Westpac New Zealand Limited

Disclosure Statement

For the year ended 30 September 2014

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General information and definitions

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

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**').
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Bank as at 30 September 2014 are set out in Note 24.

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

General matters

Registered Bank

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

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

At 30 September 2014, WNZGL has a direct qualifying interest in 100% of the voting securities of the Bank. The Ultimate Parent Bank has an indirect qualifying interest in 100% of the voting securities of the Bank.

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

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

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

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

Limits on material financial support by the Ultimate Parent Bank

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

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

General matters (continued)

In January 2013, a new provision in APS 222 took effect which allows APRA to set specific limits on the Ultimate Parent Bank's exposures to related entities, which include the Bank. No specific limits that may materially inhibit the legal ability of the Ultimate Parent Bank to provide material financial support to the Bank have been set under this provision.

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

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

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

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

Directorate

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

Name: Peter David Wilson, CA

Non-executive: Yes

Country of Residence: New Zealand

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

External Directorships: Chairman of each of Arvida Group Limited, Augusta Capital Limited, PF Olsen Limited and PF Olsen Group Limited. Deputy Chairman of Meridian Energy Limited. Director of Farmlands Co-Operative Society Limited, KCL Property Limited and King Street Nominees Limited.

Name: Malcolm Guy Bailey, B.Ag.Econ.

Non-executive: Yes

Country of Residence: New Zealand

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

External Directorships: Chairman of each of the Dairy Companies Association of NZ and Red Meat Profit Partnership General Partner Limited. Director of Fonterra Co-operative Group Limited. Board Member of the NZ US Council. Member of the International Food and Agriculture Trade Policy Council. Director of each of Bailey Agriculture Limited, Bailey Family Properties Limited, BBD Industrial Properties Limited, Embryo Technologies Limited, Etech NZ Limited, Hopkins Farming Group Limited and Gleneig Holdings Limited.

Name: Philip Matthew Coffey, BEc (Hons.)

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Deputy Chief Executive Officer, Westpac Banking Corporation

Secondary Occupations: Director

Board Audit Committee Member: Yes

Independent Director: No

External Directorships: Director of each of MBMC Pty Ltd and MBMC Futures Pty Ltd.

General matters (continued)

Name: Janice Amelia Dawson, B.Com, FCA **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Deputy Chair of Air New Zealand Limited. Director of each of AIG Insurance New Zealand Limited, Beca Group Limited, Meridian Energy Limited, Erua Limited, Goodman Fielder Limited and Jan Dawson Limited. Member of each of the Capital Investment Committee of the National Health Board, the Council of the University of Auckland, the National Maritime Museum and the Council of the International Sailing Federation.
Name: Christopher John David Moller, BCA, Dip Accounting, FCA **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes, Chair **Independent Director:** Yes	**External Directorships:** Chairman of each of New Zealand Transport Agency, Meridian Energy Limited and SKYCITY Entertainment Group Limited. Director of Urenui Consultants Limited.

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

Changes to Directorate

Peter Leonard Thodey was appointed as a Director of the Bank on 20 February 2014, and resigned as a Director of the Bank on 26 August 2014. Peter Graham Clare resigned as a Director of the Bank on 12 August 2014. There have been no other changes in the composition of the Board since 30 September 2013.

Conflicts of interest policy

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

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

Interested transactions

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

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

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

Credit ratings

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

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

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

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

Descriptions of credit rating scales[1]

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

1 This is a general description of the rating categories based on information published by Fitch Ratings, Moody's Investors Service and Standard & Poor's.

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

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

Guarantee arrangements

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

Pending proceedings or arbitration

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

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

On 12 December 2013, the Commerce Commission notified Westpac Banking Corporation and the Bank 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 contingent liabilities of the Banking Group and the Bank are set out in Note 28 Commitments and contingent liabilities.

Conditions of registration

The conditions of registration imposed on the Bank, which applied from 1 July 2014 to 30 September 2014, are as follows:

1. That:

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

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

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

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

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

   For the purposes of this condition of registration,—

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

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

1A. That:

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

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

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

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

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

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

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

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

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

Conditions of registration (continued)

For the purposes of this condition of registration,—

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

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

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration,—

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

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

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

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

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

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

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

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

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

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

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

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

   (d) an alternate director:

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

      (ii) for an independent director must be independent;

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

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

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

Conditions of registration (continued)

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

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

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

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

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

Conditions of registration (continued)

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

    For the purposes of this condition:

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

    'SPV' means a person:

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

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

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

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

17. That:

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

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

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

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

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

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

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

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

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

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

    (i) all liabilities are frozen in full; and

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

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

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

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

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

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

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

19. That the Bank has an Implementation Plan that:

    (a) is up-to-date; and

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

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

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

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

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

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

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

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

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

Conditions of registration (continued)

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

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

22. That, for a loan-to-valuation measurement period, the total of the Bank's qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.
23. That the Bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the Bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.
24. That the Bank must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.
25. That the Bank must not provide a residential mortgage loan if the residential property to be mortgaged to the Bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.
26. That the Bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

In these conditions of registration:

- 'Banking Group'—
  (a) means Westpac New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act (unless paragraph (b) applies); or
  (b) means Westpac New Zealand Limited's financial reporting group as defined in section 2(1) of the Financial Reporting Act 1993 if the Financial Reporting Act 1993 applies to the Bank:
- 'generally accepted accounting practice'—
  (a) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (b) applies); or
  (b) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the Bank is required to prepare financial statements in accordance with that practice.
- In conditions of registration 22 to 26,—

  'loan-to-valuation ratio', 'loan value', 'property value', 'qualifying new mortgage lending amount' and 'residential mortgage loan' have the same meaning as in the Reserve Bank document entitled 'Framework for Restrictions on High-LVR Residential Mortgage Lending' (BS19) dated July 2014:
- 'loan-to-valuation measurement period' means—
  (a) the six calendar month period ending on the last day of March 2014; and
  (b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2014.

The 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 Bank's conditions of registration were amended with effect from 1 October 2014. The amendments refer to updated Reserve Bank documents including the 'Capital Adequacy Framework (Internal Models Based Approach) (BS2B)'. BS2B includes a new requirement for banks which use internal models to maintain a compendium of approved models with the Reserve Bank.

Other material matters

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

Auditors

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland, New Zealand

Historical summary of financial statements

$ millions	Year Ended 30-Sep-14	Year Ended 30-Sep-13	Year Ended 30-Sep-12	Year Ended 30-Sep-11	Year Ended 30-Sep-10
	The Banking Group				
Income statement					
Interest income	**3,979**	3,768	3,881	3,521	3,501
Interest expense	**(2,339)**	(2,232)	(2,382)	(2,205)	(2,337)
Net interest income	**1,640**	1,536	1,499	1,316	1,164
Non-interest income	**480**	371	356	308	291
Net operating income	**2,120**	1,907	1,855	1,624	1,455
Operating expenses	**(817)**	(810)	(807)	(771)	(704)
Impairment charges on loans	**(26)**	(107)	(190)	(224)	(334)
Operating profit	**1,277**	990	858	629	417
Share of profit of associate accounted for using the equity method	**1**	1	1	1	1
Profit before income tax expense	**1,278**	991	859	630	418
Income tax expense	**(337)**	(277)	(246)	(197)	(132)
Profit after income tax expense	**941**	714	613	433	286
Profit after income tax expense attributable to:					
Owners of the Banking Group	**938**	711	610	429	283
Non-controlling interests	**3**	3	3	4	3
	941	714	613	433	286
Dividends paid or provided	**(378)**	(4)	(484)	(2)	(4)
Balance sheet					
Total assets	**74,449**	70,641	68,822	60,656	55,179
Total impaired assets	**346**	573	867	794	742
Total liabilities	**67,844**	64,062	63,026	56,160	51,131
Total equity	**6,605**	6,579	5,796	4,496	4,048

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

Directors' statement

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

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

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that, over the year ended 30 September 2014:

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

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

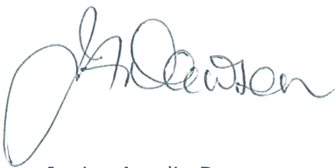
(c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly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

This Disclosure Statement has been signed by all the Directors:

Peter David Wilson

Malcolm Guy Bailey

Philip Matthew Coffey



Janice Amelia Dawson

Christopher John David Moller

Dated this 4th day of December 2014

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Income statements for the year ended 30 September

$ millions	Note	The Banking Group Year Ended 30-Sep-14	The Banking Group Year Ended 30-Sep-13	The Bank Year Ended 30-Sep-14	The Bank Year Ended 30-Sep-13
Interest income	2	**3,979**	3,768	**4,375**	4,097
Interest expense	2	**(2,339)**	(2,232)	**(2,753)**	(2,578)
Net interest income		**1,640**	1,536	**1,622**	1,519
Non-interest income	3	**480**	371	**477**	358
Net operating income		**2,120**	1,907	**2,099**	1,877
Operating expenses	4	**(817)**	(810)	**(818)**	(814)
Impairment charges on loans	6	**(26)**	(107)	**(24)**	(104)
Operating profit		**1,277**	990	**1,257**	959
Share of profit of associate accounted for using the equity method		**1**	1	**-**	-
Profit before income tax expense		**1,278**	991	**1,257**	959
Income tax expense	7	**(337)**	(277)	**(332)**	(268)
Profit after income tax expense		**941**	714	**925**	691
Profit after income tax expense attributable to:					
Owners of the Banking Group		**938**	711	**925**	691
Non-controlling interests		**3**	3	**-**	-
		941	714	**925**	691

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

Statements of comprehensive income for the year ended 30 September

$ millions	The Banking Group		The Bank	
	Year Ended 30-Sep-14	Year Ended 30-Sep-13	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13
Profit after income tax expense	**941**	714	**925**	691
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	**24**	23
Transferred to the income statement (refer to Note 3)	**(88)**	-	**(88)**	-
Exchange differences	**(3)**	1	**(3)**	1
Income tax effect	**(4)**	2	**(4)**	2
Cash flow hedges:				
Net (losses)/gains from changes in fair value of cash flow hedges	**(58)**	30	**(58)**	30
Transferred to the income statement	**32**	(22)	**32**	(22)
Income tax effect	**7**	(2)	**7**	(2)
Total other comprehensive (expense)/income which may be reclassified subsequently to the income statement	**(90)**	32	**(90)**	32
Other comprehensive income which will not be reclassified subsequently to the income statement:				
Remeasurement of employee defined benefit obligations	**4**	39	**4**	39
Income tax effect	**(1)**	(11)	**(1)**	(11)
Total other comprehensive income which will not be reclassified subsequently to the income statement	**3**	28	**3**	28
Total other comprehensive (expense)/income, net of tax	**(87)**	60	**(87)**	60
Total comprehensive income	**854**	774	**838**	751
Total comprehensive income attributable to:				
Owners of the Banking Group	**851**	771	**838**	751
Non-controlling interests	**3**	3	**-**	-
	854	774	**838**	751

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

Statements of changes in equity for the year ended 30 September

	The Banking Group						
$ millions	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total before Non-controlling Interests	Non-controlling Interests	Total
As at 1 October 2012 as previously reported	4,600	1,079	80	30	5,789	7	5,796
Adjustments due to amendments in NZ IAS 19 (refer to Note 1)	-	16	-	-	16	-	16
As at 1 October 2012 (Restated)	4,600	1,095	80	30	5,805	7	5,812
Year ended 30 September 2013							
Profit after income tax expense	-	711	-	-	711	3	714
Net gains from changes in fair value	-	-	23	30	53	-	53
Income tax effect	-	-	2	(8)	(6)	-	(6)
Exchange differences	-	-	1	-	1	-	1
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	(22)	(22)	-	(22)
Income tax effect	-	-	-	6	6	-	6
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	-	739	26	6	771	3	774
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(4)	(4)
As at 30 September 2013	4,600	1,834	106	36	6,576	6	6,582
Adjustments due to amendments in NZ IAS 19 (refer to Note 1)	-	(3)	-	-	(3)	-	(3)
As at 30 September 2013 (Restated)	4,600	1,831	106	36	6,573	6	6,579
Year ended 30 September 2014							
Profit after income tax expense	**-**	**938**	**-**	**-**	**938**	**3**	**941**
Net gains/(losses) from changes in fair value	**-**	**-**	**24**	**(58)**	**(34)**	**-**	**(34)**
Income tax effect	**-**	**-**	**(4)**	**16**	**12**	**-**	**12**
Exchange differences	**-**	**-**	**(3)**	**-**	**(3)**	**-**	**(3)**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transferred to the income statement	**-**	**-**	**(88)**	**32**	**(56)**	**-**	**(56)**
Income tax effect	**-**	**-**	**-**	**(9)**	**(9)**	**-**	**(9)**
Remeasurement of employee defined benefit obligations	**-**	**4**	**-**	**-**	**4**	**-**	**4**
Income tax effect	**-**	**(1)**	**-**	**-**	**(1)**	**-**	**(1)**
Total comprehensive income for the year ended 30 September 2014	**-**	**941**	**(71)**	**(19)**	**851**	**3**	**854**
Transaction with owners:							
Share capital repurchased (refer to Note 23)	**(450)**	**-**	**-**	**-**	**(450)**	**-**	**(450)**
Dividends paid on ordinary shares (refer to Note 23)	**-**	**(375)**	**-**	**-**	**(375)**	**(3)**	**(378)**
As at 30 September 2014	**4,150**	**2,397**	**35**	**17**	**6,599**	**6**	**6,605**

The accompanying notes (numbered 1 to 40) 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

	The Bank				
$ millions	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total
As at 1 October 2012 as previously reported	4,600	1,009	80	30	5,719
Adjustments due to amendments in NZ IAS 19 (refer to Note 1)	-	16	-	-	16
As at 1 October 2012 (Restated)	4,600	1,025	80	30	5,735
Year ended 30 September 2013					
Profit after income tax expense	-	691	-	-	691
Net gains from changes in fair value	-	-	23	30	53
Income tax effect	-	-	2	(8)	(6)
Exchange differences	-	-	1	-	1
Income tax effect	-	-	-	-	-
Transferred to the income statement	-	-	-	(22)	(22)
Income tax effect	-	-	-	6	6
Remeasurement of employee defined benefit obligations	-	39	-	-	39
Income tax effect	-	(11)	-	-	(11)
Total comprehensive income for the year ended 30 September 2013	-	719	26	6	751
As at 30 September 2013	4,600	1,744	106	36	6,486
Adjustments due to amendments in NZ IAS 19 (refer to Note 1)	-	(3)	-	-	(3)
As at 30 September 2013 (Restated)	4,600	1,741	106	36	6,483
Year ended 30 September 2014					
Profit after income tax expense	**-**	**925**	**-**	**-**	**925**
Net gains/(losses) from changes in fair value	**-**	**-**	**24**	**(58)**	**(34)**
Income tax effect	**-**	**-**	**(4)**	**16**	**12**
Exchange differences	**-**	**-**	**(3)**	**-**	**(3)**
Income tax effect	**-**	**-**	**-**	**-**	**-**
Transferred to the income statement	**-**	**-**	**(88)**	**32**	**(56)**
Income tax effect	**-**	**-**	**-**	**(9)**	**(9)**
Remeasurement of employee defined benefit obligations	**-**	**4**	**-**	**-**	**4**
Income tax effect	**-**	**(1)**	**-**	**-**	**(1)**
Total comprehensive income for the year ended 30 September 2014	**-**	**928**	**(71)**	**(19)**	**838**
Transaction with owners:					
Share capital repurchased (refer to Note 23)	**(450)**	**-**	**-**	**-**	**(450)**
Dividends paid on ordinary shares (refer to Note 23)	**-**	**(375)**	**-**	**-**	**(375)**
As at 30 September 2014	**4,150**	**2,294**	**35**	**17**	**6,496**

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

Balance sheets as at 30 September

$ millions	Note	The Banking Group 2014	The Banking Group 2013	The Bank 2014	The Bank 2013
Assets					
Cash and balances with central banks		**1,903**	1,804	**1,903**	1,804
Due from other financial institutions	9	**553**	173	**553**	173
Trading securities	10	**1,216**	1,578	**1,216**	1,578
Derivative financial instruments	25	**73**	8	**73**	8
Available-for-sale securities	11	**3,010**	2,715	**3,010**	2,715
Loans	12, 13	**64,582**	61,585	**64,490**	61,479
Due from related entities	24	**1,852**	1,510	**11,446**	11,153
Investments in controlled entities		**-**	-	**281**	281
Investment in associate	24	**48**	48	**-**	-
Property, plant and equipment		**178**	169	**27**	14
Deferred tax assets	14	**144**	175	**134**	156
Goodwill and other intangible assets	15	**662**	660	**662**	660
Other assets	16	**228**	216	**225**	214
Total assets		**74,449**	70,641	**84,020**	80,235
Liabilities					
Due to other financial institutions	17	**201**	100	**201**	100
Deposits	18	**50,570**	48,182	**48,647**	46,866
Trading liabilities	11	**90**	-	**90**	-
Derivative financial instruments	25	**186**	178	**186**	178
Debt issues	19	**12,592**	11,645	**3,150**	3,741
Current tax liabilities		**45**	19	**50**	12
Due to related entities	24	**3,437**	3,331	**24,548**	22,321
Provisions	20	**76**	77	**76**	77
Other liabilities	21	**647**	530	**576**	457
Total liabilities		**67,844**	64,062	**77,524**	73,752
Net assets		**6,605**	6,579	**6,496**	6,483
Equity					
Share capital	23	**4,150**	4,600	**4,150**	4,600
Retained profits		**2,397**	1,831	**2,294**	1,741
Available-for-sale securities reserve		**35**	106	**35**	106
Cash flow hedge reserve		**17**	36	**17**	36
Total equity attributable to owners of the Banking Group		**6,599**	6,573	**6,496**	6,483
Non-controlling interests		**6**	6	**-**	-
Total equity		**6,605**	6,579	**6,496**	6,483
Interest earning and discount bearing assets		**72,893**	69,476	**82,298**	78,855
Interest and discount bearing liabilities		**62,989**	59,359	**72,598**	68,934

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

Signed on behalf of the Board of Directors.

P.D. Wilson
4 December 2014

C.J.D. Moller
4 December 2014

Statements of cash flows for the year ended 30 September

$ millions	The Banking Group		The Bank	
	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	**3,965**	3,778	**4,361**	4,108
Interest expense paid	**(2,340)**	(2,236)	**(2,751)**	(2,579)
Non-interest income received	**389**	358	**387**	321
Operating expenses paid	**(722)**	(735)	**(746)**	(759)
Income tax paid	**(274)**	(273)	**(270)**	(268)
Cash flows from operating activities before changes in operating assets and liabilities	**1,018**	892	**981**	823
Net (increase)/decrease in:				
Due from other financial institutions	**11**	149	**11**	149
Trading securities	**488**	449	**488**	449
Loans	**(3,051)**	(2,270)	**(3,063)**	(2,280)
Due from related entities	**(34)**	151	**15**	(642)
Net increase/(decrease) in:				
Due to other financial institutions	**101**	97	**101**	97
Deposits	**2,388**	4,792	**1,781**	4,196
Trading liabilities	**90**	-	**90**	-
Net movement in external and related entity derivative financial instruments	**(495)**	(309)	**(495)**	(309)
Net cash provided by/(used in) operating activities	**516**	3,951	**(91)**	2,483
Cash flows from investing activities				
Purchase of available-for-sale securities	**(430)**	(191)	**(430)**	(191)
Proceeds from maturities/sale of available-for-sale securities	**171**	26	**171**	26
Purchase of capitalised computer software	**(59)**	(97)	**(59)**	(97)
Purchase of property, plant and equipment	**(40)**	(37)	**(20)**	(4)
Net cash used in investing activities	**(358)**	(299)	**(338)**	(266)
Cash flows from financing activities				
Share capital repurchased	**(450)**	-	**(450)**	-
Net increase/(decrease) in debt issues	**736**	(1,453)	**(603)**	1,078
Net increase/(decrease) in due to related entities	**424**	(1,016)	**2,347**	(2,116)
Net decrease in perpetual subordinated notes	**-**	(970)	**-**	(970)
Payment of dividends	**(378)**	(4)	**(375)**	-
Net cash provided by/(used in) financing activities	**332**	(3,443)	**919**	(2,008)
Net increase in cash and cash equivalents	**490**	209	**490**	209
Cash and cash equivalents at beginning of the year	**1,804**	1,595	**1,804**	1,595
Cash and cash equivalents at end of the year	**2,294**	1,804	**2,294**	1,804
Cash and cash equivalents at end of the year comprise:				
Cash and balances with central banks	**1,903**	1,804	**1,903**	1,804
Due from other financial institutions	**391**	-	**391**	-
Cash and cash equivalents at end of the year	**2,294**	1,804	**2,294**	1,804

[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 40) form part of, and should be read in conjunction with, these financial statements.

Note 1 Statement of accounting policies

1.1 General accounting policies

Statutory base

In these financial statements, reference is made to:

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

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 (New Zealand Incorporated Registered Banks) Order 2014 ('**Order**'). The Bank's financial statements are for Westpac New Zealand Limited as a separate entity and the consolidated financial statements are for the Banking Group, which comprises the Bank and its controlled entities.

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**').

These financial statements were authorised for issue by the Board of Directors of the Bank (the '**Board**') on 4 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.

Principles of consolidation

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all of its subsidiaries (including structured entities). Subsidiaries are those entities over which the Bank has control. Control exists when the Bank 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 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 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 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 Bank. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Foreign currency

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation 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.

Note 1 Statement of accounting policies (continued)

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.

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.

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.

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.

Share-based payments

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

Note 1 Statement of accounting policies (continued)

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 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 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 Ultimate Parent Bank'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.

Assets

Financial assets

The 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 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.

Note 1 Statement of accounting policies (continued)

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 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 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 Banking Group has transferred substantially all the risks and rewards of the asset, or the 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 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 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.

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 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 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.

Note 1 Statement of accounting policies (continued)

Trading securities

Trading securities include debt instruments which are actively traded and form part of the 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.

Due from related entities

This amount includes amounts due from controlled entities of the Banking Group and all other entities controlled by the Ultimate Parent 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'.

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

i) Assets carried at amortised cost

The 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 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 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 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.

Note 1 Statement of accounting policies (continued)

Non-financial assets

Investments in controlled entities and associates

Investments in controlled entities are initially recorded by the 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 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 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.

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 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 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 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.

Note 1 Statement of accounting policies (continued)

- ***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.

Debt issues

Debt issues are bonds, notes and commercial paper that have been issued by the Banking Group. They are either accounted for at amortised cost or designated at fair value through 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 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 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, amounts outstanding on the credit card loyalty programme, trade creditors, other accrued expenses and the deficit arising from the defined benefit superannuation scheme.

Due to related entities

This amount includes amounts due to controlled entities of the Banking Group and all other entities controlled by the Ultimate Parent 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.

Note 1 Statement of accounting policies (continued)

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.

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.

Equity and reserves

Ordinary shares

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

Available-for-sale securities reserve

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

Note 1 Statement of accounting policies (continued)

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.

In its capacity as a lessor, the Banking Group primarily offers finance leases. The 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 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 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 Banking Group has determined that the Bank's executive team is its chief operating decision-maker.

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

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 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 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 Banking Group has early adopted the recognition of the changes in the fair value of financial liabilities designated at fair value attributable to the 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 Bank 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 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.

Note 1 Statement of accounting policies (continued)

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 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 32. The 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.

- 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 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 Banking Group, however has resulted in additional fair value disclosures provided in Note 26.

- 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 Banking Group's defined benefit superannuation obligation with retrospective application.

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.

	The Banking Group			The Bank		
$ millions	Previously Reported 30-Sep-13	Increase/ (Decrease)	Restated 30-Sep-13	Previously Reported 30-Sep-13	Increase/ (Decrease)	Restated 30-Sep-13
Balance sheet (extract)						
Deferred tax assets	180	(5)	175	161	(5)	156
Other liabilities	548	(18)	530	475	(18)	457
Retained profits	1,818	13	1,831	1,728	13	1,741

- 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 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 27.

1.4 Future accounting developments

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

NZ IFRS 9 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 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

Note 1 Statement of accounting policies (continued)

- 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 Banking Group's financial instruments and the amount of impairments recognised in the income statement when the remainder of the standard is adopted.

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 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 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 Banking Group.

1.5 Critical accounting estimates, judgments and assumptions

The application of the 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 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 26 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 Banking Group to reduce any differences between loss estimates and actual loss experience.

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

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

(b) Collective component – this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and 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.

Note 1 Statement of accounting policies (continued)

The provisions for impairment charges on loans are disclosed in Note 12 and Note 13, whilst the provisions for impairment on credit commitments are disclosed in Note 20. The impairment charge 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.

Superannuation obligations

The 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 21 and Note 30.

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 20. 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 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 Banking Group estimates its tax liabilities based on the 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 Banking Group's deferred tax balances.

Securitisation and the consolidation of structured entities

The 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 Banking Group, or another involved party with power over relevant activities, is acting as a principal in its own right or as an agent on behalf of others. Refer to Note 32 for further information regarding structured entities.

Note 2 Net interest income

$ millions	The Banking Group Year Ended 30-Sep-14	The Banking Group Year Ended 30-Sep-13	The Bank Year Ended 30-Sep-14	The Bank Year Ended 30-Sep-13
Interest income				
Cash and balances with central banks	**44**	40	**44**	40
Trading securities	**73**	75	**73**	75
Available-for-sale securities	**117**	113	**117**	113
Loans[1]	**3,699**	3,512	**3,685**	3,497
Related entities	**46**	28	**456**	372
Total interest income[2]	**3,979**	3,768	**4,375**	4,097
Interest expense				
Due to other financial institutions	**1**	-	**1**	-
Deposits	**1,588**	1,475	**1,519**	1,438
Debt issues	**369**	352	**191**	157
Other[3]	**381**	405	**1,042**	983
Total interest expense[4]	**2,339**	2,232	**2,753**	2,578
Net interest income	**1,640**	1,536	**1,622**	1,519

[1] Interest income on loans includes interest income of $28 million (30 September 2013: $43 million) for the Banking Group and $27 million (30 September 2013: $40 million) for the Bank on impaired assets.

[2] Total interest income for financial assets that are not at fair value through profit or loss is $3,884 million (30 September 2013: $3,682 million) for the Banking Group and $4,280 million (30 September 2013: $4,011 million) for the Bank.

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

[4] Total interest expense for financial liabilities that are not at fair value through profit or loss is $2,202 million (30 September 2013: $2,109 million) for the Banking Group and $2,697 million (30 September 2013: $2,517 million) for the Bank.

Note 3 Non-interest income

$ millions	The Banking Group Year Ended 30-Sep-14	The Banking Group Year Ended 30-Sep-13	The Bank Year Ended 30-Sep-14	The Bank Year Ended 30-Sep-13
Fees and commissions				
Transaction fees and commissions	**284**	262	**280**	256
Lending fees (loan and risk)	**64**	62	**64**	61
Management fees received from related entities	**6**	4	**9**	6
Other non-risk fee income	**32**	30	**32**	31
Total fees and commissions	**386**	358	**385**	354
Net ineffectiveness on qualifying hedges	**-**	1	**-**	1
Other non-interest income				
Net unrealised gains on derivatives held for trading	**-**	-	**-**	-
Dividend income	**2**	2	**1**	2
Gain on sale of available-for-sale securities[1]	**88**	-	**88**	-
Other	**4**	10	**3**	1
Total other non-interest income	**94**	12	**92**	3
Total non-interest income	**480**	371	**477**	358

[1] During the year ended 30 September 2014, the Bank 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 Westpac Banking Corporation (the '**Ultimate Parent Bank**').

Note 4 Operating expenses

$ millions	The Banking Group Year Ended 30-Sep-14	The Banking Group Year Ended 30-Sep-13	The Bank Year Ended 30-Sep-14	The Bank Year Ended 30-Sep-13
Salaries and other staff expenses				
Salaries and wages	**363**	371	**363**	370
Employee entitlements	**9**	11	**9**	11
Superannuation costs:				
Defined contribution scheme	**28**	27	**28**	27
Defined benefit scheme	**2**	-	**2**	-
Share-based payments	**4**	4	**4**	4
Restructuring costs	**2**	5	**2**	5
Other	**7**	9	**7**	9
Total salaries and other staff expenses	**415**	427	**415**	426
Equipment and occupancy expenses				
Operating lease rentals:				
Related entities (refer to Note 24)	**-**	-	**100**	101
Other	**64**	65	**8**	8
Depreciation:				
Leasehold improvements	**17**	15	**-**	-
Furniture and equipment	**14**	12	**7**	5
Equipment repairs and maintenance	**10**	9	**4**	4
Electricity, water and rates	**2**	2	**-**	-
Other	**8**	9	**1**	2
Total equipment and occupancy expenses	**115**	112	**120**	120
Other expenses				
Software amortisation costs	**57**	35	**57**	35
Litigation and non-lending losses	**4**	2	**4**	2
Purchased services	**58**	59	**55**	56
Stationery	**12**	13	**12**	13
Postage and freight	**16**	18	**14**	15
Advertising	**23**	28	**23**	28
Training	**2**	3	**2**	3
Travel	**6**	6	**6**	6
Outsourcing	**91**	88	**91**	88
Related entities – management fees (refer to Note 24)	**2**	3	**5**	9
Other	**16**	16	**14**	13
Total other expenses	**287**	271	**283**	268
Total operating expenses	**817**	810	**818**	814

Note 5 Auditors' remuneration

$'000s	The Banking Group Year Ended 30-Sep-14	The Banking Group Year Ended 30-Sep-13	The Bank Year Ended 30-Sep-14	The Bank Year Ended 30-Sep-13
Auditor of the parent entity				
Audit and review of financial statements[1]	**1,211**	1,201	**1,057**	1,048
Other audit related work[2]	**88**	84	**88**	84
Total remuneration for audit and other audit related work	**1,299**	1,285	**1,145**	1,132
Other services[3]	**142**	260	**142**	260
Total remuneration for non-audit services	**142**	260	**142**	260
Total remuneration for audit, other audit related work and non-audit services	**1,441**	1,545	**1,287**	1,392

[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 Ultimate Parent Bank and its subsidiaries ('**Ultimate Parent Bank 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.

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

Note 6 Impairment charges on loans

$ millions	The Banking Group For the year ended 30 September 2014 Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total	The Bank For the year ended 30 September 2014 Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Collectively assessed provisions	**(2)**	**4**	**(27)**	**(25)**	**(2)**	**4**	**(27)**	**(25)**
Individually assessed provisions	**7**	**-**	**32**	**39**	**7**	**-**	**32**	**39**
Bad debts written off/(recovered) directly to the income statement	**2**	**38**	**(1)**	**39**	**2**	**36**	**(1)**	**37**
Interest adjustments	**(3)**	**(10)**	**(14)**	**(27)**	**(3)**	**(10)**	**(14)**	**(27)**
Total impairment charges/(recoveries) on loans	**4**	**32**	**(10)**	**26**	**4**	**30**	**(10)**	**24**

$ millions	The Banking Group For the year ended 30 September 2013 Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total	The Bank For the year ended 30 September 2013 Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Collectively assessed provisions	7	4	(21)	(10)	8	4	(21)	(9)
Individually assessed provisions	27	-	55	82	27	-	55	82
Bad debts written off directly to the income statement	3	39	21	63	3	36	20	59
Interest adjustments	(4)	(10)	(14)	(28)	(5)	(9)	(14)	(28)
Total impairment charges on loans	33	33	41	107	33	31	40	104

Note 7 Income tax expense

$ millions	The Banking Group **Year Ended 30-Sep-14**	Year Ended 30-Sep-13	The Bank **Year Ended 30-Sep-14**	Year Ended 30-Sep-13
Income tax expense				
Current tax:				
Current year	**302**	261	**306**	251
Prior year adjustments	**1**	2	**1**	-
Deferred tax (refer to Note 14):				
Current year	**34**	15	**24**	18
Prior year adjustments	**-**	(1)	**1**	(1)
Total income tax expense	**337**	277	**332**	268
Profit before income tax expense	**1,278**	991	**1,257**	959
Tax calculated at tax rate of 28%	**358**	277	**352**	269
Income not subject to tax	**(24)**	-	**(24)**	-
Expenses not deductible for tax purposes	**1**	(2)	**1**	-
Prior year adjustments	**1**	1	**2**	(1)
Other items	**1**	1	**1**	-
Total income tax expense	**337**	277	**332**	268

Note 8 Imputation credit account

$ millions	The Banking Group **2014**	2013	The Bank **2014**	2013
Imputation credits available for use in subsequent reporting periods	**588**	644	**563**	622

Note 9 Due from other financial institutions

$ millions	The Banking Group and the Bank 2014	2013
Loans and advances to other banks	**553**	173
Total due from other financial institutions	**553**	173
Due from other financial institutions:		
At call	**266**	4
Term	**287**	169
Total due from other financial institutions	**553**	173
Amounts expected to be recovered within 12 months	**553**	173
Amounts expected to be recovered after 12 months	**-**	-
Total due from other financial institutions	**553**	173

Note 10 Trading securities

$ millions	The Banking Group and the Bank 2014	2013
Trading securities		
Certificates of deposit	**607**	892
Corporate bonds	**272**	337
NZ Government securities	**-**	1
Local authority securities	**337**	348
Total trading securities	**1,216**	1,578
Amounts expected to be recovered within 12 months	**935**	1,311
Amounts expected to be recovered after 12 months	**281**	267
Total trading securities	**1,216**	1,578

As at 30 September 2014, no trading securities in the Banking Group and the Bank (30 September 2013: nil) were encumbered through repurchase agreements.

Note 11 Available-for-sale securities

$ millions	The Banking Group and the Bank 2014	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, $457 million of available-for-sale securities were pledged as collateral for the Banking Group or the Bank's liabilities under repurchase agreements. Of this amount $367 million was pledged as collateral to the NZ Branch (30 September 2013: nil) which is recorded within Due to related entities and $90 million was to third parties (30 September 2013: nil) which is recorded as Trading liabilities.

Note 12 Loans

	The Banking Group		The Bank	
$ millions	2014	2013	2014	2013
Overdrafts	**1,153**	1,281	**1,153**	1,281
Credit card outstandings	**1,405**	1,352	**1,341**	1,284
Money market loans	**1,082**	997	**1,082**	997
Term loans:				
Housing	**39,702**	37,594	**39,671**	37,553
Non-housing	**21,146**	20,515	**21,146**	20,504
Other	**536**	398	**536**	398
Total gross loans	**65,024**	62,137	**64,929**	62,017
Provisions for impairment charges on loans	**(442)**	(552)	**(439)**	(538)
Total net loans	**64,582**	61,585	**64,490**	61,479
Amounts expected to be recovered within 12 months	**7,448**	7,714	**7,386**	7,649
Amounts expected to be recovered after 12 months	**57,134**	53,871	**57,104**	53,830
Total net loans	**64,582**	61,585	**64,490**	61,479

As at 30 September 2014, $4,002 million of housing loans are used by the Banking Group to secure the obligations of Westpac Securities NZ Limited ('**WSNZL**') under the Bank's Global Covered Bond Programme ('**CB Programme**') (30 September 2013: $4,172 million). These housing loans were not derecognised from the Bank's financial statements in accordance with the accounting policies 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

	The Banking Group 2014				The Bank 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	38,525	1,819	22,777	63,121	38,494	1,761	22,777	63,032
Past due assets								
Less than 30 days past due	924	104	222	1,250	924	100	222	1,246
At least 30 days but less than 60 days past due	100	21	29	150	100	20	29	149
At least 60 days but less than 90 days past due	46	9	12	67	46	9	12	67
At least 90 days past due	50	15	25	90	50	14	25	89
Total past due assets[1]	1,120	149	288	1,557	1,120	143	288	1,551
Individually impaired assets[2]								
Balance at beginning of the year	93	-	480	573	93	-	469	562
Additions	78	-	141	219	78	-	141	219
Amounts written off	(18)	-	(125)	(143)	(18)	-	(114)	(132)
Returned to performing or repaid	(96)	-	(207)	(303)	(96)	-	(207)	(303)
Balance at end of the year	57	-	289	346	57	-	289	346
Total gross loans[3]	39,702	1,968	23,354	65,024	39,671	1,904	23,354	64,929
Individually assessed provisions								
Balance at beginning of the year	30	-	203	233	30	-	192	222
Impairment charges on loans:								
New provisions	23	-	73	96	23	-	73	96
Recoveries	(7)	-	(7)	(14)	(7)	-	(7)	(14)
Reversal of previously recognised impairment charges on loans	(9)	-	(34)	(43)	(9)	-	(34)	(43)
Amounts written off	(18)	-	(112)	(130)	(18)	-	(101)	(119)
Interest adjustments	-	-	2	2	-	-	2	2
Balance at end of the year	19	-	125	144	19	-	125	144
Collectively assessed provisions								
Balance at beginning of the year	68	67	219	354	67	65	219	351
Impairment charges on loans	(2)	4	(27)	(25)	(2)	4	(27)	(25)
Balance at end of the year	66	71	192	329	65	69	192	326
Total provisions for impairment charges on loans and credit commitments	85	71	317	473	84	69	317	470
Provision for credit commitments (refer to Note 20)	-	-	(31)	(31)	-	-	(31)	(31)
Total provisions for impairment charges on loans	85	71	286	442	84	69	286	439
Total net loans	39,617	1,897	23,068	64,582	39,587	1,835	23,068	64,490

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

[2] The Bank and 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.

[3] The Bank and 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	The Banking Group 2013				The Bank 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	36,403	1,717	21,905	60,025	36,362	1,656	21,905	59,923
Past due assets								
Less than 30 days past due	916	108	217	1,241	916	104	217	1,237
At least 30 days but less than 60 days past due	90	20	5	115	90	19	5	114
At least 60 days but less than 90 days past due	42	10	2	54	42	9	2	53
At least 90 days past due	50	15	64	129	50	14	64	128
Total past due assets[1]	1,098	153	288	1,539	1,098	146	288	1,532
Individually impaired assets[2]								
Balance at beginning of the year	124	-	743	867	124	-	733	857
Additions	154	-	215	369	154	-	214	368
Amounts written off	(35)	-	(95)	(130)	(35)	-	(95)	(130)
Returned to performing or repaid	(150)	-	(383)	(533)	(150)	-	(383)	(533)
Balance at end of the year	93	-	480	573	93	-	469	562
Total gross loans[3]	37,594	1,870	22,673	62,137	37,553	1,802	22,662	62,017
Individually assessed provisions								
Balance at beginning of the year	38	-	238	276	38	-	228	266
Impairment charges on loans:								
New provisions	50	-	107	157	50	-	107	157
Recoveries	(13)	-	(4)	(17)	(13)	-	(4)	(17)
Reversal of previously recognised impairment charges on loans	(10)	-	(48)	(58)	(10)	-	(48)	(58)
Amounts written off	(35)	-	(95)	(130)	(35)	-	(95)	(130)
Interest adjustments	-	-	5	5	-	-	4	4
Balance at end of the year	30	-	203	233	30	-	192	222
Collectively assessed provisions								
Balance at beginning of the year	61	63	240	364	59	61	240	360
Impairment charges on loans	7	4	(21)	(10)	8	4	(21)	(9)
Balance at end of the year	68	67	219	354	67	65	219	351
Total provisions for impairment charges on loans and credit commitments	98	67	422	587	97	65	411	573
Provision for credit commitments (refer to Note 20)	-	-	(35)	(35)	-	-	(35)	(35)
Total provisions for impairment charges on loans	98	67	387	552	97	65	376	538
Total net loans	37,496	1,803	22,286	61,585	37,456	1,737	22,286	61,479

[1] Past due assets are not impaired assets under NZ IFRS.
[2] The Bank and 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.
[3] The Bank and Banking Group did not have other assets under administration as at 30 September 2013.

Note 14 Deferred tax assets

$ millions	The Banking Group 2014	The Banking Group 2013	The Bank 2014	The Bank 2013
Deferred tax assets are attributable to the following:				
Property, plant and equipment	**2**	9	**(3)**	(2)
Provisions for impairment charges on loans	**132**	164	**132**	161
Provision for employee entitlements	**11**	11	**11**	11
Cash flow hedges	**(7)**	(15)	**(7)**	(15)
Other temporary differences	**6**	6	**1**	1
Balance at end of the year	**144**	175	**134**	156
To be recovered within 12 months	**97**	122	**94**	113
To be recovered after 12 months	**47**	53	**40**	43
Balance at end of the year	**144**	175	**134**	156
The deferred tax charge in income tax expense comprises the following temporary differences:				
Property, plant and equipment	**(7)**	-	**(1)**	(1)
Provisions for impairment charges on loans	**(32)**	(15)	**(29)**	(14)
Provision for employee entitlements	**1**	(2)	**1**	(2)
Other temporary differences	**4**	3	**4**	-
Total deferred tax charge	**(34)**	(14)	**(25)**	(17)
Other	**-**	(4)	**-**	-
Total deferred tax charge – other	**-**	(4)	**-**	-
The deferred tax charge in other comprehensive income comprises the following temporary differences:				
Cash flow hedges	**8**	-	**8**	-
Provision for employee entitlements	**(1)**	(11)	**(1)**	(11)
Other temporary differences	**(4)**	-	**(4)**	-
Total deferred tax charge in other comprehensive income	**3**	(11)	**3**	(11)

As at 30 September 2014, the aggregate temporary differences 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	The Banking Group and the Bank 2014	The Banking Group and the Bank 2013
Goodwill		
Cost	**477**	477
Accumulated impairment	**-**	-
Net carrying amount of goodwill	**477**	477
Computer software		
Cost	**538**	479
Accumulated amortisation and impairment	**(353)**	(296)
Net carrying amount of computer software	**185**	183
Total goodwill and other intangible assets	**662**	660

Goodwill is allocated to and tested at least annually for impairment as a part of its identified Cash Generating Unit ('**CGU**'). The operating segment of Retail Banking is the CGU to which the goodwill has been allocated.

The recoverable amount of the CGU is determined based on the Banking Group's projections of future pre-tax cash flows discounted by the Banking Group's after tax return on equity rate of 11.0% (30 September 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 CGU's carrying amount to exceed its recoverable amount.

Note 16 Other assets

$ millions	The Banking Group 2014	2013	The Bank 2014	2013
Accrued interest receivable	**154**	140	**153**	139
Securities sold not yet delivered	**-**	13	**-**	13
Trade debtors and prepayments	**26**	21	**24**	20
Account fees and commissions receivable	**3**	3	**3**	3
Other	**45**	39	**45**	39
Total other assets	**228**	216	**225**	214
Amounts expected to be recovered within 12 months	**228**	216	**225**	214
Amounts expected to be recovered after 12 months	**-**	-	**-**	-
Total other assets	**228**	216	**225**	214

Included in accrued interest receivable of the Bank and the Banking Group as at 30 September 2014 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 24 for details of the CB Programme).

Note 17 Due to other financial institutions

$ millions	The Banking Group and the Bank 2014	2013
Interest bearing interbank deposits	**200**	100
Non-interest bearing, repayable at call	**1**	-
Total due to other financial institutions	**201**	100
Due to other financial institutions:		
At call	**1**	-
Term	**200**	100
Total due to other financial institutions	**201**	100
Amounts expected to be settled within 12 months	**201**	100
Amounts expected to be settled after 12 months	**-**	-
Total due to other financial institutions	**201**	100

Note 18 Deposits

$ millions	The Banking Group 2014	2013	The Bank 2014	2013
Deposits at fair value				
Certificates of deposit	**1,154**	1,534	**1,154**	1,534
Total deposits at fair value	**1,154**	1,534	**1,154**	1,534
Deposits at amortised cost				
Non-interest bearing, repayable at call	**3,607**	3,271	**3,607**	3,271
Other interest bearing:				
At call	**20,620**	18,488	**19,659**	17,967
Term	**25,189**	24,889	**24,227**	24,094
Total deposits at amortised cost	**49,416**	46,648	**47,493**	45,332
Total deposits	**50,570**	48,182	**48,647**	46,866
Amounts expected to be settled within 12 months	**48,585**	46,670	**46,754**	45,386
Amounts expected to be settled after 12 months	**1,985**	1,512	**1,893**	1,480
Total deposits	**50,570**	48,182	**48,647**	46,866

Priority of financial liabilities in the event of liquidation

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

Note 19 Debt issues

$ millions	The Banking Group 2014	The Banking Group 2013	The Bank 2014	The Bank 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	**3,150**	3,741
Total long-term debt	**9,573**	8,869	**3,150**	3,741
Total debt issues	**12,592**	11,645	**3,150**	3,741
Debt issues at amortised cost	**9,573**	8,869	**3,150**	3,741
Debt issues at fair value	**3,019**	2,776	**-**	-
Total debt issues	**12,592**	11,645	**3,150**	3,741
Movement in debt issues				
Balance at beginning of the year	**11,645**	12,914	**3,741**	2,674
Issuance during the year	**10,023**	7,641	**440**	1,153
Repayments during the year	**(9,287)**	(9,094)	**(1,043)**	(75)
Effect of foreign exchange movements during the year	**218**	277	**-**	-
Effect of fair value movements and amortisation adjustments during the year	**(7)**	(93)	**12**	(11)
Balance at end of the year	**12,592**	11,645	**3,150**	3,741
Amounts expected to be settled within 12 months	**4,716**	5,067	**793**	1,079
Amounts expected to be settled after 12 months	**7,876**	6,578	**2,357**	2,662
Total debt issues	**12,592**	11,645	**3,150**	3,741

As at 30 September 2014, the Banking Group and the Bank had no New Zealand Government guaranteed debt on issue (30 September 2013: $1,881 million and $670 million respectively).

Note 20 Provisions

	The Banking Group and the Bank				
$ millions	Long Service Leave	Annual Leave and Other Employee Benefits	Litigation and Non-lending Losses	Impairment on Credit Commitments	Total
For the year ended 30 September 2014					
Balance as at 1 October 2013	**6**	**35**	**1**	**35**	**77**
Additional provisions recognised	**1**	**26**	**8**	**-**	**35**
Utilised during the year	**(1)**	**(28)**	**(3)**	**(4)**	**(36)**
Balance as at 30 September 2014	**6**	**33**	**6**	**31**	**76**
For the year ended 30 September 2013					
Balance as at 1 October 2012	5	41	2	35	83
Additional provisions recognised	1	25	2	-	28
Utilised during the year	-	(31)	(3)	-	(34)
Balance as at 30 September 2013	6	35	1	35	77

Provisions represent costs the Banking Group and the Bank 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 $36 million (30 September 2013: $41 million) for the Banking Group and the Bank.

Note 21 Other liabilities

$ millions	The Banking Group 2014	2013	The Bank 2014	2013
Accrued interest payable	**333**	334	**276**	274
Securities purchased but not yet delivered	**113**	-	**113**	-
Credit card loyalty programme	**31**	28	**31**	28
Retirement benefit obligations (refer to Note 30)	**11**	14	**11**	14
Trade creditors and other accrued expenses	**64**	66	**60**	63
Other	**95**	88	**85**	78
Total other liabilities	**647**	530	**576**	457
Amounts expected to be settled within 12 months	**636**	516	**565**	443
Amounts expected to be settled after 12 months	**11**	14	**11**	14
Total other liabilities	**647**	530	**576**	457

Note 22 Perpetual subordinated notes

Perpetual subordinated notes had been issued by the Bank to Westpac New Zealand Group Limited ('**WNZGL**'), the Bank's immediate parent company, in 2006 and constituted Upper Tier Two Capital of the Banking Group. The notes had no maturity date, but were able to be redeemed at par only at the option of the Bank. The notes paid quarterly distributions provided that at the time payment was made the Bank would be solvent immediately after payment. The notes were direct and unsecured obligations of the Bank and were subordinated to the claims of all creditors (including depositors) of the Bank other than those creditors whose claims against the Bank are expressed to rank equally with or after the claims of the note holder. On 29 November 2012, the Bank repaid $470 million of the perpetual subordinated notes and on 29 May 2013, the Bank repaid the remaining $500 million of perpetual subordinated notes.

Note 23 Share capital

Ordinary shares fully paid

	The Banking Group and the Bank 2014 Number of Shares Issued and Authorised	2013 Number of Shares Issued and Authorised
Balance at beginning of the year	**4,600,001,000**	4,600,001,000
Share capital repurchased	**(450,000,000)**	-
Balance at end of the year	**4,150,001,000**	4,600,001,000

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

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

On 21 November 2013, the Directors of the Bank paid a dividend of $375 million on the ordinary shares on issue to WNZGL (8.15 cents per share). On 22 May 2014, the Bank repurchased 450 million ordinary shares from its immediate parent company, WNZGL. Each share was repurchased for $1 per share. These shares were immediately cancelled on repurchase.

Notes to the financial statements

Note 24 Related entities

Banking Group

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

The Banking Group consists of the Bank and all of its controlled entities. As at 30 September 2014, the Bank had the following controlled entities:

Name of Entity	Principal Activity	Notes
Westpac NZ Operations Limited[1]	Holding company	
Aotearoa Financial Services Limited	Non-active company	
Number 120 Limited	Finance company	
The Home Mortgage Company Limited	Residential mortgage company	
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	9.5% owned[2]
Westpac NZ Covered Bond Limited	Guarantor	9.5% owned[2]
Westpac NZ Securitisation Holdings Limited	Holding company	9.5% owned[3]
Westpac NZ Securitisation Limited	Funding company	9.5% owned[3]
Westpac NZ Securitisation No.2 Limited	Non-active company	9.5% owned – Established 2 November 2012.[3]
Westpac Cash PIE Fund	Portfolio investment entity	Not owned – Established 14 November 2012.[4]
Westpac Term PIE Fund	Portfolio investment entity	Not owned[4]

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

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

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

4 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**') (an indirectly wholly-owned subsidiary of the Ultimate Parent Bank) is the manager and issuer. The manager has appointed the Bank to perform all customer management and account administration for Term PIE and Cash PIE. The Bank is the Term PIE and Cash PIE's registrar and administration manager. The Bank 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 Banking Group.

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

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

Investment in associate

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

Loan finance and current account banking facilities are provided by the Bank and the Ultimate Parent Bank to members of the 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 Ultimate Parent Bank

Management fees are paid by the Bank to the Ultimate Parent Bank for management and administration services (consisting of salaries and other head office expenses) provided by the Ultimate Parent Bank. The total amount charged by the Ultimate Parent Bank for the year ended 30 September 2014 was $2 million (30 September 2013: $3 million).

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

The NZ Branch provides financial market services, foreign currency, trade and interest rate risk products to the customers of the Bank. The Bank 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 the Bank. Management fees paid to the Bank for the year ended 30 September 2014 were $3 million (30 September 2013: $1 million).

Note 24 Related entities (continued)

In September 2013, the Bank repaid $1.0 billion of the $3.1 billion funding provided by the NZ Branch to finance the Bank'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 interest expense on this funding for the year ended 30 September 2014 was $86 million (30 September 2013: $135 million) and is included in interest expense – other.

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

Transactions with controlled entities of the Banking Group

Rental expenses are paid by the Bank to Westpac (NZ) Investments Limited ('**WNZIL**'). The total charge for the year ended 30 September 2014 was $100 million (30 September 2013: $101 million).

Westpac Securities NZ Limited ('**WSNZL**') provides offshore funding to the Bank. Funding management fees are paid by the Bank for these services. Funding management fees paid for the year ended 30 September 2014 were $3 million (30 September 2013: $6 million).

The Bank guarantees all payment obligations in respect of debt securities issued by controlled entities of the Banking Group, other than Westpac NZ Securitisation Limited ('**WNZSL**').

Management fees are paid by members of the Banking Group for certain operating costs incurred by the Bank. Management fees paid to the Bank for the year ended 30 September 2014 were $3 million (30 September 2013: $2 million).

In October 2008, WNZSL was set up as part of the Bank's internal mortgage-backed securitisation programme. Under this programme the Bank sold the rights, but not the obligations of a pool of housing loans to WNZSL (refer to Note 32). The purchase was funded by WNZSL's issuance of residential mortgage-backed securities ('**RMBS**'). These RMBS are currently held by the Bank and are included in 'Due from related entities'. The housing loans were not derecognised from the Bank'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) which is included in 'Due to related entities'. The RMBS and the liability to WNZSL are fully eliminated in the Banking Group's financial statements. Refer to Note 28 for a description of the Banking Group's obligation to repurchase 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 the Bank) in respect of obligations under the covered bonds issued from time to time by WSNZL under the CB Programme. That financial guarantee is supported by WNZCBL granting security in favour of the covered bondholders over the cover pool.

The cover pool is comprised of housing loans up to a value of $4,500 million as at 30 September 2014 (30 September 2013: $4,500 million). The intercompany loan made by the Bank to WNZCBL to fund the initial purchase (and subsequent further purchases which increased the cover pool) is included in the Bank's 'Due from related entities'. The housing loans purchased by WNZCBL were not derecognised from the Bank's financial statements (and therefore the Bank and the Banking Group recognises these housing loans) in accordance with the accounting policies outlined in Note 1. For this reason, the Bank recognises a liability owed to WNZCBL (in the form of a 'deemed loan' from WNZCBL) of an amount equivalent to the sum of the value of the housing loans, cash and unpaid accrued interest arising from, and in respect of, the housing loans and the asset performance fee, and is included in the Bank's 'Due to related entities'.

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 28 for a description of the Banking Group's obligation to repurchase housing loans sold to WNZCBL.

Pursuant to the terms of the CB Programme, any cash collected by the Bank 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, the Bank held $87 million on trust for WNZCBL (30 September 2013: $94 million).

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

Transactions with other controlled entities of the Ultimate Parent Bank

Management fees are paid by members of the Ultimate Parent Bank Group for certain operating costs incurred by the Bank. Management fees paid to the Bank for the year ended 30 September 2014 were $3 million (30 September 2013: $3 million).

Managed fund products are sold by the Bank on behalf of members of the Ultimate Parent Bank Group. The Bank receives commission from these sales. Commission received for the year ended 30 September 2014 was $9 million (30 September 2013: $9 million).

Life and general insurance products are sold by the Bank on behalf of other members of the Ultimate Parent Bank Group. The Bank receives commission on these sales. Life and general insurance commissions received for the year ended 30 September 2014 were $25 million and $14 million respectively from Westpac Life-NZ- Limited (30 September 2013: $25 million and $12 million).

In 2014, BTNZ opened a 32-day deposit placement with the Bank as part of its cash management activities. Interest paid on these deposits included in interest expense-other amounted to $1 million (30 September 2013: nil).

Refer to Note 22 for details of the settlement of the perpetual subordinated notes.

On 22 May 2014, the Bank repurchased 450 million ordinary shares from its immediate parent company, WNZGL (refer to Note 23).

Notes to the financial statements

Note 24 Related entities (continued)

Transactions with associates

In 2008, the 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).

Due from and to related entities

	The Banking Group		The Bank	
$ millions	**2014**	2013	**2014**	2013
Due from related entities				
Parent companies[1]	**1,843**	1,499	**1,843**	1,499
Controlled entities of the Banking Group	**-**	-	**9,594**	9,643
Other members of the Overseas Banking Group	**9**	11	**9**	11
Total due from related entities	**1,852**	1,510	**11,446**	11,153
Due from related entities at amortised cost	**863**	916	**10,457**	10,559
Due from related entities at fair value	**989**	594	**989**	594
Total due from related entities	**1,852**	1,510	**11,446**	11,153
Amounts expected to be recovered within 12 months	**1,796**	1,435	**1,890**	1,578
Amounts expected to be recovered after 12 months	**56**	75	**9,556**	9,575
Total due from related entities	**1,852**	1,510	**11,446**	11,153
Due to related entities				
Parent companies[1]	**3,342**	3,282	**3,277**	3,215
Controlled entities of the Banking Group	**-**	-	**21,176**	19,058
Other members of the Overseas Banking Group	**47**	1	**47**	-
Associates of the Banking Group	**48**	48	**48**	48
Total due to related entities	**3,437**	3,331	**24,548**	22,321
Due to related entities at amortised cost	**2,810**	2,743	**20,902**	18,957
Due to related entities at fair value	**627**	588	**3,646**	3,364
Total due to related entities	**3,437**	3,331	**24,548**	22,321
Amounts expected to be settled within 12 months	**1,049**	1,001	**7,480**	6,764
Amounts expected to be settled after 12 months	**2,388**	2,330	**17,068**	15,557
Total due to related entities	**3,437**	3,331	**24,548**	22,321

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

Other group investments

The Banking Group had significant non-controlling shareholdings in the following New Zealand based entities as at 30 September 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 Banking Group does not have significant influence over these entities, and therefore, they are not classified as associates.

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

Note 25 Derivative financial instruments

Derivative contracts include forwards and swaps, 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 Banking Group uses derivatives mainly as an end-user as part of its asset and liability management activities. Derivatives with related parties are included in due from/due to related entities.

Hedging

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

For the Banking Group and the Bank, the change in the fair value of hedging instruments designated as fair value hedges for the year ended 30 September 2014 was a $23 million loss (30 September 2013: $75 million gain) 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 $23 million gain (30 September 2013: $74 million loss).

Note 25 Derivative financial instruments (continued)

Cash flow hedges

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

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

	The Banking Group and the Bank 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)	**6**	**5**	**30**	**14**	**40**	**4**	**1**	**-**
Cash outflows (liabilities)	**3**	**6**	**30**	**16**	**40**	**4**	**1**	**-**

	The Banking Group and the Bank 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)	3	5	26	42	11	7	5	1
Cash outflows (liabilities)	4	5	25	44	10	6	5	1

For the year ended 30 September 2014, the hedge ineffectiveness recognised in relation to cash flow hedges was nil (30 September 2013: nil) in the Banking Group and the Bank.

Dual fair value and cash flow hedges

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

Derivatives held with external counterparties

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

	The Banking Group and the Bank 2014		
$ millions	Notional	Fair Value Asset	Fair Value (Liability)
Held for trading derivatives			
Interest rate derivatives			
Swaps	**115**	**3**	**-**
Total held for trading derivatives	**115**	**3**	**-**
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	**2,960**	**3**	**(95)**
Foreign exchange derivatives			
Swaps[1]	**3,160**	**67**	**(79)**
Total fair value hedging derivatives	**6,120**	**70**	**(174)**
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	**-**	**-**	**-**
Foreign exchange derivatives			
Swaps	**1,412**	**-**	**(12)**
Total cash flow hedging derivatives	**1,412**	**-**	**(12)**
Total derivatives	**7,647**	**73**	**(186)**
Amounts expected to be settled within 12 months		**-**	**(16)**
Amounts expected to be settled after 12 months		**73**	**(170)**
Total derivatives		**73**	**(186)**

[1] Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.

Note 25 Derivative financial instruments (continued)

$ millions	The Banking Group and the Bank 2013 Notional	Fair Value Asset	Fair Value (Liability)
Held for trading derivatives			
Interest rate derivatives			
Swaps	159	6	-
Total held for trading derivatives	159	6	-
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	2,705	2	(115)
Foreign exchange derivatives			
Swaps[1]	1,630	-	(55)
Total fair value hedging derivatives	4,335	2	(170)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	25	-	-
Foreign exchange derivatives			
Swaps	434	-	(8)
Total cash flow hedging derivatives	459	-	(8)
Total derivatives	4,953	8	(178)
Amounts expected to be settled within 12 months		-	(2)
Amounts expected to be settled after 12 months		8	(176)
Total derivatives		8	(178)

[1] Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.

Note 25 Derivative financial instruments (continued)

Derivatives held with related entities

$ millions	The Banking Group and the Bank 2014		
	Notional	Fair Value Asset	Fair Value (Liability)
Held for trading derivatives			
Interest rate derivatives			
Forwards	-	-	-
Swaps	13,663	4	(1)
Foreign exchange derivatives			
Swaps	3,708	239	(3)
Total held for trading derivatives	17,371	243	(4)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	4,105	1	(10)
Foreign exchange derivatives			
Swaps[1]	1,700	11	(162)
Total fair value hedging derivatives	5,805	12	(172)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	28,880	187	(84)
Total cash flow hedging derivatives	28,880	187	(84)
Total derivatives	52,056	442	(260)
Amounts expected to be settled within 12 months		386	(20)
Amounts expected to be settled after 12 months		56	(240)
Total derivatives		442	(260)

1 Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.

$ millions	The Banking Group and the Bank 2013		
	Notional	Fair Value Asset	Fair Value (Liability)
Held for trading derivatives			
Interest rate derivatives			
Forwards	11,450	-	(1)
Swaps	14,076	4	(13)
Foreign exchange derivatives			
Swaps	3,454	15	(59)
Total held for trading derivatives	28,980	19	(73)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	5,040	1	(22)
Foreign exchange derivatives			
Swaps[1]	2,902	9	(457)
Total fair value hedging derivatives	7,942	10	(479)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	22,522	105	(36)
Total cash flow hedging derivatives	22,522	105	(36)
Total derivatives	59,444	134	(588)
Amounts expected to be settled within 12 months		59	(406)
Amounts expected to be settled after 12 months		75	(182)
Total derivatives		134	(588)

1 Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.

Note 26 Fair value of financial instruments

Fair valuation control framework

The 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 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 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 Banking Group applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

The majority of models used by the Banking Group employ only observable market data as inputs. However, for certain financial instruments data may be employed which is not readily observable in current markets. 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 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 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 Ultimate Parent Bank's CDS curve for the relevant tenors to calculate the 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.

Fair value hierarchy

The 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 are NZ Government securities (30 September 2013: exchange traded equities).

- 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, debt issues at fair value, reverse repurchase agreements with related parties, and trading and available-for-sale debt securities including certificates of deposit, corporate bonds, local authority securities and securities purchased under agreement to resell; and
  - derivatives including interest rate swaps and foreign exchange swaps, with external and related parties.

- 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.

Note 26 Fair value of financial instruments (continued)

Financial instruments included in the Level 3 category are NZ unlisted equity instruments (30 September 2013: nil).

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 assets are, therefore, categorised 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 categorised as Level 2 instruments.

- *Debt market products*

  There are observable markets for New Zealand Government bonds in which the Ultimate Parent 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.

- *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.

- *Certificates of deposit*

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

- *Debt issues at fair value*

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

Note 26 Fair value of financial instruments (continued)

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

	The Banking Group 2014				The Bank 2014			
$ millions	**Level 1**	**Level 2**	**Level 3**[1]	**Total**	**Level 1**	**Level 2**	**Level 3**[1]	**Total**
Financial assets								
Trading securities	**-**	**1,216**	**-**	**1,216**	**-**	**1,216**	**-**	**1,216**
Derivative financial instruments	**-**	**73**	**-**	**73**	**-**	**73**	**-**	**73**
Available-for-sale securities	**1,975**	**993**	**42**	**3,010**	**1,975**	**993**	**42**	**3,010**
Due from related entities	**-**	**989**	**-**	**989**	**-**	**989**	**-**	**989**
Total financial assets carried at fair value	**1,975**	**3,271**	**42**	**5,288**	**1,975**	**3,271**	**42**	**5,288**
Financial liabilities								
Deposits at fair value	**-**	**1,154**	**-**	**1,154**	**-**	**1,154**	**-**	**1,154**
Trading liabilities	**-**	**90**	**-**	**90**	**-**	**90**	**-**	**90**
Derivative financial instruments	**-**	**186**	**-**	**186**	**-**	**186**	**-**	**186**
Debt issues at fair value	**-**	**3,019**	**-**	**3,019**	**-**	**-**	**-**	**-**
Due to related entities	**-**	**627**	**-**	**627**	**-**	**3,646**	**-**	**3,646**
Total financial liabilities carried at fair value	**-**	**5,076**	**-**	**5,076**	**-**	**5,076**	**-**	**5,076**

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

	The Banking Group 2013				The Bank 2013			
$ millions	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Trading securities	-	1,578	-	1,578	-	1,578	-	1,578
Derivative financial instruments	-	8	-	8	-	8	-	8
Available-for-sale securities	100	2,615	-	2,715	100	2,615	-	2,715
Due from related entities	-	594	-	594	-	594	-	594
Total financial assets carried at fair value	100	4,795	-	4,895	100	4,795	-	4,895
Financial liabilities								
Deposits at fair value	-	1,534	-	1,534	-	1,534	-	1,534
Derivative financial instruments	-	178	-	178	-	178	-	178
Debt issues at fair value	-	2,776	-	2,776	-	-	-	-
Due to related entities	-	588	-	588	-	3,364	-	3,364
Total financial liabilities carried at fair value	-	5,076	-	5,076	-	5,076	-	5,076

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 Banking Group and the Bank during the year ended 30 September 2014 (30 September 2013: no material changes in fair value).

In the current financial year, the Ultimate Parent Bank, being a primary dealer, has seen and participated in increased liquidity in the Government bond markets as part of its broader financial market strategy. New Zealand Government bonds of $1,975 million have, therefore, 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).

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

Note 26 Fair value of financial instruments (continued)

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 Bank and the Banking Group's financial instruments not measured at fair value as at 30 September 2014:

	The 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	**1,903**	**1,903**	**-**	**-**	**1,903**	1,804	1,804
Due from other financial institutions	**553**	**162**	**391**	**-**	**553**	173	173
Loans	**64,582**	**-**	**-**	**64,452**	**64,452**	61,585	61,488
Due from related entities	**863**	**-**	**854**	**9**	**863**	916	916
Other assets	**192**	**-**	**-**	**192**	**192**	190	190
Total financial assets carried at amortised cost	**68,093**	**2,065**	**1,245**	**64,653**	**67,963**	64,668	64,571
Financial liabilities							
Due to other financial institutions	**201**	**-**	**201**	**-**	**201**	100	100
Deposits	**49,416**	**-**	**48,619**	**840**	**49,459**	46,648	46,721
Debt issues	**9,573**	**-**	**9,704**	**-**	**9,704**	8,869	9,121
Due to related entities	**2,810**	**-**	**2,744**	**66**	**2,810**	2,743	2,743
Other liabilities	**548**	**-**	**-**	**548**	**548**	434	434
Total financial liabilities carried at amortised cost	**62,548**	**-**	**61,268**	**1,454**	**62,722**	58,794	59,119

	The Bank						
	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	**1,903**	**1,903**	**-**	**-**	**1,903**	1,804	1,804
Due from other financial institutions	**553**	**162**	**391**	**-**	**553**	173	173
Loans	**64,490**	**-**	**-**	**64,360**	**64,360**	61,479	61,382
Due from related entities	**10,457**	**-**	**854**	**9,603**	**10,457**	10,559	10,559
Other assets	**190**	**-**	**-**	**190**	**190**	188	188
Total financial assets carried at amortised cost	**77,593**	**2,065**	**1,245**	**74,153**	**77,463**	74,203	74,106
Financial liabilities							
Due to other financial institutions	**201**	**-**	**201**	**-**	**201**	100	100
Deposits	**47,493**	**-**	**46,694**	**840**	**47,534**	45,332	45,402
Debt issues	**3,150**	**-**	**3,230**	**-**	**3,230**	3,741	3,850
Due to related entities	**20,902**	**-**	**11,811**	**9,143**	**20,954**	18,957	19,102
Other liabilities	**486**	**-**	**-**	**486**	**486**	372	372
Total financial liabilities carried at amortised cost	**72,232**	**-**	**61,936**	**10,469**	**72,405**	68,502	68,826

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 Bank's credit spreads.

- *Other financial assets and liabilities*

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

Note 27 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 17.

The tables below exclude amounts not subject to offsetting or enforceable netting arrangements, and therefore, may not tie back to the balance sheet. The amounts presented in this note do not represent the credit risk exposure of the Banking Group or Bank, refer to Note 35.1 for information on credit risk management.

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

	The Banking Group and the Bank 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					
Derivative financial instruments	8	(2)	-	-	6
Due from related entities – securities purchased under agreement to resell[1]	460	-	-	(460)	-
Due from related entities – derivative financial instruments[1]	134	(134)	-	-	-
Total assets	602	(136)	-	(460)	6
Liabilities					
Securities sold under agreement to repurchase[2]	-	-	-	-	-
Derivative financial instruments	178	(2)	(167)	-	9
Due to related entities – securities sold under agreement to repurchase[3]	-	-	-	-	-
Due to related entities – derivative financial instruments[3]	588	(134)	-	-	454
Total liabilities	766	(136)	(167)	-	463

[1] Forms part of Due from related entities in the balance sheet (refer to Note 24).
[2] Forms part of Trading liabilities in the balance sheet (refer to Note 11).
[3] Forms part of Due to related entities in the balance sheet (refer to Note 24).

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 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 Banking Group are explained further in the 'Credit risk management' section under Note 35.1.

Note 28 Commitments and contingent liabilities

$ millions	The Banking Group 2014	2013	The Bank 2014	2013
Commitments for capital expenditure				
Due within one year	**3**	3	**-**	-
Other expenditure commitments:				
One year or less	**121**	113	**121**	113
Between one and five years	**308**	219	**308**	219
Over five years	**44**	1	**44**	1
Total other expenditure commitments	**473**	333	**473**	333
Lease commitments (all leases are classified as operating leases)				
Premises and sites	**277**	302	**-**	-
Motor vehicles	**7**	8	**7**	8
Total lease commitments	**284**	310	**7**	8
Lease commitments are due as follows:				
One year or less	**64**	62	**4**	3
Between one and five years	**162**	166	**3**	5
Over five years	**58**	82	**-**	-
Total lease commitments	**284**	310	**7**	8
Other contingent liabilities and commitments				
Direct credit substitutes	**85**	74	**85**	74
Loan commitments with certain drawdown	**236**	205	**236**	205
Transaction-related contingent items	**602**	818	**602**	818
Short-term, self-liquidating trade-related contingent liabilities	**399**	386	**399**	386
Other commitments to provide financial services	**21,312**	19,369	**21,166**	19,224
Total other contingent liabilities and commitments	**22,634**	20,852	**22,488**	20,707

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

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

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

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

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

(a) held by 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 WNZSL (pursuant to its 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 the loan; or

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

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

The Bank 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 the Bank. The aggregate amount of outstanding principal and interest as at 30 September 2014 was $9,335 million (30 September 2013: $7,784 million). As the proceeds of the debt issuances are immediately on-lent to the Bank, the aggregate amount guaranteed is already reflected in the Bank's balance sheet as part of the amounts due to related entities.

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

Note 28 Commitments and contingent liabilities (continued)

Other contingent liabilities

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

The Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision has been made in these financial statements where appropriate. Additional information relating to any provision or contingent liability has not been provided where disclosure of such information might be expected to prejudice seriously the position of the Bank or the Banking Group.

WNZIL, a subsidiary of the Bank, leases the majority of the properties the Bank occupies. As is normal practice, the lease agreements contain 'make good' provisions which require WNZIL, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by WNZIL upon vacation of all leased premises subject to these provisions as at 30 September 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 Banking Group believes it is highly unlikely that WNZIL would incur a material operating loss as a result of such 'make good' provisions in the normal course of its business operations.

Note 29 Segment information

The 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 Banking Group. There is no difference in accounting measurement between 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 Banking Group does not rely on any single major customer for its revenue base.

The Banking Group's operating segments have changed in the current reporting period as a result of 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 Banking Group's operating segments are defined by the customers they serve and the services they provide. The Banking Group has identified the following main operating segments:

- 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.

Reconciling items primarily represent:

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

Note 29 Segment information (continued)

$ millions	Retail Banking	Business Bank and Wealth	Corporate and Institutional	Reconciling Items[1]	Total
	The Banking Group				
Year ended 30 September 2014					
Net interest income	**738**	**338**	**376**	**188**	**1,640**
Non-interest income	**204**	**179**	**98**	**(1)**	**480**
Net operating income	**942**	**517**	**474**	**187**	**2,120**
Net operating income from external customers	**1,254**	**563**	**833**	**(530)**	**2,120**
Net internal interest expense	**(312)**	**(46)**	**(359)**	**717**	**-**
Net operating income	**942**	**517**	**474**	**187**	**2,120**
Depreciation	**-**	**-**	**-**	**(31)**	**(31)**
Software amortisation costs	**-**	**-**	**(1)**	**(56)**	**(57)**
Other operating expenses	**(156)**	**(76)**	**(47)**	**(450)**	**(729)**
Total operating expenses	**(156)**	**(76)**	**(48)**	**(537)**	**(817)**
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**	**426**	**(337)**	**1,278**
Total gross loans	**30,204**	**14,111**	**20,816**	**(107)**	**65,024**
Total deposits	**23,212**	**13,491**	**12,707**	**1,160**	**50,570**
Year ended 30 September 2013					
Net interest income	701	312	395	128	1,536
Non-interest income	196	166	101	(92)	371
Net operating income	897	478	496	36	1,907
Net operating income from external customers	1,151	499	856	(599)	1,907
Net internal interest expense	(254)	(21)	(360)	635	-
Net operating income	897	478	496	36	1,907
Depreciation	-	-	-	(27)	(27)
Software amortisation costs	-	-	(1)	(34)	(35)
Other operating expenses	(160)	(79)	(50)	(459)	(748)
Total operating expenses	(160)	(79)	(51)	(520)	(810)
Impairment charges on loans	(63)	(2)	(43)	1	(107)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
Profit before income tax expense	674	397	402	(482)	991
Total gross loans	28,590	13,414	20,294	(161)	62,137
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 30 Superannuation commitments

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

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

%	The Banking Group and the Bank 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 21.

Note 31 Key management personnel

Key management personnel compensation

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

	The Banking Group and the Bank	
$'000s	**Year Ended 30-Sep-14**	Year Ended 30-Sep-13
Salaries and other short-term benefits	**9,274**	10,352
Post-employment benefits	**433**	523
Other termination benefits	**502**	-
Share-based payments	**2,025**	3,787
Total key management personnel compensation	**12,234**	14,662
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

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

Loans and deposits with key management personnel

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

As at 30 September 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 32 Structured entities, securitisation, funds management and other fiduciary activities

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 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 Bank 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 the Bank. Those securities are currently held by the Bank. 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 Bank to maintain a readily available source of cash should market conditions become difficult. The Bank takes advantage of the Reserve Bank's guidelines for its overnight reverse repo facility and open market operations, which allows banks in New Zealand to offer 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 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 24).

Funds managed by a member of the Ultimate Parent Bank Group

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

Note 32 Structured entities, securitisation, funds management and other fiduciary activities (continued)

Unconsolidated structured entities

As at 30 September 2014, the Bank and the Banking Group had securitised housing loans amounting to $115 million (30 September 2013: $158 million), which had been sold by the Bank and the 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 Bank and the Banking Group receive 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 Bank and the Banking Group as the risks and rewards of the assets have been substantially transferred to external parties. Pursuant to the terms of the servicing agreements for HLT and MIF, any cash collected by the Bank in respect of the securitised assets is held on behalf of NZGT, as trustee for HLT and MIF until the relevant monthly payment date when this cash is paid to NZGT. As at 30 September 2014, the amount so held by the Bank was $1 million (30 September 2013: $1 million).

In addition to the above, the Banking Group has entered into transactions with other unconsolidated structured entities in the normal course of business to facilitate customer transactions 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 Banking Group arising from the performance of the entity. These include holdings of debt or equity instruments, guarantees, liquidity and other credit support arrangements, loan commitments and derivatives that transfer financial risks from the entity to the Banking Group.

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

- 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 Banking Group in other unconsolidated structured entities, not disclosed elsewhere in these financial statements, generally comprise loans and other credit commitments. The Banking Group provides lending facilities to other unconsolidated structured entities, in the normal course of its lending business to earn income in the form of interest and lending fees. The other unconsolidated structured entities mainly comprise securitisation vehicles originated or sponsored by third parties, where the primary source of debt service, security and repayment is derived from the underlying assets of the entity, and investment funds (including Banking Group managed funds). All loans and credit commitments are subject to the Banking Group's credit approval process with collateral specific to the circumstances of each loan. The carrying amount of loans (net of provisions) recognised in the balance sheet and off-balance sheet commitments relating to interest in other unconsolidated structured entities amounted to $871 million and $1,025 million respectively. The maximum exposure to loss is the 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 Banking Group.

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

Sponsored entities

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

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

Funds management and other fiduciary activities

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

Term PIE and Cash PIE are administered by the Banking Group (refer to Note 24 for further details) and invest in deposits with the Bank. The Bank is considered to control Term PIE and Cash PIE, and as such both are consolidated within the financial statements of the Banking Group. As at 30 September 2014, $962 million and $960 million (30 September 2013: $795 million and $521 million) of funds under management were invested by Term PIE and Cash PIE, respectively, in the Bank's deposits.

Marketing and distribution of insurance products

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

Risk management

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

Note 32 Structured entities, securitisation, funds management and other fiduciary activities (continued)

Furthermore, during the year ended 30 September 2014:

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

Peak aggregate funding provided to entities

During the year ended 30 September 2014, the Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product marketing and distribution activities described in this note (30 September 2013: nil).

Note 33 Insurance business

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

Note 34 Capital adequacy

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

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

During the year ended 30 September 2014, the Banking Group complied in full with all its externally imposed capital requirements.

Capital management

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

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

On 22 May 2014, the Bank repurchased 450 million ordinary shares from its immediate parent company WNZGL (refer to Note 23).

No changes were made in the objectives, policies and processes during the year ended 30 September 2014.

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

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

Note 34 Capital adequacy (continued)

The Banking Group's capital summary

$ millions	The Banking Group 2014 Unaudited
Tier One Capital	
Common Equity Tier One Capital	
Paid-up ordinary shares issued by the Bank plus related share premium	**4,150**
Retained earnings (net of appropriations)	**2,397**
Accumulated other comprehensive income and other disclosed reserves[1]	**52**
Less deductions from Common Equity Tier One Capital	
Goodwill	**(477)**
Other intangible assets	**(185)**
Cash flow hedge reserve	**(17)**
Deferred tax asset deduction	**(144)**
Expected loss excess over eligible allowance	**(147)**
Total Common Equity Tier One Capital	**5,629**
Additional Tier One Capital	
Interests arising from ordinary shares issued by fully consolidated subsidiaries and held by third parties[2]	**2**
Total Tier One Capital	**5,631**
Tier Two Capital	
Tier Two Capital instruments	**-**
Revaluation reserves	**-**
Eligible impairment allowance in excess of expected loss	**-**
Total Tier Two Capital	**-**
Total Capital	**5,631**

[1] Accumulated other comprehensive income and other disclosed reserves consist of available-for-sale securities reserve of $35 million and cash flow hedge reserve of $17 million.

[2] Additional Tier One Capital is recognised as equity in the Banking Group's balance sheet.

Capital ratios

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

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

%	The Banking Group 2014 Unaudited	2013 Unaudited
Capital adequacy ratios		
Common Equity Tier One Capital ratio	**11.9**	12.3
Tier One Capital ratio	**11.9**	12.3
Total Capital ratio	**11.9**	12.3
Reserve Bank minimum ratios		
Common Equity Tier One Capital ratio	**4.5**	4.5
Tier One Capital ratio	**6.0**	6.0
Total Capital ratio	**8.0**	8.0
Buffer ratios		
Buffer ratio[1]	**3.9**	4.3
Buffer ratio requirement[1]	**2.5**	2.5

[1] From 1 January 2014, a prescribed minimum regulatory buffer ratio of 2.5% became effective.

Note 34 Capital adequacy (continued)
Banking Group Pillar 1 total capital requirement

	2014		
$ millions	Total Exposure After Credit Risk Mitigation Unaudited	Risk-weighted Exposure or Implied Risk-weighted Exposure Unaudited	Total Capital Requirement Unaudited
Credit risk			
Exposures subject to the internal ratings based approach	88,114	34,526	2,763
Equity exposures	42	176	14
Specialised lending subject to the slotting approach	5,816	5,716	457
Exposures subject to the standardised approach	3,204	1,165	94
Total credit risk[1]	97,176	41,583	3,328
Operational risk	N/A	4,875	390
Market risk	N/A	805	64
Supervisory adjustment	N/A	-	-
Total	97,176	47,263	3,782

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

Solo capital adequacy

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

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

	The Bank	
%	2014 Unaudited	2013 Unaudited
Capital adequacy ratios		
Common Equity Tier One Capital ratio	9.8	10.0
Tier One Capital ratio	9.8	10.0
Total Capital ratio	9.8	10.0

Capital for other material risk

Summary of ICAAP

The Banking Group's ICAAP outlines the Banking Group's approach to ensuring it has sufficient available capital to meet minimum capital requirements, even under stressed scenarios. The Reserve Bank document 'Guidelines on a Bank's Internal Capital Adequacy Assessment Process (ICAAP)' (BS12) reinforces this internal discipline by incorporating a specific requirement that the board of a New Zealand incorporated bank has a duty to ensure that capital held by the bank is commensurate with the level and extent of its risks.

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

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

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

	The Banking Group	
$ millions	2014 Unaudited	2013 Unaudited
Internal capital allocation		
Other material risk	644	571

Note 34 Capital adequacy (continued)

Ultimate Parent Bank Group Basel III capital adequacy ratios

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

%	2014 Unaudited	2013 Unaudited
Ultimate Parent Bank 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
Ultimate Parent 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 Ultimate Parent Bank Group and the Ultimate Parent Bank (Extended Licensed Entity) are publicly available in the Ultimate Parent Bank Group's Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

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

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

Note 35 Risk management

General

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

Risk management strategy and governance

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

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

The Bank's BAC comprises five Directors of the Bank all of whom are non-executive and of which four are independent. The Bank's BAC assists the Board in fulfilling its responsibilities in relation to external reporting of financial information, internal control of operational risk 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 Banking Group's auditors and monitors the relationship between management and the external auditors.

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

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

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

Note 35 Risk management (continued)

Core risk principles

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

The essential elements of sound risk management include:

- a 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.

Risk types

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

- Credit risk: the risk of financial loss where a customer or counterparty fails to meet their financial obligations;
- Compliance risk: the risk of legal or regulatory sanction, financial loss or reputational loss arising from the Banking Group's failure to abide by the compliance obligations required of the Banking Group;
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. 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 Bank 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 Bank'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 Bank's business plans and objectives;
- Environmental, social and governance risk: the risk that the Bank 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 Banking Group may compromise the financial and operating position of the Bank (contagion risk).

Note 35 Risk management (continued)

Management assurance programme

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

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

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

Independent New Zealand Assurance unit

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

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

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.

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

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

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

Credit risk management

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

- **Transaction-managed approach**

  For larger customers, the Banking Group evaluates credit requests by undertaking detailed individual customer and transaction risk analysis (the '**transaction-managed**' approach). Such customers are assigned a customer risk grade ('**CRG**') based on the Banking Group's estimate of their PD. Each facility is assigned a LGD taking into account the realistic distress value of assets over which the Banking Group holds security and considering the seniority of exposures in the capital and debt structure of the customer. The final assignment of CRGs and LGDs are approved by independent credit officers with appropriate authority. Divisional operational units are responsible for ensuring accurate and timely recording of all changes to customer and facility data.

- **Program-managed approach**

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

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

Note 35 Risk management (continued)

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

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

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

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

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

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

Cash and balances with central bank	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 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.
Due from subsidiaries	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 35 Risk management (continued)

Risk reduction

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

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

Collateral valuation and management

The Banking Group revalues exposures and collateral related to financial markets positions on a daily basis to monitor the net risk position, and formal processes are in place to ensure calls for collateral top-up or exposure reduction are made promptly. An independent operational unit has responsibility for monitoring these positions. The collateralisation arrangements are documented via the Support Annex of the International Swaps and Derivatives Association dealing agreements.

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

- cash; and
- prescribed government securities.

Netting

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

Payment and close-out netting is undertaken for off-balance sheet financial market transactions with counterparties with whom the Banking Group has entered into legally enforceable master dealing agreements which allow such netting in specified jurisdictions. Payment netting allows the Bank to net 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 Banking Group only recognises unconditional irrevocable guarantees or standby letters of credit issued by, or eligible credit derivative protection bought from, the following entities, provided they are not related to the underlying obligor:

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

Internal credit risk rating system

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

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

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

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

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

Note 35 Risk management (continued)

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

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

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

Use of internal credit risk estimates

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

Economic capital

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

Pricing

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

Provisioning

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

Credit approval authorities

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

Risk-adjusted performance measurement

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

Regulatory capital

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

Overview of internal credit risk ratings process by portfolio

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

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

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

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

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

PD

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

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

Note 35 Risk management (continued)

LGD

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

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

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

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

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

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

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

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

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

PD

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

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

LGD

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

EAD

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

TCE

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

Note 35 Risk management (continued)

Maximum exposure to credit risk

$ millions	The Banking Group 2014	The Banking Group 2013	The Bank 2014	The Bank 2013
Financial assets				
Cash and balances with central banks	**1,903**	1,804	**1,903**	1,804
Due from other financial institutions	**553**	173	**553**	173
Trading securities	**1,216**	1,578	**1,216**	1,578
Derivative financial instruments	**73**	8	**73**	8
Available-for-sale securities	**3,010**	2,715	**3,010**	2,715
Loans	**64,582**	61,585	**64,490**	61,479
Due from related entities	**1,852**	1,510	**11,446**	11,153
Other assets	**192**	190	**190**	188
Total financial assets	**73,381**	69,563	**82,881**	79,098
Contingent liabilities and commitments				
Direct credit substitutes	**85**	74	**85**	74
Loan commitments with certain drawdown	**236**	205	**236**	205
Transaction-related contingent items	**602**	818	**602**	818
Short-term, self-liquidating trade-related contingent liabilities	**399**	386	**399**	386
Other commitments to provide financial services	**21,312**	19,369	**21,166**	19,224
Total contingent liabilities and commitments	**22,634**	20,852	**22,488**	20,707
Total maximum credit risk exposure	**96,015**	90,415	**105,369**	99,805

Mapping of Basel categories to the Banking Group portfolios

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

Note 35 Risk management (continued)

Credit risk exposures by asset class

The Banking Group's credit risk exposures by asset class as at 30 September 2014 (Unaudited)

PD Band (%)	TCE $ millions	EAD $ millions	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Regulatory Capital $ millions
Residential mortgages							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	2,387	2,041	0.18	21.59	8.53	174	14
0.25 to 1.0	24,081	23,057	0.55	21.59	19.58	4,514	362
1.0 to 2.5	16,657	16,186	1.39	21.59	37.22	6,025	482
2.5 to 10.0	3,955	3,903	4.65	21.59	76.66	2,992	239
10.0 to 99.99	-	-	-	-	-	-	-
Default	304	301	100.00	21.59	217.28	654	52
Total	47,384	45,488	1.84	21.59	31.57	14,359	1,149
Other retail (Credit cards, personal loans, personal overdrafts)							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	624	424	0.14	40.59	13.92	59	5
0.25 to 1.0	1,783	1,055	0.36	63.32	39.53	417	33
1.0 to 2.5	1,701	1,523	2.18	65.79	91.46	1,393	111
2.5 to 10.0	386	370	5.39	83.40	132.16	489	39
10.0 to 99.99	260	260	19.53	69.64	151.92	395	32
Default	17	15	100.00	70.32	126.67	19	2
Total	4,771	3,647	3.38	64.23	76.01	2,772	222
Small business							
0.00 to 0.10	185	131	0.03	73.76	7.63	10	1
0.10 to 0.25	-	-	-	-	-	-	-
0.25 to 1.0	594	590	0.54	22.92	18.31	108	9
1.0 to 2.5	1,523	1,491	1.84	22.10	29.85	445	35
2.5 to 10.0	217	218	5.06	20.98	33.03	72	6
10.0 to 99.99	27	27	17.55	23.57	51.85	14	1
Default	34	57	100.00	40.68	150.88	86	7
Total	2,580	2,514	4.11	25.32	29.24	735	59

[1] As required by the conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 6.

Note 35 Risk management (continued)

PD Grade	TCE $ millions	EAD $ millions	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Regulatory Capital $ millions
Banking Group – Corporate/ Business lending							
AAA	366	366	0.01	24.30	12.02	44	4
AA	1,872	1,792	0.03	39.62	13.78	247	20
A	3,759	3,662	0.08	49.20	24.90	912	73
BBB	5,961	5,703	0.20	45.42	47.33	2,699	216
BB	12,113	12,176	1.47	37.18	80.54	9,807	784
B	461	460	3.70	35.77	103.26	475	38
Other	698	702	26.37	46.80	243.30	1,708	137
Default	228	289	100.00	48.03	111.42	322	26
Total	25,458	25,150	2.73	41.15	64.47	16,214	1,298
Sovereign							
AAA	485	485	0.01	10.00	1.86	9	1
AA	4,948	4,875	0.02	7.67	1.83	89	6
A	1,084	842	0.06	20.37	8.19	69	6
BBB	-	-	-	-	-	-	-
BB	6	6	1.98	33.90	16.67	1	-
B	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	6,523	6,208	0.02	9.60	2.71	168	13
Bank							
AAA	-	-	-	-	-	-	-
AA	1,368	1,355	0.03	60.00	20.15	273	22
A	27	27	0.05	60.00	18.52	5	-
BBB	2	2	0.13	21.63	-	-	-
BB	-	-	-	-	-	-	-
B	1	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	1,398	1,384	-	59.94	20.09	278	22
Total credit risk exposures subject to the internal ratings based approach	88,114	84,391				34,526	2,763

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

$ millions	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value	EAD	Value	EAD
Residential mortgages	7,731	5,836	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,838	1,714	-	-
Small business	969	880	-	-
Corporate/Business lending	9,062	8,574	-	-
Sovereign	1,286	971	-	-
Bank	29	19	-	-
Total	21,915	17,994	-	-

Equity	TCE $ millions	EAD $ millions	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Regulatory Capital $ millions
Equity holdings (not deducted from capital) that are not publicly traded	42	42	-	-	419.05	176	14

[1] As required by the conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 6.

Note 35 Risk management (continued)

The Banking Group's Specialised lending: Project and property finance credit risk exposures as at 30 September 2014 (Unaudited)

Supervisory slotting grade	TCE $ millions	EAD $ millions	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Regulatory Capital $ millions
Strong	1,602	1,609	74.21	1,194	96
Good	2,830	2,835	95.38	2,704	216
Satisfactory	1,058	1,061	121.87	1,293	103
Weak	173	198	265.15	525	42
Default	153	165	-	-	-
Total	5,816	5,868	97.41	5,716	457

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

	TCE $ millions	EAD $ millions	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Required Regulatory Capital $ millions
Undrawn commitments and other off-balance sheet exposures	719	733	90.00	660	53

The Banking Group's credit risk exposures subject to the standardised approach as at 30 September 2014 (Unaudited)

Calculation of on-balance sheet exposures

	TCE $ millions	EAD $ millions	Average Risk Weight %	Risk-weighted Exposure $ millions	Required Regulatory Capital $ millions
Property, plant and equipment and other assets	275	275	100.00	275	22
Related parties	1,458	1,458	32.51	474	38
Total on-balance sheet exposures	1,733	1,733		749	60

Calculation of off-balance sheet exposures

	Total Principal Amount $ millions	Credit Equivalent Amount $ millions	Average Risk Weight %	Risk-weighted Exposure $ millions	Required Regulatory Capital $ millions
Market related contracts subject to the standardised approach					
Foreign exchange contracts	11,019	730	20.00	146	12
Interest rate contracts	55,132	741	20.00	148	12
Credit value adjustment				56	5
Total market related contracts subject to the standardised approach	66,151	1,471		350	29
Standardised subtotal (on and off balance sheet)	67,884	3,204		1,099	89
After adjustment for scalar[1]				1,165	94

[1] As required by the conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 6.

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

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

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

LVR range $ millions	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	15,230	6,922	9,729	5,291	2,405	39,577
Undrawn commitments and other off-balance sheet exposures	4,730	1,202	1,210	421	168	7,731
Value of exposures	19,960	8,124	10,939	5,712	2,573	47,308

Note 35 Risk management (continued)

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

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

$ millions	The Banking Group 30-Sep-14 Unaudited
Term loans – Housing (as disclosed in Note 12) and Residential mortgages – total gross loans (as disclosed in Note 13)	**39,702**
Reconciling items:	
Unamortised deferred fees and expenses	**(128)**
Fair value hedge adjustments	**3**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**7,731**
Residential mortgages by LVR	**47,308**
Reconciling item:	
Accrued interest receivable	**76**
Residential mortgages – TCE (as disclosed in Credit risk exposures by asset class)	**47,384**

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 Banking Group. The Banking Group considers loans for business purposes to be delinquent after considering all relevant circumstances surrounding the customer. Residential mortgages and personal loans that are more than five days past due are considered to be delinquent.

All the financial assets of the Banking Group and Bank as at 30 September 2014 and 2013, other than loans (as disclosed in Note 12) are neither past due nor impaired.

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

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

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

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

%	The Banking Group 2014	The Banking Group 2013	The Bank 2014	The Bank 2013
Fully secured	**75**	71	**75**	71
Partially secured	**12**	15	**12**	15
Unsecured	**13**	14	**13**	14
Total net loans	**100**	100	**100**	100

Financial assets that are neither past due nor impaired

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

	The Banking Group							
	2014				2013			
$ millions	Strong	Good/ Satisfactory	Weak	Total	Strong	Good/ Satisfactory	Weak	Total
Trading securities	**1,203**	**13**	**-**	**1,216**	1,578	-	-	1,578
Available-for-sale securities	**2,968**	**42**	**-**	**3,010**	2,694	-	-	2,694
Loans	**19,694**	**42,424**	**1,003**	**63,121**	18,323	40,363	1,339	60,025

	The Bank							
	2014				2013			
$ millions	Strong	Good/ Satisfactory	Weak	Total	Strong	Good/ Satisfactory	Weak	Total
Trading securities	**1,203**	**13**	**-**	**1,216**	1,578	-	-	1,578
Available-for-sale securities	**2,968**	**42**	**-**	**3,010**	2,694	-	-	2,694
Loans	**19,687**	**42,348**	**997**	**63,032**	18,317	40,273	1,333	59,923

Note 35 Risk management (continued)

35.2 Compliance and operational risk

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

Compliance risk

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

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

Operational risk

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

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

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

Calculating operational risk capital

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

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

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

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

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

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

	2014	
$ millions	Implied Risk-weighted Exposure Unaudited	Total Operational Risk Capital Requirement Unaudited
Methodology implemented		
Advanced Measurement Approach		
Operational risk	**4,875**	**390**

Note 35 Risk management (continued)
35.3 Market risk

Market risk is the potential for loss arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates and equity prices. As the Ultimate Parent Bank's financial markets business in New Zealand is conducted by the NZ Branch, the market risks faced by the Banking Group are only of a non-traded nature (interest rate risk in the banking book). Neither the Banking Group nor the Bank carries material foreign currency or equity price risk due to the risks being hedged.

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

Approach

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

Asset and liability management

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

NII sensitivity

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

Limits

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

Risk reporting

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

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

Risk mitigation

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

Market risk notional capital charges

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

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six month period ended 30 September 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 (Internal Models Based Approach)' (BS2B).

Note 35 Risk management (continued)

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

	The Banking Group 2014 Unaudited	
$ millions	Implied Risk-weighted Exposure	Aggregate Capital Charge
End-of-period		
Interest rate risk	**763**	**61**
Foreign currency risk	**-**	**-**
Equity risk	**42**	**3**
	805	**64**
Peak end-of-day		
Interest rate risk	**1,550**	**124**
Foreign currency risk	**54**	**4**
Equity risk	**82**	**7**

VaR

The Banking Group applies a VaR methodology to its portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions.

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

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

$ millions	2014	2013
Interest rate risk	**0.88**	0.96

Interest rate sensitivity

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

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

Note 35 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
	The Banking Group 2014						
Financial assets							
Cash and balances with central banks	1,750	-	-	-	-	153	1,903
Due from other financial institutions	553	-	-	-	-	-	553
Trading securities	1,142	74	-	-	-	-	1,216
Derivative financial instruments	-	-	-	-	-	73	73
Available-for-sale securities	31	35	409	306	2,187	42	3,010
Loans	35,767	4,653	7,042	10,680	6,882	(442)	64,582
Due from related entities	1,382	-	-	-	-	470	1,852
Other assets	-	-	-	-	-	192	192
Total financial assets	40,625	4,762	7,451	10,986	9,069	488	73,381
Non-financial assets							1,068
Total assets							74,449
Financial liabilities							
Due to other financial institutions	200	-	-	-	-	1	201
Deposits	33,610	6,956	4,412	1,284	701	3,607	50,570
Trading liabilities	90	-	-	-	-	-	90
Derivative financial instruments	-	-	-	-	-	186	186
Debt issues	5,075	939	507	1,724	4,347	-	12,592
Due to related entities	3,138	2	-	-	4	293	3,437
Other liabilities	-	-	-	-	-	548	548
Total financial liabilities	42,113	7,897	4,919	3,008	5,052	4,635	67,624
Non-financial liabilities							220
Total liabilities							67,844
On-balance sheet interest rate repricing gap	(1,488)	(3,135)	2,532	7,978	4,017		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	12,824	(21)	(3,806)	(6,034)	(2,963)		
Net interest rate repricing gap	11,336	(3,156)	(1,274)	1,944	1,054		

Note 35 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
				The Bank 2014			
Financial assets							
Cash and balances with central banks	1,750	-	-	-	-	153	1,903
Due from other financial institutions	553	-	-	-	-	-	553
Trading securities	1,142	74	-	-	-	-	1,216
Derivative financial instruments	-	-	-	-	-	73	73
Available-for-sale securities	31	35	409	306	2,187	42	3,010
Loans	35,681	4,650	7,038	10,679	6,881	(439)	64,490
Due from related entities	10,882	-	-	-	-	564	11,446
Other assets	-	-	-	-	-	190	190
Total financial assets	50,039	4,759	7,447	10,985	9,068	583	82,881
Non-financial assets							1,139
Total assets							84,020
Financial liabilities							
Due to other financial institutions	200	-	-	-	-	1	201
Deposits	32,229	6,679	4,239	1,225	668	3,607	48,647
Trading liabilities	90	-	-	-	-	-	90
Derivative financial instruments	-	-	-	-	-	186	186
Debt issues	1,478	148	-	10	1,514	-	3,150
Due to related entities	17,283	1,506	679	1,775	2,875	430	24,548
Other liabilities	-	-	-	-	-	486	486
Total financial liabilities	51,280	8,333	4,918	3,010	5,057	4,710	77,308
Non-financial liabilities							216
Total liabilities							77,524
On-balance sheet interest rate repricing gap	(1,241)	(3,574)	2,529	7,975	4,011		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	12,824	(21)	(3,806)	(6,034)	(2,963)		
Net interest rate repricing gap	11,583	(3,595)	(1,277)	1,941	1,048		

Note 35 Risk management (continued)
35.4 Funding and liquidity risk

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

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

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

Key aspects of the liquidity management strategy are as follows:

Liquidity risk management framework

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

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

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

Daily liquidity modelling and reporting

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

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

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

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

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

Annual funding plan

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

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

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

Note 35 Risk management (continued)

Contingency planning

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

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

Sources of liquidity

The principal sources of liquidity for the Bank are:

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

Wholesale funding

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

	The Banking Group					
	2014			2013		
Markets	**Issuer**	**Programme Type**	**Programme Limit**	Issuer	Programme Type	Programme Limit
Euro market	**Ultimate Parent Bank / WSNZL[1]**	**Euro Commercial Paper and Certificate of Deposit Programme**	**US$20 billion**	Ultimate Parent Bank / WSNZL[1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion
Euro market	**WSNZL[1]**	**Programme for Issuance of Debt Instruments**	**US$7.5 billion**	WSNZL[1]	Programme for Issuance of Debt Instruments	US$7.5 billion
Euro market	**WSNZL[1]**	**Global Covered bond Programme**	**€5.0 billion**	WSNZL[1]	Global Covered bond Programme	€5.0 billion
United States	**WSNZL[1]**	**Section 4(2) US Commercial Paper Programme**	**US$10 billion**	WSNZL[1]	Section 4(2) US Commercial Paper Programme	US$10 billion
New Zealand	**The Bank**	**Medium-term Note Programme and Registered Certificate of Deposit Programme**	**No limit**	The Bank	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit

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

Liquid assets

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

	The Banking Group and the Bank	
$ millions	**2014**	2013
Cash and balances with central banks	**1,903**	1,804
Due from other financial institutions	**391**	-
Due from other financial institutions (included in due from related entities)	**330**	467
Supranational securities	**491**	433
NZ Government securities	**2,066**	2,454
NZ public securities	**644**	457
NZ corporate securities	**960**	1,309
Residential mortgage-backed securities	**3,992**	3,992
Total liquid assets	**10,777**	10,916

Note 35 Risk management (continued)

Liquidity analysis

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

	The Banking Group 2014						
$ millions	On Demand	Up to 1 Month	Over 1 Month and up to 3 Months	Over 3 Months and up to 1 Year	Over 1 Year and up to 5 Years	Over 5 Years	Total
Financial assets							
Cash and balances with central banks	1,903	-	-	-	-	-	1,903
Due from other financial institutions	266	287	-	-	-	-	553
Trading securities	-	83	756	110	305	-	1,254
Derivative financial instruments:							
Held for trading	3	-	-	-	-	-	3
Held for hedging purposes (net settled)	-	-	1	-	3	-	4
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(17)	(52)	(1,476)	(323)	(1,868)
Cash inflow	-	-	-	13	1,269	318	1,600
Available-for-sale securities	42	14	57	533	2,374	386	3,406
Loans	5,452	6,006	4,621	6,532	23,336	53,428	99,375
Due from related entities:							
Non-derivative balances	863	547	-	-	-	-	1,410
Derivative financial instruments:							
Held for trading	243	-	-	-	-	-	243
Held for hedging purposes (net settled)	-	114	47	(9)	40	1	193
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(5)	(410)	(2)	-	(417)
Cash inflow	-	-	-	412	2	-	414
Other assets	-	38	-	-	-	-	38
Total undiscounted financial assets	8,772	7,089	5,460	7,129	25,851	53,810	108,111
Financial liabilities							
Due to other financial institutions	1	200	-	-	-	-	201
Deposits	24,227	4,453	8,750	11,768	2,150	-	51,348
Trading liabilities	-	90	-	-	-	-	90
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	11	6	24	56	8	105
Held for hedging purposes (gross settled):							
Cash outflow	-	6	35	553	2,909	-	3,503
Cash inflow	-	(1)	(1)	(499)	(2,664)	-	(3,165)
Debt issues	-	379	1,070	3,551	7,971	318	13,289
Due to related entities:							
Non-derivative balances	586	415	72	81	2,238	-	3,392
Derivative financial instruments:							
Held for trading	4	-	-	-	-	-	4
Held for hedging purposes (net settled)	-	14	52	(27)	57	-	96
Held for hedging purposes (gross settled):							
Cash outflow	-	-	22	122	1,619	-	1,763
Cash inflow	-	-	(1)	(103)	(1,334)	-	(1,438)
Other liabilities	-	215	-	-	-	-	215
Total undiscounted financial liabilities	24,818	5,782	10,005	15,470	13,002	326	69,403
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	236	-	-	-	-	-	236
Other commitments to provide financial services	21,312	-	-	-	-	-	21,312
Total undiscounted contingent liabilities and commitments	21,548	-	-	-	-	-	21,548

Note 35 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
	The Banking Group 2013						
Financial assets							
Cash and balances with central banks	1,804	-	-	-	-	-	1,804
Due from other financial institutions	4	169	-	-	-	-	173
Trading securities	-	362	766	202	303	-	1,633
Derivative financial instruments:							
Held for trading	6	-	-	-	-	-	6
Held for hedging purposes (net settled)	-	-	1	(2)	3	-	2
Available-for-sale securities	-	113	23	158	1,628	1,240	3,162
Loans	6,146	5,818	4,604	6,024	21,154	46,621	90,367
Due from related entities:							
Non-derivative balances	916	460	-	-	-	-	1,376
Derivative financial instruments:							
Held for trading	19	-	-	-	-	-	19
Held for hedging purposes (net settled)	2	(4)	(5)	61	59	1	114
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(4)	(14)	(416)	-	(434)
Cash inflow	-	-	-	8	408	-	416
Other assets	-	50	-	-	-	-	50
Total undiscounted financial assets	8,897	6,968	5,385	6,437	23,139	47,862	98,688
Financial liabilities							
Due to other financial institutions	-	100	-	-	-	-	100
Deposits	21,759	5,378	8,604	11,501	1,635	-	48,877
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	12	10	33	61	6	122
Held for hedging purposes (gross settled):							
Cash outflow	-	-	19	61	1,955	-	2,035
Cash inflow	-	-	-	(57)	(1,744)	-	(1,801)
Debt issues	-	431	1,403	3,577	6,846	248	12,505
Due to related entities:							
Non-derivative balances	508	48	29	63	2,403	-	3,051
Derivative financial instruments:							
Held for trading	73	-	-	-	-	-	73
Held for hedging purposes (net settled)	1	18	5	27	8	-	59
Held for hedging purposes (gross settled):							
Cash outflow	-	14	17	1,628	1,773	-	3,432
Cash inflow	-	-	(1)	(1,298)	(1,438)	-	(2,737)
Other liabilities	-	100	-	-	-	-	100
Total undiscounted financial liabilities	22,341	6,101	10,086	15,535	11,499	254	65,816
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	205	-	-	-	-	-	205
Other commitments to provide financial services	19,369	-	-	-	-	-	19,369
Total undiscounted contingent liabilities and commitments	19,574	-	-	-	-	-	19,574

Note 35 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
	The Bank 2014						
Financial assets							
Cash and balances with central banks	1,903	-	-	-	-	-	1,903
Due from other financial institutions	266	287	-	-	-	-	553
Trading securities	-	83	756	110	305	-	1,254
Derivative financial instruments:							
Held for trading	3	-	-	-	-	-	3
Held for hedging purposes (net settled)	-	-	1	-	3	-	4
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(17)	(52)	(1,476)	(323)	(1,868)
Cash inflow	-	-	-	13	1,269	318	1,600
Available-for-sale securities	42	14	57	533	2,374	386	3,406
Loans	5,390	6,005	4,621	6,532	23,332	53,370	99,250
Due from related entities:							
Non-derivative balances[1]	916	586	98	354	1,884	10,350	14,188
Derivative financial instruments:							
Held for trading	243	-	-	-	-	-	243
Held for hedging purposes (net settled)	-	114	47	(9)	40	1	193
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(5)	(410)	(2)	-	(417)
Cash inflow	-	-	-	412	2	-	414
Other assets	-	37	-	-	-	-	37
Total undiscounted financial assets	8,763	7,126	5,558	7,483	27,731	64,102	120,763
Financial liabilities							
Due to other financial institutions	1	200	-	-	-	-	201
Deposits	23,266	4,246	8,528	11,302	2,050	-	49,392
Trading liabilities	-	90	-	-	-	-	90
Derivative financial instruments:							
Held for hedging purposes (net settled):	-	11	6	24	56	8	105
Held for hedging purposes (gross settled):							
Cash outflow	-	6	35	553	2,909	-	3,503
Cash inflow	-	(1)	(1)	(499)	(2,664)	-	(3,165)
Debt issues	-	58	12	879	2,705	-	3,654
Due to related entities:							
Non-derivative balances[1]	2,122	981	1,443	3,557	9,463	10,231	27,797
Derivative financial instruments:							
Held for trading	4	-	-	-	-	-	4
Held for hedging purposes (net settled)	-	14	52	(27)	57	-	96
Held for hedging purposes (gross settled):							
Cash outflow	-	-	22	122	1,619	-	1,763
Cash inflow	-	-	(1)	(103)	(1,334)	-	(1,438)
Other liabilities	-	210	-	-	-	-	210
Total undiscounted financial liabilities	25,393	5,815	10,096	15,808	14,861	10,239	82,212
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	236	-	-	-	-	-	236
Other commitments to provide financial services	21,166	-	-	-	-	-	21,166
Total undiscounted contingent liabilities and commitments	21,402	-	-	-	-	-	21,402

[1] The Bank provides a financial guarantee in relation to commercial paper and other debt securities issued by WSNZL, the proceeds of which are immediately on lent to the Bank. As a result, the financial guarantee provided by the Bank is reflected as part of the amounts due to related entities.

Note 35 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
				The Bank 2013			
Financial assets							
Cash and balances with central banks	1,804	-	-	-	-	-	1,804
Due from other financial institutions	4	169	-	-	-	-	173
Trading securities	-	362	766	202	303	-	1,633
Derivative financial instruments:							
Held for trading	6	-	-	-	-	-	6
Held for hedging purposes (net settled)	-	-	1	(2)	3	-	2
Available-for-sale securities	-	113	23	158	1,628	1,240	3,162
Loans	6,081	5,817	4,604	6,024	21,148	46,585	90,259
Due from related entities:							
Non-derivative balances	1,028	476	77	280	1,490	11,666	15,017
Derivative financial instruments:							
Held for trading	19	-	-	-	-	-	19
Held for hedging purposes (net settled)	2	(4)	(5)	61	59	1	114
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(4)	(14)	(416)	-	(434)
Cash inflow	-	-	-	8	408	-	416
Other assets	-	49	-	-	-	-	49
Total undiscounted financial assets	8,944	6,982	5,462	6,717	24,623	59,492	112,220
Financial liabilities							
Due to other financial institutions	-	100	-	-	-	-	100
Deposits	21,238	5,225	8,396	11,080	1,602	-	47,541
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	12	10	33	61	6	122
Held for hedging purposes (gross settled):							
Cash outflow	-	-	19	61	1,955	-	2,035
Cash inflow	-	-	-	(57)	(1,744)	-	(1,801)
Debt issues	-	7	437	833	2,821	248	4,346
Due to related entities:							
Non-derivative balances[1]	1,417	638	1,279	3,508	7,952	11,432	26,226
Derivative financial instruments:							
Held for trading	73	-	-	-	-	-	73
Held for hedging purposes (net settled)	1	18	5	27	8	-	59
Held for hedging purposes (gross settled):							
Cash outflow	-	14	17	1,628	1,773	-	3,432
Cash inflow	-	-	(1)	(1,298)	(1,438)	-	(2,737)
Other liabilities	-	98	-	-	-	-	98
Total undiscounted financial liabilities	22,729	6,112	10,162	15,815	12,990	11,686	79,494
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	205	-	-	-	-	-	205
Other commitments to provide financial services	19,224	-	-	-	-	-	19,224
Total undiscounted contingent liabilities and commitments	19,429	-	-	-	-	-	19,429

[1] The Bank provides a financial guarantee in relation to commercial paper and other debt securities issued by WSNZL, the proceeds of which are immediately on lent to the Bank. As a result, the financial guarantee provided by the Bank is reflected as part of the amounts due to related entities.

Note 36 Concentration of funding

$ millions	The Banking Group 2014	The Banking Group 2013	The Bank 2014	The Bank 2013
Funding consists of				
Due to other financial institutions	**201**	100	**201**	100
Deposits	**50,570**	48,182	**48,647**	46,866
Trading liabilities	**90**	-	**90**	-
Debt issues[1]	**12,592**	11,645	**3,150**	3,741
Due to related entities[2]	**2,777**	2,703	**23,753**	21,531
Total funding	**66,230**	62,630	**75,841**	72,238
Analysis of funding by geographical areas[1]				
New Zealand	**54,100**	52,147	**73,156**	69,667
Australia	**489**	495	**488**	495
United Kingdom	**5,907**	4,928	**242**	225
United States of America	**3,254**	2,986	**235**	210
Other	**2,480**	2,074	**1,720**	1,641
Total funding	**66,230**	62,630	**75,841**	72,238
Analysis of funding by industry sector				
Accommodation, cafes and restaurants	**221**	237	**215**	236
Agriculture	**1,134**	996	**1,105**	978
Construction	**1,216**	1,323	**1,178**	1,265
Finance and insurance	**22,252**	21,624	**12,726**	13,634
Forestry and fishing	**145**	146	**145**	146
Government, administration and defence	**1,685**	1,344	**1,685**	1,344
Manufacturing	**1,410**	1,365	**1,388**	1,351
Mining	**69**	85	**67**	85
Property services and business services	**4,539**	3,918	**4,353**	3,842
Services	**4,395**	4,155	**4,224**	4,041
Trade	**1,579**	1,425	**1,528**	1,346
Transport and storage	**390**	243	**388**	242
Utilities	**631**	586	**631**	586
Households	**20,677**	18,696	**19,444**	17,939
Other	**3,110**	3,784	**3,011**	3,672
Subtotal	**63,453**	59,927	**52,088**	50,707
Due to related entities[2]	**2,777**	2,703	**23,753**	21,531
Total funding	**66,230**	62,630	**75,841**	72,238

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

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

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

Note 37 Concentration of credit exposures

	The Banking Group		The Bank	
$ millions	2014	2013	2014	2013
On-balance sheet credit exposures consists of				
Cash and balances with central banks	**1,903**	1,804	**1,903**	1,804
Due from financial institutions	**553**	173	**553**	173
Trading securities	**1,216**	1,578	**1,216**	1,578
Derivative financial instruments	**73**	8	**73**	8
Available-for-sale securities	**3,010**	2,715	**3,010**	2,715
Loans	**64,582**	61,585	**64,490**	61,479
Due from related entities	**1,852**	1,510	**11,446**	11,153
Other assets	**192**	190	**190**	188
Total on-balance sheet credit exposures	**73,381**	69,563	**82,881**	79,098
Analysis of on-balance sheet credit exposures by geographical areas				
New Zealand	**71,438**	67,848	**80,938**	77,384
Australia	**529**	876	**529**	876
United States of America	**456**	131	**456**	131
Other	**958**	708	**958**	707
Total on-balance sheet credit exposures	**73,381**	69,563	**82,881**	79,098
Analysis of on-balance sheet credit exposures by industry sector				
Accommodation, cafes and restaurants	**488**	513	**488**	513
Agriculture	**6,919**	6,565	**6,919**	6,565
Construction	**1,190**	1,346	**1,190**	1,346
Finance and insurance	**4,333**	4,125	**4,333**	4,115
Forestry and fishing	**339**	345	**339**	345
Government, administration and defence	**4,787**	4,676	**4,787**	4,676
Manufacturing	**2,284**	2,229	**2,284**	2,229
Mining	**563**	539	**563**	539
Property	**11,520**	10,361	**11,520**	10,361
Property services and business services	**1,962**	1,894	**1,962**	1,894
Services	**2,319**	2,587	**2,319**	2,587
Trade	**3,022**	3,187	**3,022**	3,187
Transport and storage	**1,164**	1,216	**1,164**	1,216
Utilities	**1,280**	1,328	**1,280**	1,328
Retail lending	**29,569**	27,605	**29,473**	27,494
Other	**194**	52	**194**	52
Subtotal	**71,933**	68,568	**71,837**	68,447
Provisions for impairment charges on loans	**(442)**	(552)	**(439)**	(538)
Due from related entities	**1,852**	1,510	**11,446**	11,153
Other assets	**38**	37	**37**	36
Total on-balance sheet credit exposures	**73,381**	69,563	**82,881**	79,098
Off-balance sheet credit exposures				
Contingent liabilities and commitments	**22,634**	20,852	**22,488**	20,707
Total off-balance sheet credit exposures	**22,634**	20,852	**22,488**	20,707
Analysis of off-balance sheet credit exposures by industry sector				
Accommodation, cafes and restaurants	**89**	98	**89**	98
Agriculture	**707**	677	**707**	677
Construction	**516**	418	**516**	418
Finance and insurance	**2,109**	2,009	**2,109**	2,009
Forestry and fishing	**61**	70	**61**	70
Government, administration and defence	**988**	991	**988**	991
Manufacturing	**2,040**	1,519	**2,040**	1,519
Mining	**117**	176	**117**	176
Property	**2,070**	1,693	**2,070**	1,693
Property services and business services	**757**	869	**757**	869
Services	**1,243**	1,027	**1,243**	1,027
Trade	**1,952**	1,731	**1,952**	1,731
Transport and storage	**472**	799	**472**	799
Utilities	**1,433**	1,318	**1,433**	1,318
Retail lending	**8,033**	7,437	**7,887**	7,292
Other	**47**	20	**47**	20
Total off-balance sheet credit exposures	**22,634**	20,852	**22,488**	20,707

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

Note 37 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

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

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

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

- as at 30 September 2014 was one counterparty with a credit rating of A- or A3 or above, or its equivalent, having an aggregate credit exposure between 15-19%; and
- for the three months ended 30 September 2014 was two counterparties with a credit rating of A- or A3 or above, or its equivalent, with one having a peak end-of-day aggregate exposure between 10-14% and the other having a peak end-of-day aggregate exposure between 15%-19%.

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

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

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

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

The Reserve Bank defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits. Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the year ended 30 September 2014 and then dividing that amount by the Banking Group's Tier One Capital as at 30 September 2014.

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

	The Banking Group	
$ millions	As at 30-Sep-14	Peak End-of-day for the Year Ended 30-Sep-14
Credit exposures to connected persons:		
On gross basis, before netting	2,028	2,673
As a percentage of Tier One Capital of the Banking Group at end of the year	36.0%	47.5%
Amount that has been netted off in determining the net exposure	831	858
As a percentage of Tier One Capital of the Banking Group at end of the year	14.8%	15.2%
On partial bilateral net basis	1,197	1,815
As a percentage of Tier One Capital of the Banking Group at end of the year	21.3%	32.2%
Credit exposures to non-bank connected persons	8	8
As a percentage of Tier One Capital of the Banking Group at end of the year	0.1%	0.1%

As at 30 September 2014, the rating-contingent limit applicable to the Banking Group was 70% of Tier One Capital. This has not changed during the year ended 30 September 2014. Within this overall rating-contingent limit there is a sub-limit of 15% of Tier One Capital which applies to the aggregate credit exposure to non-bank connected persons.

The limits on aggregate credit exposures to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times during the year ended 30 September 2014.

Where a bank is funding a large loan it is common practice to share the risk of a customer default through risk transfer to an acceptable entity. These arrangements are called risk lay-off arrangements. As at 30 September 2014, the Banking Group had no material aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons).

The aggregate amount of the Banking Group's individual credit provisions provided against credit exposures to connected persons was nil as at 30 September 2014.

Note 39 Reconciliation of profit after income tax expense to net cash provided by/(used in) operating activities

	The Banking Group		The Bank	
$ 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/(used in) operating activities				
Profit after income tax expense	**941**	714	**925**	691
Adjustments:				
Impairment charges on loans	**26**	107	**24**	104
Computer software amortisation costs	**57**	35	**57**	35
Depreciation on property, plant and equipment	**31**	27	**7**	5
Share-based payments	**4**	4	**4**	4
Movement in other assets	**(113)**	(5)	**(112)**	(30)
Movement in other liabilities	**9**	5	**14**	14
Movement in current and deferred tax	**57**	(11)	**59**	(8)
Tax losses transferred from related entities	**3**	16	**-**	8
Tax on cash flow hedge reserve	**7**	(2)	**7**	(2)
Tax on available-for-sale reserve	**(4)**	2	**(4)**	2
Movement in due from other financial institutions	**11**	149	**11**	149
Movement in trading securities	**488**	449	**488**	449
Net loans advanced to customers	**(3,051)**	(2,270)	**(3,063)**	(2,280)
Net (increase)/decrease in due from related entities	**(34)**	151	**15**	(642)
Net increase in due to other financial institutions	**101**	97	**101**	97
Net increase in deposits	**2,388**	4,792	**1,781**	4,196
Movement in trading liabilities	**90**	-	**90**	-
Movement in external and related entity derivative financial instruments	**(495)**	(309)	**(495)**	(309)
Net cash flows provided by/(used in) operating activities	**516**	3,951	**(91)**	2,483

Note 40 Events after the reporting date

The Bank's conditions of registration were amended with effect from 1 October 2014. The amendments refer to updated Reserve Bank documents including the 'Capital Adequacy Framework (Internal Models Based Approach) (BS2B)'. BS2B includes a new requirement for banks which use internal models to maintain a compendium of approved models with the Reserve Bank.

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

On 4 December 2014, the Directors of the Bank resolved to repurchase 450 million ordinary shares from its immediate parent company, WNZGL. Each share will be repurchased for $1 per share. These shares will be immediately cancelled on repurchase.

Independent Auditors' Report

To the shareholder of Westpac New Zealand Limited

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

We have audited pages 13 to 87 of the Disclosure Statement of Westpac New Zealand Limited (the '**Bank**') which consists of the financial statements required by Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the '**Order**') and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 34 and 35) required by Schedules 4, 7, 13, 14, 15 and 17 of the Order. The financial statements comprise the balance 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 Bank and the Banking Group. The '**Banking Group**' comprises the Bank and the entities it controlled at 30 September 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors of Westpac New Zealand Limited (the 'Directors') are responsible for the Disclosure Statement, which includes financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 34 and 35) disclosed in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15 and 17 of the Order and presented to us by the Directors. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Bank and 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 Bank and 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 Bank and the Banking Group in the areas of other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the Bank, the Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the Bank, the Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the Bank and the Banking Group. We have no other interests in the Bank, the Banking Group or Westpac Banking Corporation Group.

Opinion

In our opinion, the financial statements on pages 13 to 87 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11, 13, 14, 15 and 17 of the Order and included within the balance sheets and Notes 13, 32, 33, 34, 35, 37 and 38):

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

(ii) comply with International Financial Reporting Standards; and

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

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

In our opinion, the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and included within the balance sheets and Notes 13, 32, 33, 35, 37 and 38:

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

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

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

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

We also report in accordance with the requirements of 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 capital adequacy disclosed in Notes 34 and 35) 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 Bank and the Banking Group as far as appears from an examination of those records.

Report on the Supplementary Information Relating to Capital Adequacy

We have reviewed the supplementary information relating to capital adequacy required by Schedule 11 of the Order as disclosed in Notes 34 and 35 of the financial statements of the Bank and the Banking Group for the year ended 30 September 2014.

Directors' Responsibility for the Supplementary Information Relating to Capital Adequacy

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

Auditors' Responsibility

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

We 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 the Bank's conditions of registration;

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

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

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 capital adequacy, in accordance with NZ SRE 2410, is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy disclosed in Notes 34 and 35.

Opinion

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy disclosed in Notes 34 and 35, as required by Schedule 11 of the Order, is not in all material respects:

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

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

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

Restriction on Distribution or Use

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

Chartered Accountants
4 December 2014

Auckland