WESTPAC NEW ZEALAND LIMITED

Disclosure Statement

For the six months ended 31 March 2023

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Contents

Glossary of terms

Certain information contained in this Disclosure Statement is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (**'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'**);
- Westpac Banking Corporation (otherwise referred to as the **'Ultimate Parent Bank'**);
- Ultimate Parent Bank and its controlled entities (otherwise referred to as the **'Ultimate Parent Bank Group'**); and
- New Zealand Branch of the Ultimate Parent Bank (otherwise referred to as the **'NZ Branch'**).

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.

The Disclosure Statement also uses the following terms as defined below.

ANZSIC	Australia and New Zealand Standard Industrial classification
AT1	Additional Tier 1 capital
BCBS	Basel Committee on Banking Supervision
BPRs	Banking Prudential Requirements
BPS Act	Banking (Prudential Supervision) Act 1989
BS13	Reserve Bank document 'Liquidity Policy'
CAP	Collectively assessed provisions
CB Programme	The Bank's Global Covered Bond Programme
EAD	Exposure at default
ECL	Expected credit losses
Fidelity Life	Fidelity Life Assurance Company Limited
Financial statements	Condensed consolidated interim financial statements
FVIS	Fair value through income statement
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
IAP	Individually assessed provisions
IRB	Internal ratings-based
LGD	Loss given default
LVR	Loan-to-value ratio
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
PD	Probability of default
Reserve Bank	Reserve Bank of New Zealand
RWA	Risk weighted assets
SPV	Special purpose vehicle
Westpac Life	Westpac Life-NZ- Limited (renamed Fidelity Insurance Limited on 28 February 2022)
WSNZL	Westpac Securities NZ Limited

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 six months ended 31 March 2023, except as noted on pages 27 and 51:

(a) the Bank has complied in all material respects with each condition of registration that applied during that period;

(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:

Philippa Greenwood

Catherine McGrath

David Green

Rob Hamilton

David Havercroft

Sam Knowles

Jonathan Mason

Christine Parker

Michael Rowland

Dated this 18th day of May 2023

Income statement for the six months ended 31 March 2023

$ millions	Note	THE BANKING GROUP Six Months Ended 31 Mar 23 Unaudited	Six Months Ended 31 Mar 22 Unaudited
Interest income:			
Calculated using the effective interest method	2	**2,805**	1,600
Other	2	**50**	13
Total interest income	2	**2,855**	1,613
Interest expense	2	**(1,546)**	(526)
Net interest income		**1,309**	1,087
Non-interest income			
Net fees and commissions	3	**111**	121
Other	3	**3**	8
Total non-interest income		**114**	129
Net operating income		**1,423**	1,216
Operating expenses	4	**(619)**	(543)
Impairment (charges)/benefits	5	**(154)**	15
Profit before income tax		**650**	688
Income tax expense		**(183)**	(191)
Net profit attributable to the owner of the Bank		**467**	497

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

Statement of comprehensive income for the six months ended 31 March 2023

$ millions	THE BANKING GROUP Six Months Ended 31 Mar 23 Unaudited	Six Months Ended 31 Mar 22 Unaudited
Net profit attributable to the owner of the Bank	**467**	497
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Gains/(losses) recognised in equity on:		
Investment securities	**45**	(182)
Cash flow hedging instruments	**(3)**	276
Transferred to income statement:		
Cash flow hedging instruments	**(72)**	38
Income tax on items taken to or transferred from equity:		
Investment securities	**(13)**	51
Cash flow hedging instruments	**21**	(88)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit obligation recognised in equity (net of tax)	**-**	7
Net other comprehensive income for the period (net of tax)	**(22)**	102
Total comprehensive income attributable to the owner of the Bank	**445**	599

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

Balance sheet as at 31 March 2023

		THE BANKING GROUP	
$ millions	Note	**31 Mar 23 Unaudited**	30 Sep 22 Audited
Assets			
Cash and balances with central banks		**11,187**	10,820
Collateral paid		**59**	42
Trading securities and financial assets measured at FVIS		**2,287**	2,118
Derivative financial instruments		**150**	169
Investment securities		**6,763**	5,623
Loans	6, 7	**98,209**	96,882
Other financial assets		**278**	263
Due from related entities		**1,616**	2,606
Property and equipment		**401**	402
Deferred tax assets		**106**	39
Intangible assets		**885**	785
Other assets		**106**	69
Total assets		**122,047**	119,818
Liabilities			
Collateral received		**145**	82
Deposits and other borrowings	8	**82,566**	80,848
Other financial liabilities		**5,818**	4,348
Derivative financial instruments		**102**	118
Due to related entities		**1,949**	2,961
Debt issues	9	**19,801**	19,933
Current tax liabilities		**104**	58
Provisions		**220**	233
Other liabilities		**358**	374
Loan capital		**2,085**	2,083
Total liabilities		**113,148**	111,038
Net assets		**8,899**	8,780
Shareholder's equity			
Share capital		**7,300**	7,300
Reserves		**115**	137
Retained profits		**1,484**	1,343
Total shareholder's equity		**8,899**	8,780

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

Statement of changes in equity for the six months ended 31 March 2023

	THE BANKING GROUP				
		Reserves			
$ millions	**Share Capital**	**Investment Securities Reserve**	**Cash Flow Hedge Reserve**	**Retained Profits**	**Total Shareholder's Equity**
As at 30 September 2021 (Audited)	7,300	(60)	45	1,078	8,363
Six months ended 31 March 2022 (Unaudited)					
Net profit attributable to the owner of the Bank	-	-	-	497	497
Net gains/(losses) from changes in fair value	-	(182)	276	-	94
Income tax effect	-	51	(77)	-	(26)
Transferred to income statement	-	-	38	-	38
Income tax effect	-	-	(11)	-	(11)
Remeasurement of defined benefit obligations	-	-	-	9	9
Income tax effect	-	-	-	(2)	(2)
Total comprehensive income for the six months ended 31 March 2022	-	(131)	226	504	599
Transactions with owner:					
Dividends paid on ordinary shares	-	-	-	(465)	(465)
As at 31 March 2022 (Unaudited)	7,300	(191)	271	1,117	8,497
As at 30 September 2022 (Audited)	**7,300**	**(285)**	**422**	**1,343**	**8,780**
Six months ended 31 March 2023 (Unaudited)					
Net profit attributable to the owner of the Bank	**-**	**-**	**-**	**467**	**467**
Net gains/(losses) from changes in fair value	**-**	**45**	**(3)**	**-**	**42**
Income tax effect	**-**	**(13)**	**1**	**-**	**(12)**
Transferred to income statement	**-**	**-**	**(72)**	**-**	**(72)**
Income tax effect	**-**	**-**	**20**	**-**	**20**
Remeasurement of defined benefit obligations	**-**	**-**	**-**	**-**	**-**
Income tax effect	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the six months ended 31 March 2023	**-**	**32**	**(54)**	**467**	**445**
Transactions with owner:					
Dividends paid on ordinary shares (refer to Note 10)	**-**	**-**	**-**	**(326)**	**(326)**
As at 31 March 2023 (Unaudited)	**7,300**	**(253)**	**368**	**1,484**	**8,899**

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

Statement of cash flows for the six months ended 31 March 2023

$ millions	THE BANKING GROUP Six Months Ended 31 Mar 23 Unaudited	Six Months Ended 31 Mar 22 Unaudited
Cash flows from operating activities		
Interest received	**2,853**	1,627
Interest paid	**(1,321)**	(470)
Non-interest income received	**129**	111
Operating expenses paid	**(606)**	(485)
Income tax paid	**(195)**	(192)
Cash flows from operating activities before changes in operating assets and liabilities	**860**	591
Net (increase)/decrease in:		
Collateral paid	**(17)**	110
Trading securities and financial assets measured at FVIS	**(169)**	297
Loans	**(1,396)**	(1,563)
Other financial assets	**(1)**	(4)
Due from related entities	**36**	(997)
Other assets	**2**	1
Net increase/(decrease) in:		
Collateral received	**63**	(179)
Deposits and other borrowings	**1,718**	1,997
Other financial liabilities	**1,233**	(566)
Due to related entities	**(1,240)**	(256)
Other liabilities	**4**	1
Net movement in external and related entity derivative financial instruments	**453**	(29)
Net cash provided by/(used in) operating activities	**1,546**	(597)
Cash flows from investing activities		
Purchase of investment securities	**(1,119)**	(707)
Proceeds from investment securities	**35**	150
Purchase of capitalised computer software	**(118)**	(66)
Purchase of property and equipment	**(26)**	(10)
Net cash provided by/(used in) investing activities	**(1,228)**	(633)
Cash flows from financing activities		
Net movement in due to related entities	**124**	47
Proceeds from debt issues	**6,277**	7,970
Repayments of debt issues	**(6,002)**	(3,825)
Payments for the principal portion of lease liabilities	**(24)**	(32)
Dividends paid to ordinary shareholder	**(326)**	(465)
Net cash provided by/(used in) financing activities	**49**	3,695
Net increase/(decrease) in cash and cash equivalents	**367**	2,465
Cash and cash equivalents at beginning of the period	**10,820**	9,013
Cash and cash equivalents at end of the period	**11,187**	11,478
Cash and cash equivalents at end of the period comprise:		
Cash on hand	**274**	240
Balances with central banks	**10,913**	11,238
Cash and cash equivalents at end of the period	**11,187**	11,478

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

Notes to the financial statements

Note 1 Financial statements preparation

These financial statements have been prepared in accordance with the Order and Generally Accepted Accounting Practice, as appropriate for for-profit entities, and the New Zealand equivalent to International Accounting Standard 34 *Interim Financial Reporting*. These financial statements are also compliant with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board. These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements should be read in conjunction with the financial statements included in the Disclosure Statement for the year ended 30 September 2022.

Accounting policies

These financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to investment securities and financial assets and financial liabilities (including derivative financial instruments) measured at FVIS or FVOCI. The going concern concept has been applied.

The financial statements were authorised for issue by the Board of Directors on 18 May 2023.

All amounts in this Disclosure Statement are presented in New Zealand dollars and have been rounded to the nearest million dollars unless otherwise stated.

Comparative information has been revised where appropriate to enhance comparability. Where there has been a material restatement of comparative information, the nature of, and the reason for, the restatement is disclosed in these financial statements.

The accounting policies adopted in the preparation of these financial statements are consistent with those in the financial statements for the year ended 30 September 2022.

Critical accounting assumptions and estimates

In preparing these financial statements, the application of the Banking Group's accounting policies requires the use of judgement, assumptions and estimates.

The areas of judgement, estimates and assumptions in these financial statements, including the key sources of estimation uncertainty, are consistent with those in the Disclosure Statement for the year ended 30 September 2022. Details on specific judgements in relation to the calculation of the provision for ECL, including overlays, are included in Note 7.

Amendments to Accounting Standards effective this period

No new accounting standards have been adopted by the Banking Group for the six months ended 31 March 2023. There have been no amendments to existing accounting standards that have had a material impact on the Banking Group.

Notes to the financial statements

Note 2 Net interest income

$ millions	THE BANKING GROUP Six Months Ended 31 Mar 23 Unaudited	Six Months Ended 31 Mar 22 Unaudited
Interest income		
Calculated using the effective interest method		
Cash and balances with central banks	**244**	34
Collateral paid	**2**	-
Investment securities	**70**	39
Loans	**2,489**	1,527
Total interest income calculated using the effective interest method	**2,805**	1,600
Other		
Trading securities and financial assets measured at FVIS	**46**	12
Due from related entities	**4**	1
Total other	**50**	13
Total interest income	**2,855**	1,613
Interest expense		
Calculated using the effective interest method		
Collateral received	**1**	-
Deposits and other borrowings	**1,039**	240
Due to related entities	**24**	9
Debt issues	**107**	73
Loan capital	**80**	52
Other financial liabilities	**102**	12
Total interest expense calculated using the effective interest method	**1,353**	386
Other		
Deposits and other borrowings	**66**	17
Due to related entities	**4**	2
Debt issues	**96**	6
Other interest expense[1]	**27**	115
Total other	**193**	140
Total interest expense	**1,546**	526
Net interest income	**1,309**	1,087

[1] Includes the net impact of Treasury's interest rate and liquidity management activities.

Notes to the financial statements

Note 3 Non-interest income

$ millions	THE BANKING GROUP **Six Months Ended 31 Mar 23 Unaudited**	Six Months Ended 31 Mar 22 Unaudited
Net fees and commissions		
Facility fees	**22**	22
Transaction fees and commissions	**123**	124
Other non-risk fee income	**5**	7
Fees and commissions income	**150**	153
Credit card loyalty programmes	**(20)**	(18)
Transaction fees and commissions related expenses	**(19)**	(14)
Fees and commissions expenses	**(39)**	(32)
Net fees and commissions	**111**	121
Other		
Net ineffectiveness on qualifying hedges	**-**	8
Other	**3**	-
Total other income	**3**	8
Total non-interest income	**114**	129

Non-interest income in scope of NZ IFRS 15 *Revenue from Contracts with Customers* can be further disaggregated into the following operating segments and is consistent with the segment descriptions detailed in Note 13:

	THE BANKING GROUP			
$ millions	Consumer Banking and Wealth	Institutional and Business Banking	Reconciling Items	Total
Six months ended 31 March 2023 (Unaudited)				
Fees and commissions income				
Facility fees	**14**	**8**	**-**	**22**
Transaction fees and commissions	**79**	**43**	**1**	**123**
Other non-risk fee income	**2**	**6**	**(3)**	**5**
Fees and commissions income	**95**	**57**	**(2)**	**150**
Fees and commissions expenses	**(39)**	**-**	**-**	**(39)**
Net fees and commissions income	**56**	**57**	**(2)**	**111**
Six months ended 31 March 2022 (Unaudited)				
Fees and commissions income				
Facility fees	13	8	1	22
Transaction fees and commissions	84	38	2	124
Other non-risk fee income	3	6	(2)	7
Fees and commissions income	100	52	1	153
Fees and commissions expenses	(31)	-	(1)	(32)
Net fees and commissions income	69	52	-	121

Notes to the financial statements

Note 4 Operating expenses

	THE BANKING GROUP	
$ millions	**Six months Ended 31 Mar 23 Unaudited**	Six months Ended 31 Mar 22 Unaudited
Staff expenses[1]	**330**	300
Lease expenses	**13**	9
Depreciation	**42**	46
Technology services and telecommunications[1]	**99**	80
Purchased services	**48**	38
Software amortisation costs	**18**	21
Related entities - management fees	**3**	3
Other	**66**	46
Total operating expenses	**619**	543

[1] Comparatives have been restated due to a revision in the presentation of capitalised staff expenses associated with internally generated software. The restatement results in a $20 million decrease in staff expenses from $320 million to $300 million and a corresponding increase in technology services and telecommunications from $60 million to $80 million.

Note 5 Impairment charges/(benefits)

	THE BANKING GROUP	
$ millions	**Six Months Ended 31 Mar 23 Unaudited**	Six Months Ended 31 Mar 22 Unaudited
Provisions raised/(released):		
Performing	**121**	(19)
Non-performing	**30**	(1)
Bad debts written-off/(recovered) directly to the income statement	**3**	5
Impairment charges/(benefits)	**154**	(15)
of which relates to:		
Loans and credit commitments	**154**	(15)
Impairment charges/(benefits)	**154**	(15)

Impairment charges/(benefits) on all other financial assets are not material to the Banking Group.

Notes to the financial statements

Note 6 Loans

$ millions	THE BANKING GROUP 31 Mar 23 Unaudited	30 Sep 22 Audited
Residential mortgages	**65,254**	63,869
Other retail	**2,737**	2,829
Corporate	**30,579**	30,459
Other	**173**	121
Total gross loans	**98,743**	97,278
Provision for ECL on loans (refer to Note 7)	**(534)**	(396)
Total net loans	**98,209**	96,882

As at 31 March 2023, $7,537 million of residential mortgages, accrued interest (representing accrued interest on the outstanding residential mortgages) and cash (representing collections of principal and interest from the underlying residential mortgages) were used by the Banking Group to secure the obligations of WSNZL under the CB Programme (30 September 2022: $7,528 million). In addition, $6,482 million of residential mortgages and accrued interest has been pledged as collateral as part of the repurchase agreements with the Reserve Bank, under the Funding for Lending Programme and Term Lending Facility (30 September 2022: $4,998 million). These pledged assets were not derecognised from the Banking Group's balance sheet in accordance with the accounting policies outlined in Note 1. Financial statements preparation included in the Disclosure Statement for the year ended 30 September 2022. As at 31 March 2023, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $4,945 million (30 September 2022: $3,576 million) and the cash value of the repurchase agreements with the Reserve Bank was $5,061 million (30 September 2022: $3,967 million).

Note 7 Provision for expected credit losses

Loans and credit commitments

Movements in components of loss allowance

The reconciliation of the provision for ECL for loans and credit commitments has been determined by an aggregation of monthly movements over the period. The key line items in the reconciliation represent the following:

- "Transfers between stages" lines represent transfers between Stage 1, Stage 2 and Stage 3 prior to remeasurement of the provision for ECL.
- "New financial assets originated" line represents new accounts originated during the period.
- "Financial assets derecognised during the period" line represents loans derecognised due to final repayments during the period.
- "Other charges/(credits) to the income statement" line represents the impact on the provision for ECL due to changes in credit quality during the period (including transfers between stages), changes in portfolio overlays, changes due to forward-looking economic scenarios and partial repayments and additional drawdowns on existing facilities over the period.
- Amounts written off represent a reduction in the provision for ECL as a result of derecognition of exposures where there is no reasonable expectation of full recovery.

Note 7 Provision for expected credit losses (continued)

The following tables reconcile the provision for ECL on loans and credit commitments for the Banking Group.

	THE BANKING GROUP				
	31 Mar 23 Unaudited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	**CAP**	**CAP**	**CAP**	**IAP**	**Total**
Provision for ECL on loans and credit commitments as at 30 September 2022	**103**	**240**	**69**	**27**	**439**
Due to changes in credit quality:					
Transfers to Stage 1	91	(87)	(4)	-	-
Transfers to Stage 2	(10)	24	(14)	-	-
Transfers to Stage 3 CAP	-	(17)	19	(2)	-
Transfers to Stage 3 IAP	-	(2)	(7)	9	-
Reversals of previously recognised impairment charges	-	-	-	(3)	(3)
New financial assets originated	9	-	-	-	9
Financial assets derecognised during the period	(3)	(13)	(9)	-	(25)
Changes in CAP due to amounts written off	-	-	(11)	-	(11)
Other charges/(credits) to the income statement	(89)	218	51	1	181
Total charges/(credits) to the income statement for ECL	**(2)**	**123**	**25**	**5**	**151**
Amounts written off from IAP	-	-	-	(1)	(1)
Total provision for ECL on loans and credit commitments as at 31 March 2023	**101**	**363**	**94**	**31**	**589**
Presented as:					
Provision for ECL on loans (refer to Note 6)	84	325	94	31	534
Provision for ECL on credit commitments[1]	17	38	-	-	55
Total provision for ECL on loans and credit commitments as at 31 March 2023	**101**	**363**	**94**	**31**	**589**

[1] Includes provision for ECL on related entity credit commitments of $11 million classified as Due to Related Entities in the Balance Sheet.

Notes to the financial statements

Note 7 Provision for expected credit losses (continued)

	THE BANKING GROUP				
	30 Sep 22 Audited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Provision for ECL on loans and credit commitments as at 30 September 2021	102	279	75	69	525
Due to changes in credit quality:					
Transfers to Stage 1	141	(122)	(19)	-	-
Transfers to Stage 2	(12)	52	(39)	(1)	-
Transfers to Stage 3 CAP	-	(24)	26	(2)	-
Transfers to Stage 3 IAP	-	(7)	(6)	13	-
Reversals of previously recognised impairment charges	-	-	-	(6)	(6)
New financial assets originated	16	-	-	-	16
Financial assets derecognised during the year	(11)	(27)	(19)	-	(57)
Changes in CAP due to amounts written off	-	-	(23)	-	(23)
Other charges/(credits) to the income statement	(133)	89	74	3	33
Total charges/(credits) to the income statement for ECL	1	(39)	(6)	7	(37)
Amounts written off from IAP	-	-	-	(49)	(49)
Total provision for ECL on loans and credit commitments as at 30 September 2022	103	240	69	27	439
Presented as:					
Provision for ECL on loans (refer to Note 6)	85	215	69	27	396
Provision for ECL on credit commitments[1]	18	25	-	-	43
Total provision for ECL on loans and credit commitments as at 30 September 2022	103	240	69	27	439

[1] Includes provision for ECL on related entity credit commitments of $4 million classified as Due to Related Entities in the Balance Sheet.

Notes to the financial statements

Note 7 Provision for expected credit losses (continued)

The following table provides further details of the provision for ECL by types of exposure and stage:

	THE BANKING GROUP									
	31 Mar 23 Unaudited					30 Sep 22 Audited				
	Performing		**Non-performing**			Performing		Non-performing		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 3**		Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	**CAP**	**CAP**	**CAP**	**IAP**	**Total**	CAP	CAP	CAP	IAP	Total
Provision for ECL on loans and credit commitments										
Residential mortgages	**49**	**118**	**52**	**10**	**229**	46	91	43	9	189
Other retail	**14**	**49**	**14**	**2**	**79**	17	43	13	1	74
Corporate	**38**	**196**	**28**	**19**	**281**	40	106	13	17	176
Total provision for ECL on loans and credit commitments	**101**	**363**	**94**	**31**	**589**	103	240	69	27	439

Impact of overlays on the provision for ECL on loans and credit commitments

The following table attributes the provision for ECL on loans and credit commitments between modelled ECL and portfolio overlays.

Portfolio overlays are used to capture risk of increased uncertainty relating to forward-looking economic conditions, or areas of potential risk and uncertainty in the portfolio, that are not captured in the underlying modelled ECL.

	THE BANKING GROUP	
	31 Mar 23	30 Sep 22
$ millions	**Unaudited**	Audited
Modelled provision for ECL on loans and credit commitments	**393**	313
Overlays	**196**	126
Total provision for ECL on loans and credit commitments	**589**	439

Details of changes related to forward-looking economic inputs and portfolio overlays, based on reasonable and supportable information up to the date of this disclosure statement, are provided below.

Note 7 Provision for expected credit losses (continued)

Modelled provision for ECL on loans and credit commitments

The modelled provision for ECL on loans and credit commitments is a probability weighted estimate based on three scenarios which together represent the Banking Group's view of the forward-looking distribution of potential loss outcomes. The changes in provisions as a result of changes in modelled ECL are reflected through the "Other charges/(credits) to the income statement" line in the "Movements in components of loss allowance" table. Portfolio overlays are used to capture potential risk and uncertainty in the portfolio, that are not captured in the underlying modelled ECL.

The base case scenario uses Westpac Economic forecasts as at 31 March 2023, which includes a moderate recession and residential property price reductions in the 2024 financial year in response to high interest rates and the current high inflationary environment.

The Banking Group's forecasts assume the following:

Key economic assumptions for base case scenario	31 Mar 23[1] Unaudited	30 Sep 22 Audited
Annual GDP	Forecast growth of 0.4% for calendar year 2023 and a slight contraction of 0.3% for calendar year 2024.	Forecast growth of 1.6% for calendar year 2023 and 1.8% for calendar year 2024.
Residential property prices	Forecast annual price contraction of 8.9% for calendar year 2023 and forecast growth of 1.0% for calendar year 2024.	Forecast annual price contraction of 5.0% for calendar year 2023 and forecast growth of 1.0% for calendar year 2024.
Cash rate	Forecast cash rate of 5.00% at December 2023 and 3.75% at December 2024.	Forecast cash rate of 4.00% at December 2023 and 3.00% at December 2024
Unemployment rate	Forecast rate of 4.0% at December 2023 and 5.1% at December 2024.	Forecast rate of 3.8% at December 2023 and 4.2% at December 2024.

[1] The Banking Group released updated forecasts on 5 April 2023 as a result of the Reserve Bank's announcement of a 50 bps increase in the official cash rate. These updated forecasts would not have had a material impact on the provision for ECL as at 31 March 2023.

The downside scenario is a more severe scenario with ECL higher than the base case. The more severe loss outcome for the downside is generated under a recession in which the combination of negative GDP growth, declines in residential property prices and an increase in the unemployment rate simultaneously impact ECL across all portfolios from the reporting date. The assumptions in this scenario and relativities to the base case will be monitored having regard to the emerging economic conditions and updated where necessary. The upside scenario represents a modest improvement to the base case.

The following sensitivity table shows the reported provision for ECL on loans and credit commitments based on the probability weighted scenarios and what the provision for ECL on loans and credit commitments would be assuming a 100% weighting is applied to the base case scenario and to the downside scenario (with all other assumptions held constant).

	THE BANKING GROUP	
$ millions	31 Mar 23 Unaudited	30 Sep 22 Audited
Reported probability-weighted ECL	**589**	439
100% base case ECL	**486**	330
100% downside ECL	**722**	578

Note 7 Provision for expected credit losses (continued)

If 1% of the Stage 1 gross exposure from loans and credit commitments (calculated on a 12 month ECL) was reflected in Stage 2 (calculated on a lifetime ECL) the provision for ECL on loans and credit commitments would increase by $19 million (30 September 2022: $23 million) based on applying the average provision coverage ratios by stage to the movement in the gross exposure by stage.

The following table indicates the weightings applied by the Banking Group as at 31 March 2023 and 30 September 2022.

	THE BANKING GROUP	
	31 Mar 23	30 Sep 22
Scenario weightings (%)	**Unaudited**	Audited
Upside	**5**	5
Base	**50**	50
Downside	**45**	45

Portfolio overlays

Portfolio overlays are used to address areas of risk, including significant uncertainties that are not captured in the underlying modelled ECL. Determination of portfolio overlays requires expert judgement and is thoroughly documented and subject to comprehensive internal governance and oversight. Overlays are continually reassessed and if the risk is judged to have changed (increased or decreased), or is subsequently captured in the modelled ECL, the overlay will be released or remeasured.

Portfolio overlays were increased by $70 million, primarily due to additional overlays for uncertainties arising from the recent cyclone and flood events.

The Banking Group's total portfolio overlays as at 31 March 2023 were $196 million (30 September 2022: $126 million) and comprise:

- $66 million for the impact of the recent cyclone and flood events on customers not factored into modelled outcomes in the corporate and residential mortgage portfolios (30 September 2022: Nil). This has been quantified by identifying the key cohorts of customers affected by the events, then estimating the potential consequences for the impacted customers, the expected deterioration in the loan performance and the consequential impact to the provision for ECL. The overlay is expected to be released when the impact on customers is realised and incorporated in the modelled outcome, mainly when customers' credit risk grade reviews are performed over the coming quarters;
- $56 million on the residential mortgages and other retail portfolios, reflecting the expected, lagged impact from increasing interest rates (30 September 2022: $52 million) not captured in the modelled outcome. As the models were developed using data from periods without rapid interest rate rises, the relationship between interest rates and delinquency is only weakly present in the modelled outcome. The overlay is therefore developed using historical lag relationships between increases in interest rates and delinquencies over a longer period. The overlay is expected to be released when the impact of increasing interest rates flows through into customer loan repricing and subsequent performance;
- $40 million on the residential mortgages portfolio, reflecting a worsening downside scenario (this impact is distinct from the increasing interest rate overlay above) not factored into the modelled downside outcome (30 September 2022: $40 million);
- $30 million on the corporate portfolio, reflecting the continued expected delay in stress and observed losses (30 September 2022: $30 million); and
- $4 million (30 September 2022: $4 million) reflecting other related risks.

Impact of changes in gross carrying amount on the provision for ECL

- Stage 1 gross carrying amount had a net decrease of $3.9 billion (30 September 2022: increased by $0.7 billion), primarily driven by underlying portfolio movement from the residential mortgages and corporate portfolios, including derecognitions, repayments and additional exposures transferred to Stage 2 to account for additional overlays, partially offset by new lending during the period. The Stage 1 ECL decrease is in line with Stage 1 exposure movement to Stage 2, primarily driven by a more negative economic outlook and additional overlays.
- Stage 2 gross carrying amount increased by $5.2 billion (30 September 2022: increased by $3.5 billion), mainly driven by increases from the residential mortgages and corporate portfolios due to additional exposures transferred to Stage 2 to account for additional overlays and a rise in high-risk exposures. Stage 2 ECL increases are driven by the underlying portfolio movements, a more negative economic outlook and additional overlays.
- Stage 3 gross carrying amount increased by $0.1 billion (30 September 2022: decreased by $0.1 billion), driven by increases in 90 days past due exposures from the residential mortgages portfolio and customer downgrades from the corporate portfolio, offset by releases due to write-offs from the other retail portfolio. Stage 3 ECL increases are in line with the increase in Stage 3 exposures.

Refer to Note iii. Asset quality of the Registered bank disclosures for further details.

Notes to the financial statements

Note 8 Deposits and other borrowings

	THE BANKING GROUP	
$ millions	**31 Mar 23 Unaudited**	30 Sep 22 Audited
Certificates of deposit	**2,796**	2,939
Non-interest bearing, repayable at call	**13,082**	14,391
Other interest bearing:		
At call	**30,321**	31,245
Term	**36,367**	32,273
Total deposits and other borrowings	**82,566**	80,848

Deposits and other borrowings have been recognised under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 11 for further details.

Note 9 Debt issues

	THE BANKING GROUP	
$ millions	**31 Mar 23 Unaudited**	30 Sep 22 Audited
Short-term debt		
Commercial paper	**3,907**	5,490
Total short-term debt	**3,907**	5,490
Long-term debt		
Non-domestic medium-term notes	**8,339**	7,515
Covered bonds	**4,936**	3,563
Domestic medium-term notes	**2,619**	3,365
Total long-term debt	**15,894**	14,443
Total debt issues	**19,801**	19,933

Debt issues have been recognised under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 11 for further details.

Note 10 Related entities

Controlled entities of the Bank are set out in Note 23 to the financial statements included in the Disclosure Statement for the year ended 30 September 2022.

On 28 February 2022, the sale of Westpac Life (renamed Fidelity Insurance Limited on 28 February 2022) to Fidelity Life was completed, at which point Westpac Life ceased to be a subsidiary of the Ultimate Parent Bank and a related entity of the Banking Group.

On 16 February 2023, the Bank declared and paid a dividend of $326 million to its immediate parent company, Westpac New Zealand Group Limited.

Note 11 Fair values of financial assets and financial liabilities

Fair Valuation Control Framework

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

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

A key element of the framework is the Revaluation Committee, comprising senior valuation specialists from within the Ultimate Parent Bank Group. The Revaluation Committee reviews the application of the agreed policies and procedures to assess that a fair value measurement basis has been applied.

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

Fair value hierarchy

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

The Banking Group categorises all fair value instruments according to the hierarchy described below.

Valuation techniques

The Banking Group applies market accepted valuation techniques in determining the fair valuation of over-the-counter derivatives. This includes Credit Valuation Adjustment and Funding Valuation Adjustment, which incorporate credit risk and funding costs and benefits that arise in relation to uncollateralised derivative positions, respectively.

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

Financial instruments measured at fair value

Level 1 instruments

The fair value of financial instruments traded in active markets is based on recent unadjusted quoted prices. These prices are based on actual arm's length basis transactions.

The valuations of Level 1 instruments require little or no management judgement.

Instrument	Balance sheet category	Includes:	Valuation
Debt instruments	Trading securities and financial assets measured at FVIS Investment securities	New Zealand Government bonds	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.

Level 2 instruments

The fair value for financial instruments that are not actively traded is determined using valuation techniques which maximise the use of observable market prices. Valuation techniques include:

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

Note 11 Fair values of financial assets and financial liabilities (continued)

Instrument	Balance sheet category	Includes:	Valuation
Interest rate products	Derivative financial instruments Due from related entities Due to related entities	Interest rate swaps, forwards and options – derivative financial instruments	Industry standard valuation models are used to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced from brokers and consensus data providers. If consensus prices are not available, these are classified as Level 3 instruments.
FX products	Derivative financial instruments Due from related entities Due to related entities	FX swaps – derivative financial instruments	Derived from market observable inputs or consensus pricing providers using industry standard models. If consensus prices are not available, these are classified as Level 3 instruments.
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities Due from related entities Due to related entities Other financial liabilities	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities, off-shore securities and corporate bonds Repurchase agreements and reverse repurchase agreements over non-asset backed debt securities	Valued using observable market prices which are sourced from independent pricing services, broker quotes or inter-dealer prices. If prices are not available for these sources, these are classified at Level 3 instruments.
Deposits and other borrowings at fair value	Deposits and other borrowings	Certificates of deposit	Discounted cash flow using market rates offered for deposits of similar remaining maturities.
Debt issues at fair value	Debt issues	Commercial paper	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the Banking Group's implied creditworthiness.

Level 3 instruments

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historical transactions.

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

As at 31 March 2023, the Banking Group has no financial instruments valued under this category (30 September 2022: nil).

Note 11 Fair values of financial assets and financial liabilities (continued)

The following table summarises the attribution of financial instruments measured at fair value to the fair value hierarchy:

	THE BANKING GROUP							
	31 Mar 23 Unaudited				30 Sep 22 Audited			
$ millions	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets measured at FVIS	**130**	**2,157**	**-**	**2,287**	86	2,032	-	2,118
Derivative financial instruments	**-**	**150**	**-**	**150**	-	169	-	169
Investment securities	**2,304**	**4,459**	**-**	**6,763**	1,982	3,641	-	5,623
Due from related entities	**-**	**1,464**	**-**	**1,464**	-	2,155	-	2,155
Total financial assets measured at fair value	**2,434**	**8,230**	**-**	**10,664**	2,068	7,997	-	10,065
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings at fair value	**-**	**2,796**	**-**	**2,796**	-	2,939	-	2,939
Other financial liabilities	**-**	**97**	**-**	**97**	-	-	-	-
Derivative financial instruments	**-**	**102**	**-**	**102**	-	118	-	118
Due to related entities	**-**	**1,040**	**-**	**1,040**	-	2,200	-	2,200
Debt issues at fair value	**-**	**3,907**	**-**	**3,907**	-	5,490	-	5,490
Total financial liabilities measured at fair value	**-**	**7,942**	**-**	**7,942**	-	10,747	-	10,747

Analysis of movements between fair value hierarchy levels

The Banking Group considers transfers between levels, if any, to have occurred at the end of the reporting period. During the period, there were no material transfers between levels of the fair value hierarchy (30 September 2022: no material transfers between levels).

Financial instruments not measured at fair value

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

	THE BANKING GROUP			
	31 Mar 23 Unaudited		30 Sep 22 Audited	
$ millions	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets not measured at fair value				
Cash and balances with central banks	**11,187**	**11,187**	10,820	10,820
Collateral paid	**59**	**59**	42	42
Loans	**98,209**	**97,140**	96,882	95,528
Other financial assets	**278**	**278**	263	263
Due from related entities	**152**	**152**	451	451
Total financial assets not measured at fair value	**109,885**	**108,816**	108,458	107,104
Financial liabilities not measured at fair value				
Collateral received	**145**	**145**	82	82
Deposits and other borrowings	**79,770**	**79,755**	77,909	77,895
Other financial liabilities	**5,721**	**5,721**	4,348	4,348
Due to related entities	**909**	**909**	761	761
Debt issues[1]	**15,894**	**15,670**	14,443	14,242
Loan capital[1]	**2,085**	**2,226**	2,083	2,224
Total financial liabilities not measured at fair value	**104,524**	**104,426**	99,626	99,552

[1] The estimated fair value of debt issues and loan capital includes the impact of changes in the Banking Group's credit spreads since origination.

A detailed description of how fair value is derived for financial instruments not measured at fair value is disclosed in Note 25 of the financial statements included in the Disclosure Statement for the year ended 30 September 2022.

Notes to the financial statements

Note 12 Credit related commitments, contingent assets and contingent liabilities

	THE BANKING GROUP	
	31 Mar 23	30 Sep 22
$ millions	**Unaudited**	Audited
Letters of credit and guarantees	**1,455**	1,609
Commitments to extend credit	**27,244**	27,901
Total undrawn credit commitments	**28,699**	29,510

Contingent assets

The credit commitments shown in the table above also constitute contingent assets. These commitments would be classified as loans on the balance sheet on the contingent event occurring.

Contingent liabilities

All potential claims and other liabilities are assessed on a case-by-case basis. A provision will be recognised where the Banking Group has conducted an assessment which determines the likelihood of loss as probable and where its potential loss can be reliably estimated. A contingent liability exists in respect of actual or potential claims where the likely loss is not assessed as probable, where the law is uncertain or, in rare circumstances, where the outflow of resources cannot be reliably estimated.

The Banking Group is exposed to contingent risks and liabilities arising from the conduct of its business, including: actual and potential disputes, claims and legal proceedings; investigations, inquiries and reviews (formal and informal) carried out by regulatory authorities; and internal investigations and reviews, one such internal review being a review of processes for some products relating to the requirements of the Credit Contracts and Consumer Finance Act 2003.

The scope of reviews (internal and external), investigations and inquiries can be wide-ranging and can result in litigation (including class action proceedings and enforcement proceedings), fines and penalties, customer remediation and/or other sanctions and reputational damage.

Note 13 Segment reporting

The Banking Group's segment reporting incorporates Consumer Banking and Wealth and Institutional and Business Banking sectors within New Zealand. On this basis, no geographical segment reporting is provided.

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

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

Investments and Insurance provided funds management and insurance services until 28 February 2022 when the sale of Westpac Life to Fidelity Life was completed. From 1 March 2022, it only provides funds management services. As at 31 March 2023, the investments business unit is no longer reported as a main operating segment.

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

- Consumer Banking and Wealth provides financial services predominantly for individuals; and
- Institutional and Business Banking provides a broad range of financial services for commercial, corporate, property finance, agricultural, institutional and government customers.

Reconciling items primarily represent:

- business units that do not meet the definition of a reportable operating segment 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; 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 13 Segment reporting (continued)

	THE BANKING GROUP			
$ millions	Consumer Banking and Wealth	Institutional and Business Banking	Reconciling Items	Total
Six months ended 31 March 2023 (Unaudited)				
Net interest income	**614**	**602**	**93**	**1,309**
Non-interest income	**56**	**57**	**1**	**114**
Net operating income before operating expenses and impairment charges	**670**	**659**	**94**	**1,423**
Operating expenses	**(341)**	**(247)**	**(31)**	**(619)**
Impairment (charges)/benefits	**(48)**	**(106)**	**-**	**(154)**
Profit before income tax	**281**	**306**	**63**	**650**
Six months ended 31 March 2022 (Unaudited)				
Net interest income	559	537	(9)	1,087
Non-interest income	69	52	8	129
Net operating income before operating expenses and impairment charges	628	589	(1)	1,216
Operating expenses	(317)	(204)	(22)	(543)
Impairment (charges)/benefits	5	5	5	15
Profit before income tax	316	390	(18)	688
As at 31 March 2023 (Unaudited)				
Total gross loans	**59,414**	**39,592**	**(263)**	**98,743**
Total deposits and other borrowings	**44,051**	**35,718**	**2,797**	**82,566**
As at 30 September 2022 (Audited)				
Total gross loans	57,968	39,684	(374)	97,278
Total deposits and other borrowings	43,574	34,335	2,939	80,848

Registered bank disclosures

Unaudited

This section contains the additional disclosures required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended).

i. General information

Guarantee arrangements

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

Westpac New Zealand Group Limited does not guarantee any of the obligations of the Bank or any member of the Banking Group.

Changes to Directorate

There have been no changes in the composition of the Board of Directors of the Bank since 30 September 2022.

Auditor

PricewaterhouseCoopers

PwC Tower, Level 27

15 Customs Street West

Auckland, New Zealand

Pending proceedings or arbitration

No pending legal proceedings or arbitration concerning any member of the Banking Group is expected to have a material adverse effect on the Bank or the Banking Group.

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	A+	Stable
Moody's Investors Service	A1	Stable
S&P Global Ratings	AA-	Stable

i. General information (continued)

Other material matters

Reports required under section 95 of the Banking (Prudential Supervision) Act 1989

On 23 March 2021, the Reserve Bank issued two notices to the Bank under section 95 of the Banking (Prudential Supervision) Act 1989 requiring the Bank to supply two external reviews to the Reserve Bank (the 'Risk Governance Review' and the 'Liquidity Review'). These reviews only applied to the Bank and not to the Ultimate Parent Bank or its NZ Branch.

The Risk Governance Review related to the effectiveness of the Bank's risk governance. This review, completed by Oliver Wyman Limited (Oliver Wyman) in November 2021, identified deficiencies in the Bank's risk governance practices and operations which the Bank sought to address through a programme of work overseen by the Bank's Board.

Oliver Wyman (on engagement from the Bank) delivered an independent assurance report on the Bank's remediation to the Bank and the Reserve Bank in December 2022. In April 2023, the Reserve Bank acknowledged the decision of the Bank's Board to approve closure of the Risk Governance programme of work, noted the improvements made by the Bank to date and that any remaining activity will be overseen by the Bank's Board Risk and Compliance Committee.

The Liquidity Review related to the effectiveness of the Bank's actions to improve liquidity risk management and the associated risk culture. The review, completed by Deloitte Touche Tohmatsu (Deloitte) in May 2022, did not identify any material control gaps or issues and made some recommendations for improvement, which are being implemented as part of the Banks's continuous improvement activity. Since then, the Bank has undertaken further assurance work and continues to review and enhance the control framework.

From 31 March 2021, the Reserve Bank amended the Bank's conditions of registration, requiring the Bank to discount the value of its liquid assets by approximately 14%. From 15 August 2022, the Reserve Bank reduced the overlay quantum to approximately 7%, which at 31 March 2023 was $1.7 billion. The overlay will remain in place until the Reserve Bank is satisfied that control assurance work has been completed.

Technology programme

Separate to the section 95 reviews outlined above, the Bank has also committed to the Reserve Bank, APRA and Financial Markets Authority to address various technology issues, and engaged Deloitte to monitor progress. While work has been underway to address these issues for some time, more work is required to meet the Bank's expectations and those of the regulators.

Reserve Bank's Outsourcing Policy

Condition of registration 22 requires the Bank to comply with those provisions of the Reserve Bank's Outsourcing Policy that are currently in force, and to be fully compliant with all provisions of the policy by 1 October 2023. The Bank is completing a large-scale, multi-year, complex programme of work to become fully compliant by the compliance date. The Bank continuously monitors its progress and, while it considers that it has a pathway to achieve compliance, significant risks remain in relation to the delivery of its plan by the compliance date.

Deposit Takers Bill

The Deposit Takers Bill 2022 was introduced into the New Zealand Parliament on 22 September 2022. If passed, the Bill will create a single regulatory regime for banks and non-bank deposit takers in New Zealand and introduce a depositor compensation scheme to protect up to $100,000 per eligible depositor, per institution, if a payout event is triggered. The scheme is expected to be fully funded by levies and with a Crown backstop. If the Bill is passed, initial implementation of the depositor compensation scheme is expected in 2024, with the remainder of the Bill to be implemented following the development of secondary legislation.

Reserve Bank review of overseas bank branches

On 20 October 2021, the Reserve Bank announced it is reviewing its policy for branches of overseas banks (including the NZ Branch), with a view to creating a simple, coherent and transparent policy framework for branches of overseas banks. On 24 August 2022, the Reserve Bank released a second and final consultation paper, outlining its preferred approach to the regulation of branches, including:

- restricting overseas bank branches to engaging in wholesale business only (meaning they could not take retail deposits or offer products or services to retail customers), and limiting the maximum size of a branch to $15 billion in total assets; and
- requiring dual-registered branches (such as the NZ Branch), to only conduct business with customers with a consolidated turnover greater than $50 million. In addition, the branch must be sufficiently separate from the relevant subsidiary with any risks mitigated by specific conditions of registration.

The NZ Branch currently provides financial markets, trade finance and international payments products and services to customers referred by the Bank. The consultation period closed on 16 November 2022. Final policy decisions are expected to be announced in the second half of 2023.

ii. Additional financial disclosures

Additional information on balance sheet

	THE BANKING GROUP	
$ millions	31 Mar 23 Unaudited	30 Sep 22 Audited
Interest earning and discount bearing assets	**119,329**	116,325
Interest and discount bearing liabilities	**98,406**	95,643
Total amounts due from related entities	**1,616**	2,606
Total amounts due to related entities	**3,442**	4,454

Financial assets pledged as collateral

The Banking Group is required to provide collateral to other financial institutions, as part of standard terms, to secure liabilities. In addition to assets supporting the CB Programme disclosed in Note 6, the carrying value of these financial assets pledged as collateral is:

	THE BANKING GROUP	
$ millions	31 Mar 23 Unaudited	30 Sep 22 Audited
Cash	**59**	42
Securities pledged under repurchase agreements:		
Investment securities[1]	**281**	1,397
Residential mortgage-backed securities[2]	**6,482**	4,998
Total amount pledged to secure liabilities (excluding CB Programme)	**6,822**	6,437

[1] As at 31 March 2023, $65 million of investment securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank, which is recorded within due to related entities on the balance sheet (30 September 2022: $1,397 million) and $216 million of investment securities were pledged to third parties which is recorded within other financial liabilities on the balance sheet (30 September 2022: $nil).

[2] As at 31 March 2023, the Banking Group has undertaken repurchase agreements with the Reserve Bank, under the Funding for Lending Programme and Term Lending Facility, using residential mortgage-backed securities. For the Funding for Lending Programme, the repurchase cash amount at 31 March 2023 is $4,981 million (30 September 2022: $3,871 million), which is recorded in other financial liabilities on the balance sheet, with underlying securities to the value of $6,387 million provided under the arrangement (30 September 2022: $4,883 million). For the Term Lending Facility, the repurchase cash amount at 31 March 2023 is $80 million (30 September 2022: $96 million), which is recorded within other financial liabilities on the balance sheet, with underlying securities to the value of $95 million provided under the arrangement (30 September 2022: $115 million).

Additional information on concentrations of credit risk

The maximum exposure to credit risk (excluding collateral received) is represented by the carrying amount of on-balance sheet financial assets and undrawn credit commitments as set out in the following table.

	THE BANKING GROUP
$ millions	31 Mar 23
Financial assets	
Cash and balances with central banks	**11,187**
Collateral paid	**59**
Trading securities and financial assets measured at FVIS	**2,287**
Derivative financial instruments	**150**
Investment securities	**6,763**
Loans	**98,209**
Other financial assets	**278**
Due from related entities	**1,616**
Total financial assets	**120,549**
Undrawn credit commitments	
Letters of credit and guarantees	**1,455**
Commitments to extend credit	**27,244**
Total undrawn credit commitments	**28,699**
Total maximum credit risk exposure	**149,248**

ii. Additional financial disclosures (continued)

	THE BANKING GROUP
$ millions	**31 Mar 23**
On-balance sheet credit exposures	
Analysis of on-balance sheet credit exposures by geographical areas	
New Zealand	**117,831**
Overseas	**3,252**
Subtotal	**121,083**
Provision for ECL on loans	**(534)**
Total on-balance sheet credit exposures	**120,549**
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**393**
Agriculture	**9,220**
Construction	**505**
Finance and insurance	**6,326**
Forestry and fishing	**466**
Government, administration and defence	**17,309**
Manufacturing	**2,210**
Mining	**186**
Property	**8,139**
Property services and business services	**1,146**
Services	**1,419**
Trade	**2,197**
Transport and storage	**1,069**
Utilities	**2,200**
Retail lending	**66,596**
Subtotal	**119,381**
Provision for ECL on loans	**(534)**
Due from related entities	**1,616**
Other financial assets	**86**
Total on-balance sheet credit exposures	**120,549**
Off-balance sheet credit exposures consists of	
Credit risk-related instruments	**28,699**
Total off-balance sheet credit exposures	**28,699**
Analysis of off-balance sheet credit exposures by geographical areas	
New Zealand	**28,181**
Overseas	**518**
Total off-balance sheet credit exposures	**28,699**
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**74**
Agriculture	**628**
Construction	**495**
Finance and insurance	**2,039**
Forestry and fishing	**164**
Government, administration and defence	**908**
Manufacturing	**1,575**
Mining	**53**
Property	**1,521**
Property services and business services	**677**
Services	**1,200**
Trade	**1,888**
Transport and storage	**682**
Utilities	**1,707**
Retail lending	**15,088**
Total off-balance sheet credit exposures	**28,699**

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

ii. Additional financial disclosures (continued)

Additional information on concentrations of funding

	THE BANKING GROUP
$ millions	**31 Mar 23**
Funding consists of	
Collateral received	145
Deposits and other borrowings	82,566
Other financial liabilities[1]	5,203
Due to related entities[2]	936
Debt issues[3]	19,801
Loan capital	2,085
Total funding	**110,736**
Analysis of funding by geographical area[2]	
New Zealand	89,809
Australia	786
United Kingdom	9,722
United States of America	5,416
China	2,612
Other	2,391
Total funding	**110,736**
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	453
Agriculture	1,736
Construction	2,630
Finance and insurance	41,703
Forestry and fishing	162
Government, administration and defence	3,243
Manufacturing	2,307
Mining	69
Property services and business services	7,649
Services	6,083
Trade	2,179
Transport and storage	1,077
Utilities	936
Households	35,396
Other[4]	4,177
Subtotal	**109,800**
Due to related entities[2]	936
Total funding	**110,736**

[1] Other financial liabilities, as presented above, are in respect of repurchase agreements.
[2] Amounts due to related entities, as presented above, are in respect of deposits and borrowings and exclude amounts which relate to derivative financial instruments and other liabilities.
[3] The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programmes is used as a proxy for the location of the original purchaser. Where the nature of the debt programmes does not necessarily represent an appropriate proxy, the debt issues are classified as 'Other'. These instruments may have subsequently been on-sold.
[4] Includes deposits from non-residents.

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

ii. Additional financial disclosures (continued)

Additional information on interest rate sensitivity

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 31 March 2023. The Banking Group uses this contractual repricing information as a base, which is then altered to take account of customer behaviour, to manage its interest rate risk.

	THE BANKING GROUP						
	31 Mar 23						
$ millions	Up to 3 Months	Over 3 Months and Up to 6 Months	Over 6 Months and Up to 1 Year	Over 1 Year and Up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Financial assets							
Cash and balances with central banks	10,913	-	-	-	-	274	11,187
Collateral paid	59	-	-	-	-	-	59
Trading securities and financial assets measured at FVIS	1,538	270	-	51	428	-	2,287
Derivative financial instruments	-	-	-	-	-	150	150
Investment securities	432	89	329	1,125	4,788	-	6,763
Loans	43,889	9,431	16,604	20,115	8,816	(646)	98,209
Other financial assets	-	-	-	-	-	278	278
Due from related entities	452	-	-	-	-	1,164	1,616
Total financial assets	57,283	9,790	16,933	21,291	14,032	1,220	120,549
Non-financial assets							1,498
Total assets							122,047
Financial liabilities							
Collateral received	145	-	-	-	-	-	145
Deposits and other borrowings	47,246	10,727	9,666	1,125	720	13,082	82,566
Other financial liabilities	5,080	80	-	-	-	658	5,818
Derivative financial instruments	-	-	-	-	-	102	102
Due to related entities	799	-	-	-	-	1,150	1,949
Debt issues	2,990	647	1,883	4,188	11,025	(932)	19,801
Loan capital	1,493	-	-	-	592	-	2,085
Total financial liabilities	57,753	11,454	11,549	5,313	12,337	14,060	112,466
Non-financial liabilities							682
Total liabilities							113,148
On-balance sheet interest rate repricing gap	(470)	(1,664)	5,384	15,978	1,695		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	16,546	(3,874)	(5,121)	(10,438)	2,887		
Net interest rate repricing gap	16,076	(5,538)	263	5,540	4,582		

ii. Additional financial disclosures (continued)

Additional information on liquidity risk

Contractual maturity of financial liabilities

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

Cash flows associated with these financial liabilities include both principal payments, as well as fixed or variable interest payments incorporated into the relevant coupon period. Principal payments reflect the earliest contractual maturity date. Derivative financial instruments designated for hedging purposes are expected to be held for their remaining contractual lives, and reflect gross cash flows over the remaining contractual term.

Derivatives held for trading and certain liabilities classified in “Other financial liabilities” which are measured at FVIS are not managed for liquidity purposes on the basis of their contractual maturity, and accordingly these liabilities are presented in either the on demand or up to 1 month columns. Only the liabilities that the Banking Group manages based on their contractual maturity are presented on a contractual undiscounted basis in the following table.

	THE BANKING GROUP						
	31 Mar 23						
$ 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 and Up to 5 Years	Over 5 Years	Total
Financial liabilities							
Collateral received	-	145	-	-	-	-	145
Deposits and other borrowings	41,751	7,412	11,519	21,026	1,985	-	83,693
Other financial liabilities	-	339	-	80	5,570	-	5,989
Derivative financial instruments:							
Held for trading	4	-	-	-	-	-	4
Held for hedging purposes (net settled)	-	2	4	(6)	6	3	9
Held for hedging purposes (gross settled):							
Cash outflow	-	12	19	950	944	389	2,314
Cash inflow	-	-	(3)	(877)	(892)	(369)	(2,141)
Due to related entities:							
Non-derivative balances	856	62	31	-	22	-	971
Derivative financial instruments:							
Held for trading	115	-	-	-	-	-	115
Held for hedging purposes (net settled)	-	58	93	22	177	1	351
Held for hedging purposes (gross settled):							
Cash outflow	-	34	62	309	5,980	1,545	7,930
Cash inflow	-	-	-	(47)	(5,313)	(1,579)	(6,939)
Debt issues	-	688	1,152	3,947	12,786	3,298	21,871
Loan capital	-	-	9	28	147	2,263	2,447
Total undiscounted financial liabilities	42,726	8,752	12,886	25,432	21,412	5,551	116,759
Total contingent liabilities and commitments							
Letters of credit and guarantees	1,455	-	-	-	-	-	1,455
Commitments to extend credit	27,244	-	-	-	-	-	27,244
Total undiscounted contingent liabilities and commitments	28,699	-	-	-	-	-	28,699

ii. Additional financial disclosures (continued)

Liquid assets

The following table shows the Banking Group's holding of liquid assets. Liquid assets include high quality assets readily convertible to cash to meet the Banking Group's liquidity requirements. The level of liquid asset holdings is reviewed frequently and is consistent with both the requirements of the balance sheet and market conditions.

	THE BANKING GROUP
$ millions	**31 Mar 23**
Cash and balances with central banks	**11,187**
Supranational securities	**2,383**
NZ Government securities	**2,460**
NZ public securities	**2,753**
NZ corporate securities	**1,529**
Residential mortgage-backed securities	**6,150**
Available liquid assets	**26,462**

Reconciliation of mortgage-related amounts

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

	THE BANKING GROUP
$ millions	**31 Mar 23**
Residential mortgages - total gross loans (as disclosed in Note 6 and Section iii. Asset quality)	**65,254**
Reconciling items:	
Unamortised deferred fees and expenses	**(297)**
Fair value hedge adjustments	**236**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**12,296**
Undrawn at default[1]	**(3,419)**
Residential mortgages by LVR (as disclosed in Additional mortgage information in Section iv. Capital adequacy and regulatory liquidity ratios)	**74,070**
Accrued interest receivable	**74**
Partial write-offs	**5**
Residential mortgages - EAD (as disclosed in Credit risk exposures by asset class in Section iv. Capital adequacy and regulatory liquidity ratios)	**74,149**

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

iii. Asset quality

Past due assets

	THE BANKING GROUP				
	31 Mar 23				
$ millions	**Residential Mortgages**	**Other Retail**	**Corporate**	**Other**	**Total**
Past due but not individually impaired assets					
Less than 30 days past due	**1,015**	**95**	**208**	**-**	**1,318**
At least 30 days but less than 60 days past due	**152**	**15**	**119**	**-**	**286**
At least 60 days but less than 90 days past due	**99**	**7**	**36**	**-**	**142**
At least 90 days past due	**176**	**23**	**110**	**-**	**309**
Total past due but not individually impaired assets	**1,442**	**140**	**473**	**-**	**2,055**

iii. Asset quality (continued)

Movements in components of loss allowance

Refer to Note 7 for movements in the components for loss allowance on loans and credit commitment for total exposure. The provision for ECL on loans and credit commitments can be further disaggregated into the following types of credit exposures:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 30 September 2022	46	91	43	9	189
Due to changes in credit quality:					
Transfers to Stage 1	40	(38)	(2)	-	-
Transfers to Stage 2	(1)	10	(9)	-	-
Transfers to Stage 3 CAP	-	(2)	4	(2)	-
Transfers to Stage 3 IAP	-	-	(4)	4	-
Reversals of previously recognised impairment charges	-	-	-	(3)	(3)
New financial assets originated	2	-	-	-	2
Financial assets derecognised during the period	-	(1)	(5)	-	(6)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(38)	58	25	3	48
Total charges/(credits) to the income statement for ECL	3	27	9	2	41
Amounts written off from IAP	-	-	-	(1)	(1)
Total provision for ECL on loans and credit commitments as at 31 March 2023	49	118	52	10	229
Other retail					
Provision for ECL as at 30 September 2022	17	43	13	1	74
Due to changes in credit quality:					
Transfers to Stage 1	31	(29)	(2)	-	-
Transfers to Stage 2	(4)	8	(4)	-	-
Transfers to Stage 3 CAP	-	(7)	7	-	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	-	-
New financial assets originated	3	-	-	-	3
Financial assets derecognised during the period	(1)	(6)	(1)	-	(8)
Changes in CAP due to amounts written off	-	-	(11)	-	(11)
Other charges/(credits) to the income statement	(32)	40	12	1	21
Total charges/(credits) to the income statement for ECL	(3)	6	1	1	5
Amounts written off from IAP	-	-	-	-	-
Total provision for ECL on loans and credit commitments as at 31 March 2023	14	49	14	2	79
Corporate					
Provision for ECL as at 30 September 2022	40	106	13	17	176
Due to changes in credit quality:					
Transfers to Stage 1	20	(20)	-	-	-
Transfers to Stage 2	(5)	6	(1)	-	-
Transfers to Stage 3 CAP	-	(8)	8	-	-
Transfers to Stage 3 IAP	-	(2)	(3)	5	-
Reversals of previously recognised impairment charges	-	-	-	-	-
New financial assets originated	4	-	-	-	4
Financial assets derecognised during the period	(2)	(6)	(3)	-	(11)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(19)	120	14	(3)	112
Total charges/(credits) to the income statement for ECL	(2)	90	15	2	105
Amounts written off from IAP	-	-	-	-	-
Total provision for ECL on loans and credit commitments as at 31 March 2023	38	196	28	19	281

The above movements in components of loss allowance table does not include 'Other' credit exposures on the basis that the provision for ECL is nil.

iii. Asset quality (continued)

Impacts of changes in gross financial assets on loss allowances - total

Refer to Note 7 for the impacts of changes in gross financial assets on loss allowances. The following table further explains how changes in gross carrying amounts of loans during the period have contributed to changes in the provision for ECL on loans.

	THE BANKING GROUP				
	31 Mar 23 Unaudited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Total gross carrying amount as at 30 September 2022	85,362	11,374	482	60	97,278
Transfers:					
Transfers to Stage 1	3,493	(3,470)	(22)	(1)	-
Transfers to Stage 2	(8,708)	8,789	(81)	-	-
Transfers to Stage 3 CAP	(41)	(276)	319	(2)	-
Transfers to Stage 3 IAP	-	(6)	(15)	21	-
Net further lending/(repayment)	(1,749)	784	-	1	(964)
New financial assets originated	7,229	-	-	-	7,229
Financial assets derecognised during the period	(4,075)	(646)	(63)	(4)	(4,788)
Amounts written-off	-	-	(11)	(1)	(12)
Total gross carrying amount as at 31 March 2023	81,511	16,549	609	74	98,743
Provision for ECL as at 31 March 2023	(84)	(325)	(94)	(31)	(534)
Total net carrying amount as at 31 March 2023	81,427	16,224	515	43	98,209

iii. Asset quality (continued)

Impacts of changes in gross financial assets on loss allowances – by types of credit exposure

The gross carrying amounts of loans can be further disaggregated into the following types of credit exposures:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	Total
$ millions	CAP	CAP	CAP	IAP	
Residential mortgages					
Total gross carrying amount as at 30 September 2022	**57,337**	**6,172**	**340**	**20**	**63,869**
Transfers:					
Transfers to Stage 1	2,350	(2,334)	(16)	-	-
Transfers to Stage 2	(4,143)	4,208	(65)	-	-
Transfers to Stage 3 CAP	(30)	(160)	192	(2)	-
Transfers to Stage 3 IAP	-	(1)	(10)	11	-
Net further lending/(repayment)	(1,462)	284	(1)	(2)	(1,181)
New financial assets originated	4,851	-	-	-	4,851
Financial assets derecognised during the period	(1,985)	(260)	(37)	(2)	(2,284)
Amounts written-off	-	-	-	(1)	(1)
Total gross carrying amount as at 31 March 2023	**56,918**	**7,909**	**403**	**24**	**65,254**
Provision for ECL as at 31 March 2023	(43)	(112)	(52)	(10)	(217)
Total net carrying amount as at 31 March 2023	**56,875**	**7,797**	**351**	**14**	**65,037**
Other retail					
Total gross carrying amount as at 30 September 2022	**2,063**	**708**	**56**	**2**	**2,829**
Transfers:					
Transfers to Stage 1	514	(508)	(5)	(1)	-
Transfers to Stage 2	(584)	592	(8)	-	-
Transfers to Stage 3 CAP	(5)	(34)	39	-	-
Transfers to Stage 3 IAP	-	-	(2)	2	-
Net further lending/(repayment)	(151)	82	-	-	(69)
New financial assets originated	177	-	-	-	177
Financial assets derecognised during the period	(142)	(40)	(7)	-	(189)
Amounts written-off	-	-	(11)	-	(11)
Total gross carrying amount as at 31 March 2023	**1,872**	**800**	**62**	**3**	**2,737**
Provision for ECL as at 31 March 2023	(10)	(41)	(14)	(2)	(67)
Total net carrying amount as at 31 March 2023	**1,862**	**759**	**48**	**1**	**2,670**
Corporate					
Total gross carrying amount as at 30 September 2022	**25,841**	**4,494**	**86**	**38**	**30,459**
Transfers:					
Transfers to Stage 1	629	(628)	(1)	-	-
Transfers to Stage 2	(3,981)	3,989	(8)	-	-
Transfers to Stage 3 CAP	(6)	(82)	88	-	-
Transfers to Stage 3 IAP	-	(5)	(3)	8	-
Net further lending/(repayment)	(136)	414	1	3	282
New financial assets originated	2,099	-	-	-	2,099
Financial assets derecognised during the period	(1,898)	(342)	(19)	(2)	(2,261)
Amounts written-off	-	-	-	-	-
Total gross carrying amount as at 31 March 2023	**22,548**	**7,840**	**144**	**47**	**30,579**
Provision for ECL as at 31 March 2023	(31)	(172)	(28)	(19)	(250)
Total net carrying amount as at 31 March 2023	**22,517**	**7,668**	**116**	**28**	**30,329**

The above gross carrying amount table does not include 'Other' credit exposures (refer to Note 6) on the basis that the provision for ECL is nil.

iii. Asset quality (continued)

Other asset quality information

	THE BANKING GROUP				
	31 Mar 23				
$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
Undrawn commitments with individually impaired counterparties	1	-	2	-	3
Other assets under administration	-	-	-	-	-

iv. Capital adequacy and regulatory liquidity ratios

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 Reserve Bank BPRs.

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 BCBS and adopted by the Reserve Bank in supervising the Banking Group.

The Banking Group's capital summary

	THE BANKING GROUP
$ millions	31 Mar 23
Tier 1 capital	
Common Equity Tier 1 capital	
Paid-up ordinary shares issued by the Bank plus related share premium	7,300
Retained earnings (net of appropriations)	1,484
Accumulated other comprehensive income and other disclosed reserves[1]	115
Less deductions from Common Equity Tier 1 capital	
Goodwill	(477)
Other intangible assets[2]	(424)
Cash flow hedge reserve	(368)
Deferred tax asset deduction	(106)
Expected loss excess over eligible allowance	(5)
Total Common Equity Tier 1 capital	7,519
Additional Tier 1 capital	
Additional Tier 1 capital instruments[3]	1,125
Total additional Tier 1 capital	1,125
Total Tier 1 capital	8,644
Tier 2 capital	
Tier 2 capital instruments[3]	600
Revaluation reserves	-
Eligible impairment allowance in excess of expected loss	71
Total Tier 2 capital	671
Total capital	9,315

[1] Accumulated other comprehensive income and other disclosed reserves consist of investment securities reserve and cash flow hedge reserve as disclosed as reserves on the balance sheet.

[2] Includes capitalised transaction costs on loan capital and debt issues.

[3] Classified as a liability under Generally Accepted Accounting Practice and excludes capitalised transaction costs. Additional Tier 1 capital instruments and Tier 2 capital instruments are itemised on pages 38 and 39. Further details on convertibility for Additional Tier 1 capital instruments are noted under the 'Conversion' section.

iv. Capital adequacy and regulatory liquidity ratios (continued)

Capital structure

Ordinary shares

In accordance with the Reserve Bank BPRs, ordinary share capital is classified as Common Equity Tier 1 capital.

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

Additional Tier 1 loan capital (AT1)

A summary of the key terms and features of the AT1 notes is provided below:

$	Issue date	Counterparty	Interest rate	Optional redemption date
NZ$1,500 million notes [1]	22 September 2017	NZ Branch	NZ 90 day bank bill rate + 3.9594% p.a.	21 September 2027 and every fifth anniversary thereafter

[1] The AT1 notes were issued by the Bank and rank equally amongst themselves and are subordinated to the claims of depositors and senior or less subordinated creditors of the Bank, but rank ahead of the Bank's ordinary shares.

In accordance with the Reserve Bank BPRs, the Bank's Additional Tier 1 instrument is subject to a transitional phase-out from 1 January 2022. In line with the transitional phase-out schedule contained in BPR110, 75.0% of the total nominal value of the Bank's Additional Tier 1 instrument will be recognised as regulatory capital between 1 January 2023 and 31 December 2023.

Interest payable

Quarterly interest payments on the AT1 notes are at the absolute discretion of the Bank and will only be paid if the payment conditions are satisfied, including that the interest payment will not result in the Bank becoming insolvent immediately following the interest payment; not result in a breach of the Reserve Bank Prudential Standards; and the payment date not falling on the date of a capital trigger event or non-viability trigger event. Interest payments are non-cumulative. If interest is not paid in full, the Bank may not determine or pay any dividends on its ordinary shares or undertake a discretionary buy back or capital reduction of the Bank's ordinary shares (except in limited circumstances).

Redemption

The Bank may elect to redeem all or some of the AT1 notes for their face value on 21 September 2027 and every fifth anniversary thereafter, subject to the Reserve Bank's prior written approval. Early redemption of all of the AT1 notes for certain tax or regulatory reasons is permitted subject to the Reserve Bank's prior written approval.

Conversion

If a capital trigger event or non-viability trigger event occurs, the Bank must convert some or all of the AT1 notes into a variable number of ordinary shares issued by the Bank (calculated with reference to the net assets of the Bank and the total number of ordinary shares on issue at the conversion date) that is sufficient, in the case of a capital trigger event, to return the Bank's Common Equity Tier 1 capital ratio to above 5.125% as determined by the Bank in consultation with the Reserve Bank; or, in the case of a non-viability trigger event, to satisfy the direction of the Reserve Bank or the decision of the statutory manager of the Bank. A capital trigger event occurs when the Bank determines, or the Reserve Bank notifies in writing that it believes, the Bank's Common Equity Tier 1 Capital ratio is equal to or less than 5.125%. A non-viability trigger event occurs when the Reserve Bank or the statutory manager (appointed pursuant to section 117 of the BPS Act) directs the Bank to convert or write off all or some of its AT1 notes.

If conversion of the AT1 notes does not occur within five business days of a capital trigger event or a non-viability trigger event, holders' rights in relation to the AT1 notes will be immediately and irrevocably terminated.

The Bank is able to elect to convert all the AT1 notes for certain tax or regulatory reasons (or in certain other circumstances).

iv. Capital adequacy and regulatory liquidity ratios (continued)

Tier 2 loan capital

A summary of the key terms and features of the subordinated notes is provided below:

$	Issue date	Interest rate	Maturity date	Optional redemption date
NZ$600 million notes [1]	16 September 2022	Fixed at 6.19% until 16 September 2027. Resets on 16 September 2027 to a floating rate: New Zealand 90 day Bank Bill Rate + 2.10% p.a.	16 September 2032	16 September 2027 and every quarterly interest payment date thereafter

[1] The subordinated notes were issued by the Bank. The subordinated notes rank equally amongst themselves and are subordinated to the claims of depositors and senior or less subordinated creditors of the Bank, but rank ahead of the AT1 notes and the Bank's ordinary shares.

Interest payable

Quarterly interest payments on the subordinated notes are subject to the Bank being solvent at the time of, and immediately following the interest payment.

Early redemption

The Bank may elect to redeem all or some of the subordinated notes for their face value together with accrued interest (if any) on 16 September 2027 or any interest payment date thereafter, subject to the Reserve Bank's prior written approval. Early redemption of all of the subordinated notes for certain tax or regulatory reasons is permitted on an interest payment date subject to the Reserve Bank's prior written approval.

iv. Capital adequacy and regulatory liquidity ratios (continued)

Credit risk subject to the IRB approach

Classification of Banking Group exposures by regulatory exposure class

The Banking Group determines credit risk RWAs under BPR130. The regulation specifies two different methodologies to be applied in calculating credit risk RWAs: the standardised approach and the internal ratings based (IRB) approach (which includes the supervisory slotting calculation method for specialised lending). For modelled exposure classes, the IRB approach applies, with total RWA being subject to a floor of 85% of the standardised RWA. For non-modelled exposure classes, the standardised approach applies.

Modelled exposure classes – standardised floor applies		
Exposures subject to IRB approach		
Residential mortgages		Standard residential mortgage loans as defined in section B4.2 of BPR 133
Other retail	Small business	Program-managed business lending.
	Other retail	All other program-managed lending to retail customers, including credit cards, personal loans and personal overdrafts.
Corporate	Corporate	Exposures to corporations, partnerships, or proprietorships that do not fall into another exposure class, and whose annual turnover is equal to or greater than $50m. Includes Farm Lending.
	Business lending	Exposures to non-farm corporate customers, and whose annual turnover is less than $50m
Exposures subject to slotting approach		
Corporate	Specialised lending - property finance	Exposures to corporate 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	Exposure to corporate customers where the primary source of debt service, repayment and security is revenues generated by a project.
Non-modelled exposure classes		
Exposures subject to standardised approach		
Sovereign	Crown	Exposures to the Crown, Reserve Bank or other sovereigns and their central banks.
	MDBs and supranationals	Exposures to organisations listed in section C2.4(1) of BPR131
Bank	Public Sector Entities	Exposures to Local Authorities
	Bank	Exposures to NZ registered banks and overseas banks
Other assets		All assets not falling within the above asset classes
Equity exposures		
Equity		All equity items that have not been deducted from capital and meet the definition of equity exposures in BPR001.

iv. Capital adequacy and regulatory liquidity ratios (continued)

Credit risk subject to the IRB approach

The Banking Group's credit risk exposures by asset class as at 31 March 2023

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Residential mortgages						
Up to and including 0.10	-	-	-	-	-	-
Over 0.10 up to and including 0.50	0.47	34,602	14.32	11.65	4,836	387
Over 0.50 up to and including 1.0	0.70	26,519	20.95	22.57	7,182	575
Over 1.0 up to and including 2.5	1.52	11,886	22.62	43.68	6,230	498
Over 2.5 up to and including 10.0	3.69	712	26.14	89.76	767	61
Over 10.0 up to and including 99.99	-	-	-	-	-	-
Default	100.00	430	20.69	108.40	560	45
Total	1.33	74,149	18.17	22.00	19,575	1,566
Other retail						
Up to and including 0.10	0.05	742	46.38	6.83	61	5
Over 0.10 up to and including 0.50	0.19	854	54.34	21.00	215	17
Over 0.50 up to and including 1.0	0.54	276	55.69	41.80	139	11
Over 1.0 up to and including 2.5	1.77	515	66.64	80.27	495	40
Over 2.5 up to and including 10.0	5.33	352	70.32	104.69	442	35
Over 10.0 up to and including 99.99	19.25	65	77.77	157.31	124	10
Default	100.00	17	80.93	111.18	23	2
Total	2.16	2,821	57.33	44.29	1,499	120
Small business						
Up to and including 0.10	0.10	26	22.28	5.53	2	-
Over 0.10 up to and including 0.50	0.34	1,013	25.79	14.22	173	14
Over 0.50 up to and including 1.0	0.91	600	31.47	30.71	221	18
Over 1.0 up to and including 2.5	1.83	337	28.48	35.93	146	11
Over 2.5 up to and including 10.0	4.63	142	30.22	44.38	75	6
Over 10.0 up to and including 99.99	14.50	20	32.74	62.48	15	1
Default	100.00	54	31.95	304.62	197	16
Total	3.58	2,192	28.22	31.49	829	66
Corporate/Business lending						
Up to and including 0.04	0.03	5,779	47.84	22.10	1,533	123
Over 0.04 up to and including 0.10	0.07	4,160	47.68	22.81	1,139	91
Over 0.10 up to and including 0.40	0.22	9,332	41.03	38.92	4,359	349
Over 0.40 up to and including 3.0	1.15	14,418	32.02	60.61	10,485	838
Over 3.0 up to and including 10.0	4.78	327	28.98	83.06	326	26
Over 10.0 up to and including 99.0	24.53	1,025	34.81	172.31	2,120	170
Default	100.00	239	43.02	70.70	203	16
Total	1.97	35,280	38.97	47.63	20,165	1,613
Total credit risk exposures subject to the IRB approach		114,442			42,068	3,365

[1] A scalar of 1.2 currently applies to the RWA calculation of these amounts.

iv. Capital adequacy and regulatory liquidity ratios (continued)

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

$ millions	Undrawn Commitments and other Off-Balance Sheet Contingent Liabilities[1]		Counterparty Credit Risk on Derivatives and Securities Financing Transactions	
	Value	EAD	Value	EAD
Residential mortgages	12,296	8,877	-	-
Other retail	2,793	1,590	-	-
Small business	823	675	-	-
Corporate/Business Lending	9,851	9,852	2,759	81
Total	**25,763**	**20,994**	**2,759**	**81**

[1] Certain balances which are part of the guarantee with the NZ Branch are not included as off-balance sheet contingent liabilities, reflecting their treatment in RWA calculations as components of on-balance sheet or counterparty credit risk exposure.

Additional mortgage information

Residential mortgages by LVR as at 31 March 2023

LVRs are calculated as the current exposure divided by the Banking Group's valuation of the associated residential property at origination.

The Banking Group utilises data from its loan system to obtain origination valuations. For loans originated prior to 1 January 2008, or those originated outside of the loan system, the origination valuation is not recorded in the system and is therefore, due to system limitations, not available for disclosure. For these loans, the Banking Group utilises the earliest valuation recorded as the closest available alternative to estimate an origination valuation.

Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

	THE BANKING GROUP					
	31 Mar 23					
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	31,944	14,745	13,705	3,266	1,533	65,193
Undrawn commitments and other off-balance sheet exposures	7,005	1,011	599	100	162	8,877
Value of exposures	**38,949**	**15,756**	**14,304**	**3,366**	**1,695**	**74,070**

iv. Capital adequacy and regulatory liquidity ratios (continued)

Specialised lending subject to the slotting approach

The Banking Group's specialised lending: Project and property finance credit risk exposures as at 31 March 2023

On-balance sheet exposures subject to the slotting approach	Total Exposures After Credit Risk Mitigation $ millions	Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Supervisory slotting grade				
Strong	4,147	70.00	3,483	279
Good	2,366	90.00	2,555	204
Satisfactory	214	115.00	295	24
Weak	264	250.00	793	63
Default	14	-	-	-
Total on-balance sheet exposures subject to the slotting approach	7,005	84.78	7,126	570

[1] A scalar of 1.2 currently applies to the RWA calculation of these amounts.

Off-balance sheet exposures subject to the slotting approach	EAD $ millions	Average Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Undrawn commitments and other off-balance sheet exposures	1,320	78.79	1,248	100
Total specialised lending exposures subject to the slotting approach	8,325	83.83	8,374	670

[1] A scalar of 1.2 currently applies to the RWA calculation of these amounts.

Credit risk exposures subject to the standardised approach

The Banking Group's credit risk exposures subject to the standardised approach as at 31 March 2023

Calculation of on-balance sheet exposures

	Total Exposure After Credit Risk Mitigation $ millions	Average Risk Weight %	Risk-weighted Exposure $ millions	Minimum Pillar 1 Capital Requirement $ millions
Sovereigns and central banks	13,768	-	-	-
Multilateral development banks and other international organisations	1,969	-	-	-
Public sector entities	2,109	20.00	422	34
Banks	1,409	42.95	605	48
Past due assets	4	150	6	-
Other assets[1]	1,213	65.81	799	64
Total on-balance sheet exposures	20,472	8.95	1,832	146

[1] Relate to property and equipment, other assets and related parties.

iv. Capital adequacy and regulatory liquidity ratios (continued)

Calculation of off-balance sheet exposures

	Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor %	Credit Equivalent Amount $ millions	Average Risk Weight %	Risk-weighted Exposure $ millions	Minimum Pillar 1 Capital Requirement $ millions
Total off balance sheet exposures subject to the standardised approach	1,124	38.79	436	25.53	111	9
Counterparty credit risk for counterparties subject to the standardised approach						
Foreign exchange contracts	20,304	N/A	717	20.00	143	11
Interest rate contracts	65,309	N/A	188	20.00	38	4
Other	-	N/A	-	-	302	24
Total counterparty credit risk for counterparties subject to the standardised approach	85,613		905		483	39
Standardised subtotal (on and off-balance sheet)			21,813		2,426	194

Credit risk mitigation

The Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities (refer to Note 13.5 to the financial statements included in the Disclosure Statement for the year ended 30 September 2022 for further details). This includes the Banking Group establishing that it has direct, irrevocable and unconditional recourse to collateral and other credit enhancements through obtaining legally enforceable documentation.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to LGD. Due to system limitations, the value of the guarantee is not always separately recorded, and therefore, neither this value nor a close alternative is available for disclosure, under Clause 7 of Schedule 11 to the Order. The Banking Group does not apply any credit risk mitigation from eligible financial collateral for exposures subject to the standardised approach or from credit derivatives as at 31 March 2023.

iv. Capital adequacy and regulatory liquidity ratios (continued)

Equity risk

The Banking Group's equity exposures as at 31 March 2023

Equity	Total Exposure $ millions	Risk Weight %	Risk-weighted Exposure $ millions	Minimum Pillar 1 Capital Requirement $ millions
Equity holdings (not deducted from capital) included in the NZX 50 or overseas equivalent index	-	300	-	-
All other equity holdings (not deducted from capital)	3	400	11	1

Application of Standardised Floor to Total Credit Risk RWA

BPR130 requires IRB Banks to calculate total credit risk RWA as the sum of:

- The greater of:
  - 1.2 x total RWA subject to the IRB RWA treatment (as shown in the tables in the sections Credit risk subject to the IRB approach and Specialised lending subject to the slotting approach on pages 41 and 43); and
  - 0.85 x total Standardised Equivalent RWA for each credit risk exposure subject to the IRB RWA treatment (commonly referred to as the standardised floor); and
- 1.0 x total RWA subject to the Standardised RWA treatment.

	THE BANKING GROUP			
	31 Mar 23			
	RWA for modelled exposures			
$ millions	RWA calculated using models[1,2]	RWA recalculated using standardised approach	RWA for standardised exposures[3]	Total credit risk RWA
Total IRB and supervisory slotting exposure	50,442	66,340		
Standardised floor		56,389		
RWA with floor applied		**56,389**	**2,437**	**58,826**

[1] A scalar of 1.2 currently applies to the RWA calculation of these amounts.

[2] This amount includes $42,068 million for IRB classes and $8,374 million for supervisory slotting exposures.

[3] This amount includes $2,426 million for exposures subject to the standardised approach and $11 million for equity exposures.

iv. Capital adequacy and regulatory liquidity ratios (continued)

Operational risk

Operational risk capital requirement

The following table sets out the Banking Group's implied risk-weighted exposures under the Standardised Approach for operational risk capital.

	THE BANKING GROUP	
	31 Mar 23	
$ millions	Implied Risk-weighted Exposure	Total Operational Risk Capital Requirement
Standardised Approach		
Operational risk	**7,040**	**563**

Whilst the Bank has transitioned to the Standardised Approach for calculating Operational Risk capital in line with BPR150, it continues to comply with the qualitative requirements set out in section B1 of BPR151 AMA Operational Risk.

Market risk

The Banking Group's aggregate market risk exposure is derived in accordance with BPR140 and is calculated on a monthly basis. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information.

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six months ended 31 March 2023 of the aggregate capital charge for that category of market risk derived in accordance with BPR140.

The following table provides a summary of the Banking Group's notional capital charges by risk type as at the reporting date and the peak end-of-day notional capital charges by risk type for the six months ended 31 March 2023:

	THE BANKING GROUP	
	31 Mar 23	
$ millions	Implied risk-weighted exposure	Aggregate capital charge
End-of-period		
Interest rate risk	**2,078**	**166**
Foreign currency risk	**-**	**-**
Equity risk	**-**	**-**
Peak end-of-day		
Interest rate risk	**3,919**	**314**
Foreign currency risk	**-**	**-**
Equity risk	**-**	**-**

iv. Capital adequacy and regulatory liquidity ratios (continued)

Total capital requirements

Banking Group Pillar 1 Total Capital Requirement

	THE BANKING GROUP		
	31 Mar 23		
$ millions	Total Exposure After Credit Risk Mitigation[1]	Risk-weighted Exposure or Implied Risk-weighted Exposure	Total Capital Requirement
Total credit risk	**132,803**	**58,826**	**4,706**
Operational risk	**N/A**	**7,040**	**563**
Market risk	**N/A**	**2,078**	**166**
Total	**132,803**	**67,944**	**5,435**

[1] This amount includes $103,384 million for exposures subject to IRB approach and $7,603 million for exposures subject to the slotting approach, being the equivalent exposure under the standardised approach of $114,442 million EAD for credit risk exposures subject to IRB approach and $8,325 million EAD for specialised lending subject to slotting approach.

Capital ratios

The following table is disclosed under the Reserve Bank's Basel III framework in accordance with Clauses 15 and 16 of Schedule 11 to the Order and represents the capital adequacy calculation based on the Reserve Bank BPRs.

Due to changes effective from 1 January 2022, existing capital instruments that have conversion features are no longer fully eligible as capital. In line with the transitional phase-out schedule contained in BPR110, 75.0% of the total nominal value of affected instruments is recognisable as regulatory capital between 1 January 2023 and 31 December 2023.

For the purposes of calculating the capital adequacy ratios for the Bank on a solo basis, a subsidiary that is not a securitisation SPV must be consolidated with the Bank if it is a wholly-owned and wholly-funded subsidiary of the Banking Group. 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 the greater of 5% of the subsidiary's shareholder's equity and 1% of the subsidiary's total assets. 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. An SPV must be consolidated with the Bank if it is required to be consolidated with the Banking Group under the New Zealand Generally Accepted Accounting Practice and is a covered bond SPV, or an internal RMBS SPV, that is, an SPV that is set up to securitise residential mortgage loans originated by the Bank and is funded exclusively by the Bank. The Bank's two SPVs have been consolidated in accordance with the Reserve Bank's prudential requirements for the purposes of calculating solo capital.

	THE BANKING GROUP			THE BANK	
%	Reserve Bank Minimum Ratios	31 Mar 23	31 Mar 22	31 Mar 23	31 Mar 22
Common Equity Tier 1 capital ratio	4.5	**11.1**	11.3	**11.0**	11.2
Tier 1 capital ratio	6.0	**12.7**	13.3	**12.7**	13.2
Total capital ratio	8.0	**13.7**	14.5	**13.7**	14.4
Prudential capital buffer ratio	3.5	**5.7**	6.5	**N/A**	N/A

iv. Capital adequacy and regulatory liquidity ratios (continued)

Capital for other material risks

The Banking Group's internal capital adequacy assessment process identifies, reviews and measures additional material risks that must be captured within the Banking Group's capital adequacy assessment process. The additional material risks considered are those not captured by Pillar 1 regulatory capital requirements and include compliance and conduct risk, liquidity risk, reputational risk, sustainability risk, financial crime risk, model risk, deferred acquisition cost risk, strategic risk, subsidiary risk and cyber risk.

The Banking Group's internal capital allocation for 'other material risks' is $372 million as at 31 March 2023 (31 March 2022: $335 million).

Ultimate Parent Bank Group Basel III capital adequacy ratios

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

%	31 Mar 23	31 Mar 22
Ultimate Parent Bank Group (excluding entities specifically excluded by APRA)[1, 2]		
Common Equity Tier 1 capital ratio	**12.3**	11.3
Additional Tier 1 capital ratio	**2.2**	2.1
Tier 1 capital ratio	**14.5**	13.4
Tier 2 capital ratio	**5.3**	4.3
Total regulatory capital ratio	**19.8**	17.7
Ultimate Parent Bank (Extended Licensed Entity)[1, 3]		
Common Equity Tier 1 capital ratio	**12.5**	11.2
Additional Tier 1 capital ratio	**2.4**	2.2
Tier 1 capital ratio	**14.9**	13.4
Tier 2 capital ratio	**5.8**	4.7
Total regulatory capital ratio	**20.7**	18.1

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

[2] Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations) comprises the consolidation of the Ultimate Parent Bank and its subsidiary entities except those entities specifically excluded by APRA regulations for the purposes of measuring capital adequacy (Level 2). The head of the Level 2 group is the Ultimate Parent Bank.

[3] Ultimate Parent Bank (Extended Licensed Entity) comprises the Ultimate Parent Bank and its subsidiary entities that have been approved by APRA as being part of a single Extended Licensed Entity for the purposes of measuring capital adequacy (Level 1).

Under APRA's Prudential Standards, Australian Authorised Deposit-taking Institutions, including the Ultimate Parent Bank, are required to maintain minimum ratios of capital to risk weighted assets, as determined by APRA, which are at least equal to those specified under the Basel III capital framework. For the calculation of risk weighted assets, the Ultimate Parent Bank Group is accredited by APRA to apply advanced models. The Ultimate Parent Bank Group uses the Advanced Internal Ratings Based approach for credit risk, the Standardised Measurement Approach for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital.

From 1 January 2023, APRA's revised capital framework, including updated prudential standards for capital adequacy and credit risk capital, became effective. As part of the revised framework, APRA has set a Total Common Equity Tier 1 (CET1) Requirement for Domestic Systemically Important Banks (D-SIBs) of 10.25% (noting that APRA may apply higher CET1 requirements for an individual bank). This requirement includes a capital conservation buffer of 4.75% applicable to D-SIBs and a base level for the countercyclical capital buffer of 1.0%. APRA indicated that it expects that D-SIBs (including the Ultimate Parent Bank Group) will likely operate with CET1 capital ratio above 11% in normal operating conditions under the new framework.

APRA's prudential standards are generally consistent with the International Regulatory Framework for Banks, also known as Basel III, issued by the BCBS, except where APRA has exercised certain discretions.

The Ultimate Parent Bank Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly basis. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au),

The Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations), and the Ultimate Parent Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2023.

iv. Capital adequacy and regulatory liquidity ratios (continued)

Regulatory liquidity ratios

The Bank calculates liquidity ratios in accordance with BS13. Ratios are calculated daily and are part of the Bank's management of liquidity risk. Quarterly average ratios are produced in line with the Reserve Bank rules and guidance.

	THE BANKING GOUP	
%	**31 Mar 23**	31 Dec 22
Average for the three months ended		
One-week mismatch ratio	**9.8**	**9.0**
One-month mismatch ratio	**9.0**	**8.7**
Core funding ratio	**88.2**	**88.6**

From 31 March 2021, the Reserve Bank amended the Bank's conditions of registration to apply an overlay to the Bank's mismatch ratio. Effective 15 August 2022, the Reserve Bank reduced the adjustment to liquid assets by 50%, reflecting the Liquidity Review findings that there had been improvements in the liquidity control environment and the associated risk culture.

The overlay is specified by the Reserve Bank as a requirement to discount the value of the Bank's liquid assets by approximately 7% which at 31 March 2023 was $1.7 billion. The overlay will remain in place until the Reserve Bank is satisfied that control assurance has been completed. Refer to Other material matters on page 27 for further detail.

Unaudited

v. Concentration of credit exposures to individual counterparties

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

The number of individual non-bank counterparties 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 Common Equity Tier 1 capital:

	THE BANKING GROUP	
	Exposure as at 31 March 2023[1]	Peak end-of-day exposure over six months to 31 March 2023[1]
Exposures to non-bank counterparties[2]		
With a long-term credit rating of A- or A3 or above, or its equivalent		
Exceeds 10% and not 15%	**1**	**-**
Exceeds 15% and not 20%	**1**	**2**

[1] There are no bank counterparties with an aggregate credit exposure that equals or exceeds 10% of the Banking Group's Common Equity Tier 1 capital. There are no non-bank counterparties with an aggregate credit exposure that equals or exceeds 10% of the Banking Group's Common Equity Tier 1 capital and with a long-term credit rating of less than A- or A3, or its equivalent, or unrated.

[2] A counterparty is a non-bank counterparty if it is a non-bank that is not a member of a group of closely related counterparties or it is a group of closely related counterparties of which a bank is not the parent.

The peak end-of-day aggregate credit exposure to each individual counterparty (which are not members of a group of closely related counterparties) or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant six-month period, and then dividing that amount by the Banking Group's Common Equity Tier 1 capital as at 31 March 2023.

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 or central banks of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any supranational or quasi-sovereign agency 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.

vi. Insurance business

The Banking Group does not conduct any insurance business.

vii. Risk management policies

Refer to Section viii. Risk management policies of the Registered bank disclosures, Note 13. Credit risk management and Note 32. Risk management, funding and liquidity risk and market risk included in the Banking Group Disclosure Statement for the year ended 30 September 2022 for further details on the Banking Group's risk management policies.

Conditions of registration

Material non-compliance with conditions of registration

CoR14 non-compliance

In August 2019 the Reserve Bank commenced a thematic review of compliance with its Liquidity Policy (BS13). On 9 July 2021, the Reserve Bank provided the Bank with final review findings in relation to the Bank. The findings identified a series of quantitative areas of non-compliance with BS13 by the Bank which the Reserve Bank considered collectively constituted non-compliance with condition of registration 14 in a material respect by the Bank. The Bank has undertaken remediation activity to address the identified non-compliance with BS13.

CoR22 non-compliance

Outsourcing Arrangements without required risk mitigants in place

For a period of three and a half years in relation to certain hardware and a period ranging from four and a half to seven and a half years for operating system software, the Bank has had outsourcing arrangements without the required risk mitigants in place to ensure adequate support services were available for certain payment systems operated by the Bank, which support some of the Bank's payment processing services. In this regard:

- The relevant software and hardware environments ensure high availability of key frontline applications for its retail and business customers. The failure to have the required risk mitigants in place to support these software and hardware environments was non-compliant with the Reserve Bank's Outsourcing Policy (BS11) and therefore with the Bank's condition of registration 22.
- Despite not having adequate support contracts in place, the Bank either continued to receive support or could have acquired support on a non-contractual basis. The Bank also had internal teams in place to provide support in the event of issues arising with the software and hardware.
- However, if a critical problem had arisen with the software without the required risk mitigants in place, then this could have increased the risk that the Bank may not have been able to access support to restore the relevant services within the Bank's recovery time objectives. This would, in turn, impact the Bank's ability to provide certain services to business and retail customers who are using these services or business applications. This may also impact the Bank's ability to be administered under statutory management or to address the impact of a service or function provider failure.
- Once the non-compliances came to the Bank's attention, internal investigations took place, and the incidents were reported to the Reserve Bank. Remediation work is underway.

BS11 compendium requirements

From January 2021 to 11 October 2022, the Bank identified, and has remediated, a significant number of instances of non-compliance with BS11 compendium requirements which individually are not considered material. However, when considered collectively this constitutes non-compliance with conditions of registration 22 in a material respect by the Bank.

CoR 18, 19 and 21 non-compliance

Open Bank Resolution (OBR) policy is a Reserve Bank tool for responding to the rare event of a bank failure. OBR enables authorities to re-open a failed bank the next day under statutory management. This is achieved by ensuring that banks have operational and technical arrangements in place so they can continue to operate should they enter into statutory management. The Bank has identified that components of its OBR Implementation Plan (Plan) were non-compliant with the Bank's conditions of registration in the following respects:

- The Bank has not met all of the pre-positioning requirements in condition of registration 18 as the Bank does not have a fully documented solution to reinstate customers' access to some or all of their residual frozen funds were an event to occur.
- Components of the Bank's Plan were historically not kept up-to-date. As such the Bank has not met all of the requirements of condition of registration 19.
- The Bank's annual testing of its Plan did not meet the requirements of condition of registration 21 as the testing methods required strengthening to include timeframe and end-to-end enterprise testing.

As a result of the above, there is an increased risk that the Bank would not be able to close and re-open as required under the OBR policy. The Bank's Plan has since been updated with further work to strengthen the components underway.

Changes to conditions of registration

There have been no changes to the Bank's conditions of registration since the reporting date for the previous disclosure statement.

On 28 April 2023 the Reserve Bank advised the Bank of proposed changes to its conditions of registration which would ease mortgage loan-to-value ratio (LVR) restrictions. These changes are proposed to take effect from 1 June 2023 and ease LVR restrictions as follows:

- from 10% limit for loans with LVR above 80% for owner occupiers, to 15% limit for loans with LVR above 80% for owner occupiers; and
- from 5% limit for loans with LVR above 60% for investors, to 5% limit for loans with LVR above 65% for investors.

Independent auditor's review report

To the shareholder of Westpac New Zealand Limited

Report on the condensed consolidated interim Financial Statements and the Supplementary Information (excluding the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11)

Our conclusion

We have reviewed the condensed consolidated interim financial statements (the "Financial Statements") for the six month period ended 31 March 2023 of Westpac New Zealand Limited (the "Bank") and the entities it controlled at 31 March 2023 or from time to time during the period (together, the "Banking Group") as required by clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order (the "Supplementary Information"), excluding the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order contained in the half year disclosure statement (the "Disclosure Statement").

The Financial Statements comprise the balance sheet as at 31 March 2023, the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended and explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying:

- Financial Statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* ("NZ IAS 34") and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"); and
- Supplementary Information that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order:
  - does not present fairly, in all material respects, the matters to which it relates; or
  - is not disclosed, in all material respects, in accordance with those schedules.

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410 (Revised)"). Our responsibilities are further described in the *Auditor's responsibilities for the review of the Financial Statements and Supplementary Information* section of our report.

We are independent of the Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. In addition to our role as auditor, our firm carries out other services for the Banking Group in the areas of system pre-implementation and data migration assessment, and other assurance and audit related services. Other assurance and audit related services include assurance over compliance with regulations and agreed upon procedures over the issue of comfort letters and debt issuance programmes. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and relationships have not impaired our independence.

Responsibilities of the Directors for the Disclosure Statement

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 25 of the Order, NZ IAS 34 and IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Statements and the Supplementary Information that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible on behalf of the Bank for the preparation and fair presentation of the Disclosure Statement which includes:

- all of the information prescribed in Schedule 3 of the Order; and
- the information prescribed in Schedules 5, 7, 11, 13, 16 and 18 of the Order.

Auditor's responsibilities for the review of the Financial Statements and Supplementary Information

Our responsibility is to express a conclusion on the Financial Statements and Supplementary Information based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the:

- Financial Statements, taken as a whole, have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34; and
- Supplementary Information that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order:
  - does not present fairly, in all material respects, the matters to which it relates; or
  - is not disclosed, in all material respects, in accordance with those schedules; or
  - if applicable, has not been prepared, in all material respects, in accordance with any conditions of registration relating to disclosure requirements imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989.

A review in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, 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 and consequently do not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on the Financial Statements and Supplementary Information.

Who we report to

This report is made solely to the Bank's shareholder. Our review work has been undertaken so that we might state those matters which we are required to state to them in our review 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 review procedures, for this report, or for the conclusions we have formed.

The engagement partner on the review resulting in this independent auditor's review report is Samuel Shuttleworth.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
18 May 2023

Auckland, New Zealand

Independent Assurance Report

To the shareholder of Westpac New Zealand Limited

Limited assurance report on compliance with the information required on capital adequacy and regulatory liquidity requirements

Our conclusion

We have undertaken a limited assurance engagement on Westpac New Zealand Limited (the "Bank")'s compliance, in all material respects, with clause 22 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") which requires information prescribed in Schedule 11 of the Order relating to capital adequacy and regulatory liquidity requirements to be disclosed in its half year Disclosure Statement for the six month period ended 31 March 2023 (the "Disclosure Statement").

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order and disclosed in note iv of the registered bank disclosures, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

Basis for conclusion

We have conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3100 (Revised) *Compliance Engagements* ("SAE 3100 (Revised)") issued by the New Zealand Auditing and Assurance Standards Board.

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

Directors' responsibilities

The Directors are responsible on behalf of the Bank for compliance with the Order, including clause 22 of the Order which requires information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 11 of the Order to be included in the Disclosure Statement, for the identification of risks that may threaten compliance with that clause, controls that would mitigate those risks and monitoring ongoing compliance.

Our independence and quality management

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Banking Group. In addition to our role as auditor, our firm carries out other services for the Banking Group in the areas of system pre-implementation and data migration assessment, and other audit related services. Other audit related services include agreed upon procedures over the issue of comfort letters and debt issuance programmes. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and these relationships have not impaired our independence.

Assurance practitioner's responsibilities

Our responsibility is to express a limited assurance conclusion on whether the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order is not, in all material respects, disclosed in accordance with Schedule 11 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

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In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with clause 22 of the Order in respect of the information relating to capital adequacy and regulatory liquidity requirements is likely to arise.

Given the circumstances of the engagement we:

- obtained an understanding of the process, models, data and internal controls implemented over the preparation of the information relating to capital adequacy and regulatory liquidity requirements;
- obtained an understanding of the Bank's compliance framework and internal control environment to ensure the information relating to capital adequacy and regulatory liquidity requirements is in compliance with the Reserve Bank of New Zealand's (the "RBNZ") prudential requirements for banks;
- obtained an understanding and assessed the impact of any matters of non-compliance with the RBNZ's prudential requirements for banks that relate to capital adequacy and regulatory liquidity requirements and inspected relevant correspondence with the RBNZ;
- performed analytical and other procedures on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order, and considered its consistency with the interim financial statements; and
- agreed the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order to information extracted from the Bank's models, accounting records or other supporting documentation, which included publicly available information as prescribed by clause 18 of Schedule 11 the Order.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion on compliance with the compliance requirements.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with the compliance requirements may occur and not be detected.

A limited assurance engagement on the Bank's information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 11 of the Order to be included in the Disclosure Statement in compliance with clause 22 of the Order does not provide assurance on whether compliance will continue in the future.

Use of report

This report has been prepared for use by the Bank's shareholder, for the purpose of establishing that these compliance requirements have been met.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Bank and the Bank's shareholder, or for any purpose other than that for which it was prepared.

The engagement partner on the engagement resulting in this independent assurance report is Samuel Shuttleworth.

PricewaterhouseCoopers

Chartered Accountants
18 May 2023

Auckland, New Zealand