub limit has been assigned to the NZ Banking Group and, in addition, structural limits, expressed as interest rate delta, are also in place for the NZ Banking Group.

Risk reporting

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

Daily monitoring of current exposure and limit utilisation is conducted independently by the Overseas Banking Group's Market Risk Management unit, which monitors market risk exposures against VaR and NaR limits. Oversight of risk specific to the NZ Banking Group is monitored by the NZ Branch's Trading Risk Management unit. Management reports detailing structural positions and VaR are produced and distributed daily for use by dealers and management across all stakeholder groups. Monthly and quarterly reports are produced for the senior management market risk forums of Group RISKCO and Group BRCC respectively to ensure transparency of material market risks and issues.

Risk mitigation

Market risk arising in the banking book stems from the ordinary course of banking activities, including structural interest rate risk (the mismatch between the duration of assets and liabilities) and capital management. Hedging of the NZ Banking Group's exposure to interest rate risk is undertaken using derivatives. The hedge accounting strategy adopted is to utilise a combination of the cash flow and fair value hedge approaches. Some derivatives held for economic hedging purposes do not meet the criteria for hedge accounting, and therefore, are accounted for in the same way as derivatives held for trading.

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

Market risk notional capital charges

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

Note 36 Risk management (continued)

For each category of market risk, the NZ Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six month period ended 30 September 2014 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Standardised Approach) (BS2A)'.

Market risk notional capital charges

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at balance date and the peak end-of-day notional capital charges by risk type for the six months ended 30 September 2014.

	NZ Banking Group 2014	
	Unaudited	
$ millions	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	**2,565**	**205**
Foreign currency risk	**10**	**1**
Equity risk	**42**	**3**
	2,617	**209**
Peak end-of-day		
Interest rate risk	**5,618**	**449**
Foreign currency risk	**87**	**7**
Equity risk	**82**	**7**

VaR

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

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

Trading

	NZ Banking Group		NZ Branch	
$ millions	**2014**	2013	**2014**	2013
Interest rate risk	**1.8**	2.5	**1.8**	2.5
Foreign exchange risk	**0.1**	-	**0.1**	-
Price risk	**-**	-	**-**	-
Volatility risk	**-**	-	**-**	-
Net market risk	**1.8**	2.5	**1.8**	2.5

Non-trading

	NZ Banking Group		NZ Branch	
$ millions	**2014**	2013	**2014**	2013
Interest rate risk	**0.4**	0.4	**0.5**	0.6

Note 36 Risk management (continued)

Interest rate sensitivity

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

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 30 September 2014. The NZ Banking Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk.

	NZ Banking Group 2014						
$ millions	Up to 3 Months	Over 3 Months and Up to 6 Months	Over 6 Months and Up to 1 Year	Over 1 Year and Up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Financial assets							
Cash and balances with central banks	1,750	-	-	-	-	177	1,927
Due from other financial institutions	591	-	-	-	-	-	591
Trading securities	2,165	81	9	434	825	-	3,514
Derivative financial instruments	-	-	-	-	-	4,180	4,180
Available-for-sale securities	31	35	409	306	2,187	42	3,010
Loans	36,019	4,731	7,057	10,692	6,970	(442)	65,027
Life insurance assets	37	-	5	-	-	255	297
Due from related entities	160	-	-	-	-	1,610	1,770
Other assets	-	-	-	-	-	258	258
Total financial assets	40,753	4,847	7,480	11,432	9,982	6,080	80,574
Non-financial assets							1,104
Total assets							81,678
Financial liabilities							
Due to other financial institutions	1,116	-	-	-	-	25	1,141
Deposits	33,610	6,956	4,412	1,284	701	3,607	50,570
Trading liabilities	1,072	-	-	-	-	-	1,072
Derivative financial instruments	-	-	-	-	-	4,123	4,123
Debt issues	5,075	939	507	1,724	4,347	-	12,592
Other liabilities	-	-	-	-	-	580	580
Subordinated debentures	-	-	-	710	-	-	710
Due to related entities	3,664	-	-	-	-	1,493	5,157
Total financial liabilities	44,537	7,895	4,919	3,718	5,048	9,828	75,945
Non-financial liabilities							234
Total liabilities							76,179
On-balance sheet interest rate repricing gap	(3,784)	(3,048)	2,561	7,714	4,934		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	22,681	(3,456)	(6,838)	(8,173)	(4,214)		
Net interest rate repricing gap	18,897	(6,504)	(4,277)	(459)	720		

Note 36 Risk management (continued)

$ 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
	NZ Branch 2014						
Financial assets							
Cash and balances with central banks	-	-	-	-	-	24	24
Due from other financial institutions	38	-	-	-	-	-	38
Trading securities	1,023	7	9	434	825	-	2,298
Derivative financial instruments	-	-	-	-	-	4,107	4,107
Loans	249	75	10	5	2	-	341
Due from related entities	5,815	2	-	-	4	2,793	8,614
Other assets	-	-	-	-	-	61	61
Total financial assets	7,125	84	19	439	831	6,985	15,483
Non-financial assets							15
Total assets							15,498
Financial liabilities							
Due to other financial institutions	916	-	-	-	-	24	940
Trading liabilities	982	-	-	-	-	-	982
Derivative financial instruments	-	-	-	-	-	3,937	3,937
Other liabilities	-	-	-	-	-	24	24
Subordinated debentures	-	-	-	710	-	-	710
Due to related entities	5,172	-	-	-	-	1,967	7,139
Total financial liabilities	7,070	-	-	710	-	5,952	13,732
Non-financial liabilities							16
Total liabilities							13,748
On-balance sheet interest rate repricing gap	55	84	19	(271)	831		
Net derivative notional principals							
Net interest rate contracts (notional):							
(Payable)/receivable	(319)	(2,450)	390	2,744	(365)		
Net interest rate repricing gap	(264)	(2,366)	409	2,473	466		

Foreign currency exposures

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

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Receivable/(payable)				
Australian dollar	-	(1)	-	(1)
Euro	(2)	-	(2)	-
British pound	2	(1)	2	(1)
Japanese yen	(1)	-	(1)	-
US dollar	(4)	98	(4)	(3)
Others	3	1	3	1

Note 36 Risk management (continued)
36.4 Funding and liquidity risk

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

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

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

Liquidity Risk Management Framework

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

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

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

Daily liquidity modelling and reporting

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

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

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

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

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

Annual funding plan

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

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

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

Contingency planning

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

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

Note 36 Risk management (continued)

Sources of liquidity

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

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

Liquid assets

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

	NZ Banking Group		NZ Branch	
$ millions	**2014**	2013	**2014**	2013
Cash and balances with central banks	**1,927**	1,804	**24**	-
Due from other financial institutions	**416**	-	**25**	-
Supranational securities	**491**	433	**-**	-
NZ Government securities	**2,086**	2,454	**20**	-
NZ public securities	**644**	457	**-**	-
NZ corporate securities	**1,774**	2,731	**814**	1,422
Residential mortgage-backed securities	**3,992**	3,992	**-**	-
Total liquid assets	**11,330**	11,871	**883**	1,422

Note 36 Risk management (continued)

Liquidity analysis

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

	NZ 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	1,927	-	-	-	-	-	1,927
Due from other financial institutions	291	300	-	-	-	-	591
Trading securities	-	416	1,848	172	921	368	3,725
Derivative financial instruments:							
Held for trading	4,009	-	-	-	-	-	4,009
Held for hedging purposes (net settled)	-	19	29	5	43	-	96
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(22)	(463)	(1,476)	(323)	(2,284)
Cash inflow	-	-	-	424	1,269	318	2,011
Available-for-sale securities	42	14	57	533	2,374	386	3,406
Loans	5,452	6,134	4,753	6,616	23,354	53,554	99,863
Life insurance assets	255	17	20	5	-	-	297
Due from related entities:							
Non-derivative balances	15	150	-	-	-	-	165
Derivative financial instruments:							
Held for trading	1,605	-	-	-	-	-	1,605
Other assets	-	90	-	-	-	-	90
Total undiscounted financial assets	13,596	7,140	6,685	7,292	26,485	54,303	115,501
Financial liabilities							
Due to other financial institutions	250	891	-	-	-	-	1,141
Deposits	24,227	4,453	8,750	11,768	2,150	-	51,348
Trading liabilities	982	90	-	-	-	-	1,072
Derivative financial instruments:							
Held for trading	3,582	-	-	-	-	-	3,582
Held for hedging purposes (net settled)	-	19	25	33	93	9	179
Held for hedging purposes (gross settled):							
Cash outflow	-	6	65	705	5,338	-	6,114
Cash inflow	-	(1)	(4)	(609)	(4,676)	-	(5,290)
Debt issues	-	379	1,070	3,551	7,971	318	13,289
Other liabilities	-	247	-	-	-	-	247
Subordinated debentures	-	-	-	-	-	672	672
Due to related entities:							
Non-derivative balances	3,693	48	-	-	-	-	3,741
Derivative financial instruments:							
Held for trading	1,416	-	-	-	-	-	1,416
Total undiscounted financial liabilities	34,150	6,132	9,906	15,448	10,876	999	77,511
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	236	-	-	-	-	-	236
Other commitments to provide financial services	21,367	-	-	-	-	-	21,367
Total undiscounted contingent liabilities and commitments	21,603	-	-	-	-	-	21,603

Note 36 Risk management (continued)

	NZ Banking Group 2013						
$ 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	1,848	-	-	-	-	-	1,848
Due from other financial institutions	4	169	-	-	-	-	173
Trading securities	-	964	2,248	387	674	160	4,433
Derivative financial instruments:							
Held for trading	3,519	-	-	-	-	-	3,519
Held for hedging purposes (net settled)	-	11	10	32	84	-	137
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(4)	(14)	(416)	-	(434)
Cash inflow	-	-	-	7	408	-	415
Available-for-sale securities	-	113	23	158	1,628	1,240	3,162
Loans	6,146	5,897	4,735	6,114	21,184	46,789	90,865
Life insurance assets	260	9	10	10	-	-	289
Due from related entities:							
Non-derivative balances	25	-	-	-	-	-	25
Derivative financial instruments:							
Held for trading	1,011	-	-	-	-	-	1,011
Other assets	-	225	-	-	-	-	225
Total undiscounted financial assets	12,813	7,388	7,022	6,694	23,562	48,189	105,668
Financial liabilities							
Due to other financial institutions	221	114	-	-	-	-	335
Deposits	21,759	5,378	8,604	11,501	1,635	-	48,877
Trading liabilities	498	-	-	-	-	-	498
Derivative financial instruments:							
Held for trading	3,257	-	-	-	-	-	3,257
Held for hedging purposes (net settled)	-	29	12	48	63	7	159
Held for hedging purposes (gross settled):							
Cash outflow	-	5	43	156	5,031	-	5,235
Cash inflow	-	(1)	(3)	(113)	(4,274)	-	(4,391)
Debt issues	-	431	1,403	3,577	6,846	248	12,505
Other liabilities	-	223	-	-	-	-	223
Subordinated debentures	-	-	-	-	-	634	634
Due to related entities:							
Non-derivative balances	4,674	48	11	964	-	-	5,697
Derivative financial instruments:							
Held for trading	1,184	-	-	-	-	-	1,184
Total undiscounted financial liabilities	31,593	6,227	10,070	16,133	9,301	889	74,213
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	205	-	-	-	-	-	205
Other commitments to provide financial services	19,460	-	-	-	-	-	19,460
Total undiscounted contingent liabilities and commitments	19,665	-	-	-	-	-	19,665

Note 36 Risk management (continued)

$ 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
	NZ Branch 2014						
Financial assets							
Cash and balances with central banks	24	-	-	-	-	-	24
Due from other financial institutions	25	13	-	-	-	-	38
Trading securities	-	333	1,092	62	616	368	2,471
Derivative financial instruments:							
Held for trading	4,068	-	-	-	-	-	4,068
Held for hedging purposes (net settled)	-	-	(2)	29	12	-	39
Loans	-	128	132	83	13	-	356
Due from related entities:							
Non-derivative balances	1,475	1,431	493	810	2,808	-	7,017
Derivative financial instruments:							
Held for trading	1,868	-	-	-	-	-	1,868
Other assets	-	47	-	-	-	-	47
Total undiscounted financial assets	7,460	1,952	1,715	984	3,449	368	15,928
Financial liabilities							
Due to other financial institutions	249	691	-	-	-	-	940
Deposits	-	-	-	-	-	-	-
Trading liabilities	982	-	-	-	-	-	982
Derivative financial instruments:							
Held for trading	3,817	-	-	-	-	-	3,817
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	9	29	811	-	849
Cash inflow	-	-	(2)	(6)	(678)	-	(686)
Other liabilities	-	24	-	-	-	-	24
Subordinated debentures	-	-	-	-	-	672	672
Due to related entities:							
Non-derivative balances	4,734	547	-	-	-	-	5,281
Derivative financial instruments:							
Held for trading	1,858	-	-	-	-	-	1,858
Total undiscounted financial liabilities	11,640	1,262	7	23	133	672	13,737
Total contingent liabilities and commitments							
Other commitments to provide financial services	55	-	-	-	-	-	55
Total undiscounted contingent liabilities and commitments	55	-	-	-	-	-	55

Note 36 Risk management (continued)

$ millions	NZ Branch 2013 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	44	-	-	-	-	-	44
Trading securities	-	602	1,482	185	371	160	2,800
Derivative financial instruments:							
Held for trading	3,592	-	-	-	-	-	3,592
Held for hedging purposes (net settled)	-	-	(2)	28	35	-	61
Loans	-	79	131	90	30	23	353
Due from related entities:							
Non-derivative balances	1,267	11	340	400	4,487	-	6,505
Derivative financial instruments:							
Held for trading	1,599	-	-	-	-	-	1,599
Other assets	-	170	-	-	-	-	170
Total undiscounted financial assets	6,502	862	1,951	703	4,923	183	15,124
Financial liabilities							
Due to other financial institutions	221	14	-	-	-	-	235
Trading liabilities	498	-	-	-	-	-	498
Derivative financial instruments:							
Held for trading	3,450	-	-	-	-	-	3,450
Held for hedging purposes (gross settled):							
Cash outflow	-	-	7	24	852	-	883
Cash inflow	-	-	(2)	(5)	(655)	-	(662)
Other liabilities	-	121	-	-	-	-	121
Subordinated debentures	-	-	-	-	-	634	634
Due to related entities:							
Non-derivative balances	6,008	460	-	-	-	-	6,468
Derivative financial instruments:							
Held for trading	1,319	-	-	-	-	-	1,319
Total undiscounted financial liabilities	11,496	595	5	19	197	634	12,946
Total contingent liabilities and commitments							
Other commitments to provide financial services	91	-	-	-	-	-	91
Total undiscounted contingent liabilities and commitments	91	-	-	-	-	-	91

Note 37 Concentration of funding

$ millions	NZ Banking Group 2014	NZ Banking Group 2013	NZ Branch 2014	NZ Branch 2013
Funding consists of				
Due to other financial institutions	**1,141**	335	**940**	235
Deposits	**50,570**	48,182	**-**	-
Trading liabilities	**1,072**	498	**982**	498
Debt issues[1]	**12,592**	11,645	**-**	-
Subordinated debentures	**710**	693	**710**	693
Due to related entities[2]	**3,715**	5,625	**4,700**	6,441
Total funding	**69,800**	66,978	**7,332**	7,867
Analysis of funding by geographical areas[1]				
New Zealand	**53,067**	50,000	**2,735**	2,301
Australia	**4,210**	5,225	**3,715**	4,731
United Kingdom	**5,932**	5,867	**25**	9
United States of America	**4,004**	3,705	**750**	719
Other	**2,587**	2,181	**107**	107
Total funding	**69,800**	66,978	**7,332**	7,867
Analysis of funding by industry sector				
Accommodation, cafes and restaurants	**221**	237	**-**	-
Agriculture	**1,134**	996	**-**	-
Construction	**1,216**	1,323	**-**	-
Finance and insurance	**24,622**	22,949	**2,370**	1,325
Forestry and fishing	**145**	146	**-**	-
Government, administration and defence	**1,685**	1,344	**-**	-
Manufacturing	**1,410**	1,365	**-**	-
Mining	**69**	85	**-**	-
Property services and business services	**4,539**	3,918	**-**	-
Services	**4,395**	4,155	**-**	-
Trade	**1,579**	1,425	**-**	-
Transport and storage	**390**	243	**-**	-
Utilities	**631**	586	**-**	-
Households	**20,677**	18,696	**-**	-
Other	**3,372**	3,885	**262**	101
Subtotal	**66,085**	61,353	**2,632**	1,426
Due to related entities[2]	**3,715**	5,625	**4,700**	6,441
Total funding	**69,800**	66,978	**7,332**	7,867

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

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

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

Note 38 Concentration of credit exposures

	NZ Banking Group		NZ Branch	
$ millions	2014	2013	2014	2013
On-balance sheet credit exposures consists of				
Cash and balances with central banks	**1,927**	1,848	**24**	44
Due from other financial institutions	**591**	173	**38**	-
Trading securities	**3,514**	4,313	**2,298**	2,735
Derivative financial instruments	**4,180**	3,661	**4,107**	3,653
Available-for-sale securities	**3,010**	2,715	**-**	-
Loans	**65,027**	62,037	**341**	347
Life insurance assets	**297**	289	**-**	-
Due from related entities	**1,770**	1,036	**8,614**	7,654
Other assets	**258**	370	**61**	175
Total on-balance sheet credit exposures	**80,574**	76,442	**15,483**	14,608
Analysis of on-balance sheet credit exposures by geographical areas				
New Zealand	**74,852**	71,392	**11,703**	11,269
Australia	**2,161**	2,306	**1,631**	1,431
United Kingdom	**1,779**	1,569	**1,673**	1,355
United States of America	**534**	228	**78**	98
Others	**1,248**	947	**398**	455
Total on-balance sheet credit exposures	**80,574**	76,442	**15,483**	14,608
Analysis of on-balance sheet credit exposures by industry sector				
Accommodation, cafes and restaurants	**489**	515	**-**	-
Agriculture	**6,958**	6,597	**35**	27
Construction	**1,197**	1,352	**6**	4
Finance and insurance	**8,943**	8,962	**4,394**	4,560
Forestry and fishing	**343**	379	**4**	34
Government, administration and defence	**6,315**	5,929	**1,468**	1,262
Manufacturing	**2,545**	2,464	**161**	132
Mining	**564**	541	**-**	2
Property	**11,598**	10,509	**76**	146
Property services and business services	**2,078**	1,934	**116**	42
Services	**2,342**	2,628	**20**	37
Trade	**3,252**	3,406	**238**	223
Transport and storage	**1,211**	1,310	**47**	94
Utilities	**1,585**	1,717	**295**	381
Retail lending	**29,579**	27,611	**-**	-
Other	**197**	54	**2**	2
Subtotal	**79,196**	75,908	**6,862**	6,946
Provisions for impairment charges on loans	**(442)**	(552)	**-**	-
Due from related entities	**1,770**	1,036	**8,614**	7,654
Other assets	**50**	50	**7**	8
Total on-balance sheet credit exposures	**80,574**	76,442	**15,483**	14,608
Off-balance sheet credit exposures				
Contingent liabilities and commitments	**23,087**	21,199	**453**	347
Total off-balance sheet credit exposures	**23,087**	21,199	**453**	347
Analysis of off-balance sheet credit exposures by industry sector				
Accommodation, cafes and restaurants	**89**	98	**-**	-
Agriculture	**707**	677	**-**	-
Construction	**521**	422	**5**	4
Finance and insurance	**2,121**	2,017	**12**	8
Forestry and fishing	**61**	70	**-**	-
Government, administration and defence	**1,033**	1,012	**45**	21
Manufacturing	**2,114**	1,548	**74**	29
Mining	**117**	176	**-**	-
Property	**2,070**	1,693	**-**	-
Property services and business services	**761**	871	**4**	2
Services	**1,246**	1,027	**3**	-
Trade	**2,018**	1,754	**66**	23
Transport and storage	**481**	802	**9**	3
Utilities	**1,668**	1,575	**235**	257
Retail lending	**8,033**	7,437	**-**	-
Other	**47**	20	**-**	-
Total off-balance sheet credit exposures	**23,087**	21,199	**453**	347

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

Note 38 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

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

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

- as at 30 September 2014 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 September 2014 was nil.

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

- as at 30 September 2014 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 September 2014 was nil.

The peak end-of-day exposures have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2014 (refer to Note 39).

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

Note 39 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2014.

Profitability	2014
Net profit after tax for the year ended 30 September 2014 (A$millions)	**7,625**
Net profit after tax (for the year ended 30 September 2014) as a percentage of average total assets	**1.0%**

Total assets and equity	2014
Total assets (A$millions)	**770,842**
Percentage change in total assets over the year ended 30 September 2014	**9.9%**
Total equity (A$millions)	**49,337**

Asset quality	2014
Total individually impaired assets[1, 2] (A$millions)	**2,340**
As a percentage of total assets	**0.3%**
Total individual credit impairment allowance[3] (A$millions)	**1,047**
As a percentage of total individually impaired assets	**44.7%**
Total collective credit impairment allowance[3] (A$millions)	**2,614**

1 Total individually impaired assets are before allowances for credit impairment loss and net of interest held in suspense. Total individually impaired assets includes A$353 million of assets which are determined to be impaired, but which are not individually significant, and therefore, have been grouped into pools of assets for the purpose of collectively calculating an impairment provision.

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

3 Total individual credit impairment allowance and total collective credit impairment allowance include A$180 million of credit impairment allowance that has been calculated collectively on groups of assets which have been determined to be impaired, but which are not individually significant.

Note 40 Reconciliation of profit after income tax expense to net cash provided by operating activities

	NZ Banking Group		NZ Branch	
$ millions	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13
Reconciliation of profit after income tax expense to net cash provided by operating activities				
Profit after income tax expense	**1,019**	855	**111**	201
Adjustments:				
Impairment charges/(recoveries) on loans	**26**	105	**-**	(2)
Computer software amortisation costs	**58**	36	**1**	1
Depreciation on property, plant and equipment	**31**	27	**-**	-
Share-based payments	**5**	5	**1**	1
Movement in other assets	**(128)**	82	**(13)**	64
Movement in other liabilities	**14**	(18)	**3**	(19)
Movement in current and deferred tax	**40**	14	**(25)**	6
Tax losses transferred from related entities	**-**	-	**22**	15
Tax on cash flow hedge reserve	**1**	(18)	**-**	-
Tax on available-for-sale securities reserve	**(4)**	2	**-**	-
Tax on convertible debentures dividends	**-**	25	**-**	25
Net (increase)/decrease in due from other financial institutions	**(2)**	149	**(13)**	-
Movement in trading securities	**950**	(361)	**462**	(810)
Net loans (advanced to)/repaid by customers	**(3,036)**	(2,250)	**6**	40
Net (increase)/decrease in due from related entities	**(138)**	(21)	**(691)**	685
Net increase in due to other financial institutions	**806**	121	**705**	24
Net increase in deposits	**2,388**	4,792	**-**	-
Movement in trading liabilities	**574**	(20)	**484**	(20)
Movement in external and related entity derivative financial instruments	**(306)**	757	**162**	1,011
Net cash provided by operating activities	**2,298**	4,282	**1,215**	1,222

Note 41 Events after the reporting date

The conditions of registration were amended on 31 October 2014 with effect from 1 November 2014 to update the reference to BS19 to the latest version dated October 2014. BS19 was revised to update a reference to the Capital Adequacy Framework (Internal Models Based Approach) BS2B. That reference is only relevant to New Zealand incorporated banks that use that approach so has no policy implications for the Overseas Bank.

Westpac Notice Saver PIE Fund was established on 1 December 2014. Westpac Notice Saver PIE Fund is not owned by the NZ Banking Group, but is regarded as a controlled entity due to contractual arrangements.

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Independent Auditors’ Report
To the Directors of Westpac Banking Corporation

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

We have audited pages 12 to 84 of the Disclosure Statement of Westpac Banking Corporation – New Zealand Branch (the ‘**NZ Branch**’) which consists of the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the ‘**Order**’) and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 35 and 36) required by Schedules 4, 7, 10, 11 and 13 of the Order. The financial statements comprise the balance sheets as at 30 September 2014, the income statements, statements of comprehensive income, statements of changes in equity and statements 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 both the NZ Branch and the aggregated results of Westpac Banking Corporation - New Zealand Banking Group (the ‘**NZ Banking Group**’).

Directors’ Responsibility for the Financial Statements

The Directors of Westpac Banking Corporation (the ‘Directors’) are responsible for the Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 10, 11 and 13 of the Order.

Auditors’ Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 35 and 36) disclosed in accordance with Clause 25 and Schedules 4, 7, 10, 11 and 13 of the Order and presented to us by the Directors. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the NZ Branch and NZ Banking Group’s preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NZ Branch and NZ Banking Group’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 carry out other assignments on behalf of the NZ Branch and the NZ Banking Group in the areas of other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the NZ Branch, the NZ Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the NZ Branch, the NZ Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the NZ Branch and the NZ Banking Group. We have no other interests in the NZ Branch, the NZ Banking Group or Westpac Banking Corporation Group.

Opinion

In our opinion, the financial statements on pages 12 to 84 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 10, 11 and 13 of the Order and included within the balance sheets and Notes 13, 33, 34, 35, 36, 38 and 39):

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the NZ Branch and the NZ Banking Group as at 30 September 2014, and their financial performance and cash flows for the year then ended.

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Independent auditors' report (continued)

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In our opinion, the supplementary information disclosed in accordance with Schedules 4, 7, 10, 11 and 13 and included within the balance sheets and Notes 13, 33, 34, 36, 38 and 39:

(i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;

(ii) is in accordance with the books and records of the NZ Branch and NZ Banking Group; and

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

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

We also report in accordance with the requirements of Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993 and Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 35 and 36) for the year ended 30 September 2014:

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

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

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

We have reviewed the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in Notes 35 and 36 of the financial statements of the NZ Branch and the NZ Banking Group for the year ended 30 September 2014.

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

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

Auditors' Responsibility

Our responsibility is to express an opinion on the supplementary information relating to credit and market risk exposures and capital adequacy, disclosed in Notes 35 and 36, based on our review.

We are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects:

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

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

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'). The review of the supplementary information relating to credit and market risk exposures and capital adequacy, in accordance with NZ SRE 2410, is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 35 and 36 and, accordingly, we do not express an audit opinion on that supplementary information.

Opinion

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 35 and 36, as required by Schedule 9 of the Order, is not in all material respects:

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

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

Restriction on Distribution or Use

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

PricewaterhouseCoopers

Chartered Accountants
11 December 2014

Auckland