Level 18, 275 Kent Street
Sydney, NSW, 2000

ASX Release

1 December 2023

Westpac Banking Corporation – New Zealand Banking Group Disclosure Statement

Westpac Banking Corporation ("Westpac") today provides the attached Westpac New Zealand Banking Group Disclosure Statement for the year ended 30 September 2023.

For further information:

Hayden Cooper
Group Head of Media Relations
0402 393 619

Justin McCarthy
General Manager, Investor Relations
0422 800 321

This document has been authorised for release by Tim Hartin, Company Secretary.

WESTPAC BANKING CORPORATION – NEW ZEALAND BANKING GROUP

Disclosure Statement.

For the year ended 30 September 2023.

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Contents

Glossary of terms

Certain information contained in this Disclosure Statement is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (‘**Order**’).

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

- **Overseas Bank** – refers to Westpac Banking Corporation;
- **Overseas Banking Group** – refers to the Overseas Bank and all other entities included in the Overseas Bank’s group for the purposes of public reporting of the group financial statements in Australia;
- **NZ Branch** – refers to the New Zealand business (as defined in the Order) of the Overseas Bank;
- **Westpac New Zealand** – refers to Westpac New Zealand Limited; and
- **NZ Banking Group** – refers to the financial reporting group (as defined in the Order) of the Overseas Bank. Controlled entities of the NZ Banking Group as at 30 September 2023 are set out in Note 22 Related entities.

Words and phrases not defined in this Disclosure Statement, but defined by the Order, have the meaning given by the Order when used in this Disclosure Statement.

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

ADI	Authorised deposit-taking institution
ALCO	Asset and Liability Committee
ALM	Asset and liability risk management
ANZSIC	Australian and New Zealand Standard Industrial Classification
APRA	Australian Prudential Regulation Authority
AT1	Additional Tier 1 capital
AUSTRAC	Australian Transaction Reports and Analysis Centre
BKBM	Bank bill benchmark rate
Board	Board of Directors
BPR	Banking Prudential Requirement
BPS Act	Banking (Prudential Supervision) Act 1998
BRCC	Board Risk and Compliance Committee
BS13	Reserve Bank document 'Liquidity Policy'
CAP	Collectively assessed provisions
CCCFA	Credit Contracts and Consumer Finance Act 2003
CGU	Cash generating unit
CRG	Customer Risk Grade
EAD	Exposure at default
ECL	Expected credit losses
ELE	Extended licensed entity
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FCS	Financial Claims Scheme
Fidelity Life	Fidelity Life Assurance Company Limited
Financial statements	Consolidated financial statements
FM	Financial Markets
Fitch	Fitch Ratings
FVIS	Fair value through income statement
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
Group BRiskC	Overseas Bank's Board Risk Committee
GST	Goods and services tax
IAP	Individually assessed provisions
IRRBB	Interest rate risk in the banking book
LGD	Loss given default
LVR	Loan-to-value ratio
MARCO	Market Risk Committee
Moody's	Moody's Investors Service
NaR	Net interest income at risk
NII	Net interest income
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
OCI	Other comprehensive income
PD	Probability of default
PIE	Portfolio investment entities
Reserve Bank	Reserve Bank of New Zealand
RISKCO	Executive Risk Committee
RMBS	Residential mortgage-backed securities
RWA	Risk weighted assets
S&P	S&P Global Ratings
SME	Small and medium-sized enterprises
SPPI	Solely payments of principal and interest
VaR	Value-at-risk
Westpac Life	Westpac Life-NZ- Limited (renamed Fidelity Insurance Limited on 28 February 2022)

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

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

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

(b) is not false or misleading.

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, over the year ended 30 September 2023:

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

(b) the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand’s banking group, as defined in Westpac New Zealand's Disclosure Statement for the year ended 30 September 2023. Refer to Note vi. Risk Management Policies – Risk management frameworks on page 89 of this Disclosure Statement for further detail regarding the entities which had systems in place to monitor and control the material risks of relevant members of the NZ Banking Group.

The Disclosure Statement has been signed on behalf of all of the Directors by Catherine McGrath, Chief Executive Officer, Westpac New Zealand, and by Christopher Leuschke as Chief Executive Officer, NZ Branch.

Catherine A McGrath

Catherine McGrath

Christopher Leuschke

Dated this 30th day of November 2023

Income statement for the year ended 30 September 2023

		NZ BANKING GROUP	
$ millions	Note	**2023**	2022
Interest income:			
Calculated using the effective interest method	2	**6,278**	3,742
Other	2	**218**	82
Total interest income	2	**6,496**	3,824
Interest expense	2	**(3,658)**	(1,486)
Net interest income		**2,838**	2,338
Non-interest income			
Net fees and commissions	3	**197**	206
Net wealth management and insurance	3	**37**	63
Trading	3	**57**	183
Other	3	**7**	132
Total non-interest income		**298**	584
Net operating income		**3,136**	2,922
Operating expenses	4	**(1,353)**	(1,186)
Impairment (charges)/benefits	6	**(135)**	27
Profit before income tax expense		**1,648**	1,763
Income tax expense	7	**(464)**	(465)
Net profit attributable to the owner of the NZ Banking Group		**1,184**	1,298

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

Statement of comprehensive income for the year ended 30 September 2023

	NZ BANKING GROUP	
$ millions	**2023**	2022
Net profit attributable to the owner of the NZ Banking Group	**1,184**	1,298
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Gains/(losses) recognised in equity on:		
Investment securities	**(3)**	(313)
Cash flow hedging instruments[1]	**(102)**	281
Transferred to income statement:		
Cash flow hedging instruments[1]	**44**	219
Income tax on items taken to or transferred from equity:		
Investment securities	**1**	88
Cash flow hedging instruments	**16**	(140)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit obligation recognised in equity (net of tax)	**4**	6
Net other comprehensive income/(expense) for the year (net of tax)	**(40)**	141
Total comprehensive income attributable to the owner of the NZ Banking Group	**1,144**	1,439

[1] Comparative amounts have been revised to align to the current year's basis of presentation. The restatement for 2022 comparatives results in a $207 million increase in transferred to income statement and a corresponding decrease in gains/(losses) recognised in equity in relation to cash flow hedging instruments.

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

Balance sheet as at 30 September 2023

		NZ BANKING GROUP	
$ millions	Note	**2023**	2022
Assets			
Cash and balances with central banks	32	**9,325**	11,162
Collateral paid		**62**	87
Trading securities and financial assets measured at FVIS	9	**5,007**	3,501
Derivative financial instruments	23	**5,494**	9,383
Investment securities	10	**6,651**	5,623
Loans	11, 12	**99,711**	97,392
Other financial assets	14	**469**	644
Due from related entities	22	**4,488**	6,609
Property and equipment		**396**	402
Deferred tax assets	15	**88**	68
Intangible assets	16	**982**	834
Other assets		**125**	75
Total assets		**132,798**	135,780
Liabilities			
Collateral received		**614**	724
Deposits and other borrowings	17	**82,196**	80,848
Other financial liabilities	18	**7,222**	5,607
Derivative financial instruments	23	**4,858**	6,777
Due to related entities	22	**4,666**	8,292
Debt issues	19	**18,597**	19,933
Current tax liabilities		**184**	86
Provisions	20	**249**	257
Other liabilities		**332**	376
Loan capital	21	**3,051**	2,576
Total liabilities		**121,969**	125,476
Net assets		**10,829**	10,304
Head office account			
Branch capital		**1,300**	1,300
Retained profits		**1,472**	1,324
Total head office account		**2,772**	2,624
NZ Banking Group equity			
Share capital		**6,045**	6,045
Reserves		**94**	138
Retained profits		**1,918**	1,497
Total NZ Banking Group equity		**8,057**	7,680
Total equity attributable to the owner of the NZ Banking Group		**10,829**	10,304

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

Signed on behalf of the Board of Directors.

Director

30 November 2023

Pete King

Director

30 November 2023

Statement of changes in equity for the year ended 30 September 2023

	NZ BANKING GROUP						
	NZ BRANCH		OTHER MEMBERS OF THE NZ BANKING GROUP				
	Head Office Account			Reserves			
$ millions	Branch Capital	Retained Profits	Share Capital	Investment Securities Reserve	Cash Flow Hedge Reserve[1]	Retained Profits	Total Equity
As at 30 September 2021	1,300	1,187	488	(60)	63	7,226	10,204
Year ended 30 September 2022							
Net profit attributable to the owner of the NZ Banking Group	-	137	-	-	-	1,161	1,298
Net gains/(losses) from changes in fair value	-	-	-	(313)	281	-	(32)
Income tax effect	-	-	-	88	(79)	-	9
Transferred to income statement	-	-	-	-	219	-	219
Income tax effect	-	-	-	-	(61)	-	(61)
Remeasurement of defined benefit obligations	-	-	-	-	-	8	8
Income tax effect	-	-	-	-	-	(2)	(2)
Total comprehensive income/(expense) for the year ended 30 September 2022	-	137	-	(225)	360	1,167	1,439
Transactions with owner:							
Ordinary share capital issued	-	-	5,616	-	-	-	5,616
Ordinary share capital buy-back	-	-	(59)	-	-	-	(59)
Dividends paid on ordinary shares (refer to Note 22)	-	-	-	-	-	(6,896)	(6,896)
As at 30 September 2022	1,300	1,324	6,045	(285)	423	1,497	10,304

Year ended 30 September 2023							
Net profit attributable to the owner of the NZ Banking Group	**-**	**148**	**-**	**-**	**-**	**1,036**	**1,184**
Net gains/(losses) from changes in fair value	**-**	**-**	**-**	**(3)**	**(102)**	**-**	**(105)**
Income tax effect	**-**	**-**	**-**	**1**	**29**	**-**	**30**
Transferred to income statement	**-**	**-**	**-**	**-**	**44**	**-**	**44**
Income tax effect	**-**	**-**	**-**	**-**	**(13)**	**-**	**(13)**
Remeasurement of defined benefit obligations	**-**	**-**	**-**	**-**	**-**	**6**	**6**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**
Total comprehensive income/(expense) for the year ended 30 September 2023	**-**	**148**	**-**	**(2)**	**(42)**	**1,040**	**1,144**
Transactions with owner:							
Dividends paid on ordinary shares (refer to Note 22)	**-**	**-**	**-**	**-**	**-**	**(619)**	**(619)**
As at 30 September 2023	**1,300**	**1,472**	**6,045**	**(287)**	**381**	**1,918**	**10,829**

[1] Comparative amounts have been revised to align to the current year's basis of presentation. The restatement for 2022 comparatives results in a $207 million increase in transferred to income statement and a corresponding decrease in net gains/(losses) from changes in fair value.

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

Statement of cash flows for the year ended 30 September 2023

		NZ BANKING GROUP	
$ millions	Note	**2023**	2022
Cash flows from operating activities			
Interest received		**6,467**	3,830
Interest paid		**(3,164)**	(1,289)
Non-interest income received		**501**	291
Operating expenses paid		**(1,240)**	(1,051)
Income tax paid		**(371)**	(352)
Cash flows from operating activities before changes in operating assets and liabilities		**2,193**	1,429
Net (increase)/decrease in:			
Collateral paid		**25**	120
Trading securities and financial assets measured at FVIS		**(1,418)**	1,046
Loans		**(2,167)**	(4,731)
Other financial assets		**30**	2
Due from related entities		**(155)**	(1,941)
Other assets		**(2)**	(1)
Net increase/(decrease) in:			
Collateral received		**(110)**	404
Deposits and other borrowings		**1,348**	1,475
Other financial liabilities		**953**	953
Due to related entities		**62**	(71)
Other liabilities		**10**	14
Net movement in external and related entity derivative financial instruments		**681**	2,563
Net cash provided by/(used in) operating activities	32	**1,450**	1,262
Cash flows from investing activities			
Proceeds from investment securities		**547**	310
Purchase of investment securities		**(1,633)**	(1,668)
Proceeds from disposal of a controlled entity		**-**	417
Purchase of intangible assets		**(209)**	(172)
Purchase of property and equipment		**(77)**	(27)
Net movement in life insurance assets		**-**	60
Net cash provided by/(used in) investing activities		**(1,372)**	(1,080)
Cash flows from financing activities			
Proceeds from debt issues	19	**7,827**	13,602
Repayments of debt issues	19	**(9,290)**	(10,297)
Payments for the principal portion of lease liabilities		**(47)**	(62)
Issue of loan capital (net of issue costs)	21	**592**	590
Redemption of loan capital	21	**-**	(1,178)
Payment for share buy-back		**-**	(59)
Dividends paid to ordinary shareholders	22	**(619)**	(1,280)
Net movement in due to related entities		**(473)**	618
Net cash provided by/(used in) financing activities		**(2,010)**	1,934
Net increase/(decrease) in cash and cash equivalents		**(1,932)**	2,116
Cash and cash equivalents at the beginning of the year		**11,261**	9,145
Cash and cash equivalents at the end of the year	32	**9,329**	11,261

The above statement of cash flows should be read in conjunction with the accompanying notes. Details of the reconciliation of net cash provided by/(used in) operating activities to net profit are provided in Note 32.

Notes to the financial statements

Note 1 Financial statements preparation

The Overseas Bank is registered as a public company limited by shares under the Australian Corporations Act 2001 and is entered on the register maintained under the BPS Act. The Overseas Bank provides a broad range of banking and financial services, including consumer, business and institutional banking and wealth management services.

The NZ Branch's head office is situated at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand and the address for service of process on the NZ Branch is Stephen O'Brien - General Counsel, Westpac on Takutai Square, 53 Galway Street, Auckland 1010, New Zealand.

The financial statements are for the NZ Banking Group.

These financial statements were authorised for issue by the Overseas Bank's Board of Directors on 30 November 2023. The Board has the power to amend and reissue the financial statements.

The principal accounting policies are set out below and in the relevant notes to the financial statements. These accounting policies provide details of the accounting treatments adopted for complex balances and where accounting standards provide policy choices. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

(i) Basis of accounting

These financial statements are general purpose financial statements prepared in accordance with:

- the requirements of the Financial Markets Conduct Act 2013; and
- the requirements of the Order.

These financial statements comply with Generally Accepted Accounting Practice, applicable NZ IFRS and other authoritative pronouncements of the External Reporting Board, as appropriate for for-profit entities. These financial statements also comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

All amounts in these financial statements have been rounded to the nearest million dollars unless otherwise stated.

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and financial liabilities (including derivative instruments) measured at FVIS or in FVOCI.

(iii) Comparative revisions

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

(iv) Changes in accounting policy

Broker trail commission

During the current financial year, the NZ Banking Group revised its treatment of ongoing trail commission payable to mortgage brokers. The NZ Banking Group recognised a liability of $132 million within other financial liabilities equal to the present value of the expected future trail commission payable and a corresponding increase in capitalised brokerage costs in loans. Comparatives have not been revised for this change in accounting policy as the impact of the change is not material to the financial statements.

(v) Standards adopted during the year ended 30 September 2023

No new accounting standards have been adopted by the NZ Banking Group for the year ended 30 September 2023. There have been no amendments to existing accounting standards that have a material impact on the NZ Banking Group.

(vi) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Acquisition cost is measured as the aggregate of the fair value at the date of acquisition of the assets given, equity instruments issued or liabilities incurred or assumed. Acquisition-related costs are expensed as incurred (except for those costs arising on the issue of equity instruments which are recognised directly in equity).

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. Goodwill is measured as the excess of the acquisition cost, the amount of any non-controlling interest and the fair value of any previous NZ Banking Group's equity interest in the acquiree, over the fair value of the identifiable net assets acquired.

(vii) Foreign currency translation

Functional and presentation currency

The financial statements are presented in New Zealand dollars which is the NZ Banking Group's functional and presentation currency.

Transactions and balances

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

Notes to the financial statements

Note 1 Financial statements preparation (continued)

(viii) Head office account, share capital and reserves

Head office account - Branch capital

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

Ordinary shares

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

Investment securities reserve

This comprises the changes in the fair value of debt securities measured at FVOCI (except for interest income, impairment charges and FX gains and losses which are recognised in the income statement), net of any related hedge accounting adjustments and tax. These changes are transferred to non-interest income in the income statement when the asset is disposed.

Cash flow hedge reserve

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

b. Basis of aggregation

The NZ Banking Group as at 30 September 2023 has been aggregated by combining the sum of the capital and reserves of the NZ Branch, and the consolidated capital and reserves of Westpac New Zealand Group Limited, BT Financial Group (NZ) Limited, Westpac Financial Services Group-NZ-Limited, Westpac Group Investment-NZ-Limited, and their subsidiaries (including structured entities). For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

Subsidiaries are entities over which the members of the NZ Banking Group have control as they are exposed to, or have rights to, variable returns from its involvement with the entities, and can affect those returns through its power over the entities. All transactions between entities within the NZ Banking Group are eliminated. Subsidiaries are fully consolidated from the date on which control commences and are de-consolidated from the date that control ceases.

c. Financial assets and financial liabilities

(i) Recognition

Financial assets and financial liabilities, other than regular way transactions, are recognised when the NZ Banking Group becomes a party to the terms of the contract, which is generally on the settlement date (the date payment is made or cash advanced). Purchases and sales of financial assets in regular way transactions are recognised on the trade date (the date on which the NZ Banking Group commits to purchase or sell an asset).

(ii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the NZ Banking Group has either transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full under a 'pass through' arrangement and transferred substantially all the risks and rewards of ownership.

There may be situations where the NZ Banking Group has partially transferred the risks and rewards of ownership but has neither transferred nor retained substantially all the risks and rewards of ownership. In such situations, the asset continues to be recognised on the balance sheet to the extent of the NZ Banking Group's continuing involvement in the asset.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in the income statement.

The terms are deemed to be substantially different if the discounted present value of the cashflows under the new terms (discounted using the original effective interest rate) is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Qualitative factors such as a change in the currency the instrument is denominated in, a change in the interest rate from fixed to floating and conversion features are also considered.

(iii) Classification and measurement basis

Financial assets

Financial assets are grouped into the following classes: cash and balances with central banks, collateral paid, trading securities and financial assets measured at FVIS, derivative financial instruments, investment securities, loans, other financial assets and due from related entities.

Financial assets are classified based on a) the business model within which the assets are managed, and b) whether the contractual cash flows of the instrument represent SPPI.

The NZ Banking Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the NZ Banking Group considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for, sales in previous periods and expectations of sales in future periods.

When assessing whether contractual cash flows are SPPI, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that they may not meet the SPPI criteria include contingent and leverage features, non-recourse arrangements, and features that could modify the time value of money.

Notes to the financial statements

Note 1 Financial statements preparation (continued)

Debt instruments

If the debt instruments have contractual cash flows which represent SPPI on the principal balance outstanding they are classified at:

- amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect these cash flows; or
- FVOCI if they are held within a business model whose objective is achieved both through collecting these cash flows and selling the financial asset; or
- FVIS if they are held within a business model whose objective is achieved through selling the financial asset.

Debt instruments are classified and measured at FVIS where the contractual cash flows do not represent SPPI on the principal balance outstanding or where it is designated at FVIS to eliminate or reduce an accounting mismatch.

Debt instruments at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. They are presented net of provision for ECL determined using the ECL model. Refer to Notes 6 and 12 for further details.

Debt instruments at FVOCI are measured at fair value with unrealised gains and losses recognised in OCI except for interest income, impairment charges and FX gains and losses, which are recognised in the income statement. Impairment on debt instruments at FVOCI is determined using the ECL model and is recognised in the income statement with a corresponding amount in OCI. There is no reduction of the carrying value of the debt security which remains at fair value.

The cumulative gain or loss recognised in OCI is subsequently recognised in the income statement when the instrument is derecognised.

Debt instruments at FVIS are measured at fair value with subsequent changes in fair value recognised in the income statement.

Financial liabilities

Financial liabilities are grouped into the following classes: collateral received, deposits and other borrowings, other financial liabilities, derivative financial instruments, due to related entities, debt issues and loan capital.

Financial liabilities are measured at amortised cost if they are not held for trading or designated at FVIS, otherwise they are measured at FVIS.

Financial assets and financial liabilities measured at FVIS are recognised initially at fair value. All other financial assets and financial liabilities are recognised initially at fair value plus or minus directly attributable transaction costs respectively.

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

The NZ Banking Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 24.

d. Critical accounting assumptions and estimates

Applying the NZ Banking Group's accounting policies requires the use of judgement, assumptions and estimates which impact the financial information. The significant assumptions and estimates used are discussed in the relevant notes below.

- Note 7 Income tax expense
- Note 12 Provision for expected credit losses
- Note 15 Deferred tax assets
- Note 16 Intangible assets
- Note 20 Provisions
- Note 24 Fair value of financial assets and financial liabilities

Impact of climate-related risks

The NZ Banking Group has considered the potential risk of climate change on its financial statements. Refer to Note 31 for further details.

e. Future developments in accounting standards

There are no new standards or amendments to existing standards that are not yet effective that are expected to have a material impact on the NZ Banking Group.

Notes to the financial statements

Note 2 Net interest income

Accounting policy

Interest income and interest expense for all interest earning financial assets and interest bearing financial liabilities at amortised cost or FVOCI, detailed within the table below, are recognised using the effective interest method. Net income from Treasury's interest rate and liquidity management activities are included in net interest income.

The effective interest method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the instrument, over its expected life.

Interest income is calculated based on the gross carrying amount of financial assets in stages 1 and 2 of the NZ Banking Group's ECL model and on the carrying amount net of the provision for ECL for financial assets in stage 3.

		NZ BANKING GROUP	
$ millions	Note	**2023**	2022
Interest income			
Calculated using the effective interest method			
Cash and balances with central banks		**533**	162
Collateral paid		**4**	1
Investment securities		**161**	92
Loans		**5,453**	3,470
Due from related entities	22	**127**	17
Total interest income calculated using the effective interest method		**6,278**	3,742
Other			
Trading securities and financial assets measured at FVIS		**218**	82
Total other		**218**	82
Total interest income		**6,496**	3,824
Interest expense			
Calculated using the effective interest method			
Collateral received		**24**	4
Deposits and other borrowings		**2,523**	771
Due to related entities	22	**86**	32
Debt issues		**265**	167
Loan capital		**147**	137
Other financial liabilities		**236**	44
Total interest expense calculated using the effective interest method		**3,281**	1,155
Other			
Deposits and other borrowings		**147**	58
Debt issues		**170**	39
Other interest expense[1]		**60**	234
Total other		**377**	331
Total interest expense		**3,658**	1,486
Net interest income		**2,838**	2,338

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

Note 3 Non-interest income

Accounting policy

Non-interest income includes net fees and commissions income, net wealth management and insurance income, trading income and other income.

Net fees and commissions income

When another party is involved in providing goods or services to a NZ Banking Group customer, the NZ Banking Group assesses whether the nature of the arrangement with its customer is as a principal provider or an agent of another party. Where the NZ Banking Group is acting as an agent for another party, the income earned by the NZ Banking Group is the net consideration received (i.e. the gross amount received from the customer less amounts paid to a third party provider). As an agent, the net consideration represents fees and commissions income for facilitating the transaction between the customer and the third party provider with primary responsibility for fulfilling the contract.

Fees and commissions income

Fees and commissions income is recognised when the performance obligation is satisfied by transferring the promised good or service to the customer. Fees and commissions income includes facility fees, transaction fees and commissions and other non-risk fee income. Commissions income includes commissions received for the distribution of general and life insurance products.

Facility fees include certain line fees, annual credit card fees and fees for providing customer bank accounts. They are recognised over the term of the facility/period of service on a straight line basis.

Transaction fees and commissions are earned for facilitating banking transactions such as FX fees, telegraphic transfers and issuing bank cheques. Fees and commissions for these one-off transactions are recognised once the transaction has been completed. Transaction fees and commissions are also recognised for credit card transactions including interchange fees net of scheme charges. These are recognised once the transaction has been completed, however, a component of interchange fees received is deferred as unearned income as the NZ Banking Group has a future service obligation to customers under the NZ Banking Group's credit card reward programmes.

Other non-risk fee income includes advisory and underwriting fees which are recognised when the related service is completed.

Income which forms an integral part of the effective interest rate of a financial instrument is recognised using the effective interest method and recorded in interest income (for example, loan origination fees).

Fees and commissions expenses

Fees and commissions expenses include incremental external costs that vary directly with the provision of goods or services to customers. An incremental cost is one that would not have been incurred if a specific good or service had not been provided to a specific customer. Fees and commissions expenses which form an integral part of the effective interest rate of a financial instrument are recognised using the effective interest method and recorded in net interest income. Fees and commissions expenses include the costs associated with credit card loyalty programmes which are recognised as an expense when the services are provided on the redemption of points.

Net wealth management income

Wealth management fees earned for the ongoing management of customer funds and investments are recognised when the performance obligation is satisfied which is over the period of management.

Net insurance income and change in policy liabilities

Net insurance policy assets relating to life insurance contracts were calculated by using the margin on service methodology in accordance with New Zealand Society of Actuaries Professional Standard 20 Determination of Life Insurance Policy Liabilities. Under this methodology, planned profit margins and an estimate of future liabilities were calculated separately for each major product line using applied assumptions at each reporting date. Profit margins were released in line with the service that was provided.

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

Life insurance contract claims were recognised as an expense when the liability was established.

Trading income

- Realised and unrealised gains or losses from changes in the fair value of trading assets, liabilities and derivatives are recognised in the period in which they arise (except day one profits or losses which are deferred, refer to Note 24); and
- Net income related to Treasury's interest rate and liquidity management activities is included in net interest income.

Notes to the financial statements

Note 3 Non-interest income (continued)

	NZ BANKING GROUP	
$ millions	**2023**	2022
Net fees and commissions		
Facility fees	**48**	43
Transaction fees and commissions	**203**	207
Other non-risk fee income	**20**	22
Fees and commissions income	**271**	272
Credit card loyalty programmes	**(35)**	(35)
Transaction fees and commissions related expenses	**(39)**	(31)
Fees and commissions expenses	**(74)**	(66)
Net fees and commissions	**197**	206
Net wealth management and insurance		
Net wealth management income	**37**	37
Net insurance income and change in policy liabilities[1]	**-**	26
Net wealth management and insurance	**37**	63
Trading	**57**	183
Other		
Net ineffectiveness on qualifying hedges	**-**	3
Net gain on disposal of a controlled entity[1]	**-**	126
Other	**7**	3
Total other	**7**	132
Total non-interest income	**298**	584

[1] On 28 February 2022, the sale of Westpac Life (renamed Fidelity Insurance Limited on 28 February 2022) to Fidelity Life was completed. As such, from 1 March 2022, the NZ Banking Group does not conduct any insurance business.

Deferred income in relation to the credit card loyalty programmes for the NZ Banking Group was $27 million as at 30 September 2023 (30 September 2022: $31 million). This will be recognised as fees and commissions income as the credit card reward points are redeemed.

There were no other material contract assets or contract liabilities for the NZ Banking Group.

Note 4 Operating expenses

		NZ BANKING GROUP	
$ millions	Note	**2023**	2022
Staff expenses		**710**	658
Lease expense		**24**	20
Depreciation		**82**	88
Technology services and telecommunications		**225**	155
Purchased services		**96**	96
Software amortisation costs		**60**	47
Related entities - management fees	22	**11**	10
Other		**145**	112
Total operating expenses		**1,353**	1,186

Notes to the financial statements

Note 5 Auditor's remuneration

	NZ BANKING GROUP	
$'000s	2023	2022
Audit and audit related services		
Audit and review of financial statements[1]	**3,739**	3,587
Other audit related services[2,3]	**824**	926
Total remuneration for audit and other audit related services	**4,563**	4,513
Other services[4]	**303**	-
Total remuneration for non-audit services	**303**	-
Total remuneration for audit, other audit related services and non-audit services	**4,866**	4,513

[1] Fees for the annual audit of the financial statements, the review or other procedures performed on the interim financial statements and Sarbanes-Oxley reporting undertaken in the role of auditor.

[2] Assurance or agreed upon procedures over the issue of comfort letters and debt issuance programmes.

[3] As at 30 September 2023, $304,514 out of other audit related services was paid to PwC Australia for the issue of comfort letters and work on Westpac New Zealand's debt issuance programme (30 September 2022: $414,366).

[4] Fees for system pre-implementation and data migration assessment.

It is the NZ Banking Group's policy to engage the external auditor on assignments additional to their statutory audit duties only if their independence is not impaired or seen to be impaired, and where their expertise and experience with the NZ Banking Group is important.

The external auditor also provides audit and non-audit assurance services to non-consolidated entities, including non-consolidated trusts and non-consolidated superannuation funds or pension funds of which a member of the NZ Banking Group is manager or responsible entity. During the year ended 30 September 2023, the fees in respect of these services were $505,331 (30 September 2022: $452,897). This amount is not included in the table above.

Note 6 Impairment charges/(benefits)

Accounting policy

Impairment charges are based on an expected loss model which measures the difference between the current carrying amount and the present value of expected future cash flows taking into account past experience, current conditions and multiple probability-weighted macroeconomic scenarios for reasonably supportable future economic conditions. Further details of the calculation of ECL and the critical accounting assumptions and estimates relating to impairment charges are included in Note 12.

Impairment charges are recognised in the income statement, with a corresponding amount recognised as follows:

- Loans at amortised cost: as a reduction of the carrying value of the financial asset through an offsetting provision account (refer to Note 12);
- Investment securities: in reserves in OCI with no reduction of the carrying value of the debt security (refer to the statement of changes in equity); and
- Credit commitments: as a provision (refer to Note 20).

Uncollectable loans

A loan may become uncollectable in full or part if, after following the NZ Banking Group's loan recovery procedures, the NZ Banking Group remains unable to collect that loan's contractual repayments. Uncollectable amounts are written off against their related provision for ECL, after all possible repayments have been received.

Where loans are secured, amounts are generally written off after receiving the proceeds from the security, or in certain circumstances, where the net realisable value of the security has been determined and this indicates that there is no reasonable expectation of full recovery, write-off may be earlier. Unsecured consumer loans are generally written off after 180 days past due.

The NZ Banking Group may subsequently be able to recover cash flows from loans written off. In the period which these recoveries are made, they are recognised in the income statement.

	NZ BANKING GROUP	
$ millions	2023	2022
Provisions raised/(released):		
Performing	**78**	(38)
Non-performing	**46**	1
Bad debts written-off/(recovered) directly to the income statement	**11**	10
Impairment charges/(benefits)	**135**	(27)
of which relates to:		
Loans and credit commitments	**135**	(27)
Impairment charges/(benefits)	**135**	(27)

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

Notes to the financial statements

Note 7 Income tax expense

Accounting policy

The income tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in OCI, in which case it is recognised in the statement of comprehensive income.

Current tax is the tax payable for the year using enacted or substantively enacted tax rates and laws. Current tax also includes adjustments to tax payable for previous years.

Goods and services tax

Revenue, expenses and assets are recognised net of GST except to the extent that GST is not recoverable from the New Zealand Inland Revenue. In these circumstances, GST is recognised as part of the expense or the cost of the asset.

Critical accounting assumptions and estimates

Significant judgement is required in determining the current tax liability. There may be transactions with uncertain tax outcomes and provisions are determined based on the expected outcomes.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Income tax expense		
Current tax:		
Current year	**472**	454
Prior year adjustments	**(2)**	(5)
Deferred tax (refer to Note 15):		
Current year	**(6)**	11
Prior year adjustments	**-**	5
Total income tax expense	**464**	465
Profit before income tax	**1,648**	1,763
Tax calculated at tax rate of 28%	**461**	494
Other non-assessable items	**-**	(34)
Expenses not deductible for tax purposes	**5**	5
Prior year adjustments	**(2)**	-
Total income tax expense	**464**	465

The effective tax rate for the year ended 30 September 2023 was 28.2% (30 September 2022: 26.4%).

Note 8 Imputation credit account

	NZ BANKING GROUP	
$ millions	**2023**	2022
Imputation credits available for use in subsequent reporting periods	**186**	1,047

Westpac New Zealand and Westpac Securities NZ Limited ('**WSNZL**') were previously part of an imputation group ('**ICA group**') with the Overseas Bank. On 1 July 2023, Westpac New Zealand and WSNZL exited the ICA group. While the imputation credits of the ICA group continue to be available for use by the Overseas Bank, those imputation credits are no longer accessible by any New Zealand tax resident members of the NZ Banking Group. The 2023 imputation credit balance of the ICA group of $802m (not included in the NZ Banking Group balance above) is available to directly attach to distributions of the Overseas Bank.

Notes to the financial statements

Note 9 Trading securities and financial assets measured at FVIS

Accounting policy

Trading securities

Trading securities include actively traded debt (government and other) and those acquired for sale in the near term. The instruments are measured at fair value.

Reverse repurchase agreements

Securities purchased under these agreements are not recognised on the balance sheet, as the NZ Banking Group has not obtained the risks and rewards of ownership. The cash consideration paid is recognised as a reverse repurchase agreement, which forms part of a trading portfolio that is measured at fair value.

Fair value gains and losses on these financial assets are recognised in the income statement. Interest earned from debt securities is recognised in interest income (refer to Note 2).

	NZ BANKING GROUP	
$ millions	**2023**	2022
Government and semi-government securities	**2,354**	1,524
Other debt securities	**2,166**	1,804
Reverse repurchase agreements	**487**	173
Total trading securities and financial assets measured at FVIS	**5,007**	3,501

Note 10 Investment securities

Accounting policy

Investment securities include debt securities (government and other) that are measured at FVOCI. These instruments are classified based on the criteria disclosed under the heading “Financial assets and financial liabilities” in Note 1.

Debt securities measured at FVOCI

Includes debt instruments that have contractual cash flows which represent SPPI on the principal balance outstanding and they are held within a business model whose objective is achieved both through collecting these cash flows or selling the financial asset.

These securities are measured at fair value with unrealised gains and losses recognised in OCI except for interest income, impairment charges and FX gains and losses and fair value hedge adjustments which are recognised in the income statement.

Impairment is measured using the same ECL model applied to financial assets measured at amortised cost. Impairment is recognised in the income statement with a corresponding amount in OCI with no reduction of the carrying value of the debt security which remains at fair value. Refer to Note 12 for further details.

The cumulative gain or loss recognised in OCI is subsequently recognised in the income statement when the instrument is disposed.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Government and semi-government securities	**4,088**	3,656
Other debt securities	**2,563**	1,967
Total investment securities	**6,651**	5,623

Notes to the financial statements

Note 11 Loans

Accounting policy

Loans are financial assets initially recognised at fair value plus directly attributable transaction costs and fees.

Loans are subsequently measured at amortised cost using the effective interest method where they have contractual cash flows which represent SPPI on the principal balance outstanding and they are held within a business model whose objective is achieved through holding the loans to collect these cash flows. They are presented net of any provision for ECL.

Loan products that have both mortgage and deposit facilities are presented gross on the balance sheet, segregating the asset and liability component, because they do not meet the criteria to be offset. Interest earned on these products is presented on a net basis in the income statement as this reflects how the customer is charged.

The following table shows loans disaggregated by types of credit exposure:

	NZ BANKING GROUP	
$ millions	**2023**	2022
Residential mortgages[1]	**65,757**	63,827
Other retail	**2,648**	2,829
Corporate	**31,619**	31,015
Other	**194**	121
Total gross loans	**100,218**	97,792
Provision for ECL on loans (refer to Note 12)	**(507)**	(400)
Total net loans	**99,711**	97,392

[1]During the current financial year, the NZ Banking Group revised its treatment of ongoing trail commission payable to mortgage brokers. The NZ Banking Group recognised a liability within other financial liabilities equal to the present value of the expected future trail commission payable and a corresponding increase in capitalised brokerage costs in loans. The balance as at 30 September 2023 was $132 million for the NZ Banking Group. Refer also to Note 1(iv).

Note 12 Provision for expected credit losses

Accounting policy

Note 6 provides details of impairment charges/(benefits).

Impairment applies to all financial assets at amortised cost, debt securities measured at FVOCI and credit commitments.

The ECL is recognised as follows:

- Loans at amortised cost: as a reduction of the carrying value of the financial asset through an offsetting provision account (refer to Note 11);
- Investment securities: in reserves in OCI with no reduction of the carrying value of the debt security itself (refer to the statement of changes in equity); and
- Credit commitments: as a provision (refer to Note 20).

Measurement

The NZ Banking Group calculates the provision for ECL based on a three stage approach. The provision for ECL is a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The models use three main components to determine the ECL (as well as the time value of money) including:

- PD: the probability that a counterparty will default;
- LGD: the loss that is expected to arise in the event of a default; and
- EAD: the estimated outstanding amount of credit exposure at the time of the default.

Model stages

The three stages are as follows:

Stage 1: 12 months ECL - performing

For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months ECL is recognised.

Stage 2: Lifetime ECL – performing

For financial assets where there has been a significant increase in credit risk since origination but where the asset is still performing a provision for lifetime ECL is recognised. The indicators of a significant increase in credit risk are described on the following page.

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

Accounting policy (continued)

Stage 3: Lifetime ECL – non-performing

Financial assets in Stage 3 are those that are in default. A default occurs when:

- The NZ Banking Group considers that the customer is unable to repay its credit obligations in full, irrespective of recourse by the NZ Banking Group to action such as realising security. Indicators include a breach of contract with the NZ Banking Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on an individual basis; or
- The customer is more than 90 days past due on any material credit obligation.

A provision for lifetime ECL is recognised on these financial assets.

Collective and individual assessment

Financial assets that are in Stages 1 and 2 are assessed on a collective basis. This means that they are grouped in pools of similar assets with similar credit risk characteristics including the type of product and CRG. Financial assets in Stage 3 are assessed on an individual basis and calculated collectively for those below a specified threshold.

Expected life

In considering the lifetime timeframe for ECL in Stages 2 and 3, the standard generally requires use of the remaining contractual life adjusted, where appropriate, for prepayments, extension and other options. For certain revolving credit facilities which include both a drawn and undrawn component (e.g. credit cards and revolving lines of credit), the NZ Banking Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. For these facilities, lifetime is based on historical behaviour.

Movement between stages

Financial assets may move in both directions through the stages of the impairment model. Financial assets previously in Stage 2 may move back to Stage 1 if it is no longer considered that there has been a significant increase in credit risk. Similarly, financial assets in Stage 3 may move back to Stage 1 or Stage 2 if they are no longer assessed to be non-performing.

Critical accounting assumptions and estimates

Key judgements include when a significant increase in credit risk has occurred, the estimation of forward-looking macroeconomic information and overlays. Other factors which can impact the provision include the borrower's financial situation, the realisable value of collateral, the NZ Banking Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan.

Significant increase in credit risk

Determining when a financial asset has experienced a significant increase in credit risk since origination is a critical accounting judgement which is based on the change in the PD since origination. In determining whether a change in PD represents a significant increase in risk, relative changes in PD and absolute PD thresholds are both considered based on the portfolio of the exposure.

The NZ Banking Group does not rebut the presumption that instruments that are 30 days past due have experienced a significant increase in credit risk but this is used as a backstop rather than the primary indicator.

Forward-looking macroeconomic information

The measurement of ECL for each stage and the assessment of significant increase in credit risk consider information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation of forward-looking information is a critical accounting judgement. The NZ Banking Group considers three future macroeconomic scenarios including a base case scenario along with upside and downside scenarios.

The macroeconomic variables used in these scenarios, based on current economic forecasts, include (but are not limited to) unemployment rates, real gross domestic product growth rates, base interest rates and residential property price indices.

- Base case scenario

  This scenario utilises the internal Westpac Economic forecasts used for strategic decision making and forecasting.

- Upside scenario

  This scenario represents a modest improvement on the base case scenario.

- Downside scenario

  The downside scenario is a more severe scenario with ECL higher than those under the base case scenario. This scenario assumes a recession with a combination of negative GDP growth, declines in commercial and residential property prices and an increase in the unemployment rate, which simultaneously impact ECL across all portfolios from the reporting date.

Note 12 Provision for expected credit losses (continued)

Accounting policy (continued)

The three macroeconomic scenarios are probability weighted and together represent the NZ Banking Group's view of the forward looking distribution of potential loss outcomes. The weighting applied to each of the three macroeconomic scenarios takes into account historical frequency, current trends, and forward-looking conditions.

The macroeconomic variables and probability weightings of the three macroeconomic scenarios are subject to the approval of the NZ Banking Group's Chief Financial Officer and Chief Risk Officer with oversight from the Board of Directors (and its Committees).

Overlays

Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models.

Judgements can change with time as new information becomes available which could result in changes to the provision for ECL.

Loans and credit commitments

The following tables reconcile the provisions for ECL on loans and credit commitments by stage for the NZ Banking Group.

NZ BANKING GROUP	2023					2022				
	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										
Residential mortgages	**37**	**139**	**61**	**10**	**247**	40	87	43	9	179
Other retail	**11**	**34**	**12**	**1**	**58**	12	36	13	1	62
Corporate	**29**	**127**	**34**	**12**	**202**	35	94	13	17	159
Total provision for ECL on loans (refer to Note 11)	**77**	**300**	**107**	**23**	**507**	87	217	69	27	400
Provision for ECL on credit commitments										
Residential mortgages	**5**	**8**	**-**	**-**	**13**	6	4	-	-	10
Other retail	**4**	**8**	**-**	**-**	**12**	5	7	-	-	12
Corporate	**5**	**14**	**-**	**-**	**19**	5	12	-	-	17
Total provision for ECL on credit commitments (refer to Note 20)	**14**	**30**	**-**	**-**	**44**	16	23	-	-	39
Total provision for ECL on loans and credit commitments	**91**	**330**	**107**	**23**	**551**	103	240	69	27	439
Gross loans	**76,428**	**23,019**	**709**	**62**	**100,218**	85,810	11,439	483	60	97,792
Credit commitments	**25,110**	**3,748**	**25**	**1**	**28,884**	26,783	2,120	25	1	28,929
Gross loans and credit commitments	**101,538**	**26,767**	**734**	**63**	**129,102**	112,593	13,559	508	61	126,721
Coverage ratio on loans (%)	**0.10**	**1.30**	**15.09**	**37.10**	**0.51**	0.10	1.90	14.29	45.00	0.41
Coverage ratio on loans and credit commitments (%)	**0.09**	**1.23**	**14.58**	**36.51**	**0.43**	0.09	1.77	13.58	44.26	0.35

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 year. 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 year.
- "Financial assets derecognised during the period" line represents loans derecognised due to final repayments during the year.
- "Other charges/(credits) to the income statement" line represents the impact on the provision for ECL due to changes in credit quality during the year (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 year.
- 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.

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

	NZ BANKING GROUP				
	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**
Transfers to Stage 1	**228**	**(220)**	**(8)**	**-**	**-**
Transfers to Stage 2	**(17)**	**51**	**(33)**	**(1)**	**-**
Transfers to Stage 3 CAP	**-**	**(37)**	**41**	**(4)**	**-**
Transfers to Stage 3 IAP	**-**	**(2)**	**(14)**	**16**	**-**
Reversals of previously recognised impairment charges	**-**	**-**	**-**	**(9)**	**(9)**
New financial assets originated	**17**	**-**	**-**	**-**	**17**
Financial assets derecognised during the year	**(8)**	**(43)**	**(23)**	**-**	**(74)**
Changes in CAP due to amounts written off	**-**	**-**	**(24)**	**-**	**(24)**
Other charges/(credits) to the income statement	**(232)**	**341**	**99**	**6**	**214**
Total charges/(credits) to the income statement for ECL	**(12)**	**90**	**38**	**8**	**124**
Amounts written off from IAP	**-**	**-**	**-**	**(12)**	**(12)**
Total provision for ECL on loans and credit commitments as at 30 September 2023	**91**	**330**	**107**	**23**	**551**

	NZ BANKING GROUP				
	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
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

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

Movements in components of loss allowance – by types of credit exposure

The provision for ECL on loans and credit commitments can be further disaggregated into the following types of credit exposure:

	NZ 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
Transfers to Stage 1	94	(90)	(4)	-	-
Transfers to Stage 2	(2)	22	(20)	-	-
Transfers to Stage 3 CAP	-	(6)	8	(2)	-
Transfers to Stage 3 IAP	-	-	(9)	9	-
Reversals of previously recognised impairment charges	-	-	-	(5)	(5)
New financial assets originated	5	-	-	-	5
Financial assets derecognised during the year	(1)	(4)	(12)	-	(17)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(100)	134	55	4	93
Total charges/(credits) to the income statement for ECL	(4)	56	18	6	76
Amounts written off from IAP	-	-	-	(5)	(5)
Total provision for ECL on loans and credit commitments as at 30 September 2023	42	147	61	10	260
Other retail					
Provision for ECL as at 30 September 2022	17	43	13	1	74
Transfers to Stage 1	69	(66)	(3)	-	-
Transfers to Stage 2	(6)	13	(7)	-	-
Transfers to Stage 3 CAP	-	(13)	13	-	-
Transfers to Stage 3 IAP	-	-	(1)	1	-
Reversals of previously recognised impairment charges	-	-	-	(1)	(1)
New financial assets originated	5	-	-	-	5
Financial assets derecognised during the year	(2)	(11)	(3)	-	(16)
Changes in CAP due to amounts written off	-	-	(23)	-	(23)
Other charges/(credits) to the income statement	(68)	76	23	-	31
Total charges/(credits) to the income statement for ECL	(2)	(1)	(1)	-	(4)
Amounts written off from IAP	-	-	-	-	-
Total provision for ECL on loans and credit commitments as at 30 September 2023	15	42	12	1	70
Corporate					
Provision for ECL as at 30 September 2022	40	106	13	17	176
Transfers to Stage 1	65	(64)	(1)	-	-
Transfers to Stage 2	(9)	16	(6)	(1)	-
Transfers to Stage 3 CAP	-	(18)	20	(2)	-
Transfers to Stage 3 IAP	-	(2)	(4)	6	-
Reversals of previously recognised impairment charges	-	-	-	(3)	(3)
New financial assets originated	7	-	-	-	7
Financial assets derecognised during the year	(5)	(28)	(8)	-	(41)
Changes in CAP due to amounts written off	-	-	(1)	-	(1)
Other charges/(credits) to the income statement	(64)	131	21	2	90
Total charges/(credits) to the income statement for ECL	(6)	35	21	2	52
Amounts written off from IAP	-	-	-	(7)	(7)
Total provision for ECL on loans and credit commitments as at 30 September 2023	34	141	34	12	221

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.

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

	NZ 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 2021	46	70	46	8	170
Transfers to Stage 1	43	(36)	(7)	-	-
Transfers to Stage 2	(2)	28	(26)	-	-
Transfers to Stage 3 CAP	-	(3)	3	-	-
Transfers to Stage 3 IAP	-	-	(5)	5	-
Reversals of previously recognised impairment charges	-	-	-	(1)	(1)
New financial assets originated	5	-	-	-	5
Financial assets derecognised during the year	(2)	(3)	(12)	-	(17)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(44)	35	44	-	35
Total charges/(credits) to the income statement for ECL	-	21	(3)	4	22
Amounts written off from IAP	-	-	-	(3)	(3)
Total provision for ECL on loans and credit commitments as at 30 September 2022	46	91	43	9	189
Other retail					
Provision for ECL as at 30 September 2021	21	62	23	1	107
Transfers to Stage 1	84	(76)	(8)	-	-
Transfers to Stage 2	(6)	16	(10)	-	-
Transfers to Stage 3 CAP	-	(14)	14	-	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	-	-
New financial assets originated	4	-	-	-	4
Financial assets derecognised during the year	(4)	(13)	(3)	-	(20)
Changes in CAP due to amounts written off	-	-	(23)	-	(23)
Other charges/(credits) to the income statement	(82)	68	20	1	7
Total charges/(credits) to the income statement for ECL	(4)	(19)	(10)	1	(32)
Amounts written off from IAP	-	-	-	(1)	(1)
Total provision for ECL on loans and credit commitments as at 30 September 2022	17	43	13	1	74
Corporate					
Provision for ECL as at 30 September 2021	35	147	6	60	248
Transfers to Stage 1	14	(10)	(4)	-	-
Transfers to Stage 2	(4)	8	(3)	(1)	-
Transfers to Stage 3 CAP	-	(7)	9	(2)	-
Transfers to Stage 3 IAP	-	(7)	(1)	8	-
Reversals of previously recognised impairment charges	-	-	-	(5)	(5)
New financial assets originated	7	-	-	-	7
Financial assets derecognised during the year	(5)	(11)	(4)	-	(20)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(7)	(14)	10	2	(9)
Total charges/(credits) to the income statement for ECL	5	(41)	7	2	(27)
Amounts written off from IAP	-	-	-	(45)	(45)
Total provision for ECL on loans and credit commitments as at 30 September 2022	40	106	13	17	176

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.

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

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.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Modelled provision for ECL on loans and credit commitments	**505**	313
Overlays	**46**	126
Total provision for ECL on loans and credit commitments	**551**	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.

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 NZ 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. A recalibration of a residential mortgage model was performed during the year, increasing the sensitivity from forward-looking macroeconomic factors, which is included within the change in provision as a result of changes in modelled ECL. 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 the following Westpac Economic forecasts:

Key economic assumptions for base case scenario	30 September 2023	30 September 2022
Annual GDP	Forecast growth of 0.8% for calendar year 2023 and 0.2% for calendar year 2024.	Forecast growth of 1.9% for calendar year 2022 and 1.6% for calendar year 2023.
Residential property prices	Forecast annual price contraction of -1.0% for calendar year 2023 and price appreciation of +7.7% for calendar year 2024.	Forecast annual price contraction of -10.0% for calendar year 2022 and -5.0% for calendar year 2023.
Cash rate	Forecast cash rate of 5.75% at December 2023 and 5.25% at December 2024.	Forecast cash rate of 4.00% at December 2022 and 4.00% at December 2023.
Unemployment rate	Forecast rate of 4.3% at December 2023 and 5.2% at December 2024	Forecast rate of 3.4% at December 2022 and 3.8% at December 2023.

The downside scenario is a more severe scenario with ECL higher than the base case. This scenario assumes a recession with a combination of negative GDP growth, declines in commercial and residential property prices and an increase in the unemployment rate, which simultaneously impact ECL across all portfolios from the reporting date. The assumptions used 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).

	NZ BANKING GROUP	
$ millions	**2023**	2022
Reported probability-weighted ECL	**551**	439
100% base case ECL	**417**	330
100% downside ECL	**719**	578

Note 12 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 $14 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 NZ Banking Group as at 30 September 2023 and 30 September 2022.

	NZ BANKING GROUP	
Scenario weightings (%)	**2023**	2022
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.

The NZ Banking Group's total portfolio overlays as at 30 September 2023 were $46 million (30 September 2022: $126 million) and comprise:

- $29 million on residential mortgages and other retail portfolios (30 September 2022: $52 million) to reflect the expected, lagged impact of increasing interest rates. The overlay was decreased due to loans moving onto higher interest rates where the credit outcomes are considered to be included in the modelled outcome;
- $14 million on the corporate portfolio (30 September 2022: $30 million), established to reflect delayed emergence of credit stresses following COVID disruptions. The quantum of the overlay reflects the estimate of the remaining delayed emergence; and
- $3 million (30 September 2022: $4 million) reflecting other related risks.

Other overlays held at 30 September 2022 have been released on the basis that these are considered to be reflected in the modelled outcome.

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

- Stage 1 gross carrying amount had a net decrease of $9.4 billion (30 September 2022: increased by $0.8 billion), primarily driven by a model recalibration for residential mortgages and underlying portfolio movement from the residential mortgages and corporate portfolios, including derecognitions and repayments, partially offset by new lending during the period and exposures transferred from Stage 2 for releases in overlays. The Stage 1 ECL decrease is in line with Stage 1 exposure movement to Stage 2, primarily driven by a model recalibration for residential mortgages, underlying portfolio movements and a more negative economic outlook.
- Stage 2 gross carrying amount increased by $11.6 billion (30 September 2022: increased by $3.6 billion), primarily driven by a model recalibration for residential mortgages and underlying portfolio movement from the residential mortgages and corporate portfolios, partially offset by exposures transferred to Stage 1 for releases in overlays. Stage 2 ECL increases are driven by a model recalibration for residential mortgages, underlying portfolio movements and a more negative economic outlook from the residential mortgages and corporate portfolios.
- Stage 3 gross carrying amount increased by $0.2 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.

Write-offs still under enforcement activity

The amount of current year write-offs which remain subject to enforcement activity was $23 million (30 September 2022: $18 million).

Notes to the financial statements

Note 13 Credit risk management

Index	Note name	Note number
Credit risk The risk of financial loss where a customer or counterparty fails to meet their financial obligations to the NZ Banking Group.	Credit risk management framework	13.1
	Credit risk ratings system	13.2
	Credit concentrations and maximum exposure to credit risk	13.3
	Credit quality of financial assets	13.4
	Credit risk mitigation, collateral and other credit enhancements	13.5

13.1 Credit risk management framework

Please refer to Note 31.1 for details of the NZ Banking Group's overall Risk Management Framework.

- The Overseas Banking Group maintains a Credit Risk Management Framework, a Credit Risk Management Strategy, and a Credit Risk Appetite Statement, and a number of supporting policies and appetite statements that define roles and responsibilities, acceptable practices, limits and key controls.
- The Overseas Bank's Credit Risk Management Framework describes the principles, methodologies, systems, roles and responsibilities, reports and key controls for managing credit risk. Within the Credit Risk Management Framework, the NZ Banking Group has its own credit approval limits approved by Westpac New Zealand's Board as delegated by the Overseas Banking Group's Chief Risk Officer.
- Westpac New Zealand's BRCC, Westpac New Zealand's RISKCO and Westpac New Zealand's CREDCO monitor the risk profile, performance and management of the NZ Banking Group's credit portfolio on at least a quarterly basis, and the development and review of key credit risk policies are performed on at least an annual basis; other management reviews occur monthly or more frequently.
- Additionally, NZ Branch Risk Committee monitors the risk profile, performance and management of the NZ Branch credit portfolio on a quarterly basis. Other management reviews occur monthly or more frequently. Group BRiskC oversees the development and review of key credit risk policies.
- The NZ Banking Group's Credit Risk Rating System Policy describes the credit risk rating system philosophy, design, key features and uses of rating outcomes.
- All models materially impacting the risk rating process are periodically reviewed in accordance with the NZ Banking Group's model risk policies.
- An annual review is performed of the Credit Risk Rating System for approval by the Overseas Banking Group's Group Chief Credit Officer and noting by Group BriskC and Overseas Banking Group CREDCO.
- Specific credit risk estimates (including PD, LGD and EAD) are overseen and reviewed annually in line with the Overseas Banking Group's Model Risk Policy. Models are approved under delegated authority from the Overseas Banking Group's Chief Risk Officer. Model Risk is overseen by the Overseas Banking Group's Model Risk Committee (a subcommittee of the Group BRiskC).
- In determining the provision for ECL, the forward-looking economic inputs and the probability weightings of the forward-looking scenarios as well as any adjustments made to the modelled outcomes are subject to the approval of the NZ Banking Group's Chief Financial Officer and Chief Risk Officer with oversight from the Westpac New Zealand Board (and its Committees).
- Policies for delegating credit approval authorities and formal limits for the extension of credit are established throughout the NZ Banking Group.
- Credit policies are established and maintained throughout the NZ Banking Group. They include policies governing the origination, evaluation, approval, documentation, settlement and ongoing management of credit risks.
- Sector policies guide credit extension where industry-specific guidelines are considered necessary (e.g. acceptable financial ratios or permitted collateral).
- The Overseas Banking Group's Related Entity Risk Management Policy and supporting policies govern credit exposures to related entities to minimise the spread of credit risk between Overseas Banking Group entities and to comply with prudential requirements prescribed by APRA.
- Climate change-related credit risks are considered in line with the Overseas Banking Group's Climate Change Position Statement and Action Plan. Climate change risks are managed in line with the NZ Banking Group's Risk Management Framework which is supported by the Overseas Banking Group's Sustainability Risk Management Framework, Westpac New Zealand's ESG Credit Risk Policy and Westpac New Zealand's and the Overseas Banking Group's Board Risk Appetite Statements. Where appropriate, these are applied at the portfolio, customer, and transaction level.
- Westpac New Zealand's CREDCO oversees work to identify and manage the potential impact on credit exposures from climate change-related transition and physical risks across the NZ Banking Group.
- Westpac New Zealand's ESG Credit Risk Policy details the overall approach to managing ESG risks in the credit risk process for applicable transactions.

Note 13 Credit risk management (continued)

13.2 Credit risk ratings system

The principal objective of the credit risk rating system is to reliably assess the credit risk to which the NZ Banking Group is exposed. The NZ Banking Group has two main approaches to this assessment:

Transaction-managed customers

Transaction managed customers are generally customers with business lending exposures. They are individually assigned a CRG, corresponding to their expected PD. Each facility is assigned an LGD. The NZ Banking Group's risk rating system has a tiered scale of risk grades for both non-defaulted customers and defaulted customers. Non-defaulted CRGs are mapped to Moody's and S&P external senior ranking unsecured ratings.

The following table shows the NZ Banking Group's high level CRG's for transaction-managed portfolios mapped to the NZ Banking Group's credit quality disclosure categories and to their corresponding external rating.

		Transaction-managed	
Financial Statement Disclosure	**NZ Banking Group's CRG**	**Moody's Rating**	**S&P Rating**
Strong	A	Aaa – Aa3	AAA – AA-
	B	A1 – A3	A+ – A-
	C	Baa1 – Baa3	BBB+ – BBB-
Good/satisfactory	D	Ba1 – B1	BB+ – B+
		NZ Banking Group Rating	
Weak	E	Watchlist	
	F	Special Mention	
	G	Substandard/Default	
	H	Doubtful/Default	

Program-managed portfolio

The program-managed portfolio generally includes retail products including mortgages, personal lending (including credit cards) as well as certain SME lending. These customers are grouped into pools of similar risk. Pools are created by analysing similar risk characteristics that have historically predicted that an account is likely to go into default. Customers grouped according to these predictive characteristics are assigned a PD and LGD relative to their pool. The credit quality of these pools is based on a combination of behavioural factors, delinquency trends, PD estimates and loan to valuation ratio (housing loans only).

	Program-managed ('PM')	
Financial Statement Disclosure	**Advanced PM Model[1]**	**Simplified PM Approach[2]**
Strong	Stage 1 facilities with PM Risk Grade between 13 and 10	-
Good/satisfactory	Stage 1 facilities with PM Risk Grade between 9 and 6	Stage 1
	Stage 2 facilities with PM Risk Grade between 13 and 6	Stage 2 and 0 - 29 days past due
Weak	All facilities with PM Risk Grade between 5 and 1	Stage 2 and 30 or more days past due
	All facilities with PM Risk Grade equal to 0/Default	Stage 3/Default

[1] Used for Residential Mortgages, Credit Cards & SME lending.
[2] Used for Personal lending.

Note 13 Credit risk management (continued)

13.3 Credit concentrations and maximum exposure to credit risk

Credit risk is concentrated when a number of counterparties are engaged in similar activities, have similar economic characteristics and thus may be similarly affected by changes in economic or other conditions.

The NZ Banking Group monitors its credit portfolio to allow it to manage risk concentrations and rebalance the portfolio.

Individual customers or groups of related customers

The NZ Banking Group has large exposure limits governing the aggregate size of credit exposure normally acceptable to individual customers and groups of related customers. These limits are tiered by CRG.

Specific industries

Exposures to businesses, governments and other financial institutions are classified into a number of industry clusters based on related ANZSIC codes and are monitored against the NZ Banking Group's industry risk appetite limits.

Individual countries

The NZ Banking Group has limits governing risks related to individual countries, such as political situations, government policies and economic conditions that may adversely affect either a customer's ability to meet its obligations to the NZ Banking Group, or the NZ Banking Group's ability to realise its assets in a particular country.

Maximum exposure to 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.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Financial assets		
Cash and balances with central banks	**9,325**	11,162
Collateral paid	**62**	87
Trading securities and financial assets measured at FVIS	**5,007**	3,501
Derivative financial instruments	**5,494**	9,383
Investment securities	**6,651**	5,623
Loans	**99,711**	97,392
Other financial assets	**469**	644
Due from related entities	**4,488**	6,609
Total financial assets	**131,207**	134,401
Undrawn credit commitments		
Letters of credit and guarantees	**1,015**	1,025
Commitments to extend credit	**27,869**	27,904
Total undrawn credit commitments	**28,884**	28,929
Total maximum credit risk exposure	**160,091**	163,330

Note 13 Credit risk management (continued)

Concentration of credit exposures

	NZ BANKING GROUP	
$ millions	**2023**	2022
Analysis of on-balance sheet credit exposures by geographical areas		
New Zealand[1]	**118,689**	118,161
Overseas[1]	**13,025**	16,640
Subtotal	**131,714**	134,801
Provision for ECL on loans	**(507)**	(400)
Total on-balance sheet credit exposures	**131,207**	134,401
Analysis of on-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**384**	395
Agriculture	**9,113**	9,267
Construction	**452**	500
Finance and insurance	**12,812**	13,969
Forestry and fishing	**439**	515
Government, administration and defence	**17,241**	17,257
Manufacturing	**2,306**	3,731
Mining	**172**	227
Property	**8,392**	8,214
Property services and business services	**1,159**	1,296
Services	**1,607**	1,410
Trade	**2,582**	2,729
Transport and storage	**907**	1,193
Utilities	**2,590**	2,213
Retail lending	**66,978**	65,162
Subtotal	**127,134**	128,078
Provision for ECL on loans	**(507)**	(400)
Due from related entities	**4,488**	6,609
Other financial assets	**92**	114
Total on-balance sheet credit exposures	**131,207**	134,401
Analysis of off-balance sheet credit exposures by geographical areas		
New Zealand	**28,244**	28,421
Overseas	**640**	508
Total off-balance sheet credit exposures	**28,884**	28,929
Analysis of off-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**55**	126
Agriculture	**607**	626
Construction	**551**	509
Finance and insurance	**2,602**	1,880
Forestry and fishing	**135**	170
Government, administration and defence	**834**	966
Manufacturing	**1,508**	1,422
Mining	**79**	106
Property	**1,502**	1,648
Property services and business services	**522**	785
Services	**1,138**	1,285
Trade	**1,531**	1,717
Transport and storage	**450**	790
Utilities	**1,761**	1,838
Retail lending	**15,609**	15,061
Total off-balance sheet credit exposures	**28,884**	28,929

[1] Comparatives have been restated to correctly reflect the geographical classification of on-balance sheet credit exposures. The restatement for 2022 comparative results in a $915 million decrease in New Zealand credit exposures from $119,076 million to $118,161 million and $915 million increase in overseas credit exposure from $15,725 million to $16,640 million.

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

Notes to the financial statements

Note 13 Credit risk management (continued)

13.4 Credit quality of financial assets

The following table shows the credit quality of gross credit risk exposures measured at amortised cost or at FVOCI to which the impairment requirements of NZ IFRS 9 apply. The credit quality is determined by reference to the credit risk ratings system (refer to Note 13.2) and expectations of future economic conditions under multiple scenarios:

	NZ BANKING GROUP							
	2023				2022			
$ millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total[1]**	Stage 1	Stage 2	Stage 3	Total[1]
Loans - Residential Mortgages								
Strong	**49,193**	**-**	**-**	**49,193**	55,768	-	-	55,768
Good/satisfactory	**1,297**	**14,591**	**-**	**15,888**	1,527	6,000	-	7,527
Weak	**-**	**167**	**509**	**676**	-	172	360	532
Total Loans - Residential Mortgages	**50,490**	**14,758**	**509**	**65,757**	57,295	6,172	360	63,827
Loans - Other retail								
Strong	**1,070**	**-**	**-**	**1,070**	1,124	-	-	1,124
Good/satisfactory	**793**	**648**	**-**	**1,441**	937	573	-	1,510
Weak	**1**	**77**	**59**	**137**	2	135	58	195
Total Loans - Other retail	**1,864**	**725**	**59**	**2,648**	2,063	708	58	2,829
Loans - Corporate								
Strong	**12,118**	**-**	**-**	**12,118**	12,953	-	-	12,953
Good/satisfactory	**11,762**	**6,322**	**-**	**18,084**	13,378	3,613	-	16,991
Weak	**-**	**1,214**	**203**	**1,417**	-	946	125	1,071
Total Loans - Corporate	**23,880**	**7,536**	**203**	**31,619**	26,331	4,559	125	31,015
Loans - Other								
Strong	**194**	**-**	**-**	**194**	121	-	-	121
Good/satisfactory	**-**	**-**	**-**	**-**	-	-	-	-
Weak	**-**	**-**	**-**	**-**	-	-	-	-
Total Loans - Other	**194**	**-**	**-**	**194**	121	-	-	121
Investment Securities								
Strong	**6,651**	**-**	**-**	**6,651**	5,623	-	-	5,623
Good/satisfactory	**-**	**-**	**-**	**-**	-	-	-	-
Weak	**-**	**-**	**-**	**-**	-	-	-	-
Total Investment Securities	**6,651**	**-**	**-**	**6,651**	5,623	-	-	5,623
All other financial assets								
Strong	**12,484**	**-**	**-**	**12,484**	14,409	-	-	14,409
Good/satisfactory	**34**	**52**	**-**	**86**	27	17	-	44
Weak	**-**	**4**	**2**	**6**	-	2	1	3
Total all other financial assets	**12,518**	**56**	**2**	**12,576**	14,436	19	1	14,456
Undrawn credit commitments								
Strong	**21,511**	**4**	**-**	**21,515**	22,561	6	-	22,567
Good/satisfactory	**3,598**	**3,519**	**-**	**7,117**	4,211	1,979	-	6,190
Weak	**1**	**225**	**26**	**252**	11	135	26	172
Total undrawn credit commitments	**25,110**	**3,748**	**26**	**28,884**	26,783	2,120	26	28,929
Total strong	**103,221**	**4**	**-**	**103,225**	112,559	6	-	112,565
Total good/satisfactory	**17,484**	**25,132**	**-**	**42,616**	20,080	12,182	-	32,262
Total weak	**2**	**1,687**	**799**	**2,488**	13	1,390	570	1,973
Total on- and off-balance sheet	**120,707**	**26,823**	**799**	**148,329**	132,652	13,578	570	146,800

[1] This credit quality disclosure differs to that of credit risk concentration as it relates only to financial assets measured at amortised costs or at FVOCI and therefore excludes trading securities and financial assets measured at FVIS, and derivative financial instruments.

Details of collateral held in support of these balances are provided in Note 13.5.

Notes to the financial statements

Note 13 Credit risk management (continued)

13.5 Credit risk mitigation, collateral and other credit enhancements

The NZ Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities.

This includes the NZ Banking Group having processes in place to ensure that it has direct, irrevocable and unconditional recourse to collateral and other credit enhancements through obtaining legally enforceable documentation.

Collateral

The table below describes the nature of collateral or security held for each relevant class of financial asset:

Financial assets	Nature of collateral
Loans – residential mortgages[1]	Housing loans are secured by a mortgage over property and additional security may take the form of guarantees and deposits.
Loans – other retail[1]	Personal lending (including credit cards and overdrafts) is predominantly unsecured. Where security is taken, it is restricted to eligible motor vehicles, caravans, campers, motor homes and boats. SME loans may be secured, partially secured or unsecured. Security is typically taken by way of a mortgage over property and/or a general security agreement over business assets or other assets.
Loans – corporate[1]	Business loans may be secured, partially secured or unsecured. Security is typically taken by way of a mortgage over property and/or a general security agreement over business assets or other assets. Other security such as guarantees or standby letters of credit may also be taken as collateral, if appropriate.
Trading securities and financial assets measured at FVIS and derivative financial instruments	These exposures are carried at fair value which reflects the credit risk. For trading securities, no collateral is sought directly from the issuer or counterparty; however this may be implicit in the terms of the instrument (such as an asset-backed security). The terms of debt securities may include collateralisation. Master netting agreements are typically used to enable the effects of derivative assets and derivative liabilities with the same counterparty to be offset when measuring these exposures. Additionally, collateralisation agreements are also typically entered into with major institutional counterparties to avoid the potential build-up of excessive mark-to-market positions. Derivative transactions are increasingly being cleared through central clearers.

[1] This includes collateral held in relation to associated credit commitments.

Management of risk mitigation

The NZ Banking Group mitigates credit risk through controls covering:

Collateral and valuation management	The Overseas Bank manages collateral under collateralisation agreements centrally for all branches of the Overseas Bank and Westpac New Zealand. The estimated realisable value of collateral held in support of loans is based on a combination of: • formal valuations currently held for such collateral; and • management's assessment of the estimated realisable value of all collateral held. This analysis also takes into consideration any other relevant knowledge available to management at the time. Updated valuations are obtained when appropriate. The NZ Banking Group revalues collateral related to financial markets positions on a daily basis and has formal processes in place to promptly call for collateral top-ups, if required. These processes include margining for non-centrally cleared customer derivatives where required under APRA Prudential Standard CPS226. The collateralisation arrangements are documented via the Credit Support Annex of the International Swaps and Derivatives Association dealing agreements and Global Master Repurchase Agreements for repurchase transactions.
Other credit enhancements	The NZ Banking Group only recognises guarantees, standby letters of credit, or credit derivative protection from entities meeting minimum eligibility requirements (provided they are not related to the entity with which the NZ Banking Group has a credit exposure) including but not limited to: • Sovereign; • Australia and New Zealand public sector; • Authorised deposit-taking institutions and overseas banks with a minimum risk grade equivalent of A3 / A-; and • Other entities with a minimum risk grade equivalent of A3 / A-. Credit Portfolio Management manages the NZ Banking Group's corporate, sovereign and bank credit portfolios through monitoring the exposure and any offsetting hedge positions. Credit Portfolio Management purchases credit protection from entities that meet minimum eligibility requirements.

Notes to the financial statements

Note 13 Credit risk management (continued)

Offsetting	Creditworthy customers domiciled in New Zealand may enter into formal agreements with the NZ Banking Group, permitting the NZ Banking Group to set-off gross credit and debit balances in their nominated accounts. Cross-border set-offs are not permitted. Close-out netting is undertaken with counterparties with whom the NZ Banking Group has entered into a legally enforceable master netting agreement for their off-balance sheet financial market transactions in the event of default. Further details of offsetting are provided in Note 25.
Central clearing	The NZ Banking Group increasingly executes derivative transactions through central clearing counterparties. Central clearing counterparties mitigate risk through stringent membership requirements, the collection of margin against all trades placed, the default fund, and an explicitly defined order of priority of payments in the event of default.

Collateral held against loans

The NZ Banking Group analyses the coverage of the loan portfolio which is secured by the collateral that it holds. Coverage is measured as follows:

Coverage	Secured loan to collateral value ratio
Fully secured	Less than or equal to 100%
Partially secured	Greater than 100% but not more than 150%
Unsecured	Greater than 150%, or no security held (e.g. can include credit cards, personal loans, and exposure to highly rated corporate entities)

The NZ Banking Group's loan portfolio has the following coverage from collateral held:

	NZ BANKING GROUP									
	2023					2022				
%	Residential Mortgages[1]	Other Retail	Corporate	Other	Total	Residential Mortgages[1]	Other Retail	Corporate	Other	Total
Performing Loans										
Fully secured	**100**	**46**	**70**	**56**	**89**	100	48	70	53	89
Partially secured	**-**	**2**	**9**	**1**	**3**	-	2	11	3	4
Unsecured	**-**	**52**	**21**	**43**	**8**	-	50	19	44	7
Total	**100**	**100**	**100**	**100**	**100**	100	100	100	100	100
Non-performing loans										
Fully secured	**94**	**62**	**57**	**-**	**82**	94	66	33	-	77
Partially secured	**6**	**7**	**28**	**-**	**12**	6	1	37	-	13
Unsecured	**-**	**31**	**15**	**-**	**6**	-	33	30	-	10
Total	**100**	**100**	**100**	**-**	**100**	100	100	100	-	100

[1] For the purposes of collateral classifications, residential mortgages are classified as fully secured, unless they are non-performing in which case they may be classified as partially secured. Refer to Note iv. 'Additional mortgage information' of the Registered bank disclosures for LVR analysis of residential mortgages.

Details of the carrying value and associated provision for ECL are disclosed in Note 11, Note iii. Asset quality of the Registered bank disclosures and Note 12 respectively. The credit quality of loans is disclosed in Note 13.4.

Collateral held against financial assets other than loans

	NZ BANKING GROUP	
$ millions	**2023**	2022
Cash, primarily for derivatives	**614**	724
Securities under reverse repurchase agreements[1]	**482**	171
Total other collateral held	**1,096**	895

[1] Securities received as collateral are not recognised on the NZ Banking Group's balance sheet.

Notes to the financial statements

Note 14 Other financial assets

$ millions	NZ BANKING GROUP 2023	2022
Accrued interest receivable	**244**	168
Trade debtors	**4**	2
Securities sold not delivered	**129**	263
Interbank lending	**4**	99
Other	**88**	112
Total other financial assets	**469**	644

Note 15 Deferred tax assets

Accounting policy

Deferred tax accounts for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their values for taxation purposes.

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

Deferred tax assets and liabilities have been offset where they relate to the same taxation authority, the same taxable entity or group and where there is a legal right and intention to settle on a net basis.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available to utilise the assets.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable profit or loss; and
- the initial recognition of goodwill in a business combination.

Critical accounting assumptions and estimates

On a similar basis to that described in Note 7, determining deferred tax assets and liabilities is considered one of the NZ Banking Group's critical accounting assumptions and estimates.

$ millions	NZ BANKING GROUP 2023	2022
Deferred tax assets/(liabilities) comprise the following temporary differences:		
Provision for ECL on loans	**141**	112
Provision for ECL on credit commitments	**12**	11
Cash flow hedges	**(148)**	(164)
Provision for employee entitlements	**21**	21
Compliance, regulation and remediation provisions	**12**	18
Software, property and equipment	**(33)**	(43)
Lease liabilities	**64**	78
Financial instruments	**10**	28
Other temporary differences	**9**	7
Net deferred tax assets	**88**	68
The deferred tax (charge)/credit in income tax expense comprises the following temporary differences:		
Provision for ECL on loans	**29**	(21)
Provision for ECL on credit commitments	**1**	(3)
Provision for employee entitlements	**2**	-
Compliance, regulation and remediation provisions	**(6)**	(3)
Software, property and equipment	**10**	5
Lease liabilities	**(14)**	(3)
Financial instruments	**(18)**	11
Other temporary differences	**2**	(2)
Total deferred tax (charge)/credit in income tax expense	**6**	(16)
The deferred tax (charge)/credit in OCI comprises the following temporary differences:		
Cash flow hedges	**16**	(140)
Provision for employee entitlements	**(2)**	(2)
Total deferred tax (charge)/credit in OCI	**14**	(142)

Note 16 Intangible assets

Accounting policy

Indefinite life intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost, generally being the excess of:

i. the consideration paid; over

ii. the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Subsequently, goodwill is not amortised but rather tested for impairment. Impairment is tested at least annually or whenever there is an indication of impairment. An impairment charge is recognised when a CGU's carrying value exceeds its recoverable amount. Recoverable amount means the higher of the CGU's fair value less costs to sell and its value-in-use.

The NZ Banking Group's CGUs represent the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. They reflect the level at which the NZ Banking Group monitors and manages its operations.

Finite life intangible assets

Finite life intangibles such as computer software which are recognised initially at cost and subsequently at amortised cost less any impairment.

Intangible	Useful life	Depreciation method
Goodwill	Indefinite	Not applicable
Computer software	3 to 5 years	Straight-line or diminishing balance method (using the Sum of the Years Digits)

Critical accounting assumptions and estimates

Judgement is required in determining the fair value of assets and liabilities acquired in a business combination. A different assessment of fair values would have resulted in a different goodwill balance and different post-acquisition performance of the acquired entity.

When assessing impairment of intangible assets, significant judgement is needed to determine the appropriate cash flows and discount rates to be applied to the calculations. The significant assumptions applied to the value-in-use calculations are outlined below.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Goodwill	**525**	525
Computer software	**457**	309
Total intangible assets	**982**	834

Goodwill has been allocated to the following CGUs:

Consumer Banking and Wealth	**512**	512
BT Funds Management (NZ) Limited	**13**	13
Net carrying amount of goodwill	**525**	525

Impairment testing and results

Impairment testing is performed at least once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of each CGU with the carrying amount. The primary test for the recoverable amount is determined based on value-in-use which refers to the present value of expected cash flows under its current use.

Impairment testing in the current year confirmed that the NZ Banking Group continues to have considerable headroom when determining whether goodwill is recoverable, and no impairment should be recognised.

Note 16 Intangible assets (continued)

Significant assumptions used in recoverable amount calculations

The assumptions made for goodwill impairment testing for each relevant significant CGU are provided in the following table and are based on past experience and management's expectations for the future. In the current year and given the present economic environment, the NZ Banking Group has reassessed these assumptions and revised them where necessary in order to provide a reasonable estimate of the value-in-use of the CGUs.

	Discount rate		Cash flows	
	Equity rate / adjusted pre-tax equity rate		Forecast period / terminal growth rate	
	2023	2022	**2023**	2022
Consumer Banking and Wealth	**11.5% / 15.2%**	10.5% / 13.8%	**3 years / 2%**	3 years / 2%
BT Funds Management (NZ) Limited	**11.5% / 15.2%**	10.5% / 13.8%	**3 years / 2%**	3 years / 2%

The NZ Banking Group discounts the projected cash flows by the adjusted pre-tax equity rate.

The cash flows used are based on management approved forecasts. These forecasts utilise information about current and future economic conditions, observable historical information and management expectations of future business performance. The terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the forecast period and reflects the midpoint of the Reserve Bank's inflation target over the medium term.

There are no reasonably possible changes in assumptions for any significant CGU that would result in an indication of impairment or have a material impact on the NZ Banking Group's reported results.

Note 17 Deposits and other borrowings

Accounting policy

Deposits and other borrowings are initially recognised at fair value and subsequently either measured at amortised cost using the effective interest method or at fair value.

Deposits and other borrowings are designated at fair value if they are managed on a fair value basis, reduce or eliminate an accounting mismatch, or contain an embedded derivative.

Where they are measured at fair value, any changes in fair value (except those due to changes in credit risk) are recognised in the income statement. The change in the fair value that is attributable to changes in credit risk is recognised in OCI except where it would create an accounting mismatch, in which case it is also recognised in the income statement.

Interest expense incurred is recognised in net interest income using the effective interest method.

Non-interest bearing relates to instruments which do not carry an entitlement to interest.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Certificates of deposit	**2,413**	2,939
Non-interest bearing, repayable at call	**12,009**	14,391
Other interest bearing:		
At call	**29,302**	31,245
Term	**38,472**	32,273
Total deposits and other borrowings	**82,196**	80,848
Deposits at fair value	**2,413**	2,939
Deposits at amortised cost	**79,783**	77,909
Total deposits and other borrowings	**82,196**	80,848

Note 18 Other financial liabilities

Accounting policy

Other financial liabilities include liabilities measured at amortised cost as well as liabilities which are measured at FVIS. Financial liabilities measured at FVIS include:

- trading liabilities (i.e. securities sold short); and
- liabilities designated at FVIS (i.e. certain repurchase agreements)

Repurchase agreements

Where securities are sold subject to an agreement to repurchase at a predetermined price, they remain recognised on the balance sheet in their original category (i.e. trading securities and financial assets measured at FVIS or investment securities).

The cash consideration received is recognised as a liability (repurchase agreements). Repurchase agreements are designated at fair value when they are managed as part of a trading portfolio, otherwise they are measured on an amortised cost basis.

Where a repurchase agreement is designated at fair value, any changes in fair value (except those due to change in credit risk) are recognised in the income statement as they arise. The change in fair value that is attributable to credit risk is recognised in OCI except where it would create an accounting mismatch, in which case it is also recognised in the income statement.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Repurchase agreements[1]	**5,168**	4,277
Interbank placements	**46**	28
Accrued interest payable	**866**	303
Securities purchased not delivered	**232**	267
Trade creditors and other accrued expenses[2]	**213**	79
Securities sold short	**683**	640
Other	**14**	13
Total other financial liabilities	**7,222**	5,607
Other financial liabilities at fair value	**800**	950
Other financial liabilities at amortised cost	**6,422**	4,657
Total other financial liabilities	**7,222**	5,607

[1] Repurchase agreements include those under the Funding for Lending Programme and Term Lending Facility. Refer to Note 31.2.2 for further details.

[2] During the current financial year, the NZ Banking Group revised its treatment of ongoing trail commission payable to mortgage brokers. The NZ Banking Group recognised a liability within other financial liabilities equal to the present value of the expected future trail commission payable and a corresponding increase in capitalised brokerage costs in loans. The balance as at 30 September 2023 was $132 million for the NZ Banking Group. Refer also to Note 1(iv).

Notes to the financial statements

Note 19 Debt issues

Accounting policy

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

Debt issues are initially measured at fair value and subsequently either measured at amortised cost using the effective interest method or at fair value.

Debt issues are designated at fair value if they reduce or eliminate an accounting mismatch or contain an embedded derivative.

Where they are measured at fair value, any changes in fair value (except those due to changes in credit risk) are recognised in the income statement. The change in the fair value that is attributable to changes in credit risk is recognised in OCI except where it would create an accounting mismatch, in which case it is also recognised in the income statement.

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

In the following table, the distinction between short-term (12 months or less) and long-term (greater than 12 months) debt is based on the original maturity of the underlying security.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Short-term debt		
Commercial paper	**1,471**	5,490
Total short-term debt	**1,471**	5,490
Long-term debt		
Non-domestic medium-term notes	**8,564**	7,515
Covered bonds	**4,994**	3,563
Domestic medium-term notes	**3,568**	3,365
Total long-term debt	**17,126**	14,443
Total debt issues	**18,597**	19,933
Debt issues at fair value	**1,471**	5,490
Debt issues at amortised cost	**17,126**	14,443
Total debt issues	**18,597**	19,933

	NZ BANKING GROUP	
$ millions	**2023**	2022
Movement reconciliation		
Balance at beginning of the year	**19,933**	16,304
Issuances	**7,827**	13,602
Maturities, repayments, buy-backs and reductions	**(9,290)**	(10,297)
Total cash movements	**(1,463)**	3,305
FX translation impact	**(41)**	1,394
Fair value adjustments	**9**	(10)
Fair value hedge accounting adjustments	**59**	(1,106)
Other[1]	**100**	46
Total non-cash movements	**127**	324
Balance at end of the year	**18,597**	19,933

[1] Includes items such as amortisation of issue costs.

Note 20 Provisions

Accounting policy

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is likely to be necessary to settle the obligation and can be reliably estimated.

Employee benefits – annual leave and other employee benefits

The provision for annual leave and other employee benefits (including long service leave, wages and salaries, inclusive of non-monetary benefits, and any associated on-costs (e.g. payroll tax)) is calculated based on expected payments.

Provision for ECL on credit commitments

The NZ Banking Group is committed to provide facilities and guarantees as explained in Note 26. If it is probable that a facility will be drawn and the resulting asset will be less than the drawn amount then a provision for impairment is recognised. The provision for impairment is calculated using the same methodology as the provision for ECL (refer to Note 12).

Compliance, regulation and remediation provisions

The compliance, regulation and remediation provisions relate to matters pertaining to the provision of services to our customers identified both as a result of regulatory action and internal reviews. An assessment of the likely cost to the NZ Banking Group of these matters (including applicable customer refunds) is made on a case-by-case basis and specific provisions are made where appropriate.

Critical accounting assumptions and estimates

The financial reporting of provisions for compliance, regulation and remediation involves a significant degree of judgement in relation to identifying whether a present obligation exists and also in estimating the probability, timing, nature and quantum of the outflows that may arise from past events. These judgements are made based on the specific facts and circumstances relating to the individual events. Specific judgements in respect of material items are included in the discussion below.

	NZ BANKING GROUP						
$ millions	**Annual leave and other employee benefits**	**Provision for ECL on credit commitments (refer to Note 12)**	**Compliance, regulation and remediation provisions**	**Lease restoration obligations**	**Restructuring provisions**	**Other**	**Total**
Balance as at 30 September 2022	**102**	**39**	**65**	**33**	**17**	**1**	**257**
Additions	**95**	**5**	**10**	**-**	**4**	**-**	**114**
Utilisation	**(85)**	**-**	**(6)**	**(1)**	**(6)**	**-**	**(98)**
Reversal of unutilised provisions	**-**	**-**	**(15)**	**(8)**	**(1)**	**-**	**(24)**
Balance as at 30 September 2023	**112**	**44**	**54**	**24**	**14**	**1**	**249**

Compliance, regulation and remediation provisions

The compliance, regulation and remediation provisions relate to matters pertaining to the provision of services to our customers identified as a result of regulatory action and internal reviews, including the NZ Banking Group's review of processes for some products relating to the requirements of the CCCFA.

All potential claims and other liabilities are assessed on a case-by-case basis. A provision has been recognised where the NZ Banking Group has conducted an assessment which determines the likelihood of loss as probable and where its potential loss can be reliably estimated.

A number of different estimates and judgements have been applied in measuring the provision at 30 September 2023, including the number of impacted customers, the refund per customer and the additional costs to run the remediation program. It is possible that the actual outcome for these matters may differ from the assumptions used in estimating the provision. Remediation processes may change over time as further facts emerge and such changes could result in a change to the final exposure.

Where a provision has not been recognised, a contingent liability may exist. Refer to Note 26 for further details on contingent liabilities.

Restructuring provisions

The NZ Banking Group carries restructuring provisions for changes in its business, primarily for separation and redundancy costs arising from the sale of Westpac Life on 28 February 2022.

Notes to the financial statements

Note 21 Loan capital

Accounting policy

Loan capital is comprised of debt instruments which qualify for inclusion as regulatory capital under either the Reserve Bank BPRs or, in relation to the Overseas Bank, the APRA Prudential Standards. Loan capital is initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Interest expense incurred is recognised in net interest income.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Additional Tier 1 loan capital - USD AT1 securities	**1,879**	1,986
Tier 2 loan capital - Subordinated notes	**1,172**	590
Total loan capital	**3,051**	2,576

	NZ BANKING GROUP	
$ millions	**2023**	2022
Movement reconciliation		
Balance at beginning of the year	**2,576**	2,988
Issuances[1]	**592**	590
Maturities, repayments, buy-backs and reductions	**-**	(1,178)
Total cash movements	**592**	(588)
FX translation impact	**(101)**	460
Fair value hedge accounting adjustments	**(22)**	(284)
Other (amortisation of bond issue costs, etc)	**6**	-
Total non-cash movements	**(117)**	176
Balance at end of the year	**3,051**	2,576

[1] Consists of $600 million in loan capital issuances (30 September 2022: $600 million) and is net of $8 million in issuance costs (30 September 2022: $8 million) and nil in loan capital held by related entities (30 September 2022: $2 million).

Additional Tier 1 loan capital

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

$	Issue date	Interest rate	Optional redemption date
US$1,250 million securities[1]	21 September 2017	5.00% p.a.[2]	21 September 2027 and every fifth anniversary thereafter

[1] The USD AT1 securities were issued by the Overseas Bank acting through its NZ Branch.

[2] Fixed interest rate of 5.00% p.a., until, but excluding 21 September 2027 (the '**first reset date**'). Every fifth anniversary thereafter is a reset date. If the USD AT1 securities are not redeemed, converted or written-off by the first reset date, the interest rate from, and including, each reset date thereafter to, but excluding the next succeeding reset date, will be a fixed rate per annum equal to the prevailing 5-year USD mid-market swap rate plus 2.888% per annum.

Interest payable

Semi-annual interest payments on the USD AT1 securities are at the absolute discretion of the Overseas Bank and will only be paid if the payment conditions are satisfied, including that the interest payment will not result in a breach of the Overseas Bank's capital requirements under APRA's prudential standards; not result in the Overseas Bank becoming, or being likely to become, insolvent; and if APRA does not object to the payment.

Broadly, if for any reason an interest payment has not been paid in full on the relevant payment date, the Overseas Bank must not determine or pay any dividends on Overseas Bank ordinary shares or undertake a discretionary buy-back or capital reduction of Overseas Bank ordinary shares, unless the unpaid interest is paid in full within 20 business days of the relevant payment date or in certain other circumstances.

Redemption

The Overseas Bank may redeem all (but not some) USD AT1 securities on 21 September 2027 and every fifth anniversary thereafter, or for certain taxation or regulatory reasons, subject to APRA's prior written approval.

Note 21 Loan capital (continued)

Conversion

If a capital trigger event or non-viability trigger event occurs, the Overseas Bank must convert some or all of the USD AT1 securities into a variable number of Overseas Bank ordinary shares calculated using the formula described in the terms of the USD AT1 securities but subject to a maximum conversion number. The conversion number of the Overseas Bank's ordinary shares will be calculated using the outstanding principal amount of each USD AT1 security translated into Australian dollars and the Overseas Bank ordinary share price determined over the five business day period prior to the capital trigger event date or non-viability trigger event date and includes a 1% discount. The maximum conversion number is calculated using the outstanding principal amount of each USD AT1 security translated into Australian dollars at the time of issue and the Overseas Bank share price which is broadly equivalent to 20% of the Overseas Bank ordinary share price at the time of issue of the USD AT1 securities.

A capital trigger event occurs when the Overseas Bank determines, or APRA notifies the Overseas Bank in writing that it believes, the Overseas Bank's Common Equity Tier 1 Capital ratio is equal to or less than 5.125% (on a level 1 or level 2 basis). A non-viability trigger event will occur when APRA notifies the Overseas Bank in writing that it believes conversion of all or some USD AT1 securities (or conversion or write-down of relevant capital instruments of the Overseas Banking Group), or public sector injection of capital (or equivalent support), in each case is necessary because without it, the Overseas Bank would become non-viable. No conversion conditions apply in these circumstances.

If conversion of the USD AT1 securities does not occur within five business days, holders' rights in relation to the USD AT1 securities will be immediately and irrevocably terminated.

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
NZ$600 million notes[1]	14 August 2023	Fixed at 6.73% until 14 February 2029. Resets on 14 February 2029 to a floating rate: New Zealand 90 day Bank Bill Rate + 2.00% p.a.	14 February 2034	14 February 2029 and every quarterly interest payment date thereafter

[1] The subordinated notes were issued by Westpac New Zealand.

Common features of subordinated notes

Interest payable

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

Early redemption

Westpac New Zealand may elect to redeem all or some of the 2022 or 2023 subordinated notes for their face value together with accrued interest (if any) on the first optional redemption date specified above or any interest payment date thereafter, subject to the Reserve Bank's prior written approval. Early redemption of all of the 2022 or 2023 subordinated notes for certain tax or regulatory reasons is permitted on an interest payment date subject to the Reserve Bank's prior written approval.

Note 22 Related entities

Related entities

The NZ Banking Group's related parties are those it controls or can exert significant influence over. Examples include subsidiaries, associates, joint ventures and superannuation plans as well as key management personnel and their related parties.

NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of the Overseas Banking Group including the NZ Branch and the following controlled entities as at 30 September 2023 whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business:

Name of entity	Principal activity	Notes
BT Financial Group (NZ) Limited ('**BTFGNZL**')	Holding company	
BT Funds Management (NZ) Limited ('**BTNZ**')	Funds management company	
Westpac Financial Services Group-NZ-Limited ('**WFSGNZL**')	Holding company	
Westpac Nominees-NZ-Limited ('**WNNZL**')	Nominee company	
Westpac Superannuation Nominees-NZ-Limited ('**WSNNZL**')	Nominee company	
Westpac Group Investment-NZ-Limited ('**WGINZL**')	Holding company	
Westpac Holdings-NZ-Limited ('**WHNZL**')	Holding company	
Westpac Capital-NZ-Limited ('**WCNZL**')	Finance company	
Westpac Equity Investments NZ Limited	Non-active company	
Westpac New Zealand Group Limited ('**WNZGL**')	Holding company	
Westpac New Zealand Limited	Registered bank	
Westpac NZ Operations Limited ('**WNZOL**')	Holding company	
Aotearoa Financial Services Limited	Non-active company	
Number 120 Limited	Finance company, currently non-active	
Red Bird Ventures Limited[1]	Corporate venture capital company	
The Home Mortgage Company Limited	Residential mortgage company, currently non-active	
Westpac New Zealand Staff Superannuation Scheme Trustee Limited	Trustee company	
Westpac (NZ) Investments Limited ('**WNZIL**')	Property company	
Westpac Securities NZ Limited ('**WSNZL**')	Funding company	
Westpac Securitisation Management NZ Limited[2]	Securitisation Management company	
Westpac NZ Covered Bond Holdings Limited ('**WNZCBHL**')	Holding company	19% owned[3]
Westpac NZ Covered Bond Limited ('**WNZCBL**')	Guarantor	19% owned[3]
Westpac NZ Securitisation Holdings Limited ('**WNZSHL**')	Holding company	19% owned[4]
Westpac NZ Securitisation Limited ('**WNZSL**')	Funding company	19% owned[4]
Westpac Cash PIE Fund	Portfolio investment entity	Not owned[5]
Westpac Notice Saver PIE Fund	Portfolio investment entity	Not owned[5]
Westpac Term PIE Fund	Portfolio investment entity	Not owned[5]

[1]Red Bird Ventures Limited holds 35.03% diluted (37.1% undiluted) (30 September 2022: 29.6% diluted (31.87% undiluted)) equity in Akahu Technologies Limited, an associate, which is not a controlled entity.

[2]On 14 June 2023, WNZOL acquired all 1,000 shares in Westpac NZ Securitisation No.2 Limited ('**WNZSL2**') from WNZSHL, at which point WNZSL2 became a wholly-owned subsidiary of WNZOL, and on 15 June 2023, WNZSL2 was renamed Westpac Securitisation Management NZ Limited. Westpac New Zealand was previously considered to control WNZSL2 based on contractual arrangements in place.

[3]The NZ Banking Group, through WNZOL (9.5%) and WHNZL (9.5%), has a total qualifying interest of 19% in WNZCBHL and its wholly-owned subsidiary company, WNZCBL. Westpac New Zealand is considered to control both WNZCBHL and WNZCBL based on contractual arrangements in place, and as such both WNZCBHL and WNZCBL are consolidated within the financial statements of the NZ Banking Group.

[4]The NZ Banking Group, through WNZOL (9.5%) and WHNZL (9.5%), has a total qualifying interest of 19% in WNZSHL and its wholly-owned subsidiary company, WNZSL. Westpac New Zealand is considered to control WNZSHL and WNZSL based on contractual arrangements in place, and as such WNZSHL and WNZSL are consolidated within the financial statements of the NZ Banking Group.

[5]Westpac Term PIE Fund, Westpac Cash PIE Fund and Westpac Notice Saver PIE Fund (collectively referred to as the '**PIE Funds**') were established as unit trusts. The PIE Funds PIEs, where BTNZ is the manager and issuer. The manager has appointed Westpac New Zealand to perform all customer management and account administration for the PIE Funds. Westpac New Zealand is the PIE Funds' registrar and administration manager. Westpac New Zealand does not hold any units in the PIE Funds, however is considered to control them, and as such the PIE Funds are consolidated in the financial statements of the NZ Banking Group.

Other than as disclosed above, there have been no changes in the ownership percentages since 30 September 2022.

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

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

Notes to the financial statements

Note 22 Related entities (continued)

Nature of transactions

The NZ Banking Group has transactions with members of the Overseas Banking Group on commercial terms, including the provision of management, distribution and administrative services and data processing facilities.

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

The NZ Banking Group enters into derivative transactions with the Overseas Bank (refer to Note 23). They are accounted for as trading derivatives except for cross currency swaps in place with the Overseas Bank, which are designated in a cash flow hedge relationship to hedge the currency risk exposure of funding from the London Branch and Tier 2 loan capital issued to the London Branch up until its redemption on 22 September 2022.

Transactions with related entities

		NZ BANKING GROUP	
$ millions	**Note**	**2023**	2022
Overseas Bank			
Interest income	2	**127**	17
Interest expense:			
Loan capital[1]		**-**	37
Other[2]	2	**86**	32
Non-interest income - management fees received		**2**	-
Operating expenses - management fees	4	**11**	10
Other controlled entities of the Overseas Bank			
WGINZL dividend paid to Westpac Overseas Holdings Pty Limited		**-**	82
WFSGNZL dividend paid to Westpac Equity Holdings Pty Limited ('**WEHPL**')		**-**	400
BTFGNZL dividend paid to WEHPL[3]		**7**	35
WNZGL dividend paid to Westpac Overseas Holdings No. 2 Pty Limited ('**WOHN2PL**')[4]		**612**	6,379

[1] Interest expense paid on the Tier 2 loan capital issued by the NZ Banking Group and held by related parties that was redeemed by the NZ Banking Group on 22 September 2022.

[2] Includes interest expense incurred on funding from the Overseas Banking Group.

[3] On 29 March 2023, BTFGNZL declared and paid a dividend of $7 million to WEHPL.

[4] On 17 February 2023 and 18 August 2023, WNZGL declared and paid dividends of $311 million and $301 million to WOHN2PL. Total imputation credits of $117 million were attached to the dividend issued on 18 August 2023. (30 September 2022: On 22 February 2022, 16 June 2022 and 22 August 2022, WNZGL declared and paid dividends of $455 million, $5,616 million (which was settled through the issuance of an equivalent value of ordinary shares on the same day) and $308 million to WOHN2PL.)

Due from and to related entities

	NZ BANKING GROUP	
$ millions	**2023**	2022
Due from related entities		
Overseas Bank	**4,488**	6,609
Total due from related entities	**4,488**	6,609
Due from related entities at fair value[1]	**1,768**	4,045
Due from related entities at amortised cost	**2,720**	2,564
Total due from related entities	**4,488**	6,609
Due to related entities		
Overseas Bank	**4,665**	8,291
Other controlled entities of the Overseas Banking Group	**1**	1
Total due to related entities	**4,666**	8,292
Due to related entities at fair value[2]	**3,300**	6,516
Due to related entities at amortised cost	**1,366**	1,776
Total due to related entities	**4,666**	8,292

[1] Consists of derivative financial instruments of $1,768 million (30 September 2022: $4,044 million) (refer to Note 23) and no trading securities (30 September 2022: $1 million).

[2] Consists of derivative financial instruments of $3,300 million (30 September 2022: $6,516 million) (refer to Note 23).

Notes to the financial statements

Note 22 Related entities (continued)

Key management personnel compensation

Key management personnel are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the NZ Banking Group. This includes all Executive/Non-Executive Directors and the executive team of Westpac New Zealand, and other members of the executive team of the NZ Banking Group.

	NZ BANKING GROUP	
$'000s	**2023**	2022
Salaries and other short-term benefits	**10,210**	9,936
Post-employment benefits	**725**	696
Termination benefits	**-**	684
Share-based payments[1]	**1,701**	1,766
Total key management personnel compensation	**12,636**	13,082
Loans to key management personnel	**1,497**	7,675
Deposits from key management personnel	**6,140**	8,415
Interest income on amounts due from key management personnel	**146**	111
Interest expense on amounts due to key management personnel	**73**	56

[1] Equity-settled remuneration is based on the amortisation over the performance and vesting period (normally two to four years). It is calculated using the fair value at the grant date of hurdled and unhurdled share rights granted during the four years ending 30 September 2023.

Where the Directors of the Overseas Bank have received remuneration from the NZ Banking Group, the amounts are included above. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2023 Annual Financial Report.

Loans and deposits with key management personnel

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

As at 30 September 2023, no amounts have been written off and no individual provision has been recognised in respect of loans given to key management personnel and their related parties (30 September 2022: nil). These loans have been included within the loan portfolio when determining collectively assessed provisions.

Other key management personnel transactions

All other transactions with key management personnel, their related entities and other related parties are conducted in the ordinary course of business. These transactions principally involve the provision of financial, investment and insurance services.

Note 23 Derivative financial instruments

Accounting policy

Derivative financial instruments are instruments whose values are derived from the value of an underlying asset, reference rate or index and include forwards, futures, swaps and options. Derivatives with related parties are included in due from/due to related entities.

The NZ Banking Group uses derivative financial instruments for meeting customers' needs; our ALM activities, and undertaking market making and positioning activities.

Trading derivatives

Derivatives which are used in our ALM activities but are not designated into a hedge accounting relationship are considered economic hedges. These derivatives, along with derivatives used for meeting customers' needs and undertaking market making and positioning activities are measured at FVIS and are disclosed as trading derivatives.

Hedging derivatives

Hedging derivatives are those which are used in our ALM activities and have also been designated into one of two hedge accounting relationships: fair value hedge; or cash flow hedge. These derivatives are measured at fair value. These hedge designations and the associated accounting treatment are detailed below.

For more details regarding the NZ Banking Group's ALM activities, refer to Note 31.

Fair value hedges

Fair value hedges are used to hedge the exposure to changes in the fair value of an asset or liability.

Changes in the fair value of derivatives and the hedged asset or liability in fair value hedges are recognised in non-interest income. The carrying value of the hedged asset or liability is adjusted for the changes in fair value related to the hedged risk.

If a hedge is discontinued, any fair value adjustments to the carrying value of the asset or liability are amortised to net interest income over the period to maturity. If the asset or liability is sold, any unamortised adjustment is immediately recognised in net interest income.

Cash flow hedges

Cash flow hedges are used to hedge the exposure to variability of cash flows attributable to an asset, liability or future forecast transaction.

For effective hedges, changes in the fair value of derivatives are recognised in the cash flow hedge reserve through OCI and subsequently recognised in net interest income when the cash flows attributable to the asset or liability that was hedged impact the income statement.

For hedges with some ineffectiveness, the changes in the fair value of the derivatives relating to the ineffective portion are immediately recognised in non-interest income.

If a hedge is discontinued, any cumulative gain or loss remains in OCI. It is amortised to net interest income over the period which the asset or liability that was hedged also impacts the income statement.

If a hedge of a forecast transaction is no longer expected to occur, any cumulative gain or loss in OCI is immediately recognised in net interest income.

Notes to the financial statements

Note 23 Derivative financial instruments (continued)

The carrying values of derivative instruments are set out in the tables below:

	NZ BANKING GROUP					
	2023					
	Trading		Hedging		Total derivatives carrying value	
$ millions	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate contracts						
Swap agreements	**13,705**	**(13,846)**	**1,152**	**(551)**	**14,857**	**(14,397)**
Total interest rate contracts	**13,705**	**(13,846)**	**1,152**	**(551)**	**14,857**	**(14,397)**
FX contracts						
Spot and forward contracts	**1,712**	**(1,693)**	**-**	**-**	**1,712**	**(1,693)**
Cross currency swap agreements (principal and interest)	**1,087**	**(2,350)**	**353**	**(465)**	**1,440**	**(2,815)**
Total FX contracts	**2,799**	**(4,043)**	**353**	**(465)**	**3,152**	**(4,508)**
Total of gross derivatives	**16,504**	**(17,889)**	**1,505**	**(1,016)**	**18,009**	**(18,905)**
Impact of netting arrangements	**(10,747)**	**10,747**	**-**	**-**	**(10,747)**	**10,747**
Total of net derivatives	**5,757**	**(7,142)**	**1,505**	**(1,016)**	**7,262**	**(8,158)**
Consisting of:						
Derivatives held with external counterparties	**3,989**	**(3,842)**	**1,505**	**(1,016)**	**5,494**	**(4,858)**
Derivatives held with related parties	**1,768**	**(3,300)**	**-**	**-**	**1,768**	**(3,300)**

	NZ BANKING GROUP					
	2022					
	Trading		Hedging		Total derivatives carrying value	
$ millions	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate contracts						
Swap agreements	13,157	(13,026)	1,303	(567)	14,460	(13,593)
Total interest rate contracts	13,157	(13,026)	1,303	(567)	14,460	(13,593)
FX contracts						
Spot and forward contracts	5,072	(4,829)	-	-	5,072	(4,829)
Cross currency swap agreements (principal and interest)	3,836	(4,508)	386	(690)	4,222	(5,198)
Total FX contracts	8,908	(9,337)	386	(690)	9,294	(10,027)
Total of gross derivatives	22,065	(22,363)	1,689	(1,257)	23,754	(23,620)
Impact of netting arrangements	(10,327)	10,327	-	-	(10,327)	10,327
Total of net derivatives	11,738	(12,036)	1,689	(1,257)	13,427	(13,293)
Consisting of:						
Derivatives held with external counterparties	7,694	(5,520)	1,689	(1,257)	9,383	(6,777)
Derivatives held with related parties	4,044	(6,516)	-	-	4,044	(6,516)

Note 23 Derivative financial instruments (continued)

Hedge accounting

The NZ Banking Group designates derivatives into hedge accounting relationships in order to manage the volatility in earnings and capital that would otherwise arise from interest rate and FX risks that may result from differences in the accounting treatment of derivatives and underlying exposures. These hedge accounting relationships and the risks they are used to hedge are described below.

The NZ Banking Group enters into one-to-one hedge relationships to manage specific exposures where the terms of the hedged item significantly match the terms of the hedging instrument. The NZ Banking Group also uses dynamic hedge accounting where the hedged items are part of a portfolio of assets and/or liabilities that frequently change. In this hedging strategy, the exposure being hedged and the hedging instruments may change frequently rather than there being a one-to-one hedge accounting relationship for a specific exposure.

Fair value hedges

Interest rate risk

The NZ Banking Group hedges its interest rate risk to reduce exposure to changes in fair value due to interest rate fluctuations over the hedging period. Interest rate risk arising from fixed rate debt issuances and fixed rate bonds classified as investment securities at FVOCI is hedged with single currency fixed to floating interest rate derivatives. The NZ Banking Group also hedges its benchmark interest rate risk from fixed rate foreign currency denominated debt issuances using cross currency swaps. In applying fair value hedge accounting the NZ Banking Group primarily uses one-to-one hedge accounting to manage specific exposures.

The NZ Banking Group also uses a dynamic hedge accounting strategy for fair value portfolio hedge accounting of some fixed rate mortgages to reduce exposure to changes in fair value due to interest rate fluctuations over the hedging period. These fixed rate mortgages are allocated to time buckets based on their expected repricing dates and the fixed-to-floating interest rate derivatives are designated according to the capacity in the relevant time buckets.

The NZ Banking Group hedges the benchmark interest rate which generally represents the most significant component of the changes in fair value. The benchmark interest rate is a component of interest rate risk that is observable in the relevant financial markets, for example, Secured Overnight Financing Rate ('**SOFR**') for USD interest rates and BKBM for NZD interest rates. Ineffectiveness may arise from timing or discounting differences on repricing between the hedged item and the derivative. For portfolio hedge accounting, ineffectiveness also arises from prepayment risk (i.e. the difference between actual and expected prepayment of loans). In order to manage the ineffectiveness from early repayments and accommodate new originations the portfolio hedges are de-designated and redesignated periodically.

Cash flow hedges

Interest rate risk

The NZ Banking Group's exposure to the volatility of interest cash flows from customer deposits and loans is hedged with interest rate derivatives using a dynamic hedge accounting strategy called macro cash flow hedges. Customer deposits and loans are allocated to time buckets based on their expected repricing dates. The interest rate derivatives are designated according to the gross asset or gross liability positions for the relevant time buckets. The NZ Banking Group hedges the benchmark interest rate which generally represents the most significant component of the changes in fair value. The benchmark interest rate is a component of interest rate risk that is observable in the relevant financial markets, for example, Bank Bill Swap Rate for AUD interest rates, SOFR for USD interest rates and BKBM for NZD interest rates. Ineffectiveness may arise from timing or discounting differences on repricing between the hedged item and the interest rate derivative. Ineffectiveness also arises if the notional values of the interest rate derivatives exceed the aggregate notional exposure for the relevant time buckets. The hedge accounting relationship is reviewed on a monthly basis and the hedging relationships are de-designated and redesignated if necessary.

FX risk

The NZ Banking Group's exposure to foreign currency principal and credit margin cash flows from fixed rate foreign currency debt issuances is hedged through the use of cross currency derivatives in a one-to-one hedging relationship to manage the changes between the foreign currency and NZD. In addition, for floating rate foreign currency debt issuances, the NZ Banking Group hedges from foreign floating to NZD floating interest rates. Ineffectiveness may arise from timing or discounting differences on repricing between the hedged item and the cross currency derivative.

Economic hedges

As part of the NZ Banking Group's ALM activities, economic hedges may be entered into to hedge long-term funding transactions for risk management purposes. These hedges do not qualify for hedge accounting and are therefore not included in the hedging instrument disclosures below.

Note 23 Derivative financial instruments (continued)

Hedging instruments

The following tables show the carrying value of hedging instruments and a maturity analysis of the notional amounts of the hedging instruments in one-to-one hedge relationships categorised by the types of hedge relationships and the hedged risk.

			NZ BANKING GROUP					
			2023					
			Notional amounts				Carrying value	
$ millions	**Hedging instrument**	**Hedged risk**	**Within 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
One-to-one hedge relationships								
Fair value hedges	Interest rate swap	Interest rate risk	**583**	**3,063**	**1,753**	**5,399**	**149**	**(224)**
	Cross currency swap	Interest rate risk	**3,867**	**10,202**	**459**	**14,528**	**(261)**	**(754)**
Cash flow hedges	Cross currency swap	FX risk	**3,867**	**10,202**	**459**	**14,528**	**614**	**289**
Total one-to-one hedge relationships			**8,317**	**23,467**	**2,671**	**34,455**	**502**	**(689)**
Macro hedge relationships								
Portfolio fair value hedges	Interest rate swap	Interest rate risk	**N/A**	**N/A**	**N/A**	**20,287**	**143**	**(22)**
Macro cash flow hedges	Interest rate swap	Interest rate risk	**N/A**	**N/A**	**N/A**	**26,118**	**860**	**(305)**
Total macro hedge relationships			**N/A**	**N/A**	**N/A**	**46,405**	**1,003**	**(327)**
Total of gross hedging derivatives			**N/A**	**N/A**	**N/A**	**80,860**	**1,505**	**(1,016)**
Impact of netting arrangements			**N/A**	**N/A**	**N/A**	**N/A**	**-**	**-**
Total of net hedging derivatives			**N/A**	**N/A**	**N/A**	**N/A**	**1,505**	**(1,016)**

			NZ BANKING GROUP					
			2022					
			Notional amounts				Carrying value	
$ millions	Hedging instrument	Hedged risk	Within 1 year	Over 1 year to 5 years	Over 5 years	Total	Assets	Liabilities
One-to-one hedge relationships								
Fair value hedges	Interest rate swap	Interest rate risk	347	3,190	-	3,537	39	(208)
	Cross currency swap	Interest rate risk	269	9,890	1,911	12,070	(196)	(876)
Cash flow hedges	Cross currency swap	FX risk	269	9,890	1,911	12,070	583	186
Total one-to-one hedge relationships			885	22,970	3,822	27,677	426	(898)
Macro hedge relationships								
Portfolio fair value hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	22,365	339	(12)
Macro cash flow hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	24,548	924	(347)
Total macro hedge relationships			N/A	N/A	N/A	46,913	1,263	(359)
Total of gross hedging derivatives			N/A	N/A	N/A	74,590	1,689	(1,257)
Impact of netting arrangements			N/A	N/A	N/A	N/A	-	-
Total of net hedging derivatives			N/A	N/A	N/A	N/A	1,689	(1,257)

Note 23 Derivative financial instruments (continued)

The following table shows the weighted average exchange rate related to significant hedging instruments in one-to-one hedge relationships:

	NZ BANKING GROUP				
				Weighted average hedged rate	
	Hedging instrument	Hedged risk	Currency pair	2023	2022
Cash flow hedges	Cross currency swap	FX risk	CHF:NZD	**0.6613**	0.6730
			EUR:NZD	**0.5943**	0.5965
			HKD:NZD	**5.1114**	5.1114
			USD:NZD	**0.6716**	0.6949

Impact of hedge accounting on the balance sheet and reserves

The following tables show the carrying amount of hedged items in a fair value hedge relationship and the component of the carrying amount related to accumulated fair value hedge accounting ('**FVHA**') adjustments.

	NZ BANKING GROUP			
	2023		2022	
$ millions	Carrying amount of hedged item	Accumulated FVHA adjustment included in carrying amount	Carrying amount of hedged item	Accumulated FVHA adjustment included in carrying amount
Interest rate risk				
Investment securities	**2,585**	**(93)**	1,325	(57)
Loans	**20,095**	**(191)**	21,979	(385)
Debt issues and loan capital	**(16,542)**	**1,204**	(12,960)	1,241

There were no accumulated FVHA adjustments (30 September 2022: nil) included in the above carrying amounts relating to hedged items that have ceased to be adjusted for hedging gains and losses.

The pre-tax impact of cash flow hedges on reserves is detailed below:

	NZ BANKING GROUP					
	2023			2022		
$ millions	Interest rate risk	FX risk	Total	Interest rate risk[1]	FX risk[1]	Total
Cash flow hedge reserve						
Balance at beginning of the year	**588**	**-**	**588**	160	(72)	88
Net gains/(losses) from changes in fair value	**209**	**(311)**	**(102)**	441	(160)	281
Transferred to net interest income	**(219)**	**263**	**44**	(13)	232	219
Balance at end of year	**578**	**(48)**	**530**	588	-	588

[1] Comparative amounts have been revised to align to the current year's basis of presentation. The restatement for 2022 comparatives results in a $207 million increase in transferred to income statement and a corresponding decrease in net gains/(losses) from changes in fair value.

There were no balances remaining in the cash flow hedge reserve (30 September 2022: nil) relating to hedge relationships for which hedge accounting is no longer applied.

Note 23 Derivative financial instruments (continued)

Hedge effectiveness

Hedge effectiveness is tested prospectively at inception and during the lifetime of hedge relationships. For one-to-one hedge relationships this testing uses a qualitative assessment of matched terms where the critical terms of the derivatives used as the hedging instrument match the terms of the hedged item. In addition, a quantitative effectiveness test is performed for all hedges which could include regression analysis, dollar offset and/or sensitivity analysis.

Retrospective testing is also performed to determine whether the hedge relationship remains highly effective so that hedge accounting can continue to be applied and also to determine any ineffectiveness. These tests are performed using regression analysis and the dollar offset method.

The following tables provide information regarding the determination of hedge effectiveness:

			NZ BANKING GROUP		
			2023		
$ millions	**Hedging instrument**	**Hedged risk**	**Change in fair value of hedging instrument used for calculating ineffectiveness**	**Change in value of the hedged item used for calculating ineffectiveness**	**Hedge ineffectiveness recognised in non-interest income**
Fair value hedges	Interest rate swap	Interest rate risk	**(172)**	**180**	**8**
	Cross currency swap	Interest rate risk	**62**	**(59)**	**3**
Cash flow hedges	Interest rate swap	Interest rate risk	**(22)**	**11**	**(11)**
	Cross currency swap	FX risk	**(48)**	**48**	**-**
Total			**(180)**	**180**	**-**

			NZ BANKING GROUP		
			2022		
$ millions	Hedging instrument	Hedged risk	Change in fair value of hedging instrument used for calculating ineffectiveness	Change in value of the hedged item used for calculating ineffectiveness	Hedge ineffectiveness recognised in non-interest income
Fair value hedges	Interest rate swap	Interest rate risk	109	(118)	(9)
	Cross currency swap	Interest rate risk	(1,103)	1,104	1
Cash flow hedges	Interest rate swap	Interest rate risk	440	(429)	11
	Cross currency swap	FX risk	72	(72)	-
Total			(482)	485	3

Notes to the financial statements

Note 24 Fair values of financial assets and financial liabilities

Accounting policy

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

On initial recognition, the transaction price generally represents the fair value of the financial instrument unless there is observable information from an active market to the contrary. Where significant unobservable information is used, the difference between the transaction price and the fair value (day one profit or loss) is recognised in the income statement over the life of the instrument or when the inputs become observable.

Critical accounting assumptions and estimates

The majority of valuation models used by the NZ Banking Group employ only observable market data as inputs. However, for certain financial instruments, data may be employed which is not readily observable in current markets.

The availability of observable inputs is influenced by factors such as:

- product type;
- depth of market activity;
- maturity of market models; and
- complexity of the transaction.

Where unobservable market data is used, more judgement is required to determine fair value. The significance of these judgements depends on the significance of the unobservable input to the overall valuation. Unobservable inputs are generally derived from other relevant market data and adjusted against:

- standard industry practice;
- economic models; and
- observed transaction prices.

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

These adjustments incorporate bid/offer spreads, credit valuation adjustments and funding valuation adjustments.

Fair Valuation Control Framework

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

Valuation techniques

The NZ Banking Group applies market accepted valuation techniques in determining the fair valuation of over-the-counter derivatives. This includes credit valuation adjustments and funding valuation adjustments, 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.

Note 24 Fair values of financial assets and financial liabilities (continued)

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
Exchange traded products	Derivative financial instruments Due from related entities Due to related entities	Exchange traded interest rate futures - derivative financial instruments	
FX products	Derivative financial instruments	FX spot contracts	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.
Debt instruments	Trading securities and financial assets measured at FVIS Investment securities Other financial liabilities	New Zealand Government bonds	

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.

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 and FX forward contracts - 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.
Asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities	Asset backed securities	Valued using an industry approach to value floating rate debt with prepayment features. The main inputs to the model are the trading margin and the weighted average life of the security. These inputs are sourced from a consensus data provider. If consensus prices are not available, these are classified as Level 3 instruments.

Note 24 Fair values of financial assets and financial liabilities (continued)

Instrument	Balance sheet category	Includes	Valuation
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities 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 from these sources, these are classified as 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 NZ 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.

Instrument	Balance sheet category	Includes:	Valuation
Interest rate derivatives	Derivative financial instruments	Non-vanilla interest rate (inflation indexed) derivatives and long-dated NZD caps	Valued using industry standard valuation models utilising observable market inputs which are determined separately for each parameter. Where unobservable, inputs will be set with reference to an observable proxy.
Debt instruments	Trading securities and financial assets measured at FVIS	Certain debt securities with low observability, usually issued via private placement	These securities are evaluated by an independent pricing service or based on third party revaluations. Due to their illiquidity and/or complexity these are classified as Level 3 assets.

Note 24 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:

	NZ BANKING GROUP							
	2023				2022			
$ millions	**Level 1**	**Level 2**	**Level 3[1]**	**Total**	Level 1	Level 2	Level 3[1]	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets measured at FVIS	**699**	**4,298**	**10**	**5,007**	335	3,166	-	3,501
Derivative financial instruments	**7**	**5,487**	**-**	**5,494**	1	9,382	-	9,383
Investment securities	**2,287**	**4,364**	**-**	**6,651**	1,982	3,641	-	5,623
Due from related entities	**-**	**1,768**	**-**	**1,768**	5	4,040	-	4,045
Total financial assets measured at fair value	**2,993**	**15,917**	**10**	**18,920**	2,323	20,229	-	22,552
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings at fair value[2]	**-**	**2,413**	**-**	**2,413**	-	2,939	-	2,939
Other financial liabilities[2]	**630**	**170**	**-**	**800**	598	352	-	950
Derivative financial instruments	**2**	**4,854**	**2**	**4,858**	2	6,773	2	6,777
Due to related entities	**-**	**3,300**	**-**	**3,300**	3	6,513	-	6,516
Debt issues at fair value[2]	**-**	**1,471**	**-**	**1,471**	-	5,490	-	5,490
Total financial liabilities measured at fair value	**632**	**12,208**	**2**	**12,842**	603	22,067	2	22,672

[1] Balances within this category of the fair value hierarchy are not considered material to the total derivative financial instruments balances.
[2] There are no differences between the fair values disclosed and the contractual outstanding amount payable at maturity for these financial liabilities measured at fair value on a recurring basis.

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the year ended 30 September 2023 (30 September 2022: no material changes in fair value).

Analysis of movements between fair value hierarchy levels

The NZ Banking Group considers transfers between levels, if any, to have occurred at the end of the reporting period. During the year, 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

For financial instruments not measured at fair value on a recurring basis, fair value has been derived as follows:

Instrument	Valuation
Loans	Where available, the fair value of loans is based on observable market transactions; otherwise fair value is estimated using discounted cash flow models. For variable rate loans, the discount rate used is the current effective interest rate. The discount rate applied for fixed rate loans reflects the market rate for the maturity of the loan and the creditworthiness of the borrower.
Deposits and other borrowings	Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate their carrying value. Fair values for term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.
Due to related entities	The carrying value of due to related entities approximates the fair value. These items are either short-term in nature or re-price frequently and are of a high credit rating.
Debt issues and loan capital	The fair values of these instruments are calculated based on quoted market prices, where available. Where quoted market prices are not available, fair values are calculated using a discounted cashflow model. The discount rates applied reflect the terms of the instruments and the timing of the estimated cash flows and are adjusted for any changes in the NZ Banking Group's credit spreads.
All other financial assets and financial liabilities	For all other financial assets and financial liabilities, the carrying value approximates the fair value. These items are either short-term in nature or re-price frequently and are of a high credit rating.

Note 24 Fair values of financial assets and financial liabilities (continued)

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

	NZ BANKING GROUP				
	2023				
	Carrying	Fair Value			
$ millions	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value					
Cash and balances with central banks	**9,325**	**9,325**	**-**	**-**	**9,325**
Collateral paid	**62**	**62**	**-**	**-**	**62**
Loans	**99,711**	**-**	**-**	**98,640**	**98,640**
Other financial assets	**469**	**-**	**4**	**465**	**469**
Due from related entities	**2,720**	**-**	**2,720**	**-**	**2,720**
Total financial assets not measured at fair value	**112,287**	**9,387**	**2,724**	**99,105**	**111,216**
Financial liabilities not measured at fair value					
Collateral received	**614**	**614**	**-**	**-**	**614**
Deposits and other borrowings	**79,783**	**-**	**78,057**	**1,741**	**79,798**
Other financial liabilities	**6,422**	**-**	**6,422**	**-**	**6,422**
Due to related entities	**1,366**	**-**	**1,366**	**-**	**1,366**
Debt issues[1]	**17,126**	**-**	**16,962**	**-**	**16,962**
Loan capital	**3,051**	**-**	**2,990**	**-**	**2,990**
Total financial liabilities not measured at fair value	**108,362**	**614**	**105,797**	**1,741**	**108,152**

	NZ BANKING GROUP				
	2022				
	Carrying	Fair Value			
$ millions	Amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value					
Cash and balances with central banks	11,162	11,162	-	-	11,162
Collateral paid	87	87	-	-	87
Loans	97,392	-	-	96,041	96,041
Other financial assets	644	-	-	644	644
Due from related entities	2,564	-	2,564	-	2,564
Total financial assets not measured at fair value	111,849	11,249	2,564	96,685	110,498
Financial liabilities not measured at fair value					
Collateral received	724	724	-	-	724
Deposits and other borrowings	77,909	-	75,487	2,408	77,895
Other financial liabilities	4,657	-	4,657	-	4,657
Due to related entities	1,776	-	1,776	-	1,776
Debt issues[1]	14,443	-	14,242	-	14,242
Loan capital	2,576	-	2,428	-	2,428
Total financial liabilities not measured at fair value	102,085	724	98,590	2,408	101,722

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

Note 25 Offsetting financial assets and financial liabilities

Accounting policy

Financial assets and financial liabilities are presented net on the balance sheet when the NZ Banking Group has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The gross assets and liabilities behind the net amounts reported on the balance sheet are disclosed in the following table.

Some of the NZ Banking Group's offsetting arrangements are not enforceable in all circumstances. The amounts in the tables below may not tie back to the balance sheet if there are balances which are not subject to offsetting or enforceable netting arrangements. The amounts presented in this note do not represent the credit risk exposure of the NZ Banking Group. Refer to Note 13 for information on credit risk management. The offsetting and collateral arrangements and other credit risk mitigation strategies used by the NZ Banking Group are further explained in the 'Management of risk mitigation' section under Note 13.5.

	NZ BANKING GROUP						
	2023						
	Amounts Subject to Enforceable Netting Arrangements						
	Amounts Offset on the Balance Sheet			Amounts Not Offset on the Balance Sheet			
$ millions	**Gross Amounts**	**Amounts Offset**	**Net Amounts Reported on the Balance Sheet**	**Other Recognised Financial Instruments**	**Cash Collateral**	**Financial Instrument Collateral**	**Net Amount**
Assets							
Reverse repurchase agreements[1]	**487**	**-**	**487**	**-**	**-**	**(482)**	**5**
Derivative financial instruments[2]	**16,109**	**(10,747)**	**5,362**	**(2,197)**	**(614)**	**-**	**2,551**
Due from related entities - derivative financial instruments[3]	**1,768**	**-**	**1,768**	**(1,768)**	**-**	**-**	**-**
Total assets	**18,364**	**(10,747)**	**7,617**	**(3,965)**	**(614)**	**(482)**	**2,556**
Liabilities							
Repurchase agreements[4]	**5,168**	**-**	**5,168**	**-**	**-**	**(5,168)**	**-**
Derivative financial instruments[2]	**15,215**	**(10,747)**	**4,468**	**(2,197)**	**(62)**	**(77)**	**2,132**
Due to related entities - derivative financial instruments[5]	**3,300**	**-**	**3,300**	**(1,768)**	**-**	**-**	**1,532**
Total liabilities	**23,683**	**(10,747)**	**12,936**	**(3,965)**	**(62)**	**(5,245)**	**3,664**

	NZ BANKING GROUP						
	2022						
	Amounts Subject to Enforceable Netting Arrangements						
	Amounts Offset on the Balance Sheet			Amounts Not Offset on the Balance Sheet			
$ millions	Gross Amounts	Amounts Offset	Net Amounts Reported on the Balance Sheet	Other Recognised Financial Instruments	Cash Collateral	Financial Instrument Collateral	Net Amount
Assets							
Reverse repurchase agreements[1]	173	-	173	-	-	(171)	2
Derivative financial instruments[2]	18,158	(10,327)	7,831	(3,885)	(526)	-	3,420
Due from related entities - derivative financial instruments[3]	4,044	-	4,044	(4,044)	-	-	-
Total assets	22,375	(10,327)	12,048	(7,929)	(526)	(171)	3,422
Liabilities							
Repurchase agreements[4]	4,277	-	4,277	-	-	(4,277)	-
Derivative financial instruments[2]	16,282	(10,327)	5,955	(3,885)	(37)	-	2,033
Due to related entities - derivative financial instruments[5]	6,516	-	6,516	(4,044)	-	-	2,472
Total liabilities	27,075	(10,327)	16,748	(7,929)	(37)	(4,277)	4,505

[1] Forms part of trading securities and financial assets measured at FVIS (refer to Note 9).

[2] $132 million (30 September 2022: $1,552 million) of derivative financial assets and $390 million (30 September 2022: $822 million) of derivative financial liabilities are not subject to enforceable netting arrangements.

[3] Forms part of due from related entities on the balance sheet (refer to Note 22).

[4] Forms part of other financial liabilities on the balance sheet (refer to Note 18).

[5] Forms part of due to related entities on the balance sheet (refer to Note 22).

Note 25 Offsetting financial assets and financial liabilities (continued)

Other recognised financial instruments

These financial assets and financial liabilities are subject to master netting agreements which are not enforceable in all circumstances, so they are recognised gross on the balance sheet. The offsetting rights of the master netting arrangements can only be enforced if a predetermined event occurs in the future, such as a counterparty defaulting.

Cash collateral and financial instrument collateral

These amounts are received or pledged under master netting arrangements against the gross amounts of assets and liabilities. Financial instrument collateral typically comprises securities which can be readily liquidated in the event of counterparty default. The offsetting rights of the master netting arrangement can only be enforced if a predetermined event occurs in the future, such as a counterparty defaulting.

Note 26 Credit related commitments, contingent assets and contingent liabilities

Accounting policy

Undrawn credit commitments

The NZ Banking Group enters into various arrangements with customers which are only recognised on the balance sheet when called upon. These arrangements include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

Contingent assets

Contingent assets are possible assets whose existence will be confirmed only by uncertain future events. Contingent assets are not recognised on the balance sheet but are disclosed if an inflow of economic benefits is probable.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the outflow of economic resources is remote.

Undrawn credit commitments

Undrawn credit commitments expose the NZ Banking Group to liquidity risk when called upon and also to credit risk if the customer fails to repay the amounts owed at the due date. The maximum exposure to credit loss is the contractual or notional amount of the instruments disclosed below. Some of the arrangements can be cancelled by the NZ Banking Group at any time. The actual liquidity and credit risk exposure varies in line with drawings and may be less than the amounts disclosed. The NZ Banking Group uses the same credit policies when entering into these arrangements as it does for on-balance sheet instruments. Refer to Note 13 and Note 31 for further details on credit risk management and liquidity risk.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Letters of credit and guarantees[1]	**1,015**	1,025
Commitments to extend credit[2]	**27,869**	27,904
Total undrawn credit commitments	**28,884**	28,929

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

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

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.

Notes to the financial statements

Note 26 Credit related commitments, contingent assets and contingent liabilities (continued)

Contingent liabilities

All potential claims and other liabilities are assessed on a case-by-case basis. A provision will be recognised where the NZ 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 NZ 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 CCCFA.

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.

The NZ Banking Group has potential exposure relating to warranties, indemnities and other commitments it has provided to Fidelity Life and Westpac Life in connection to the sale of Westpac Life on 28 February 2022. The warranties, indemnities and other commitments cover a range of matters and risks, including title, capacity and taxation matters.

Note 27 Segment reporting

Accounting policy

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

Inter-segment revenue and costs are eliminated at head office. Income and expenses directly associated with each segment are included in determining business segment performance.

The NZ Banking Group operates predominantly in the Consumer Banking and Wealth, Institutional and Business Banking, Financial Markets, and International Trade and Payments 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 NZ Banking Group does not rely on any single major customer for its revenue base.

An investments and insurance unit 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 provided funds management services. As at 30 September 2023, the investments unit is no longer reported as a main operating segment and has been included within reconciling items in the table below.

Segment comparative information for the year ended 30 September 2022 has also been restated to ensure consistent presentation with the current reporting period. This reflects changes to expense allocations between segments during the period.

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

- Consumer Banking and Wealth provides financial services predominantly for individuals;
- Institutional and Business Banking provides a broad range of financial services for commercial, corporate, property finance, agricultural, institutional and government customers; and
- Financial Markets provides foreign exchange, interest rate derivatives, government and credit products, commodities, carbon and energy capabilities. International Trade and Payments provide international trade solutions, payments products and services to consumer, business and institutional 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/aggregation of the results, assets and liabilities of the NZ Banking Group's controlled entities in the preparation of the aggregated financial statements of the NZ Banking Group; and
- results of certain business units excluded for management reporting purposes, but included within the aggregated financial statements of the NZ Banking Group for statutory financial reporting purposes.

Notes to the financial statements

Note 27 Segment reporting (continued)

$ millions	NZ BANKING GROUP Consumer Banking and Wealth	Institutional and Business Banking	Financial Markets, International Trade and Payments	Reconciling Items	Total
Year ended 30 September 2023					
Net interest income	**1,200**	**1,216**	**48**	**374**	**2,838**
Net fees and commissions					
Facility fees	**27**	**18**	**3**	**-**	**48**
Transaction fees and commissions	**164**	**73**	**(3)**	**(31)**	**203**
Other non-risk fee income	**6**	**21**	**12**	**(19)**	**20**
Fees and commissions expenses	**(75)**	**-**	**-**	**1**	**(74)**
Net fees and commissions	**122**	**112**	**12**	**(49)**	**197**
Other non-interest income	**-**	**-**	**86**	**15**	**101**
Total non-interest income	**122**	**112**	**98**	**(34)**	**298**
Net operating income	**1,322**	**1,328**	**146**	**340**	**3,136**
Operating expenses	**(734)**	**(508)**	**(42)**	**(69)**	**(1,353)**
Impairment (charges)/benefits	**(77)**	**(53)**	**-**	**(5)**	**(135)**
Profit before income tax	**511**	**767**	**104**	**266**	**1,648**
As at 30 September 2023					
Total gross loans	**60,004**	**39,911**	**397**	**(94)**	**100,218**
Total deposits and other borrowings	**44,980**	**34,803**	**-**	**2,413**	**82,196**

$ millions	NZ BANKING GROUP Consumer Banking and Wealth	Institutional and Business Banking	Financial Markets, International Trade and Payments	Reconciling Items	Total
Year ended 30 September 2022 (restated)					
Net interest income	1,140	1,099	40	59	2,338
Net fees and commissions					
Facility fees	24	14	2	3	43
Transaction fees and commissions	178	76	(4)	(43)	207
Other non-risk fee income	7	19	14	(18)	22
Fees and commissions expenses	(66)	-	-	-	(66)
Net fees and commissions	143	109	12	(58)	206
Other non-interest income	-	-	82	296	378
Total non-interest income	143	109	94	238	584
Net operating income	1,283	1,208	134	297	2,922
Operating expenses	(625)	(436)	(37)	(88)	(1,186)
Impairment (charges)/benefits	3	24	-	-	27
Profit before income tax	661	796	97	209	1,763
As at 30 September 2022					
Total gross loans	57,968	39,684	556	(416)	97,792
Total deposits and other borrowings	43,574	34,334	-	2,940	80,848

Note 28 Securitisation, covered bonds and other transferred assets

The NZ Banking Group enters into transactions in the normal course of business by which financial assets are transferred to counterparties or structured entities. Depending on the circumstances, these transfers may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer. For the NZ Banking Group's accounting policy on derecognition of financial assets, refer to Note 1.

Securitisation

Securitisation is the process of selling a group of assets (or an interest in the assets or the cashflow arising from the assets) to a special purpose entity which then issues interest bearing debt securities for funding purposes.

Securitisation of its own assets is used by the NZ Banking Group as a funding and liquidity tool.

In October 2008, the NZ Banking Group set up WNZSL as a structured entity for the purpose of structuring assets that are eligible for repurchase by the Reserve Bank as part of Westpac New Zealand's internal residential mortgage-backed securitisation programme.

Under the internal residential mortgage-backed securitisation programme, Westpac New Zealand periodically sells the rights (but not the obligations) under eligible housing loans to WNZSL. The purchase by WNZSL of the housing loans is funded by the proceeds of the issuance of RMBS.

Westpac New Zealand is obliged to repurchase any housing loan sold to and held by WNZSL where the housing loan does not meet the eligibility criteria of the programme. It is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these obligations.

Covered bonds

The NZ Banking Group has a covered bond programme under which it may issue bonds (Covered Bonds). The NZ Banking Group transfers, via assignment, from time to time housing loans originated by Westpac New Zealand to a bankruptcy remote structured entity, WNZCBL. WNZCBL is a special purpose entity which holds the rights to, but not the obligations under, the pool of housing loans held by it (the Portfolio). The payments of all amounts due in respect of the Covered Bonds have been unconditionally guaranteed by Westpac New Zealand. In addition, WNZCBL (the CB Guarantor) has guaranteed payments of interest and principal under the Covered Bonds pursuant to a financial guarantee which is secured by WNZCBL granting security over the Portfolio and its other assets. Recourse against the CB Guarantor under its guarantee is limited to the Portfolio and such assets.

The intercompany loan made by Westpac New Zealand to WNZCBL to fund the initial and all subsequent purchases of eligible housing loans and the liability representing the intercompany loan from WNZCBL to Westpac New Zealand are fully eliminated in the NZ Banking Group's financial statements.

Westpac New Zealand is obliged to repurchase any housing loans sold to and held by WNZCBL (pursuant to Westpac New Zealand's Global Covered Bond Programme) in certain circumstances including (but not limited to) where:

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

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

Repurchase agreements

Where securities are sold subject to an agreement to repurchase at a predetermined price, they remain recognised on the balance sheet in their original category (i.e. trading securities and financial assets measured at FVIS or investment securities). Repurchase agreements are designated at fair value when they are managed as part of a trading portfolio, otherwise they are measured on an amortised cost basis.

The cash consideration received is recognised as a liability (repurchase agreements). Refer to Note 18 for further details.

Note 28 Securitisation, covered bonds and other transferred assets (continued)

The following table presents the NZ Banking Group's assets transferred and their associated liabilities:

	NZ BANKING GROUP				
			For those liabilities that only have recourse to the transferred assets:		
$ millions	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities	Net fair value position
2023					
Securitisation - own assets[1]	**15,096**	**15,098**	**15,105**	**15,098**	**7**
Covered bonds[2]	**7,540**	**5,045**	**n/a**	**n/a**	**n/a**
Repurchase agreements	**6,663**	**5,168**	**n/a**	**n/a**	**n/a**
Total	**29,299**	**25,311**	**15,105**	**15,098**	**7**
2022					
Securitisation - own assets[1]	15,075	15,066	15,079	15,066	13
Covered bonds[2]	7,528	3,576	n/a	n/a	n/a
Repurchase agreements	5,345	4,277	n/a	n/a	n/a
Total	27,948	22,919	15,079	15,066	13

[1] The most senior rated securities at 30 September 2023 of $13,800 million (30 September 2022: $13,800 million) qualify as eligible collateral for repurchase agreements with the Reserve Bank. Westpac New Zealand complies with the Reserve Bank's guidelines for its overnight reverse repurchase agreement facility and open market operations, which allows banks in New Zealand to offer RMBS as collateral for the Reserve Bank's repurchase agreements.

[2] The difference between the carrying values of the covered bonds and the assets pledged allows for the immediate issuance of additional covered bonds if required. These additional assets can be repurchased by Westpac New Zealand at its discretion, subject to the conditions set out in the transaction documents. The Portfolio is comprised of housing loans up to a value of $7,500 million as at 30 September 2023 (30 September 2022: $7,500 million). Over time, the composition of the Portfolio will include, in addition to housing loans, accrued interest (representing accrued and unpaid interest on the outstanding housing loans) and cash (representing collections of principal and interest from the underlying housing loans).

Note 29 Structured entities

Accounting policy

Structured entities are generally created to achieve a specific, defined objective and their operations are restricted such as to only purchasing specific assets. Structured entities are commonly financed by debt or equity securities that are collateralised by and/or indexed to their underlying assets. The debt and equity securities issued by structured entities may include tranches with varying levels of subordination.

Structured entities are classified as subsidiaries and consolidated if they meet the definition in Note 1. If the NZ Banking Group does not control a structured entity then it will not be consolidated.

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

Consolidated structured entities

Securitisation and covered bonds

The NZ Banking Group uses structured entities to securitise its financial assets through the Covered Bond Programme and Westpac New Zealand's internal residential mortgage-backed securitisation programme. Refer to Note 28 for further details.

NZ Banking Group managed funds

As disclosed in Note 22, the PIE Funds are consolidated within the financial statements of the NZ Banking Group.

Non-contractual financial support

The NZ Banking Group does not provide non-contractual financial support to these consolidated structured entities.

Note 29 Structured entities (continued)

Unconsolidated structured entities

The NZ Banking Group has interests in various unconsolidated structured entities including debt instruments, guarantees, liquidity arrangements, lending, loan commitments, certain derivatives and investment management agreements.

Interests exclude non-complex derivatives (e.g. interest rate swap agreements) and lending to a structured entity with recourse to a wider operating entity, not just the structured entity.

The NZ Banking Group's main interests in unconsolidated structured entities, which arise in the normal course of business, are:

Loans and other credit commitments	The NZ Banking Group lends to unconsolidated structured entities, subject to the NZ Banking Group's collateral and credit approval processes, in order to earn interest and fees and commissions income. The structured entities are mainly securitisation entities.
Investment management agreements	The NZ Banking Group manages funds that provide customers with investment opportunities. The NZ Banking Group also manages superannuation funds for its employees. The NZ Banking Group earns management fee income which is recognised in non-interest income.

The following table shows the NZ Banking Group's interests in unconsolidated structured entities and its maximum exposure to loss in relation to those interests. The maximum exposure does not take into account any collateral or hedges that will reduce the risk of loss.

- For on-balance sheet instruments, including debt instruments in and loans to unconsolidated structured entities, the maximum exposure to loss is the carrying value; and
- For off-balance sheet instruments, including liquidity facilities and loan and other credit commitments and guarantees, the maximum exposure to loss is the notional amounts.

	NZ BANKING GROUP					
	2023			2022		
$ millions	**Financing to Securitisation Vehicles**	**Group Managed Funds**	**Total**	Financing to Securitisation Vehicles	Group Managed Funds	Total
Assets						
Loans	**4,368**	**-**	**4,368**	3,892	-	3,892
Total on-balance sheet exposures	**4,368**	**-**	**4,368**	3,892	-	3,892
Total notional amounts of off-balance sheet exposures	**1,777**	**-**	**1,777**	1,322	16	1,338
Maximum exposure to loss	**6,145**	**-**	**6,145**	5,214	16	5,230
Size of structured entities[1]	**6,145**	**11,504**	**17,649**	5,214	10,967	16,181

[1] Represented by the total assets or market capitalisation of the entity, or if not available, the NZ Banking Group's total committed exposure (for lending arrangements and external debt holdings) or funds under management (for Group managed funds).

Non-contractual financial support

The NZ Banking Group does not provide non-contractual financial support to these unconsolidated structured entities.

Note 30 Capital management

The Overseas Bank is a registered bank in New Zealand and conducts business in New Zealand through the NZ Banking Group. The capital held by the NZ Banking Group comprises of the head office account, NZ Banking Group equity and loan capital.

Most of the NZ Banking Group's capital is held in, and managed by Westpac New Zealand. Westpac New Zealand's Board is responsible for ensuring that capital adequacy of Westpac New Zealand is maintained and complies with the regulatory capital requirements prescribed by the Reserve Bank.

There are no current regulatory capital requirements that apply specifically to the NZ Branch or the NZ Banking Group. The Overseas Bank's Board is responsible for ensuring that capital adequacy of the Overseas Banking Group and the Overseas Bank is maintained. The NZ Banking Group's capital is managed as part of the Overseas Banking Group's Internal Capital Adequacy Process. Westpac New Zealand is also required to maintain its own Internal Capital Adequacy Process under the Reserve Bank of New Zealand's capital adequacy requirements.

Under APRA's Prudential Standards, Australian ADIs, including the Overseas Banking Group and the Overseas Bank are required to maintain minimum ratios of capital to risk weighted assets, as determined by APRA. The minimum capital ratios are at least equal to those specified under the Basel III capital framework. For the calculation of risk weighted assets, the Overseas Banking Group and the Overseas Bank are accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime. The Overseas Banking Group and the Overseas Bank use the 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.

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

The Overseas Banking Group (excluding entities specifically excluded by APRA regulations), and the Overseas Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2023.

Effective 1 January 2023, APRA revised its capital framework, including updated prudential standards for capital adequacy and credit risk capital.

The Overseas Banking Group evaluates its approach to capital management through an Internal Capital Adequacy Process, the key features of which include:

- the development of a capital management strategy, including consideration of regulatory minimums, capital buffers and contingency plans. The current APRA regulatory capital minimums together with the capital conservation buffer and countercyclical buffer are the Total Common Equity Tier 1 (CET1) Requirement. The Total CET1 Requirement for the Overseas Banking Group is at least 10.25%[1], based upon an industry minimum CET1 requirement of 4.5% plus a capital buffer of at least 4.75% and a countercyclical buffer of 1.0%[2].
- consideration of regulatory capital requirements and the perspectives of external stakeholders including rating agencies as well as equity and debt investors; and
- a stress testing framework that challenges the capital measures, coverage and requirements, including the impact of adverse economic scenarios.

The Overseas Bank Board has determined that the Overseas Banking Group will target a CET1 operating capital range of between 11.0% and 11.5%, in normal operating conditions.

[1] Noting that APRA may apply higher Common Equity Tier 1 (CET1) requirements for an individual ADI.

[2] APRA has currently set a 1.0% default countercyclical buffer for Australian exposures however this may be varied by APRA in the range of 0% to 3.5%. The final countercyclical capital buffer is ADI specific and dependent on a bank's international exposures.

Note 30 Capital management (continued)

The table below represents the capital adequacy calculation for the Overseas Banking Group and Overseas Bank as at 30 September 2023 based on APRA's application of the Basel III capital adequacy framework.

%	30 Sep 23 Unaudited	30 Sep 22 Unaudited[4]
Overseas Banking Group (excluding entities specifically excluded by APRA)[1,2]		
Common Equity Tier 1 capital ratio	**12.4**	11.3
Additional Tier 1 capital ratio	**2.2**	2.1
Tier 1 capital ratio	**14.6**	13.4
Tier 2 capital ratio	**5.9**	5.0
Total regulatory capital ratio	**20.5**	18.4
Overseas Bank (Extended Licensed Entity)[1,3]		
Common Equity Tier 1 capital ratio	**12.6**	11.3
Additional Tier 1 capital ratio	**2.4**	2.2
Tier 1 capital ratio	**15.0**	13.6
Tier 2 capital ratio	**6.5**	5.4
Total regulatory capital ratio	**21.5**	19.0

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

[2] Overseas Banking Group (excluding entities specifically excluded by APRA regulations) comprises the consolidation of the Overseas 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 Overseas Bank.

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

[4] 30 September 2022 ratios have not been restated for APRA's revised capital framework commencing 1 January 2023.

The Overseas Banking 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 Overseas Banking Group's website (www.westpac.com.au).

Note 31 Risk management, funding and liquidity risk and market risk

Financial instruments are fundamental to the NZ Banking Group's business of providing banking and financial services. The associated financial risks (including credit risk, funding and liquidity risk and market risk) are a significant proportion of the total risks faced by the NZ Banking Group.

This note details the financial risk management policies, practices and quantitative information of the NZ Banking Group's principal financial risk exposures.

Principal risks	Note name	Note number
Overview	Risk management frameworks	31.1
Credit risk	Refer to Note 13 Credit risk management	13
Funding and liquidity risk The risk that the NZ Banking Group cannot meet its payment obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.	Liquidity modelling Sources of funding Assets pledged as collateral Contractual maturity of financial liabilities Expected maturity	31.2.1 31.2.2 31.2.3 31.2.4 31.2.5
Market risk The risk of an adverse impact on the NZ Banking Group's financial performance or financial position resulting from changes in market factors, such as FX rates, commodity prices and equity prices, credit spreads and interest rates. This includes interest rate risk in the banking book which is the risk of loss in earnings or economic value in the banking book as a consequence of movements in interest rates.	VaR Traded market risk Non-traded market risk	31.3.1 31.3.2 31.3.3

Notes to the financial statements

Note 31 Risk management, funding and liquidity risk and market risk (continued)

31.1 Risk management frameworks

The Board is responsible for approving the Overseas Banking Group's Risk Management Framework, Risk Management Strategy and Board Risk Appetite Statement and monitoring the effectiveness of risk management by the Overseas Banking Group.

The Board has delegated to the Group BRiskC responsibility to:

- review and recommend the Overseas Banking Group's Risk Management Framework, Risk Management Strategy and Board Risk Appetite Statement to the Board for approval;
- review and monitor the risk profile and controls of the NZ Banking Group consistent with the Overseas Banking Group's Board Risk Appetite Statement;
- approve frameworks, policies and processes for managing risk (consistent with the Overseas Banking Group's Risk Management Framework and Board Risk Appetite Statement); and
- review and, where appropriate, approve risks beyond the approval discretion provided to management.

For each of its primary financial risks, the NZ Banking Group maintains risk management frameworks and a number of supporting policies that define roles and responsibilities, acceptable practices, limits and key controls:

Risk	Risk management framework and controls
Funding and liquidity risk	– Westpac New Zealand funding and liquidity risk is measured and managed in accordance with the policies and processes defined in the Westpac New Zealand BRCC approved Liquidity Risk Management Framework. – Responsibility for managing Westpac New Zealand's liquidity and funding positions in accordance with the Liquidity Risk Management Framework is delegated to Westpac New Zealand Treasury, under the oversight of Westpac New Zealand's ALCO and the Financial Markets and Treasury Risk unit. – Westpac New Zealand Treasury undertakes an annual funding review that outlines Westpac New Zealand's balance sheet funding strategy over a three year period. This review encompasses trends in global markets, peer analysis, wholesale funding capacity, expected funding requirements and a funding risk analysis. This strategy is continuously reviewed to take account of changing market conditions, investor sentiment and estimations of asset and liability growth rates. This review is subsequently submitted to Westpac New Zealand BRCC for approval. – Daily liquidity risk reports are reviewed by Westpac New Zealand Treasury and the Westpac New Zealand Financial Markets and Treasury Risk unit. Liquidity reports are presented to Westpac New Zealand ALCO monthly and to the Westpac New Zealand RISKCO and BRCC quarterly. – Westpac New Zealand Treasury also maintains a contingent funding plan that outlines the steps that should be taken by Westpac New Zealand in the event of an emerging 'funding crisis'. The plan is approved by Westpac New Zealand BRCC. – The NZ Branch funding and liquidity risk is measured and managed in accordance with the policies and processes defined in the Group BRiskC approved Liquidity Risk Management Framework, which is part of the Group's Board approved Risk Management Strategy. – Responsibility for managing the NZ Branch liquidity and funding positions in accordance with the Liquidity Risk Management Framework is delegated to Group Treasury, under the oversight of Overseas Banking Group's ALCO and Treasury Risk. Group BRiskC oversees the Overseas Banking Group's ALCO with regards to APRA APS 210 obligations. – The Overseas Banking Group monitors the composition and stability of its funding to allow it to remain within its funding risk appetite. This includes compliance with both the LCR and NSFR.

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Risk	Risk management framework and controls
Market risk	– The Market Risk Management Framework describes the Overseas Banking Group's approach to managing traded and non-traded market risk and is approved by the Group BRiskC. Westpac New Zealand operates its own Market Risk Management Framework that is closely aligned with that of the Overseas Banking Group. The Westpac New Zealand Framework is approved by the Westpac New Zealand BRCC. – Traded market risk includes interest rate, foreign exchange, commodity, credit spread and volatility risks. Non-traded market risk includes interest rate and foreign exchange risks. – The NZ Banking Group's framework does not allow for equity risk to be held. – Market risk is managed using VaR limits, NaR and structural risk limits (including credit spread and interest rate basis point value limits) as well as scenario analysis and stress testing. – The Group BRiskC approves the risk appetite for traded and non-traded risks through the use of VaR, NaR and specific structural risk limits. – The Overseas Banking Group's RISKCO has approved separate VaR sub-limits for the trading activities of the Overseas Banking Group's Financial Markets and Treasury units. – Market risk limits are assigned to business management based upon the Overseas Banking Group's risk appetite and business strategies in addition to the consideration of market liquidity and concentration of risks. – Market risk positions are managed by the trading and Treasury desks consistent with their delegated authorities and the nature and scale of the market risks involved. – Daily monitoring of current exposure and limit utilisation is conducted independently by Financial Markets and Treasury Risk unit, which monitors market risk exposures against VaR and structural risk limits. Oversight of risk specific to the NZ Banking Group is performed by the Financial Markets and Treasury Risk unit. Daily VaR position reports are produced by risk type, by product lines and by geographic region. Quarterly reports are produced for the Overseas Banking Group's MARCO, Overseas Banking Group's RISKCO and Group BRiskC. – Daily stress testing and backtesting of VaR results are performed to support model integrity and to analyse extreme or unexpected movements. A review of the potential profit and loss outcomes is also undertaken to monitor any skew created by the historical data. – The Group BRiskC has approved a framework for profit or loss escalation which considers both single day and 20 day cumulative results. – Treasury's ALM unit is responsible for managing the non-traded interest rate risk including risk mitigation through hedging using derivatives. This is overseen by the Financial Markets and Treasury Risk unit and reviewed by the Group MARCO, Overseas Banking Group's RISKCO and Group BRiskC.

Climate change risk

The NZ Banking Group recognises climate change as a major threat to our collective wellbeing and is committed to transparency and action across its business to address climate change. While this is not a material financial risk as at 30 September 2023 (30 September 2022: not a material financial risk), climate change risk is evolving and is expected to have a more significant impact on the NZ Banking Group's material financial risks in the future.

The two main sources of financial risks arising from climate change are physical risks and transition risks. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns or other long-term changes such as sea level rise. Transition risks are risks associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.

The NZ Banking Group seeks to understand the potential for climate-related transition and physical risks to impact its business, including their possible impact on credit risk, regulatory and reporting obligations, and our reputation.

Westpac New Zealand has voluntarily published a Climate Report (formally named Climate Risk report) each year since 2020, based on the recommendations of the Task Force on Climate-related Financial Disclosures ('**TCFD**'). Westpac New Zealand is working to transition current reporting to the Aotearoa New Zealand Climate Standards issued by the External Reporting Board ('**XRB climate standards**'), with a first XRB climate standards-compliant report to be released for the year ending 30 September 2024. A summary of Westpac New Zealand's approach to managing climate change risks against the four TCFD pillars is described below.

Governance:

- Westpac New Zealand's Board is responsible for considering the social, ethical, and environmental impact of Westpac New Zealand's activities, and setting standards and monitoring compliance with Westpac New Zealand's sustainability policies and practices. Westpac New Zealand's RISKCO oversees material risks, including climate-related risks. Westpac New Zealand's Credit Risk Committee, a subcommittee of RISKCO, oversees climate-related risks that present a credit risk to Westpac New Zealand. In October 2023, the charters of the Westpac New Zealand Board, Board Audit Committee and BRCC were updated to include further governance responsibilities in relation to climate-related risks and opportunities, disclosures, scenarios and promotion of Westpac New Zealand's long-term resilience to climate risks.
- Westpac New Zealand is also represented on the Overseas Banking Group's Climate Change Financial Risk Committee which oversees work to identify and manage the potential impact on credit exposures from climate change-related transition and physical risks across the Overseas Banking Group and reports to the Overseas Banking Group's Credit Risk Committee.

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Strategy:

- Westpac New Zealand has integrated climate-related risks and opportunities into its wider business strategy. It focuses on the most relevant aspects of climate change on its business, and their implications on its customers, communities, and Westpac New Zealand.
- During the year ended 30 September 2022, the Overseas Bank joined the United Nations-convened Net Zero Banking Alliance reinforcing its commitment to the global transition to a net-zero economy by 2050.
- Westpac New Zealand commissioned an Agribusiness climate change report, which identified a range of viable options for the agri sector to decarbonise and adapt to the physical impacts of climate change. During the year ended 30 September 2023, Westpac New Zealand launched a Sustainable Farm Loan that supports customers to achieve the Westpac Sustainable Farm Standard, an all-of-farm sustainability criteria designed for Westpac New Zealand by AsureQuality (equivalent to the Sustainable Agriculture Finance Initiative ('**SAFI**') Phase One Guidance for Livestock). The Sustainable Farm Loan encourages on-farm sustainability and resilience across the whole farm including climate change mitigation and adaptation and sustainable land management.
- As a signatory to the Net Zero Banking Alliance ('**NZBA**'), the Overseas Bank has committed to align the Overseas Banking Group's lending portfolio with pathways to net zero by 2050 or sooner; and set 2030 emissions reduction targets for certain material, high emitting sectors, aligned to limiting global warming to 1.5°C above pre-industrial levels by 2100. As a subsidiary of the wider banking Overseas Banking Group, Westpac New Zealand is covered by the Overseas Bank's NZBA commitment and targets.
- Westpac New Zealand continues to evolve its ability to conduct climate-related scenario analysis.

Risk Management:

- Climate change risks are managed in accordance with Westpac New Zealand's Risk Management Framework which is supported by Westpac New Zealand's Sustainability Risk Management Framework (SRMF), Westpac New Zealand's ESG Credit Risk Policy and Westpac New Zealand's and the Overseas Banking Group's Board Risk Appetite Statements. The SRMF sets out the overall approach to climate risk, defining roles and responsibilities in accordance with the Three Lines of Defence standard. This framework is reviewed annually and has evolved to meet Westpac New Zealand's changing needs and expectations.
- Westpac New Zealand regularly reviews its operating environment and maintains an Emerging Risk Landscape. This helps Westpac New Zealand to understand how emerging risks like Climate Change are evolving, and to determine whether its current responses are sufficient or require adjustment.

Metrics and Targets:

- Westpac New Zealand monitors its climate-related risks through metrics and targets covering its exposure to coastal hazards, sustainable finance, and its own operational emissions.
- Westpac New Zealand's suite of metrics and targets is evolving as the understanding of risks improves, better data becomes available and supporting processes and data infrastructure develop. Financed emissions are a particular focus in this area.

In December 2022, the External Reporting Board published climate standards for mandatory climate-related disclosures, taking effect for accounting periods commencing from 1 January 2023. The standards establish disclosure requirements for selected New Zealand entities, including large registered banks, and are aligned to the recommendations of the TCFD. A workstream has been initiated to ensure the specific requirements of the standards are met.

The NZ Banking Group has considered the impact of climate-related risks on its financial position and performance and while the effects of climate change represent a source of uncertainty, the NZ Banking Group has concluded that climate-related risks do not have a material impact on the judgements, assumptions and estimates for the year ended 30 September 2023 (30 September 2022: no material impact). Refer to Note 13.1 for further information on how climate change risk is considered as part of credit risk.

For a comprehensive and detailed outline of Westpac New Zealand's approach to climate-related risks, refer to Westpac New Zealand's Risk Management section of the Climate Report (unaudited) for September 2023 and prior iterations which can be accessed at www.westpac.co.nz/about-us/legal-information-privacy/disclosure-statements/.

Note 31 Risk management, funding and liquidity risk and market risk (continued)

31.2 Funding and liquidity risk

31.2.1 Liquidity modelling

Westpac New Zealand is subject to the conditions specified in the Reserve Bank document 'BS13 Liquidity Policy.' The following metrics are calculated and reported on a daily basis by Westpac New Zealand in accordance with BS13:

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

In addition, the Overseas Banking Group calculates the following liquidity ratios for Westpac New Zealand in accordance with the Overseas Bank's liquidity risk framework under APRA Prudential Standard APS 210 Liquidity:

- liquidity coverage ratio; and
- net stable funding ratio.

31.2.2 Sources of funding

Sources of funding are regularly reviewed to maintain a wide diversification by currency, geography, product and term. Sources include, but are not limited to:

- deposits;
- debt issues;
- loan capital;
- proceeds from sale of marketable securities;
- repurchase agreements with central bank;
- related entities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

Term Lending Facility and Funding for Lending Programme

From 26 May 2020 until the extended date of 28 July 2021, the Reserve Bank made available a Term Lending Facility ('TLF'), to offer loans for a maximum term of five years at the rate of the Official Cash Rate, with access to the funds linked to banks' lending under the TLF Scheme. As at 30 September 2023, Westpac New Zealand has a balance of $69 million under the TLF (30 September 2022: $96 million).

On 11 November 2020, the Reserve Bank announced that additional stimulus would be provided through a Funding for Lending Programme ('FLP'), commencing in December 2020. The FLP provides funding to banks at the prevailing OCR for a term of three years, secured by high quality collateral. The size of funding available under the FLP includes an initial allocation of 4% of each bank's eligible loans (as defined by the Reserve Bank). A conditional additional allocation of up to 2% of eligible loans is also available, subject to growth in eligible loans, for a total size of up to 6% of eligible loans. The FLP ran from 7 December 2020 to 6 June 2022 for the initial allocations and ended on 6 December 2022 for the additional allocations. The FLP term sheet is available on the Reserve Bank's website. As at 30 September 2023, Westpac New Zealand has a balance of $4,981 million under the FLP (30 September 2022: $3,871 million).

Liquid assets

The following table shows the NZ Banking Group's qualifying liquid assets held for the purpose of managing liquidity risk. These assets are eligible for repurchase agreements with the Reserve Bank and are held in cash, government, local government and highly rated investment grade securities. The level of liquid asset holdings is reviewed frequently and is consistent with regulatory, balance sheet and market condition requirements.

	NZ BANKING GROUP	
$ millions	**2023**	2022
Cash and balances with central banks	**9,325**	11,162
Interbank lending	**4**	99
Supranational securities	**2,335**	1,900
NZ Government securities	**2,490**	1,535
NZ public securities	**3,059**	2,544
NZ corporate securities	**2,171**	1,591
Available liquid assets	**19,384**	**18,831**

In addition, the NZ Banking Group has $6,161 million (30 September 2022: $7,397 million) of own originated loans that are self-securitised via the Bank's internal residential mortgage-backed securitisation programme. The AAA rated internal RMBS held are eligible for repurchase with the Reserve Bank under certain circumstances.

Notes to the financial statements

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Concentration of funding

	NZ BANKING GROUP	
$ millions	**2023**	2022
Funding consists of		
Collateral received	**614**	724
Deposits and other borrowings	**82,196**	80,848
Other financial liabilities[1]	**5,897**	4,945
Due to related entities[2]	**1,344**	1,753
Debt issues[3]	**18,597**	19,933
Loan capital	**3,051**	2,576
Total funding	**111,699**	110,779
Analysis of funding by geographical areas[3]		
New Zealand	**89,441**	86,665
Australia	**1,927**	2,124
United Kingdom	**10,077**	8,822
United States of America	**4,895**	7,796
China	**4,090**	3,940
Other	**1,269**	1,432
Total funding	**111,699**	110,779
Analysis of funding by industry sector		
Accommodation, cafes and restaurants	**402**	553
Agriculture	**1,775**	1,821
Construction	**2,478**	2,645
Finance and insurance[4]	**41,479**	42,164
Forestry and fishing	**164**	180
Government, administration and defence	**3,581**	3,204
Manufacturing	**1,896**	2,297
Mining	**55**	68
Property services and business services	**7,212**	7,882
Services	**6,223**	5,328
Trade	**2,232**	2,053
Transport and storage	**978**	750
Utilities	**1,085**	1,056
Households	**36,511**	34,917
Other[4,5]	**4,284**	4,108
Subtotal	**110,355**	109,026
Due to related entities[2]	**1,344**	1,753
Total funding	**111,699**	110,779

[1] Other financial liabilities, as presented above, are in respect of securities sold under agreements to repurchase, securities sold short and interbank placements.

[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] Comparatives have been restated to correctly reflect funding by industry sector. The restatement for 2022 comparatives results in a $1,728 million increase in funding from finance and insurance from $40,436 million to $42,164 million and $1,728 million decrease in funding from other industry sector from $5,836 million to $4,108 million.

[5] Includes deposits from non-residents.

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

Note 31 Risk management, funding and liquidity risk and market risk (continued)

31.2.3 Assets pledged as collateral

The NZ 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 Covered Bond Programme disclosed in Note 28, the carrying value of these financial assets pledged as collateral is:

	NZ BANKING GROUP	
$ millions	**2023**	2022
Cash	**62**	87
Securities pledged under repurchase agreements:		
Trading securities and financial assets measured at FVIS	**73**	347
Investment securities	**121**	-
Residential mortgage-backed securities[1]	**6,469**	4,998
Total amount pledged to secure liabilities (excluding Covered Bond Programme)	**6,725**	5,432

[1] As at 30 September 2023, the NZ 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 30 September 2023 is $4,981 million (30 September 2022: $3,871 million), which is recorded within 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 30 September 2023 is $69 million (30 September 2022: $96 million), which is recorded within other financial liabilities on the balance sheet, with underlying securities to the value of $82 million provided under the arrangement (30 September 2022: $115 million).

31.2.4 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 NZ 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 NZ Banking Group manages based on their contractual maturity are presented on a contractual undiscounted basis in the following table.

Note 31 Risk management, funding and liquidity risk and market risk (continued)

	NZ BANKING GROUP						
	2023						
$ 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	-	614	-	-	-	-	614
Deposits and other borrowings	39,788	7,257	12,709	21,808	2,014	-	83,576
Other financial liabilities	277	216	691	2,305	3,525	3	7,017
Derivative financial instruments:							
Held for trading	3,842	-	-	-	-	-	3,842
Held for hedging purposes (net settled)	-	39	164	52	309	1	565
Held for hedging purposes (gross settled):							
Cash outflow	-	21	88	1,181	6,125	490	7,905
Cash inflow	-	-	(11)	(903)	(5,553)	(484)	(6,951)
Due to related entities:							
Non-derivative balances	1,348	-	-	-	18	-	1,366
Derivative financial instruments:							
Held for trading	3,300	-	-	-	-	-	3,300
Debt issues	-	354	729	5,584	13,691	484	20,842
Loan capital	-	-	19	58	304	3,704	4,085
Total undiscounted financial liabilities	48,555	8,501	14,389	30,085	20,433	4,198	126,161
Total contingent liabilities and commitments							
Letters of credit and guarantees	1,015	-	-	-	-	-	1,015
Commitments to extend credit	27,869	-	-	-	-	-	27,869
Total undiscounted contingent liabilities and commitments	28,884	-	-	-	-	-	28,884

Note 31 Risk management, funding and liquidity risk and market risk (continued)

	NZ BANKING GROUP						
	2022						
$ millions	On Demand	Up to 1 Month	Over 1 Month and Up to 3 Months	Over 3 Months and Up to 1 Year	Over 1 Year and Up to 5 Years	Over 5 Years	Total
Financial liabilities							
Collateral received	-	724	-	-	-	-	724
Deposits and other borrowings	43,277	6,960	11,873	17,744	1,656	-	81,510
Other financial liabilities	295	401	640	96	4,296	-	5,728
Derivative financial instruments:							
Held for trading	5,521	-	-	-	-	-	5,521
Held for hedging purposes (net settled)	-	7	116	99	377	1	600
Held for hedging purposes (gross settled):							
Cash outflow	-	33	60	359	8,002	1,881	10,335
Cash inflow	-	-	(11)	(35)	(7,024)	(1,827)	(8,897)
Due to related entities:							
Non-derivative balances	1,751	-	-	-	24	1	1,776
Derivative financial instruments:							
Held for trading	6,516	-	-	-	-	-	6,516
Debt issues	-	670	2,613	3,495	12,968	1,944	21,690
Loan capital	-	-	9	28	149	2,992	3,178
Total undiscounted financial liabilities	57,360	8,795	15,300	21,786	20,448	4,992	128,681
Total contingent liabilities and commitments							
Letters of credit and guarantees	1,025	-	-	-	-	-	1,025
Commitments to extend credit	27,904	-	-	-	-	-	27,904
Total undiscounted contingent liabilities and commitments	28,929	-	-	-	-	-	28,929

Note 31 Risk management, funding and liquidity risk and market risk (continued)

31.2.5 Expected maturity

The following table presents the balance sheet based on expected maturity dates. The liability balances in the following table will not agree to the contractual maturity tables due to the analysis below being based on expected rather than contractual maturities, the impact of discounting and the exclusion of interest accruals beyond the reporting period. Deposits are presented in the following table on a contractual basis, however as part of our normal banking operations, the NZ Banking Group expects a large proportion of these balances to be retained.

	NZ BANKING GROUP					
	2023			2022		
$ millions	**Due within 12 months**	**Greater 12 months**	**Total**	Due within 12 months	Greater than 12 months	Total
Assets						
Cash and balances with central banks	**9,325**	**-**	**9,325**	11,162	-	11,162
Collateral paid	**62**	**-**	**62**	87	-	87
Trading securities and financial assets measured at FVIS	**4,021**	**986**	**5,007**	2,708	793	3,501
Derivative financial instruments	**4,207**	**1,287**	**5,494**	6,965	2,418	9,383
Investment securities	**1,475**	**5,176**	**6,651**	558	5,065	5,623
Loans	**15,892**	**83,819**	**99,711**	14,953	82,439	97,392
Due from related entities	**4,470**	**18**	**4,488**	6,520	89	6,609
All other assets	**663**	**1,397**	**2,060**	871	1,152	2,023
Total assets	**40,115**	**92,683**	**132,798**	43,824	91,956	135,780
Liabilities						
Collateral received	**614**	**-**	**614**	724	-	724
Deposits and other borrowings	**80,346**	**1,850**	**82,196**	79,283	1,565	80,848
Derivative financial instruments	**3,673**	**1,185**	**4,858**	4,380	2,397	6,777
Due to related entities	**3,560**	**1,106**	**4,666**	6,808	1,484	8,292
Debt issues	**6,166**	**12,431**	**18,597**	6,541	13,392	19,933
Loan capital	**-**	**3,051**	**3,051**	-	2,576	2,576
All other liabilities	**4,558**	**3,429**	**7,987**	2,091	4,235	6,326
Total liabilities	**98,917**	**23,052**	**121,969**	99,827	25,649	125,476

31.3 Market risk

31.3.1 VaR

The NZ Banking Group uses VaR as one of the mechanisms for controlling both traded and non-traded market risk.

VaR is a statistical estimate of the potential loss in earnings over a specified period of time and to a given level of confidence based on historical market movements. The confidence level indicates the probability that the loss will not exceed the VaR estimate on any given day.

VaR seeks to take account of all material market variables that may cause a change in the value of the portfolio, including interest rates, FX rates, price changes, volatility and the correlations between these variables. Daily monitoring of current exposures and VaR and structural concentration limit utilisation is conducted independently by the Financial Markets and Treasury Risk unit. These limits are supplemented by escalation triggers for material profit or loss, and stress testing of risks beyond the 99% confidence interval.

The key parameters of VaR are:

Holding period	1 day
Confidence level	99%
Period of historical data used	1 year

Note 31 Risk management, funding and liquidity risk and market risk (continued)

31.3.2 Traded market risk

The NZ Banking Group's exposure to traded market risk arises out of its FM and Treasury trading activities. The FM trading book activity represents dealings that encompass book running and distribution activity. The types of market risk arising from FM trading activity include interest rate risk, foreign exchange risk, credit spread risk and volatility risk.

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

The table below depicts the aggregate VaR, by risk type, for the year ended 30 September:

	NZ BANKING GROUP							
	2023				2022			
$ millions	As at	Maximum Exposure	Minimum Exposure	Average Exposure	As at	Maximum Exposure	Minimum Exposure	Average Exposure
Interest rate risk	3.5	7.1	2.2	3.6	2.9	3.9	1.3	2.6
FX risk	0.5	1.3	0.2	0.6	0.6	1.1	0.2	0.4
Price risk	1.0	2.1	0.2	0.8	0.4	1.0	0.1	0.4
Volatility risk	-	-	-	-	-	-	-	-
Net market risk	3.3	7.5	2.6	3.8	3.4	4.1	1.4	2.7

31.3.3 Non-traded market risk

Non-traded market risk includes IRRBB – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.

NII sensitivity is managed in terms of the NaR. A simulation model is used to calculate the NZ Banking Group's potential NaR. This combines the underlying balance sheet data with assumptions about run off and new business, expected repricing behaviour and changes in wholesale market interest rates.

To provide a series of potential future NII outcomes, simulations use a range of interest rate scenarios over one to three year time horizons. This includes 100 and 200 basis point shifts up and down from the current market yield curves in Australia and New Zealand. Additional stressed interest rate scenarios are also considered and modelled.

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

Net interest income-at-Risk

The following table depicts potential NII outcome assuming a worst case 100 basis point rate shock (up and down) with a 12 months time horizon (expressed as a percentage of reported NII):

	NZ BANKING GROUP							
	2023				2022			
% (increase)/ decrease in NII	As at	Maximum Exposure	Minimum Exposure	Average Exposure	As at	Maximum Exposure	Minimum Exposure	Average Exposure
NaR	2.83	2.83	0.58	1.67	0.07	4.02	-	1.59

VaR – IRRBB[1]

The table below depicts VaR for IRRBB:

	NZ BANKING GROUP							
	2023				2022			
$ millions	As at	Maximum Exposure	Minimum Exposure	Average Exposure	As at	Maximum Exposure	Minimum Exposure	Average Exposure
Interest rate risk	0.6	3.5	0.3	1.5	0.6	2.4	0.3	1.0

[1] IRRBB VaR includes interest rate risk and other basis risks used for internal management purposes.

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Risk mitigation

IRRBB stems from the ordinary course of banking activities, including structural interest rate risk (the mismatch between the duration of assets and liabilities) and capital management.

The NZ Banking Group hedges its exposure to such interest rate risk using derivatives. Further details on the NZ Banking Group's use of hedge accounting are discussed in Note 23.

The same controls as used to monitor traded market risk allow management to continuously monitor and manage IRRBB.

Foreign currency exposures

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

	NZ BANKING GROUP	
$ millions	**2023**	2022
Receivable/(payable)		
Australian dollar	**11**	-
US dollar	**(1)**	11

Notes to the financial statements

Note 32 Notes to the statement of cash flows

Accounting policy

Cash and cash equivalents include cash held at branches and in ATMs, balances with overseas banks in their local currency, balances with central banks and balances with other financial institutions.

Cash and cash equivalents

	NZ BANKING GROUP	
$ millions	**2023**	2022
Cash and cash equivalents comprise:		
Cash and balances with central banks:		
Cash on hand	**294**	631
Balances with central banks	**9,031**	10,531
Interbank lending classified as cash and cash equivalents[1]	**4**	99
Cash and cash equivalents at end of the year	**9,329**	11,261

[1] Included in other financial assets on the balance sheet.

Reconciliation of net cash provided by/(used in) operating activities to net profit attributable to the owner of the NZ Banking Group

	NZ BANKING GROUP	
$ millions	**2023**	2022
Net profit attributable to the owner of the NZ Banking Group	**1,184**	1,298
Adjustments:		
Impairment charges/(benefits)	**135**	(27)
Computer software amortisation costs	**60**	47
Depreciation	**82**	88
(Gain)/loss from hedging ineffectiveness	**-**	(3)
Movement in accrued interest receivable	**(89)**	(85)
Movement in accrued interest payable	**595**	223
Movement in current and deferred tax	**93**	113
Proceeds from disposal of a controlled entity	**-**	(417)
Share-based payments	**3**	3
Other non-cash items	**130**	189
Cash flows from operating activities before changes in operating assets and liabilities	**2,193**	1,429
Movement in collateral paid	**25**	120
Movement in trading securities and financial assets measured at FVIS	**(1,418)**	1,046
Movement in loans	**(2,167)**	(4,731)
Movement in other financial assets	**30**	2
Movement in due from related entities	**(155)**	(1,941)
Movement in other assets	**(2)**	(1)
Movement in collateral received	**(110)**	404
Movement in deposits and other borrowings	**1,348**	1,475
Movement in other financial liabilities	**953**	953
Movement in due to related entities	**62**	(71)
Movement in other liabilities	**10**	14
Net movement in external and related entity derivative financial instruments	**681**	2,563
Net cash provided by/(used in) operating activities	**1,450**	1,262

Registered bank disclosures

This section contains the additional disclosures required by the Order.

i. General information (Unaudited)

Overseas Bank

The Overseas Bank's principal office and address for service of process is Level 18 Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

Limits on material financial support by the Overseas Bank

APRA requires that the ELE of the Overseas Bank limit its non-equity exposures to New Zealand banking subsidiaries to 5% of the Overseas Bank's Level 1 Tier 1 capital, as part of an initiative to reduce Australian bank non-equity exposure to their respective New Zealand banking subsidiaries and branches.

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

Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures. For the purposes of assessing this exposure, the 5% limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries.

While the limit and associated conditions do not apply to the ELE's non-equity exposures to the NZ Branch (which is within the ELE), the limit and associated conditions do apply to the NZ Branch's non-equity exposures to the rest of the NZ Banking Group other than Westpac New Zealand Group Limited. As at 30 September 2023, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit were below 5% of Level 1 Tier 1 capital of the Overseas Bank.

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

Ranking of local creditors in liquidation

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

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

Section 13A(3) of the Banking Act 1959 (Commonwealth of Australia) ('**Australian Banking Act**') provides that if an ADI becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to satisfy the liabilities of the ADI in the following order:

- first, certain obligations of the ADI to APRA (if any) arising under Division 2AA of Part II of the Australian Banking Act in respect of amounts payable by APRA to holders of 'protected accounts' (as defined in the Australian Banking Act) as part of the FCS for the Australian Government guarantee of 'protected accounts' (including most deposits) up to A$250,000 per account holder in the winding-up of the ADI;
- second, APRA's costs (if any) in exercising its powers and performing its functions relating to the ADI in connection with the FCS;
- third, the ADI's liabilities (if any) in Australia in relation to 'protected accounts' that account-holders keep with the ADI. 'Protected accounts' do not include accounts kept at a foreign branch of an ADI;
- fourth, the ADI's debts (if any) to the Reserve Bank of Australia;
- fifth, the ADI's liabilities (if any) under an emergency financial 'industry support contract' that is certified by APRA in accordance with the Australian Banking Act; and
- sixth, the ADI's other liabilities (if any) in the order of their priority apart from the above.

Section 13A(3) of the Australian Banking Act affects all unsecured liabilities of the NZ Branch, which, as at 30 September 2023, amounted to $15,279 million (30 September 2022: $21,500 million).

Section 13A(4) of the Australian Banking Act also provides that it is an offence for an ADI not to hold assets (other than goodwill and any assets or other amount excluded by the prudential standards) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the year ended 30 September 2023, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

Registered bank disclosures

i. General information (Unaudited) (continued)

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

The requirements of the above provisions have the potential to impact on the management of the liquidity of the New Zealand business of the Overseas Bank.

Guarantee arrangements

No material obligations of the Overseas Bank that relate to the NZ Branch are guaranteed as at the date the Directors and the Chief Executive Officer, NZ Branch signed this Disclosure Statement.

Directorate

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

Name: John McFarlane, MA, MBA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Old Oak Holdings Ltd.
Name: Peter King, BEc, FCA **Non-executive:** No **Country of Residence:** Australia **Primary Occupation:** Managing Director & Chief Executive Officer **Secondary Occupations:** Director **Board Audit Committee Member:** No **Independent Director:** No	**External Directorships:** Chairman and Director of Australian Banking Association Incorporated, Director of Institute of International Finance, The Financial Markets Foundation for Children and Jawun.
Name: Tim Burroughs, MA (Hons), B Psy (Hons), FCA, FAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Nil
Name: Nerida Caesar, BCom, MBA, GAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Chairman of Workplace Giving Australia Limited, Co-Chairman of G2GWGA Pty Limited, Director of GOOD2GIVE, GOOD2GIVE Research and Technology Ltd, O'Connell Street Associates Pty Limited, CreditorWatch Pty Limited and NBN Co Limited.
Name: Audette Exel AO, BA, LLB (Hons) **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Founder and Chair of Adara Development Australia, Adara Development USA, Adara Development Bermuda, Adara Development UK and Adara Development Uganda. CEO and Director of Adara Advisors Pty Limited and Adara Partners (Australia) Pty Limited.

i. General information (Unaudited) (continued)

Directorate (continued)

Name: Steven Gregg, BCom **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Chairman of Ampol Limited, The Lottery Corporation and Unisson Disability Limited and a Director of William Inglis & Son Limited.
Name: Christopher Lynch, BCom, MBA, FCPA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of Business for Millennium Development Ltd.
Name: Peter Nash, BCom, FCA, F Fin **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes, Chairman **Independent Director:** Yes	**External Directorships:** Chairman of Johns Lyng Group Limited. Director of ASX Limited, Mirvac Limited, Mirvac Funds Limited and General Sir John Monash Foundation. Board member of Koorie Heritage Trust and Migration Council Australia.
Name: Nora Scheinkestel, LLB (Hons), PhD, FAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Origin Energy Limited and Brambles Limited.
Name: Margaret Seale, BA, FAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Scentre Group Limited, Scentre Management Limited, RE1 Limited, RE2 Limited, Jana Investment Advisers Pty Ltd, Pinchgut Opera Limited, Seaborn Broughton & Walford Pty Limited and Westpac Scholars Limited.
Name: Michael Ullmer AO, BSc, FAICD, FCA, SF Fin **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Chairman of Lendlease Corporation Limited, Director of Lendlease Responsible Entity Limited and Member of the National Gallery of Victoria Foundation Board.

Registered bank disclosures

i. General information (Unaudited) (continued)

Changes to Directorate

There have been changes in the composition of the Board of Directors of the Overseas Bank since 30 September 2022, as follows:

- Peter Marriott, a Non-executive Director of the Overseas Bank, retired from the Board at the conclusion of the 2022 Annual General Meeting, held on 14 December 2022.
- Michael Hawker AM, a Non-executive Director of the Overseas Bank, retired from the Board on 15 July 2023.
- Tim Burroughs and Michael Ullmer AO were appointed as Non-executive Directors of the Overseas Bank on 10 March 2023 and 3 April 2023, respectively.
- Steven Gregg was appointed as a Non-executive Director and Chairman-elect of the Overseas Bank on 7 November 2023.

Chief Executive Officer, NZ Branch

Name: Christopher James Leuschke, BCom, NZFMA (Chair)

Country of Residence: New Zealand

Primary Occupation: Chief Executive Officer, NZ Branch

Secondary Occupations: Head of Financial Markets, NZ Branch; Director

External Directorships: Director of Glue Guru International Limited, Glue Guru Australia Pty Limited, PPC Foiling Limited, and Traffic New Zealand Limited

Responsible person

All the Directors named above have authorised in writing Catherine McGrath, Chief Executive Officer, Westpac New Zealand to sign this Disclosure Statement on the Directors' behalf in accordance with section 82 of the BPS Act.

Name: Catherine Anne McGrath, LLB, BCom

Country of Residence: New Zealand

Primary Occupation: Chief Executive, Westpac New Zealand

Secondary Occupations: Director

Address for communications

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

Board Audit Committee

There is a Board Audit Committee that covers audit matters, comprising of five members, all of whom are independent directors.

Conflicts of Interest Policy

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

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

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

Transactions with directors

There is no transaction any Director or the Chief Executive Officer, NZ Branch, or any immediate relative or close business associate of any Director or the Chief Executive Officer, NZ Branch, has with any member of the NZ Banking Group, that:

- Has been entered into on terms other than those which would, in the ordinary course of business of the NZ Banking Group be given to any other person of like circumstances or means; or
- Could otherwise be reasonably likely to influence materially the exercise of that Director's or the Chief Executive Officer, NZ Branch's duties.

Registered bank disclosures

i. General information (Unaudited) (continued)

Auditor

PricewaterhouseCoopers

PwC Tower, Level 27

15 Customs Street West

Auckland, New Zealand

Pending proceedings or arbitration

Except as listed below there are no pending legal proceedings or arbitration concerning any member of the Overseas Banking Group or the NZ Banking Group that may have a material adverse effect on the Overseas Bank or the NZ Banking Group.

The Overseas Bank is defending a class action proceeding which was commenced in December 2019 in the Federal Court of Australia on behalf of certain investors who acquired an interest in the Overseas Bank's securities between 16 December 2013 and 19 November 2019. The proceeding involves allegations relating to market disclosure issues connected to the Overseas Bank's monitoring of financial crime over the relevant period and matters which were the subject of the AUSTRAC civil proceedings. The damages sought on behalf of members of the class have not yet been specified. However, in the course of a procedural hearing in August 2022, the applicant indicated that a preliminary estimate of the losses that may be alleged in respect of a subset of potential group members exceeded $1 billion. While it remains unclear how the applicant will ultimately formulate their estimate of alleged damages claimed on behalf of group members, it is possible that the claim may be higher (or lower) than the amount referred to above. Given the time period and the nature of the claims alleged to be in question, along with the reduction in the Overseas Bank's market capitalisation at the time of the commencement of the AUSTRAC civil proceedings, it is likely that any total alleged damages (when, and if, ultimately articulated by the applicant) will be significant. The Overseas Bank continues to deny both that its disclosure was inappropriate and, as such, that any group member has incurred damage.

The Overseas Bank includes details of other legal proceedings in its financial statements.

Credit ratings

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

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	A+	Stable
Moody's Investors Service	Aa3	Stable
S&P Global Ratings	AA-	Stable

The Overseas Bank's ratings assigned by Fitch, Moody's and S&P have remained unchanged during the two years immediately preceding the signing date.

i. General information (Unaudited) (continued)

Descriptions of credit rating scales[1]

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

[1] This is a general description of the rating categories based on information published by Fitch, Moody's and S&P.

The rating scales for long-term ratings issued by S&P and Fitch range from AAA to D. S&P's and Fitch's credit ratings may be modified by the addition of a plus or minus sign to show the relative standing within the major rating categories. The rating scale for long-term ratings assigned by Moody's range from Aaa to C. Moody's applies numeric modifiers of 1, 2, and 3 to show the relative standing within the major rating categories with 1 indicating the higher end of the category and 3 indicating the lower end.

Historical summary of financial statement

	NZ BANKING GROUP				
$ millions	**2023**	2022	2021	2020	2019
Income statement					
Interest income	**6,496**	3,824	3,041	3,596	4,119
Interest expense	**(3,658)**	(1,486)	(983)	(1,703)	(2,121)
Net interest income	**2,838**	2,338	2,058	1,893	1,998
Non-interest income	**298**	584	492	460	562
Net operating income	**3,136**	2,922	2,550	2,353	2,560
Operating expenses	**(1,353)**	(1,186)	(1,160)	(1,082)	(1,018)
Impairment (charges)/benefits	**(135)**	27	84	(320)	10
Profit before income tax expense	**1,648**	1,763	1,474	951	1,552
Income tax expense	**(464)**	(465)	(417)	(270)	(423)
Net profit attributable to the owner of the NZ Banking Group	**1,184**	1,298	1,057	681	1,129
Dividends paid on ordinary share capital	**(619)**	(6,896)	(265)	(346)	(807)
Balance sheet					
Total assets	**132,798**	135,780	119,848	113,196	106,762
Total individually impaired assets	**62**	60	109	137	69
Total liabilities	**121,969**	125,476	109,644	104,151	98,105
Total head office account	**2,772**	2,624	2,487	2,378	2,289
Total equity	**10,829**	10,304	10,204	9,045	8,657

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

Registered bank disclosures

i. General information (Unaudited) (continued)

Other material matters

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

On 23 March 2021, the Reserve Bank issued two notices to Westpac New Zealand under section 95 of the Banking (Prudential Supervision) Act 1989 requiring Westpac New Zealand to supply two external reviews to the Reserve Bank: one review related to risk governance, and the other related to liquidity risk management and culture. These reviews only applied to Westpac New Zealand and not to the Overseas Bank or its NZ Branch.

The reviews were completed during 2021 and 2022 respectively, and work arising from the reviews has been delivered to the satisfaction of the Westpac New Zealand Board.

From 31 March 2021, the Reserve Bank amended Westpac New Zealand's conditions of registration, requiring Westpac New Zealand to discount the value of its liquid assets by approximately 14%. The Reserve Bank subsequently reduced the overlay quantum to approximately 7% from 15 August 2022, and removed the remaining overlay from 15 September 2023.

Technology programme

Separate to the section 95 reviews outlined above, Westpac New Zealand has also committed to the Reserve Bank, APRA and Financial Markets Authority to address various technology issues. Material progress has been made in addressing these technology issues including improving system resilience. However, more work is required to meet Westpac New Zealand's expectations and those of the regulators.

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 consultation paper (consultation closed 16 November 2022), outlining its preferred approach to the regulation of overseas bank branches. On 7 November 2023, the Reserve Bank announced the key decisions from its branch review (implementation of which is currently expected to be in 2028), 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 NZ$15 billion in total assets; and
- requiring dual-registered branches (such as the NZ Branch), to only conduct business with large wholesale customers. 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 payment products and services to customers referred by Westpac New Zealand. The Reserve Bank's revised policy on overseas bank branches will require changes to the activities the NZ Branch undertakes.

Overseas Bank and APRA enforceable undertaking on risk governance remediation, Integrated Plan and CORE program

The Overseas Bank's CORE program is delivering the Integrated Plan required by the enforceable undertaking (EU) entered into with APRA in December 2020 in relation to the Overseas Bank's risk governance remediation and supporting the strengthening of the Overseas Bank's risk governance, accountability, and culture. Execution of the CORE program is ongoing and, as at 30 September 2023, the Independent Reviewer has assessed 88% of the activities in the Integrated Plan as complete and effective. Following the completion of the Integrated Plan by the Overseas Bank, expected by 31st December 2023 (to be subsequently assessed by the Independent Reviewer), the Overseas Bank will continue to focus on sustainability and effectiveness of the uplift delivered by the Integrated Plan through a 12-month transition phase with assurance by Promontory Australia.

Promontory Australia, as the appointed Independent Reviewer, provides quarterly reports to APRA on the Overseas Bank's compliance with the EU and Integrated Plan. Promontory Australia has provided eleven reports to APRA so far. These reports are published on the Overseas Bank's website every six months at www.westpac.com.au/about-westpac/media/core with the latest reports released on 6 November 2023.

Overseas Bank risk management

The Overseas Bank is continuing to invest in strengthening its end-to-end management of risk, and its focus is to ensure changes are sustainable and enduring. A range of shortcomings and areas for improvement in the Overseas Banking Group's risk governance have been highlighted in reviews concluded in prior years. These include embedding its risk management framework, policies, systems, data quality and management, product governance, prudential compliance management, reporting to regulators and its risk capabilities.

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

Disclosure Statements of the NZ Banking Group for the last five years are available, free of charge, at the internet address www.westpac.co.nz. A printed copy will also be made available, free of charge, upon request.

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2023, and can be accessed at the internet address www.westpac.com.au.

ii. Additional financial disclosures

Additional information on balance sheet

$ millions	NZ BANKING GROUP 2023	2022
Interest earning and discount bearing assets	**123,751**	120,385
Interest and discount bearing liabilities	**100,776**	97,601
Total liabilities of the NZ Branch, net of amounts due to related entities	**8,035**	10,584
Total retail deposits of the NZ Branch	**-**	-

Additional information on concentrations of credit risk

Refer to Note 13.3 Credit concentrations and maximum exposure to credit risk for additional Information on concentration of credit exposure, in terms of customer and industry sector and material credit risk exposure to the agricultural sector, using the Australian and New Zealand Industrial Classification 2006.

Additional information on interest rate sensitivity

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

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 30 September 2023. The NZ 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.

	NZ BANKING GROUP						
	2023						
$ 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	9,032	-	-	-	-	293	9,325
Collateral paid	62	-	-	-	-	-	62
Trading securities and financial assets measured at FVIS	1,883	617	501	717	1,289	-	5,007
Derivative financial instruments	-	-	-	-	-	5,494	5,494
Investment securities	234	99	1,142	914	4,262	-	6,651
Loans	46,746	8,470	18,604	18,346	8,119	(574)	99,711
Other financial assets	-	-	-	-	-	469	469
Due from related entities	2,714	-	-	-	-	1,774	4,488
Total financial assets	60,671	9,186	20,247	19,977	13,670	7,456	131,207
Non-financial assets							1,591
Total assets							132,798
Financial liabilities							
Collateral received	614	-	-	-	-	-	614
Deposits and other borrowings	47,265	12,081	8,991	1,055	795	12,009	82,196
Other financial liabilities	5,852	-	-	-	-	1,370	7,222
Derivative financial instruments	-	-	-	-	-	4,858	4,858
Due to related entities	1,254	-	-	-	18	3,394	4,666
Debt issues	1,195	2,908	3,171	1,108	11,207	(992)	18,597
Loan capital	-	-	-	-	3,262	(211)	3,051
Total financial liabilities	56,180	14,989	12,162	2,163	15,282	20,428	121,204
Non-financial liabilities							765
Total liabilities							121,969
On-balance sheet interest rate repricing gap	4,491	(5,803)	8,085	17,814	(1,612)		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	7,299	3,522	(5,320)	(12,331)	6,830		
Net interest rate repricing gap	11,790	(2,281)	2,765	5,483	5,218		

ii. Additional financial disclosures (continued)

Additional information on liquidity risk

Refer to Note 31.2.4 Contractual maturity of financial liabilities which shows the maturity analyses of financial liabilities.

Overseas Banking Group profitability and size

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2023.

Profitability	30 Sep 23
Net profit after tax for the year ended 30 September 2023 (A$ millions)[1]	7,201
Net profit after tax for the year ended 30 September 2023 as a percentage of average total assets	0.7%

[1] Net profit after tax represents the amount before deductions for net profit attributable to non-controlling interests.

Total assets and equity	30 Sep 23
Total assets (A$ millions)	1,029,774
Percentage change in total assets over the year ended 30 September 2023	1.5%
Total equity (A$ millions)	72,495

Reconciliation of mortgage-related amounts

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

	NZ BANKING GROUP
$ millions	**30 Sep 23**
Residential mortgages - total gross loans (as disclosed in Note 11 and Note 13.4)	**65,757**
Reconciling items:	
Unamortised deferred fees and expenses	(422)
Fair value hedge adjustments	191
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	12,862
Undrawn at default[1]	(3,580)
Residential mortgages by LVR (as disclosed in Additional mortgage information in Note iv. Credit and market risk exposures and capital adequacy)	**74,808**

[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

	NZ BANKING GROUP	
$ millions	**30 Sep 23**	30 Sep 22
Past due but not individually impaired assets		
Less than 30 days past due	1,360	1,135
At least 30 days but less than 60 days past due	244	155
At least 60 days but less than 90 days past due	109	112
At least 90 days past due	316	224
Total past due but not individually impaired assets	**2,029**	1,626

Movements in components of loss allowance

Refer to Note 12 Provision for expected credit losses for the movements in components of loss allowance.

iii. Asset quality (continued)

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

The following table explains how changes in gross carrying amounts of loans during the year have contributed to changes in the provision for ECL on loans.

	NZ BANKING GROUP				
	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	**85,810**	**11,439**	**483**	**60**	**97,792**
Transfers:					
Transfers to Stage 1	**10,007**	**(9,963)**	**(43)**	**(1)**	**-**
Transfers to Stage 2	**(22,934)**	**23,131**	**(195)**	**(2)**	**-**
Transfers to Stage 3 CAP	**(61)**	**(597)**	**672**	**(14)**	**-**
Transfers to Stage 3 IAP	**-**	**(6)**	**(32)**	**38**	**-**
Net further lending/(repayment)	**(3,102)**	**1,080**	**(18)**	**(3)**	**(2,043)**
New financial assets originated	**15,038**	**-**	**-**	**-**	**15,038**
Financial assets derecognised during the year	**(8,330)**	**(2,065)**	**(134)**	**(4)**	**(10,533)**
Amounts written-off	**-**	**-**	**(24)**	**(12)**	**(36)**
Total gross carrying amount as at 30 September 2023	**76,428**	**23,019**	**709**	**62**	**100,218**
Provision for ECL as at 30 September 2023	**(77)**	**(300)**	**(107)**	**(23)**	**(507)**
Total net carrying amount as at 30 September 2023	**76,351**	**22,719**	**602**	**39**	**99,711**

	NZ BANKING GROUP				
	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 2021	85,020	7,871	501	109	93,501
Transfers:					
Transfers to Stage 1	4,597	(4,492)	(105)	-	-
Transfers to Stage 2	(8,762)	8,972	(207)	(3)	-
Transfers to Stage 3 CAP	(112)	(352)	474	(10)	-
Transfers to Stage 3 IAP	(1)	(12)	(13)	26	-
Net further lending/(repayment)	(2,331)	76	(10)	(8)	(2,273)
New financial assets originated	20,216	-	-	-	20,216
Financial assets derecognised during the year	(12,817)	(624)	(134)	(5)	(13,580)
Amounts written-off	-	-	(23)	(49)	(72)
Total gross carrying amount as at 30 September 2022	85,810	11,439	483	60	97,792
Provision for ECL as at 30 September 2022	(87)	(217)	(69)	(27)	(400)
Total net carrying amount as at 30 September 2022	85,723	11,222	414	33	97,392

Other asset quality information

	NZ BANKING GROUP	
$ millions	**30 Sep 23**	30 Sep 22
Undrawn commitments with individually impaired counterparties	**1**	2
Other assets under administration	**-**	-

iii. Asset quality (continued)

Overseas Banking Group asset quality

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2023.

	2023
Total non-performing exposures[1] (A$ millions)	**8,709**
Total non-performing exposures expressed as a percentage of total assets	**0.8%**
Total provision for ECL on non-performing exposures[2] (A$ millions)	**1,416**
Total provision for ECL on non-performing exposures expressed as a percentage of total non-performing exposures	**16.3%**
Total collectively assessed provision for ECL[2] (A$ millions)	**4,590**

[1] Non-financial assets have not been acquired through the enforcement of security.

[2] Total provision for ECL on non-performing exposures and total collectively assessed provision for ECL both include A$1,065 million of provision for ECL that has been calculated collectively on groups of assets which have been determined to be non-performing, but which are not individually significant.

iv. Credit and market risk exposures and capital adequacy (Unaudited)

Additional mortgage information

Residential mortgages by LVR as at 30 September 2023

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

The NZ 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 NZ 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.

	NZ BANKING GROUP					
	2023					
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	**31,807**	**14,564**	**13,910**	**3,612**	**1,633**	**65,526**
Undrawn commitments and other off-balance sheet exposures	**7,272**	**1,038**	**658**	**136**	**178**	**9,282**
Value of exposures	**39,079**	**15,602**	**14,568**	**3,748**	**1,811**	**74,808**

Market risk

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

For each category of market risk, the NZ Banking Group's peak end-of-day aggregate capital charge is derived in accordance with the scalar approach as referred to in BPR140. Under this approach, the end-of-period capital charge is scaled by the ratio of peak capital charge to end-of-period capital charge using the internal VaR method.

The following table provides a summary of the NZ 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 30 September 2023.

iv. Credit and market risk exposures and capital adequacy (Unaudited)(continued)

	NZ BANKING GROUP	
	2023	
$ millions	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	**8,604**	**688**
Foreign currency risk	**13**	**1**
Equity risk	**-**	**-**
Peak end-of-day		
Interest rate risk	**16,306**	**1,305**
Foreign currency risk	**13**	**1**
Equity risk	**-**	**-**

Overseas Bank and Overseas Banking Group capital ratios

Refer to Note 30 for information on the Overseas Bank and Overseas Banking Group capital ratios.

v. Insurance, securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products

Insurance business

The NZ Banking Group previously conducted insurance business through its subsidiary Westpac Life. On 28 February 2022, the sale of Westpac Life to Fidelity Life was completed. Westpac Life was subsequently renamed Fidelity Insurance Limited. As at 30 September 2023, the NZ Banking Group does not conduct any insurance business.

Non-consolidated insurance and non-financial activities

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

The NZ Banking Group's involvement in securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products

Securitisation

The NZ Banking Group uses structured entities to securitise its financial assets through the Covered Bond Programme and Westpac New Zealand's internal residential mortgage-backed securitisation programme. Refer to Note 28 Securitisation, covered bonds and other transferred assets for further information and amounts of outstanding securitised assets.

Funds management and other fiduciary activities

The NZ Banking Group conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the NZ Banking Group and accordingly are not included in these financial statements, with the exception of the PIE Funds which are treated as controlled entities of Westpac New Zealand (refer to Note 22 for further details). Where controlled entities incur certain liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the financial statements.

The PIE Funds are managed by a member of the NZ Banking Group (refer to Note 22 for further details) and invest in deposits with Westpac New Zealand. Westpac New Zealand is considered to control the PIE Funds, and as such they are consolidated within the financial statements of the NZ Banking Group.

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

v. Insurance, securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products (continued)

	NZ BANKING GROUP	
$ millions	**2023**	2022
Retirement plans	**10,005**	9,063
Retail unit trusts	**1,001**	1,251
Wholesale client portfolios	**497**	654
Term PIE	**2,942**	2,026
Cash PIE	**723**	740
Notice Saver PIE	**562**	505
Total funds under management	**15,730**	14,239

Other than funds under management disclosed above, there are no funds held in trust, funds under custodial arrangements or other funds held or managed subject to fiduciary responsibilities by any member of the NZ Banking Group (30 September 2022: nil).

Marketing and distribution of insurance products

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 Overseas Bank and a controlled entity of the NZ Banking Group. As part of the transaction, the Westpac New Zealand entered into a 15-year alliance with Fidelity Insurance Limited for the distribution of Fidelity Insurance Limited's life insurance products to the NZ Banking Group's customers. With effect from 30 June 2023, Fidelity Insurance Limited's insurance business was transferred to Fidelity Life, and therefore, the alliance agreement between Fidelity Insurance Limited and Westpac New Zealand was novated to Fidelity Life.

Westpac New Zealand markets and distributes both life and general insurance products. The general and life insurance products are fully underwritten by external third party insurance companies. Disclosures are made in marketing material that the products are underwritten by those companies and that the Overseas Banking Group does not guarantee the obligations of, or any products issued by, those companies.

Arrangements to ensure no adverse impacts arising from the above activities

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

vi. Risk management policies

Information about risk

Risk Management Framework

The NZ Banking Group regards the management of risk to be a fundamental management activity performed at all levels of its business in support of our purpose of creating better futures together. The NZ Banking Group's Risk Management Framework is the totality of systems, structures, policies, processes and people who identity, measure, evaluate, monitor, report and control or mitigate internal and external sources of material risks.

The NZ Banking Group adopts a 'Three Lines of Defence model standard' approach to risk management which enables all employees to understand their role and responsibilities in the active management of risk.

The First Line of Defence – Business: owns and manages the risks they originate

Business units are responsible for identifying, evaluating, owning and managing the risks in their businesses, that originate within approved risk appetite and policies. They are required to establish appropriate governance structures, risk management controls, resources and self-assessment processes, including issue identification recording and escalation procedures.

The Second Line of Defence – Risk: provides independent oversight, insight and challenge of First Line activities

The Second Line of Defence comprises separate risk and compliance and conduct advisory, control, assurance and monitoring functions, which establish frameworks, controls, policies, limits and standards for the management, monitoring and reporting of risk. The Second Line of Defence may also provide objective review and challenge regarding the effectiveness of risk management within the First Line business and executes specific risk management activities where functional independence and/or specific risk capability is required. Its approach is risk-based and proportionate to First Line activities.

The Third Line of Defence – Audit: provides independent objective assurance

The Third Line is an assurance function that provides the Board, Board Committees and senior management with independent and objective evaluation of the adequacy and effectiveness of the NZ Banking Group's governance, risk management and internal controls.

Risk Management Frameworks

The Overseas Bank and Westpac New Zealand together had systems in place to monitor and control adequately the material risks of the following relevant members of the NZ Banking Group:

vi. Risk management policies (continued)

- BTNZ;
- BTFGNZL;
- WFSGNZL;
- WNNZL;
- WSNNZL;
- WGINZL;
- WHNZL;
- WCNZL; and
- WNZGL.

The Overseas Bank and the NZ Branch together had systems in place to monitor and control adequately the material risks of the NZ Branch. The remaining relevant members of the NZ Banking Group are not considered to have material risks.

The NZ Branch has a NZ Branch Risk Committee, NZ Branch RISKCO, which meets quarterly, and which oversees the management of material risk classes that include, but are not limited to, credit risk, compliance and conduct risk, operational risk, funding and liquidity risk, market risk, strategic risk, reputation and sustainability risk, risk culture, financial crime and cyber risk across the NZ Branch.

BTNZ maintains a Risk Management Framework approved by its Board which is closely aligned to the Overseas Banking Group and Westpac New Zealand's Risk Management Framework whilst reflecting BTNZ's specific regulatory and operating environment.

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

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

Financial risks

Refer to Note 31 Risk management, funding and liquidity risk and market risk for a discussion of the financial risks faced by the NZ Banking Group.

Other key material risks

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The NZ Banking Group recognises that operational risk is a necessary part of doing business. The NZ Banking Group manages this type of risk through robust processes and controls including effective and timely remediation of material operational issues and incidents.

The NZ Banking Group applies the Overseas Bank's Operational Risk Management Framework which outlines the business requirements for managing operational risk. This covers governance, risk and control assessments, incident management, issues management, and ongoing reporting and monitoring. Westpac New Zealand has its own Operational Risk Management Framework that is closely aligned with that of the Overseas Bank and is approved by the Westpac New Zealand BRCC.

Compliance and conduct risk

Compliance and conduct risk is the risk of failing to abide by the NZ Banking Group's compliance obligations or otherwise failing to have behaviours and practices that deliver suitable, fair and clear outcomes for customers and that support market integrity.

The NZ Banking Group identifies compliance and conduct risks as part of managing the business, considering emerging risks and in response to changes in the business, business strategy and in the external environment. The NZ Banking Group manages compliance and conduct risks by implementing and embedding frameworks, systems, policies, standards, procedures and controls.

The NZ Branch applies the Overseas Bank's Compliance and Conduct Risk Management Framework which is supported by compliance and conduct policies to assist the business in managing its compliance and conduct risks. The Framework is approved by the Overseas Bank's Board Legal Regulatory and Compliance Committee. The NZ Banking Group, excluding the NZ Branch, operates its own Compliance and Conduct Risk Management Framework that is closely aligned with that of the Overseas Bank and is approved by the Westpac New Zealand BRCC.

Financial crime risk

Financial crime risk is the risk that the NZ Banking Group fails to prevent financial crime and comply with applicable global financial crime regulatory obligations. Financial crime risk includes the risk that the NZ Banking Group's products are used to facilitate: money laundering or terrorism financing; bribery or corruption; a breach or attempted breach of sanctions; tax evasion, an attempted tax evasion or evasion or attempted evasion of tax transparency requirements.

The NZ Banking Group applies the Overseas Bank's Financial Crime Risk Management Framework, which describes the NZ Banking Group's approach to managing Financial Crime Risk. Under this Framework, the NZ Banking Group proactively identifies, assesses, mitigates and reports financial crime risks through robust controls and systems including timely ownership, investigation and remediation of financial crime incidents. Westpac New Zealand has its own Financial Crime Risk Management Framework that is closely aligned with that of the Overseas Bank and is approved by the Westpac New Zealand BRCC.

vi. Risk management policies (continued)

Cyber risk

Cyber risk is the risk that the NZ Banking Group's or its third parties' data or technology are inappropriately accessed, manipulated or damaged from cybersecurity threats or vulnerabilities.

The NZ Banking Group proactively manages cyber risk exposure, to limit the likelihood of inappropriate access, manipulation or damage to the NZ Banking Group's and its third parties' data and technology. This includes embedding cyber security capabilities such as data security controls, application protection controls, and identity and access management.

Reputational & sustainability risk

Reputational & sustainability risk is the risk of failing to recognise or address ESG issues and the risk that an action, inaction, transaction, investment, or event will reduce trust in the NZ Banking Group's integrity and competence by clients, counterparties, investors, regulators, employees or the public.

The NZ Banking Group seeks to cultivate stakeholders' trust in the NZ Banking Group's integrity and competence and to balance commerciality of decisions with stakeholder expectations, potential impacts on people, communities or the environment, recognising that ESG issues can involve complex, interconnected and at times competing considerations.

Strategic risk

Strategic risk is the risk that the NZ Banking Group makes inappropriate strategic choices, does not implement its strategies successfully, or does not respond effectively to changes in the operating environment.

The NZ Banking Group manages strategic risk through annual strategic reviews and financial target setting, ongoing monitoring of performance and changes and, stress testing and/or scenario analysis.

Risk culture

There is a risk that the NZ Banking Group's culture does not promote and reinforce behavioural expectations and structures to identify, understand, discuss and act on risks.

The NZ Banking Group promotes a risk culture which supports its purpose, strategy and values and the ability to manage risk effectively. The NZ Banking Group regularly assesses its risk culture and undertakes initiatives to continually improve.

Reviews of the NZ Banking Group's risk management systems

Westpac New Zealand Audit and the Overseas Banking Group's Group Audit function periodically review the NZ Banking Group's Operational, Compliance and Conduct, Market, Funding and Liquidity, Credit and Model Risk Frameworks. The periodic reviews follow an internal audit methodology which aims at achieving a review of the very high-risk areas annually, high-risk areas bi-annually, medium risk areas every three years and low risk areas every four years.

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

Various external reviews of the NZ Banking Group's risk management system have been conducted during the year ended 30 September 2023 as part of ongoing compliance with regulatory requirements.

Internal audit function of the NZ Banking Group

The NZ Banking Group internal audit services are provided by Westpac New Zealand's and the Overseas Banking Group's internal audit functions. Westpac New Zealand's internal audit function ('WNZL Audit') oversees all entities within the NZ Banking Group with the exception of the NZ Branch whose internal audit services are overseen by the Overseas Banking Group's internal audit function. WNZL Audit is headed by the Chief Internal Auditor who reports directly to the Westpac New Zealand Board Audit Committee, while the Overseas Banking Group's internal audit function is headed by the General Manager Group Audit who reports to the Overseas Banking Group's Board Audit Committee.

Both internal audit functions provide independent assurance on the effectiveness of governance, risk management and internal controls across the NZ Banking Group's operations. The level of risk across all material risk classes determines the scope and frequency of individual audits.

The Westpac New Zealand Board Audit Committee meets regularly, and its responsibilities include the oversight of NZ Banking Group's statutory financial reporting requirements and the internal audit function, with the exception of the NZ Branch. The Overseas Banking Group Board Audit Committee also meets regularly and has similar responsibilities for the NZ Branch.

Access to the Overseas Bank disclosures

The Overseas Banking 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 Overseas Banking Group's website (www.westpac.com.au).

Conditions of registration

Conditions of registration

The registration of Westpac Banking Corporation ("the registered bank") in New Zealand is subject to the following conditions, which applied from 1 June 2023:

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration,:

   "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

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

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

4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:

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

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

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

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

   (a) Common Equity Tier 1 capital of Westpac Banking Corporation is not less than 4.5% of risk weighted exposures;

   (b) Tier 1 capital of Westpac Banking Corporation is not less than 6% of risk weighted exposures; and

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

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

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

9. That, for a loan-to-valuation measurement period ending on or after 30 November 2023, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

10. That, for a loan-to-valuation measurement period ending on or after 30 November 2023, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

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

In these conditions of registration,:

"Banking Group" means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013.

"business of the registered bank in New Zealand" means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013.

Conditions of registration

“generally accepted accounting practice” has the same meaning as in section 8 of the Financial Reporting Act 2013.

“liabilities of the registered bank in New Zealand” means the liabilities that the registered bank would be required to report in financial statements for its New Zealand business if section 461B(1) of the Financial Markets Conduct Act 2013 applied.

In conditions of registration 9 to 12,:

“loan-to-valuation ratio”, “non property-investment residential mortgage loan”, “property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans”, and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated October 2021, and where the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents referred to in BS19 for the purpose of defining these terms are:

BPR document	Version date
BPR131: Standardised credit risk RWAs	1 October 2021
BPR001: Glossary	1 July 2021

“loan-to-valuation measurement period” means a period of six calendar months ending on the last day of the sixth calendar month.

Changes to conditions of registration

The following changes to the Overseas Bank’s conditions of registration have occurred between the reporting date for the previous disclosure statement and the reporting date for this disclosure statement:

- With effect from 1 June 2023, mortgage loan-to-value ratio (LVR) restrictions were eased to a 15% limit for loans with LVR above 80% for owner occupiers; and to a 5% limit for loans with LVR above 65% for investors.

Independent auditor's report

To the Directors of Westpac Banking Corporation

Our opinion

In our opinion, the accompanying:

- consolidated financial statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), of the Westpac Banking Corporation (the "Overseas Bank") in respect of the New Zealand operations (the "NZ Banking Group"), present fairly, in all material respects, the financial position of the NZ Banking Group as at 30 September 2023, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS"); and
- information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order (the "Supplementary Information"), in all material respects:
  - presents fairly the matters to which it relates; and
  - is disclosed in accordance with those schedules.

What we have audited

- The NZ Banking Group's consolidated financial statements (the "Financial Statements") required by clause 25 of the Order, comprising:
  - the balance sheet as at 30 September 2023;
  - the income statement for the year then ended;
  - the statement of comprehensive income for the year then ended;
  - the statement of changes in equity for the year then ended;
  - the statement of cash flows for the year then ended; and
  - the notes to the Financial Statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order within notes 12, 13, 30 and 31 of the Financial Statements, which includes significant accounting policies and other explanatory information.
- The Supplementary Information within notes 12, 13 and 31 of the Financial Statements and notes ii, iii, v and vi of the registered bank disclosures for the year ended 30 September 2023 of the NZ Banking Group.

We have not audited the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order within note 30 of the Financial Statements and note iv of the registered bank disclosures and our opinion does not extend to this information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Statements and the Supplementary Information* section of our report.

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

PricewaterhouseCoopers, PwC Tower, 15 Customs Street West, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, pwc.co.nz

Independence
We are independent of the NZ Banking Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the NZ 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. Our firm has also been engaged by the NZ Banking Group to perform gap analysis on processes over selected sustainability indicators. We have also provided audit and non-audit assurance services in respect to non-consolidated entities managed by the NZ Banking Group. In addition, certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities. The provision of these other services and these relationships have not impaired our independence as auditor of the NZ Banking Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements and the Supplementary Information of the current year. These matters were addressed in the context of our audit of the Financial Statements and the Supplementary Information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on loans and credit commitments As disclosed in Note 12 of the financial statements, the provision for expected credit losses (ECL) on loans and credit commitments totalled $551 million as at 30 September 2023. ECL is a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. The model to determine the ECL includes significant judgement in assumptions used to determine when a significant increase in credit risk (SICR) has occurred, in estimating forward looking macroeconomic scenarios (MES), applying a probability weighting to different scenarios, and identifying and calculating adjustments to model output (overlays). There is also a significant volume of data used in the ECL model, which is sourced from relevant Information Technology (IT) systems. For loans that meet specific risk based criteria, ECL is individually assessed by the NZ Banking Group. The flow on impacts of high interest rates and the current high inflationary environment have resulted in heightened uncertainty around judgements made in determining the severity and probability weighting of MES and overlays used in ECL models. The principal considerations for our determination that performing procedures relating to the provision for ECL	Our audit procedures included testing the design and operating effectiveness of selected controls relating to the NZ Banking Group's ECL estimation process, which included controls over the data, model, assumptions and governance used in determining the provision for ECL on loans and credit commitments, as well as IT general controls related to the relevant IT systems. In addition to controls testing, our other significant audit procedures included, among others: ● consideration of the appropriateness of the methodology inherent in the models for SICR and MES against the requirements of NZ IFRS 9; ● the involvement of our credit risk modelling experts to evaluate the appropriateness of the models and the reasonableness of the assumptions applied within the models, the accuracy of the ECL model calculation and evaluating the results of management's model monitoring undertaken during the year; ● the involvement of our economics experts to assist in evaluating the reasonableness of key assumptions, economic variables and data applied in determining MES; ● challenging and assessing the appropriateness of overlay adjustments to provide evidence that the overlays recorded are reasonable; ● assessing the completeness of overlay adjustments by considering factors including model performance, data quality and other relevant risks;

Description of the key audit matter	How our audit addressed the key audit matter
on loans and credit commitments is a key audit matter are: ● there was significant judgement and effort in evaluating audit evidence related to the model and assumptions used to determine the provision for ECL on loans and credit commitments; ● there was significant judgement and effort in evaluating audit evidence related to the identification and calculation of overlay adjustments to the ECL, MES and the associated weightings applied; ● there was a high degree of auditor effort required to test critical data elements used in the model, and the model evaluation processes; ● there was a high degree of auditor effort required to test relevant IT controls used in determining the provision for ECL on loans and credit commitments; and ● the nature and extent of audit effort required to test the models, assumptions and judgements required specialised skill and knowledge.	● testing the completeness and accuracy of critical data elements used to calculate the overlays; ● assessing the review, challenge and approval by an internal governance committee of MES, probability weightings and overlay adjustments used in the ECL model and assessing the reasonableness of decisions; ● substantive testing on a sample basis of the input of critical data elements into source systems, and the flow and transformation of those critical data elements from source systems to the ECL model; ● for a sample of corporate loans not identified as impaired, considering the borrower's latest financial information provided to the NZ Banking Group to test the reasonableness of the credit risk grade rating that has been allocated to the borrower, a critical data element which involves significant management judgement; ● for a sample of impaired loans where the provision is individually assessed, considering the borrower's latest financial information, value of security held as collateral, multiple weighted scenario outcomes and independent expert advice (where applicable) provided to the NZ Banking Group to test the basis of measuring individually assessed provisions; and ● considering the impacts of events occurring subsequent to balance date on the ECL for loans and credit commitments. We also assessed the appropriateness of the NZ Banking Group's disclosures in the financial statements against the requirements of NZ IFRS.
IT systems and controls The NZ Banking Group is heavily dependent on complex, interdependent IT systems for the capture, processing, storage and extraction of significant volumes of transactions which is critical to the recording of financial information and the preparation of financial statements of the NZ Banking Group. Furthermore, during the current financial year, the NZ Banking Group also implemented a new financial reporting system. Accordingly, we considered this to be a key audit matter. In common with all other major banks, access management controls are important to ensure both access and changes made to systems and data are appropriate. The NZ Banking Group's controls over IT systems include: ● user access to applications, process and data; ● program development and changes;	For material financial statement transactions and balances, our procedures included gaining an understanding of the business processes, key controls and IT systems used to generate and support those transactions and balances and associated IT application controls and IT dependencies in manual controls. This involved the following areas: ● how user access is granted, reviewed and removed on a timely basis from IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed to those systems; ● how changes are initiated, documented, tested and authorised prior to migration into the production environment of critical IT applications. We also assessed the appropriateness of users with access to make changes to IT applications across the NZ Banking Group; ● how controls are designed to enforce segregation of duties and the use of privileged accounts to

Description of the key audit matter	How our audit addressed the key audit matter
• segregation of duties and privileged user accounts; and • IT operations.	ensure that data is only changed through authorised means; and • how controls over operations are used to ensure that any issues are managed appropriately. In addition to the above, our audit procedures around the implementation of a new financial reporting system included the following: • assessed management's governance and methodology for the system implementation; • tested the design and operating effectiveness of key controls over the system development life cycle; and • tested the completeness and accuracy of financial data migrated to the new financial reporting system. Where relevant to our planned audit approach, we, along with our IT specialists, assessed the design and tested the effectiveness of certain controls over the continued integrity of the in-scope IT systems that are relevant to financial reporting. We also carried out tests, on a sample basis, of IT application controls and IT dependencies in manual controls that were key to our audit testing strategy in order to assess the accuracy of relevant system calculations, key reports and the operation of certain system enforced access controls. Where we identified design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.

Our audit approach

Overview

The overall NZ Banking Group materiality is $82.4 million, which represents approximately 5% of the profit before income tax for the year ended 30 September 2023.

We chose profit before income tax because, in our view, it is the benchmark against which the performance of the NZ Banking Group is most commonly measured by users, and is a generally accepted benchmark.

Full scope audits were conducted over the most financially significant operations, being Consumer Banking and Wealth, Institutional and Business Banking and Financial Markets, International Trade and Payments divisions as well as the NZ Banking Group's treasury operations. Specified audit and analytical review procedures were performed over the remaining operations.

As reported above, we have two key audit matters, being:

- Provision for expected credit losses on loans and credit commitments; and
- IT systems and controls.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements and the Supplementary Information. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information are free from material misstatement. Misstatements may arise due to fraud or error.

They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall NZ Banking Group materiality for the Financial Statements and the Supplementary Information, as a whole, as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Financial Statements and the Supplementary Information, as a whole.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Financial Statements and the Supplementary Information, as a whole, taking into account the structure of the NZ Banking Group, the financial reporting processes and controls, and the industry in which the NZ Banking Group operates.

Certain operational processes which are critical to financial reporting for the NZ Banking Group are undertaken outside of New Zealand. We worked with a PwC network firm engaged in the Westpac Banking Corporation group audit to understand and examine certain processes, test controls and perform other substantive audit procedures that supported material balances, classes of transactions and disclosures within the NZ Banking Group's Financial Statements and Supplementary Information. This enabled us to evaluate the effectiveness of the controls over those processes and consider the implications for the remainder of our audit work.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Disclosure Statement presented in accordance with Schedule 2 of the Order on pages 5, 77 to 83, 92 and 93, and the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order within note 30 of the Financial Statements and note iv of the registered bank disclosures, but does not include the Financial Statements, the Supplementary Information and our auditor's report thereon.

Our opinion on the Financial Statements and the Supplementary Information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon. We issue a separate limited assurance report on the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order.

In connection with our audit of the Financial Statements and the Supplementary Information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements and the Supplementary Information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Disclosure Statement

The Directors of the Overseas Bank (the 'Directors') are responsible, on behalf of the Overseas Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 25 of the Order, NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of 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 Overseas Bank, for the preparation and fair presentation of the Disclosure Statement which includes:

- all of the information prescribed in Schedule 2 of the Order; and
- the information prescribed in Schedules 4, 7, 9, 11, and 13 of the Order.

In preparing the Financial Statements, the Directors are responsible for assessing the NZ Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the NZ Banking Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

A further description of our responsibilities for the audit of the Financial Statements and the Supplementary Information is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
30 November 2023

Auckland

Independent Assurance Report

To the Directors of Westpac Banking Corporation

Limited assurance report on compliance with the information required on credit and market risk exposures and capital adequacy

Our conclusion

We have undertaken a limited assurance engagement on the New Zealand operations of Westpac Banking Corporation (the "NZ Banking Group")'s compliance, in all material respects, with clause 22 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") which requires information prescribed in Schedule 9 of the Order relating to credit and market risk exposures and capital adequacy to be disclosed in its full year Disclosure Statement for the year ended 30 September 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 NZ Banking Group's information relating to credit and market risk exposures and capital adequacy, 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 9 of the Order.

Basis for conclusion

We have conducted our engagement in accordance with Standard on Assurance Engagements 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 Westpac Banking Corporation for compliance with the Order, including clause 22 of the Order which requires information relating to credit and market risk exposures and capital adequacy prescribed in Schedule 9 of the Order to be included in the NZ Banking Group's 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.

PricewaterhouseCoopers, PwC Tower, 15 Customs Street West, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, pwc.co.nz

We are independent of the NZ Banking Group. In addition to our role as auditor, our firm carries out other services for the NZ 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. Our firm has also been engaged by the NZ Banking Group to perform gap analysis on processes over selected sustainability indicators. We have also provided audit and non-audit assurance services in respect to non-consolidated entities managed by the NZ Banking Group. In addition, certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ 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 NZ Banking Group's information relating to credit and market risk exposures and capital adequacy, included in the Disclosure Statement in compliance with clause 22 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 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 NZ Banking Group's information relating to credit and market risk exposures and capital adequacy, included in the Disclosure Statement in compliance with clause 22 is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

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 credit and market risk exposures and capital adequacy 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 credit and market risk exposures and capital adequacy;
- obtained an understanding of the NZ Banking Group's compliance framework and internal control environment to ensure the information relating to credit and market risk exposures and capital adequacy 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 credit and market risk exposures and capital adequacy and inspected relevant correspondence with the RBNZ;
- performed analytical and other procedures on the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order, and considered its consistency with the annual financial statements; and
- agreed the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order to information extracted from the NZ Banking Group's models, accounting records or other supporting documentation, which included publicly available information as prescribed by clauses 5 and 6 of Schedule 9 of 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 NZ Banking Group's information relating to credit and market risk exposures and capital adequacy prescribed in Schedule 9 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 Directors, as a body, 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 Directors, as a body, 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
30 November 2023

Auckland, New Zealand

Westpac Banking Corporation.

JN17600