ASX Release

Level 18, 275 Kent Street
Sydney, NSW, 2000

27 November 2023

Westpac New Zealand Limited Disclosure Statement

Westpac Banking Corporation ("Westpac") today provides the attached Westpac New Zealand Limited 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 NEW ZEALAND LIMITED

Annual Report and 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 (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (‘**Order**’).

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the ‘**Bank**’);
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the ‘**Banking Group**’). Controlled entities of the Bank as at 30 September 2023 are set out in Note 23;
- Westpac Banking Corporation (otherwise referred to as the ‘**Ultimate Parent Bank**’);
- Ultimate Parent Bank and its controlled entities (otherwise referred to as the ‘**Ultimate Parent Bank Group**’); and
- New Zealand Branch of the Ultimate Parent Bank (otherwise referred to as the ‘**NZ Branch**’).

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

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

ADI	Authorised deposit-taking institution
ALCO	Asset and Liability Committee
ALM	Asset and liability risk management
AMA	Advanced Measurement Approach
ANZSIC	Australian and New Zealand Standard Industrial Classification
APRA	Australian Prudential Regulation Authority
APS 222	APRA’s Prudential Standard 222 Associations with Related Entities
AT1	Additional Tier 1 capital
BKBM	Bank bill benchmark rate
Board	Board of Directors of the Bank
BPRs	Banking Prudential Requirements
BRCC	Board Risk and Compliance Committee
BS13	Reserve Bank document 'Liquidity Policy'
CAP	Collectively assessed provisions
CCCFA	Credit Contracts and Consumer Finance Act 2003
CCF	Credit Conversion Factor
CGU	Cash generating unit
CREDCO	Credit Risk Committee
CRG	Customer risk grade
EAD	Exposure at default
ECL	Expected credit losses
ELE	Extended licensed entity
ESG	Environmental, social and governance
Financial statements	Consolidated financial statements
Fitch	Fitch Ratings
FVIS	Fair value through income statement
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
GST	Goods and services tax
IAP	Individually assessed provisions
ICAAP	Internal capital adequacy assessment process
IRB	Internal Rating Based
IRRBB	Interest rate risk in the banking book
LGD	Loss given default
LVR	Loan-to-value ratio
Moody's	Moody's Investors Services
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

Annual report

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of Westpac New Zealand Limited has agreed that the Annual Report of Westpac New Zealand Limited need not comply with the requirements of paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be included in the Annual Report other than the financial statements for the year ended 30 September 2023 and the independent auditor's report on those financial statements.

For and on behalf of the Board of Directors:

P.M. Greenwood

Chair

24 November 2023

C.A. McGrath

Chief Executive

24 November 2023

Directors' Statement

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

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

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that over the year ended 30 September 2023, except as noted on pages 80 and 106:

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

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

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

This Disclosure Statement has been signed by all the Directors:

Philippa Greenwood

Catherine McGrath

David Green

Robert Hamilton

David Havercroft

Ian Samuel Knowles

Jonathan Mason

Christine Parker

Michael Rowland

Dated this 24th day of November 2023

Income statement for the year ended 30 September 2023

$ millions	Note	THE BANKING GROUP 2023	2022
Interest income:			
Calculated using the effective interest method	2	**6,116**	3,704
Other	2	**127**	37
Total interest income	2	**6,243**	3,741
Interest expense	2	**(3,590)**	(1,450)
Net interest income		**2,653**	2,291
Non-interest income			
Net fees and commissions	3	**234**	252
Other	3	**14**	16
Total non-interest income		**248**	268
Net operating income		**2,901**	2,559
Operating expenses	4	**(1,291)**	(1,131)
Impairment (charges)/benefits	6	**(135)**	27
Profit before income tax expense		**1,475**	1,455
Income tax expense	7	**(416)**	(408)
Net profit attributable to the owner of the Bank		**1,059**	1,047

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

Statement of comprehensive income for the year ended 30 September 2023

$ millions	THE BANKING GROUP 2023	2022
Net profit attributable to the owner of the Bank	**1,059**	1,047
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]	**(95)**	288
Transferred to income statement:		
Cash flow hedging instruments[1]	**32**	236
Income tax on items taken to or transferred from equity:		
Investment securities	**1**	88
Cash flow hedging instruments	**18**	(147)
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)	**(43)**	158
Total comprehensive income attributable to the owner of the Bank	**1,016**	1,205

[1] Comparative amounts have been revised to align to the current year's basis of presentation. The restatement for 2022 comparatives results in a $208 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

		THE BANKING GROUP	
$ millions	Note	**2023**	2022
Assets			
Cash and balances with central banks	33	**9,233**	10,820
Collateral paid		**33**	42
Trading securities and financial assets measured at FVIS	9	**2,661**	2,118
Derivative financial instruments	24	**312**	169
Investment securities	10	**6,651**	5,623
Loans	11, 12	**99,328**	96,882
Other financial assets	14	**314**	263
Due from related entities	23	**2,578**	2,606
Property and equipment		**396**	402
Deferred tax assets	15	**77**	39
Intangible assets	16	**934**	785
Other assets		**123**	69
Total assets		**122,640**	119,818
Liabilities			
Collateral received		**303**	82
Deposits and other borrowings	17	**82,196**	80,848
Other financial liabilities	18	**6,172**	4,348
Derivative financial instruments	24	**71**	118
Due to related entities	23	**2,733**	2,961
Debt issues	19	**18,597**	19,933
Current tax liabilities		**199**	58
Provisions	20	**229**	233
Other liabilities		**330**	374
Loan capital	21	**2,666**	2,083
Total liabilities		**113,496**	111,038
Net assets		**9,144**	8,780
Shareholder's equity			
Share capital	22	**7,300**	7,300
Reserves		**90**	137
Retained profits		**1,754**	1,343
Total shareholder's equity		**9,144**	8,780

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

Signed on behalf of the Board of Directors.

P.M. Greenwood

24 November 2023

J.P. Mason

24 November 2023

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

	THE BANKING GROUP				
		Reserves			
$ millions	Share Capital	Investment Securities Reserve	Cash Flow Hedge Reserve[1]	Retained Profits	Total Shareholder's Equity
As at 30 September 2021	7,300	(60)	45	1,078	8,363
Year ended 30 September 2022					
Net profit attributable to the owner of the Bank	-	-	-	1,047	1,047
Net gains/(losses) from changes in fair value	-	(313)	288	-	(25)
Income tax effect	-	88	(81)	-	7
Transferred to income statement	-	-	236	-	236
Income tax effect	-	-	(66)	-	(66)
Remeasurement of defined benefit obligations	-	-	-	8	8
Income tax effect	-	-	-	(2)	(2)
Total comprehensive income/(expense) for the year ended 30 September 2022	-	(225)	377	1,053	1,205
Transactions with owner:					
Dividends paid on ordinary shares (refer to Note 22)	-	-	-	(788)	(788)
As at 30 September 2022	7,300	(285)	422	1,343	8,780
Year ended 30 September 2023					
Net profit attributable to the owner of the Bank	**-**	**-**	**-**	**1,059**	**1,059**
Net gains/(losses) from changes in fair value	**-**	**(3)**	**(95)**	**-**	**(98)**
Income tax effect	**-**	**1**	**27**	**-**	**28**
Transferred to income statement	**-**	**-**	**32**	**-**	**32**
Income tax effect	**-**	**-**	**(9)**	**-**	**(9)**
Remeasurement of defined benefit obligations	**-**	**-**	**-**	**6**	**6**
Income tax effect	**-**	**-**	**-**	**(2)**	**(2)**
Total comprehensive income/(expense) for the year ended 30 September 2023	**-**	**(2)**	**(45)**	**1,063**	**1,016**
Transactions with owner:					
Dividends paid on ordinary shares (refer to Note 22)	**-**	**-**	**-**	**(652)**	**(652)**
As at 30 September 2023	**7,300**	**(287)**	**377**	**1,754**	**9,144**

[1] Comparative amounts have been revised to align to the current year's basis of presentation. The restatement for 2022 comparatives results in a $208 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

		THE BANKING GROUP	
$ millions	Note	**2023**	2022
Cash flows from operating activities			
Interest received		**6,218**	3,756
Interest paid		**(3,051)**	(1,212)
Non-interest income received		**232**	223
Operating expenses paid		**(1,178)**	(982)
Income tax paid		**(290)**	(278)
Cash flows from operating activities before changes in operating assets and liabilities		**1,931**	1,507
Net (increase)/decrease in:			
Collateral paid		**9**	143
Trading securities and financial assets measured at FVIS		**(550)**	153
Loans		**(2,327)**	(4,581)
Other financial assets		**27**	3
Due from related entities		**(795)**	920
Other assets		**(2)**	(1)
Net increase/(decrease) in:			
Collateral received		**221**	(106)
Deposits and other borrowings		**1,348**	1,481
Other financial liabilities		**1,130**	1,286
Due to related entities		**(167)**	466
Other liabilities		**9**	13
Net movement in external and related entity derivative financial instruments		**492**	266
Net cash provided by/(used in) operating activities	33	**1,326**	1,550
Cash flows from investing activities			
Proceeds from investment securities		**547**	310
Purchase of investment securities		**(1,633)**	(1,668)
Purchase of intangible assets		**(209)**	(171)
Purchase of property and equipment		**(77)**	(27)
Net cash provided by/(used in) investing activities		**(1,372)**	(1,556)
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)
Dividends paid to ordinary shareholder	22	**(652)**	(788)
Net movement in due to related entities		**29**	(54)
Net cash provided by/(used in) financing activities		**(1,541)**	1,813
Net increase/(decrease) in cash and cash equivalents		**(1,587)**	1,807
Cash and cash equivalents at the beginning of the year		**10,820**	9,013
Cash and cash equivalents at the end of the year	33	**9,233**	10,820

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 33.

Notes to the financial statements

Note 1 Financial statements preparation

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

The Bank is a locally incorporated subsidiary of the Ultimate Parent Bank providing consumer and business banking to New Zealand customers.

The financial statements are for the Banking Group.

These financial statements were authorised for issue by the Board of Directors of the Bank on 24 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 Banking Group revised its treatment of ongoing trail commission payable to mortgage brokers. The 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 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 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 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 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) Reserves

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. Principles of consolidation

The Banking Group subsidiaries are entities which the Bank controls and consolidates as it is exposed to, or has 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 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 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 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 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 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 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 Banking Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the 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 Banking Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 25.

d. Critical accounting assumptions and estimates

Applying the 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 25 Fair value of financial assets and financial liabilities

Impact of climate-related risks

The Banking Group has considered the potential risk of climate change on its financial statements. Refer to Note 32 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 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 Banking Group's ECL model and on the carrying amount net of the provision for ECL for financial assets in stage 3.

		THE BANKING GROUP	
$ millions	Note	**2023**	2022
Interest income			
Calculated using the effective interest method			
Cash and balances with central banks		**533**	161
Collateral paid		**3**	-
Investment securities		**161**	92
Loans		**5,419**	3,451
Total interest income calculated using the effective interest method		**6,116**	3,704
Other			
Trading securities and financial assets measured at FVIS		**107**	33
Due from related entities	23	**20**	4
Total other		**127**	37
Total interest income		**6,243**	3,741
Interest expense			
Calculated using the effective interest method			
Collateral received		**9**	-
Deposits and other borrowings		**2,523**	771
Due to related entities	23	**47**	21
Debt issues		**265**	167
Loan capital		**175**	122
Other financial liabilities		**234**	43
Total interest expense calculated using the effective interest method		**3,253**	1,124
Other			
Deposits and other borrowings		**147**	58
Due to related entities	23	**12**	8
Debt issues		**170**	39
Other interest expense[1]		**8**	221
Total other		**337**	326
Total interest expense		**3,590**	1,450
Net interest income		**2,653**	2,291

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

Notes to the financial statements

Note 3 Non-interest income

Accounting policy

Non-interest income includes net fees and commissions income and other income.

Net fees and commissions income

When another party is involved in providing goods or services to a Banking Group customer, the 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 Banking Group is acting as an agent for another party, the income earned by the 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 Banking Group has a future service obligation to customers under the 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.

	THE BANKING GROUP	
$ millions	**2023**	2022
Net fees and commissions		
Facility fees	**44**	41
Transaction fees and commissions[1]	**249**	263
Other non-risk fee income[2]	**15**	14
Fees and commissions income	**308**	318
Credit card loyalty programmes	**(35)**	(35)
Transaction fees and commissions related expenses	**(39)**	(31)
Fees and commissions expenses	**(74)**	(66)
Net fees and commissions	**234**	252
Other		
Net ineffectiveness on qualifying hedges	**-**	5
Other	**14**	11
Total other	**14**	16
Total non-interest income	**248**	268

[1] Includes transaction fees and commissions due from related entities. Refer to Note 23.

[2] Includes management fees due from related entities. Refer to Note 23.

Deferred income in relation to the credit card loyalty programmes for the 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 Banking Group.

Notes to the financial statements

Note 4 Operating expenses

		THE BANKING GROUP	
$ millions	Note	**2023**	2022
Staff expenses		**686**	635
Lease expense		**24**	20
Depreciation		**82**	88
Technology services and telecommunications		**213**	145
Purchased services		**82**	81
Software amortisation costs		**60**	47
Related entities - management fees	23	**5**	5
Other		**139**	110
Total operating expenses		**1,291**	1,131

Note 5 Auditor's remuneration

	THE BANKING GROUP	
$'000s	**2023**	2022
Audit and audit related services		
Audit and review of financial statements[1]	**3,075**	2,957
Other audit related services[2,3]	**821**	923
Total remuneration for audit and other audit related services	**3,896**	3,880
Other services[4]	**303**	-
Total remuneration for non-audit services	**303**	-
Total remuneration for audit, other audit related services and non-audit services	**4,199**	3,880

[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 the Banking Group's debt issuance programme (30 September 2022: $414,366).

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

It is the 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 Banking Group is important.

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 Banking Group's loan recovery procedures, the 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 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.

Notes to the financial statements

Note 6 Impairment charges/(benefits) (continued)

	THE 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 Banking Group.

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.

	THE BANKING GROUP	
$ millions	**2023**	2022
Income tax expense		
Current tax:		
Current year	**437**	384
Prior year adjustments	**1**	(4)
Deferred tax (refer to Note 15)		
Current year	**(21)**	24
Prior year adjustments	**(1)**	4
Total income tax expense	**416**	408
Profit before income tax	**1,475**	1,455
Tax calculated at tax rate of 28%	**413**	407
Expenses not deductible for tax purposes	**3**	1
Total income tax expense	**416**	408

The effective tax rate for the year ended 30 September 2023 was 28.2% (30 September 2022: 28.0%).

Note 8 Imputation credit account

	THE BANKING GROUP	
$ millions	**2023**	2022
Imputation credits available for use in subsequent reporting periods	**100**	971

The Bank and Westpac Securities NZ Limited ('**WSNZL**') were previously part of an imputation group ('**ICA group**') with the Ultimate Parent Bank. On 1 July 2023, the Bank and WSNZL exited the ICA group. While the imputation credits of the ICA group continue to be available for use by the Ultimate Parent Bank, those imputation credits are no longer accessible by any Banking Group members. Accordingly, the imputation credit balance of the Banking Group as at 30 September 2023 excludes imputation credits of the ICA group.

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 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).

	THE BANKING GROUP	
$ millions	**2023**	2022
Government and semi-government securities	**1,114**	954
Other debt securities	**1,503**	1,164
Reverse repurchase agreements	**44**	-
Total trading securities and financial assets measured at FVIS	**2,661**	2,118

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.

	THE 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

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:

	THE BANKING GROUP	
$ millions	**2023**	2022
Residential mortgages[1]	**65,766**	63,869
Other retail	**2,648**	2,829
Corporate	**31,222**	30,459
Other	**194**	121
Total gross loans	**99,830**	97,278
Provision for ECL on loans (refer to Note 12)	**(502)**	(396)
Total net loans	**99,328**	96,882

[1]During the current financial year, the Banking Group revised its treatment of ongoing trail commission payable to mortgage brokers. The 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 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 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.

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 Banking Group considers that the customer is unable to repay its credit obligations in full, irrespective of recourse by the Banking Group to action such as realising security. Indicators include a breach of contract with the 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 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 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 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 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.

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

Accounting policy (continued)

The three macroeconomic scenarios are probability weighted and together represent the 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 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 Banking Group.

	THE 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	**28**	**123**	**34**	**12**	**197**	33	92	13	17	155
Total provision for ECL on loans (refer to Note 11)	**76**	**296**	**107**	**23**	**502**	85	215	69	27	396
Provision for ECL on credit commitments[1]										
Residential mortgages	**5**	**8**	**-**	**-**	**13**	6	4	-	-	10
Other retail	**4**	**8**	**-**	**-**	**12**	5	7	-	-	12
Corporate	**6**	**18**	**-**	**-**	**24**	7	14	-	-	21
Total provision for ECL on credit commitments (refer to Note 20)	**15**	**34**	**-**	**-**	**49**	18	25	-	-	43
Total provision for ECL on loans and credit commitments	**91**	**330**	**107**	**23**	**551**	103	240	69	27	439
Gross loans	**76,135**	**22,924**	**709**	**62**	**99,830**	85,362	11,374	482	60	97,278
Credit commitments	**25,376**	**3,800**	**25**	**1**	**29,202**	27,303	2,180	26	1	29,510
Gross loans and credit commitments	**101,511**	**26,724**	**734**	**63**	**129,032**	112,665	13,554	508	61	126,788
Coverage ratio on loans (%)	**0.10**	**1.29**	**15.09**	**37.10**	**0.50**	0.10	1.89	14.32	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

[1] Includes provision for ECL on related entity credit commitments of $5 million (30 September 2022: $4 million) classified as Due to Related Entities in the Balance Sheet.

Note 12 Provision for expected credit losses (continued)

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.

	THE 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**

	THE 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

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:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 30 September 2022	**46**	**91**	**43**	**9**	**189**
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.

Note 12 Provision for expected credit losses (continued)

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 30 September 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.

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.

	THE 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 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).

	THE 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 Banking Group as at 30 September 2023 and 30 September 2022.

	THE BANKING GROUP	
Macroeconomic 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 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 $9.2 billion (30 September 2022: increased by $0.7 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 $3.5 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 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 32.1 for details of the Banking Group's overall Risk Management Framework.

- The 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 that define roles and responsibilities, acceptable practices, limits and key controls.
- The Banking Group's Credit Risk Management Framework describes the principles, methodologies, systems, roles and responsibilities, reports and key controls for managing credit risk.
- The BRCC, RISKCO and CREDCO monitor the risk profile, performance and management of the Banking Group's credit portfolio on at least a quarterly basis, and the development and review of key credit risk policies on at least an annual basis; other management reviews occur monthly or more frequently.
- The 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 Banking Group's model risk policies.
- An annual review is performed of the Credit Risk Rating System for approval by the Banking Group's Chief Risk Officer and noting by the BRCC. The Credit Risk Rating System Policy is annually approved by the BRCC.
- Specific credit risk estimates (including PD, LGD and EAD) are reviewed by CREDCO and are overseen, reviewed annually and approved by the Banking Group's Chief Risk Officer.
- 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 Banking Group's Chief Financial Officer and the Chief Risk Officer with oversight from the Board (and its Committees).
- Policies for delegating credit approval authorities and formal limits for the extension of credit are established throughout the Banking Group.
- Credit policies are established and maintained throughout the 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 Ultimate Parent Bank's Related Entity Risk Management Policy and supporting policies govern credit exposures to related entities to minimise the spread of credit risk between the Ultimate Parent Bank Group entities to comply with the Ultimate Parent Bank's prudential requirements prescribed by APRA.
- Climate change-related credit risks are considered in line with the Ultimate Parent Bank's Climate Change Position Statement and Action Plan. Climate change risks are managed in line with the Banking Group's Risk Management Framework which is supported by the Banking Group's Sustainability Risk Management Framework, the Banking Group's ESG Credit Risk Policy and the Bank's Board Risk Appetite Statements. Where appropriate, these are applied at the portfolio, customer, and transaction level.
- CREDCO oversees work to identify and manage the potential impact on credit exposures from climate change-related transition and physical risks across the Banking Group.
- The Banking Group'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 Banking Group is exposed. The 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 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 Banking Group's high level CRG's for transaction-managed portfolios mapped to the Banking Group's credit quality disclosure categories and to their corresponding external rating.

		Transaction-managed	
Financial Statement Disclosure	**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+
		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 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 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 Banking Group's industry risk appetite limits.

Individual countries

The 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 Banking Group, or the 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.

	THE BANKING GROUP	
$ millions	**2023**	2022
Financial assets		
Cash and balances with central banks	**9,233**	10,820
Collateral paid	**33**	42
Trading securities and financial assets measured at FVIS	**2,661**	2,118
Derivative financial instruments	**312**	169
Investment securities	**6,651**	5,623
Loans	**99,328**	96,882
Other financial assets	**314**	263
Due from related entities	**2,578**	2,606
Total financial assets	**121,110**	118,523
Undrawn credit commitments		
Letters of credit and guarantees	**1,614**	1,609
Commitments to extend credit	**27,588**	27,901
Total undrawn credit commitments	**29,202**	29,510
Total maximum credit risk exposure	**150,312**	148,033

Note 13 Credit risk management (continued)

Concentration of credit exposures

	THE BANKING GROUP	
$ millions	**2023**	2022
Analysis of on-balance sheet credit exposures by geographical areas		
New Zealand[1]	**117,230**	114,990
Overseas[1]	**4,382**	3,929
Subtotal	**121,612**	118,919
Provision for ECL on loans	**(502)**	(396)
Total on-balance sheet credit exposures	**121,110**	118,523
Analysis of on-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**384**	395
Agriculture	**9,083**	9,263
Construction	**445**	495
Finance and insurance	**7,439**	6,029
Forestry and fishing	**436**	506
Government, administration and defence	**15,468**	16,086
Manufacturing	**2,230**	2,212
Mining	**168**	218
Property	**8,254**	8,097
Property services and business services	**1,133**	1,040
Services	**1,562**	1,384
Trade	**2,224**	2,210
Transport and storage	**888**	1,181
Utilities	**2,257**	1,894
Retail lending	**66,978**	65,197
Subtotal	**118,949**	116,207
Provision for ECL on loans	**(502)**	(396)
Due from related entities	**2,578**	2,606
Other financial assets	**85**	106
Total on-balance sheet credit exposures	**121,110**	118,523
Analysis of off-balance sheet credit exposures by geographical areas		
New Zealand	**28,691**	29,001
Overseas	**511**	509
Total off-balance sheet credit exposures	**29,202**	29,510
Analysis of off-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**55**	126
Agriculture	**607**	628
Construction	**528**	502
Finance and insurance	**2,595**	1,874
Forestry and fishing	**134**	183
Government, administration and defence	**834**	967
Manufacturing	**1,574**	1,551
Mining	**79**	106
Property	**1,503**	1,651
Property services and business services	**527**	806
Services	**1,144**	1,293
Trade	**1,865**	2,196
Transport and storage	**451**	789
Utilities	**1,697**	1,777
Retail lending	**15,609**	15,061
Total off-balance sheet credit exposures	**29,202**	29,510

[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 $115,905 million to $114,990 million and $915 million increase in overseas credit exposures from $3,014 million to $3,929 million.

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

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:

	THE 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	1,306	14,591	-	15,897	1,569	6,000	-	7,569
Weak	-	167	509	676	-	172	360	532
Total Loans - Residential Mortgages	50,499	14,758	509	65,766	57,337	6,172	360	63,869
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	12,064	-	-	12,064	12,869	-	-	12,869
Good/satisfactory	11,514	6,246	-	17,760	12,972	3,560	-	16,532
Weak	-	1,195	203	1,398	-	934	124	1,058
Total Loans - Corporate	23,578	7,441	203	31,222	25,841	4,494	124	30,459
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	10,056	-	-	10,056	11,532	-	-	11,532
Good/satisfactory	31	49	-	80	25	16	-	41
Weak	-	3	2	5	-	2	1	3
Total all other financial assets	10,087	52	2	10,141	11,557	18	1	11,576
Undrawn credit commitments								
Strong	21,515	-	-	21,515	22,615	-	-	22,615
Good/satisfactory	3,860	3,557	-	7,417	4,677	2,032	-	6,709
Weak	1	243	26	270	11	148	27	186
Total undrawn credit commitments	25,376	3,800	26	29,202	27,303	2,180	27	29,510
Total strong	100,743	-	-	100,743	109,652	-	-	109,652
Total good/satisfactory	17,504	25,091	-	42,595	20,180	12,181	-	32,361
Total weak	2	1,685	799	2,486	13	1,391	570	1,974
Total on- and off-balance sheet	118,249	26,776	799	145,824	129,845	13,572	570	143,987

[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.

Note 13 Credit risk management (continued)

13.5 Credit risk mitigation, collateral and other credit enhancements

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

This includes the 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.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to LGD. Due to system limitations, the value of the guarantee is not always separately recorded, and therefore, neither this value nor a close alternative is available for disclosure under Clause 7 of Schedule 11 to the Order.

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, due from related entities 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.

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

Management of risk mitigation

The Banking Group mitigates credit risk through controls covering:

Collateral and valuation management	The Ultimate Parent Bank manages collateral under collateralisation agreements centrally for all branches of the Ultimate Parent Bank and the Bank. 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 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.

Note 13 Credit risk management (continued)

Other credit enhancements	The 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 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 Banking Group's corporate, sovereign and bank credit portfolios through monitoring the exposure and any offsetting hedge positions.
Offsetting	Creditworthy customers domiciled in New Zealand may enter into formal agreements with the Banking Group, permitting the 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 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 26.

Collateral held against loans

The 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)

Notes to the financial statements

Note 13 Credit risk management (continued)

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

	THE 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	71	53	90
Partially secured	**-**	**2**	**9**	**1**	**3**	-	2	11	3	3
Unsecured	**-**	**52**	**21**	**43**	**8**	-	50	18	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

	THE BANKING GROUP	
$ millions	**2023**	2022
Cash, primarily for derivatives	**303**	82
Securities under reverse repurchase agreements [1]	**786**	57
Total other collateral held	**1,089**	139

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

Note 14 Other financial assets

	THE BANKING GROUP	
$ millions	**2023**	2022
Accrued interest receivable	**229**	157
Trade debtors	**2**	2
Other	**83**	104
Total other financial assets	**314**	263

Notes to the financial statements

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 Banking Group's critical accounting assumptions and estimates.

	THE BANKING GROUP	
$ millions	**2023**	2022
Deferred tax assets/(liabilities) comprise the following temporary differences:		
Provision for ECL on loans	**140**	111
Provision for ECL on credit commitments	**14**	12
Cash flow hedges	**(147)**	(165)
Provision for employee entitlements	**20**	20
Compliance, regulation and remediation provisions	**12**	18
Software, property and equipment	**(33)**	(43)
Lease liabilities	**64**	78
Other temporary differences	**7**	8
Net deferred tax assets	**77**	39
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	**2**	(3)
Provision for employee entitlements	**2**	-
Compliance, regulation and remediation provisions	**(6)**	(3)
Software, property and equipment	**10**	5
Lease liabilities	**(14)**	(3)
Other temporary differences	**(1)**	(3)
Total deferred tax (charge)/credit in income tax expense	**22**	(28)
The deferred tax (charge)/credit in OCI comprises the following temporary differences:		
Cash flow hedges	**18**	(147)
Provision for employee entitlements	**(2)**	(2)
Total deferred tax (charge)/credit in OCI	**16**	(149)

Notes to the financial statements

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 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 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.

	THE BANKING GROUP	
$ millions	**2023**	2022
Goodwill	**477**	477
Computer software	**457**	308
Total intangible assets	**934**	785

Goodwill has been allocated to the Consumer Banking and Wealth CGU, which is a single CGU.

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 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 the Consumer Banking and Wealth 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 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 CGU.

	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%

The 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 Consumer Banking and Wealth CGU that would result in an indication of impairment or have a material impact on the 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.

	THE 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 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.

	THE BANKING GROUP	
$ millions	**2023**	2022
Repurchase agreements[1]	**5,094**	3,967
Interbank placements	**4**	4
Accrued interest payable	**853**	293
Trade creditors and other accrued expenses[2]	**207**	73
Other	**14**	11
Total other financial liabilities	**6,172**	4,348
Other financial liabilities at fair value	**44**	-
Other financial liabilities at amortised cost	**6,128**	4,348
Total other financial liabilities	**6,172**	4,348

[1] Repurchase agreements include those under the Funding for Lending Programme and Term Lending Facility. Refer to Note 32.2.2 for further details.

[2] During the current financial year, the Banking Group revised its treatment of ongoing trail commission payable to mortgage brokers. The 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 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 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.

	THE 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

	THE 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.

Notes to the financial statements

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 Banking Group is committed to provide facilities and guarantees as explained in Note 27. 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 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.

	THE 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**	**Other**	**Total**
Balance as at 30 September 2022	**95**	**39**	**65**	**33**	**1**	**233**
Additions	**87**	**5**	**10**	**-**	**3**	**105**
Utilisation	**(78)**	**-**	**(6)**	**(1)**	**-**	**(85)**
Reversal of unutilised provisions	**-**	**-**	**(15)**	**(8)**	**(1)**	**(24)**
Balance as at 30 September 2023	**104**	**44**	**54**	**24**	**3**	**229**

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 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 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 27 for further details on contingent liabilities.

Note 21 Loan capital

Accounting policy

Loan capital is comprised of debt instruments which qualify for inclusion as regulatory capital under the Reserve Bank BPRs. 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.

	THE BANKING GROUP	
$ millions	**2023**	2022
Additional Tier 1 loan capital - Convertible subordinated perpetual notes	**1,494**	1,493
Tier 2 loan capital - Subordinated notes	**1,172**	590
Total loan capital	**2,666**	2,083

	THE BANKING GROUP	
$ millions	**2023**	2022
Movement reconciliation		
Balance at beginning of the year	**2,083**	2,579
Issuances[1]	**592**	590
Maturities, repayments, buy-backs and reductions	**-**	(1,178)
Total cash movements	**592**	(588)
FX translation impact	**-**	90
Fair value hedge accounting adjustments	**(13)**	-
Other (amortisation of bond issue costs, etc)	**4**	2
Total non-cash movements	**(9)**	92
Balance at end of the year	**2,666**	2,083

[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 (AT1)

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

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

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

In accordance with the Reserve Bank BPRs, the Bank's AT1 notes are subject to a transitional phase-out from 1 January 2022 until 1 July 2028, with the maximum eligible amount declining by 12.5% each year. The base amount was fixed at the total nominal amount of the Bank's AT1 notes outstanding as at 30 September 2021, being NZ$1,500 million. The total value able to be recognised as AT1 capital is set out in BPR110, with the lower of the outstanding amount or 75.0% of the base amount able to be recognised between 1 January 2023 and 31 December 2023 in line with the phase-out schedule.

Interest payable

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

Redemption

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

Conversion

If a capital trigger event or non-viability trigger event occurs, the Bank must convert some or all of the AT1 notes into a variable number of ordinary shares issued by the Bank (calculated with reference to the net assets of the Bank and the total number of ordinary shares on issue at the conversion date) that is sufficient, in the case of a capital trigger event, to return the Bank's Common Equity Tier 1 capital ratio to above 5.125% as determined by the Bank in consultation with the Reserve Bank; or, in the case of a non-viability trigger event, to satisfy the direction of the Reserve Bank or the decision of the statutory manager of the Bank. A capital trigger event occurs when the Bank determines, or the Reserve Bank notifies in writing that it believes, the Bank's Common Equity Tier 1 Capital ratio is equal to or less than 5.125%. A non-viability trigger event occurs when the Reserve Bank or the statutory manager (appointed pursuant to section 117 of the Banking (Prudential Supervision) Act 1989) directs the Bank to convert or write off all or some of its AT1 notes.

Note 21 Loan capital (continued)

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

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

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 the Bank. The 2022 and 2023 subordinated notes rank equally with each other and amongst themselves and are subordinated to the claims of depositors and senior or less subordinated creditors of the Bank, but rank ahead of the AT1 notes and the Bank's ordinary shares.

Common features of subordinated notes

Interest payable

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

Early redemption

The Bank may elect to redeem all or some of the 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 Share capital

Accounting policy

Share capital

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

Ordinary shares fully paid

	THE BANKING GROUP	
	2023 Number of Shares Authorised and Issued	2022 Number of Shares Authorised and Issued
Balance as at 1 October	**7,300,001,000**	7,300,001,000
Share capital issued	**-**	-
Balance as at 30 September	**7,300,001,000**	7,300,001,000

In accordance with the Reserve Bank document BPR110, ordinary share capital is classified as Common Equity Tier 1 capital.

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

On 16 February 2023 and 17 August 2023, the Bank declared and paid dividends of $326 million and $326 million respectively to its immediate parent company, Westpac New Zealand Group Limited (30 September 2022: $465 million on 21 February 2022 and $323 million on 19 August 2022). Total imputation credits of $127 million (30 September 2022: nil) were attached to the dividend declared and paid to Westpac New Zealand Group Limited on 17 August 2023.

Note 23 Related entities

Related entities

The 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.

Banking Group

The Bank is a controlled entity of Westpac New Zealand Group Limited. The ultimate parent bank of the Bank is Westpac Banking Corporation.

The Banking Group consists of the Bank and all its controlled entities. As at 30 September 2023, the Bank had the following controlled entities:

Name of entity	Principal activity	Notes
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	9.5% owned[3]
Westpac NZ Covered Bond Limited ('**WNZCBL**')	Guarantor	9.5% owned[3]
Westpac NZ Securitisation Holdings Limited ('**WNZSHL**')	Holding company	9.5% owned[4]
Westpac NZ Securitisation Limited ('**WNZSL**')	Funding company	9.5% 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. The Bank was previously considered to control WNZSL2 based on contractual arrangements in place.

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

[4] The Banking Group, through its subsidiary WNZOL, has a qualifying interest of 9.5% in WNZSHL and its wholly-owned subsidiary company, WNZSL. The Bank 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 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 are PIEs, where BT Funds Management (NZ) Limited ('**BTNZ**') (an indirectly wholly-owned subsidiary of the Ultimate Parent Bank) is the manager and issuer. The manager has appointed the Bank to perform all customer management and account administration for the PIE Funds. The Bank is the PIE Funds' registrar and administration manager. The Bank does not hold any units in the PIE Funds, however is considered to control them, and as such the PIE Funds are consolidated in the financial statements of the Banking Group.

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

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

Nature of transactions

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

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

The NZ Branch provides financial market services, foreign currency, trade and interest rate risk products to the Banking Group and its customers, which includes derivative transactions (refer to Note 24).

Effective 1 October 2014, the Bank and the NZ Branch entered into an agreement whereby the Bank will reimburse the NZ Branch for any credit losses incurred by it due to certain customers of the Bank defaulting on certain financial market and international products. The Banking Group receives commission from the sale of these products to customers for providing this guarantee.

Note 23 Related entities (continued)

This is treated as a financial guarantee for accounting purposes. Financial guarantee contracts are recognised as financial liabilities (recorded within provisions) when a payment under a contract has become probable. The liability is initially measured at fair value and subsequently at the higher of the amount of the loss allowance determined in accordance with NZ IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

The value of the exposures guaranteed at 30 September 2023 is $902 million (30 September 2022: $1,057 million), for which a liability has been recognised of $5.3 million (30 September 2022: $4.3 million).

Refer to Note 21 for details of the loan capital transactions undertaken by the Banking Group with related entities.

Transactions with related entities

		THE BANKING GROUP	
$ millions	**Note**	**2023**	2022
Ultimate Parent Bank			
Interest income[1]	2	**20**	4
Interest expense:			
Loan capital		**132**	122
Other[2]	2	**59**	29
Non-interest income:			
Commissions received		**47**	46
Management fees received		**7**	3
Operating expenses - management fees	4	**5**	5
Immediate Parent Company			
Dividends paid	22	**652**	788
Other controlled entities of the Ultimate Parent Bank			
Non-interest income:			
Distribution fees received on managed fund products		**8**	15
Distribution fees received on life and general insurance products[3]		**-**	5
Management fees received		**3**	3
Operational cost recharges		**4**	8

[1] Includes interest income on reverse repurchase agreements.

[2] Includes interest expense on other funding provided by and repurchase agreements with the NZ Branch.

[3] On 28 February 2022, the sale of Westpac Life-NZ- Limited (renamed Fidelity Insurance Limited on 28 February 2022) to Fidelity Life Assurance Company Limited was completed, at which point Westpac Life-NZ- Limited ceased to be a controlled entity.

Due from and to related entities

	THE BANKING GROUP	
$ millions	**2023**	2022
Due from related entities		
Ultimate Parent Bank	**2,569**	2,602
Other controlled entities of the Ultimate Parent Bank	**9**	4
Total due from related entities	**2,578**	2,606
Due from related entities at fair value[1]	**2,017**	2,155
Due from related entities at amortised cost	**561**	451
Total due from related entities	**2,578**	2,606
Due to related entities		
Ultimate Parent Bank	**2,569**	2,895
Other controlled entities of the Ultimate Parent Bank	**164**	66
Total due to related entities	**2,733**	2,961
Due to related entities at fair value[2]	**1,180**	2,200
Due to related entities at amortised cost	**1,553**	761
Total due to related entities	**2,733**	2,961

[1] Consists of reverse repurchase agreements of $742 million (30 September 2022: $57 million) and derivative financial instruments of $1,275 million (30 September 2022: $2,098 million) (refer to Note 24).

[2] Consists of repurchase agreements of $404 million (30 September 2022: $1,326 million) and derivative financial instruments of $776 million (30 September 2022: $874 million) (refer to Note 24).

Note 23 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 Banking Group. This includes all Executive/Non-Executive Directors and members of the executive team.

	THE BANKING GROUP	
$'000s	**2023**	2022
Salaries and other short-term benefits	**9,366**	9,105
Post-employment benefits	**641**	627
Termination benefits	**-**	684
Share-based payments[1]	**1,631**	1,672
Total key management personnel compensation	**11,638**	12,088
Loans to key management personnel	**1,491**	3,805
Deposits from key management personnel	**6,135**	8,397
Interest income on amounts due from key management personnel	**146**	54
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.

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

Loans and deposits with key management personnel

All loans and deposits are made in the ordinary course of business of the Banking Group. 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 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 24 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 Banking Group uses derivative financial instruments for our ALM 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 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 Banking Group's ALM activities, refer to Note 32.

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 24 Derivative financial instruments (continued)

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

	THE BANKING GROUP					
	2023					
	Trading		**Hedging**		**Total derivatives carrying value**	
$ millions	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate contracts						
Swap agreements	**31**	**(19)**	**1,115**	**(352)**	**1,146**	**(371)**
Total interest rate contracts	**31**	**(19)**	**1,115**	**(352)**	**1,146**	**(371)**
FX contracts						
Cross currency swap agreements (principal and interest)	**82**	**(5)**	**359**	**(471)**	**441**	**(476)**
Total FX contracts	**82**	**(5)**	**359**	**(471)**	**441**	**(476)**
Total of gross derivatives	**113**	**(24)**	**1,474**	**(823)**	**1,587**	**(847)**
Total of net derivatives	**113**	**(24)**	**1,474**	**(823)**	**1,587**	**(847)**
Consisting of:						
Derivatives held with external counterparties	**19**	**(18)**	**293**	**(53)**	**312**	**(71)**
Derivatives held with related parties	**94**	**(6)**	**1,181**	**(770)**	**1,275**	**(776)**

	THE BANKING GROUP					
	2022					
	Trading		Hedging		Total derivatives carrying value	
$ millions	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate contracts						
Swap agreements	35	-	1,185	(315)	1,220	(315)
Total interest rate contracts	35	-	1,185	(315)	1,220	(315)
FX contracts						
Cross currency swap agreements (principal and interest)	648	23	399	(700)	1,047	(677)
Total FX contracts	648	23	399	(700)	1,047	(677)
Total of gross derivatives	683	23	1,584	(1,015)	2,267	(992)
Total of net derivatives	683	23	1,584	(1,015)	2,267	(992)
Consisting of:						
Derivatives held with external counterparties	-	-	169	(118)	169	(118)
Derivatives held with related parties	683	23	1,415	(897)	2,098	(874)

Note 24 Derivative financial instruments (continued)

Hedge accounting

The 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 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 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 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 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 Banking Group primarily uses one-to-one hedge accounting to manage specific exposures.

The 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 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 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 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 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 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 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 24 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.

			THE 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**	**977**	**1,753**	**3,313**	**149**	**(14)**
	Cross currency swap	Interest rate risk	**3,867**	**10,202**	**459**	**14,528**	**(260)**	**(752)**
Cash flow hedges	Cross currency swap	FX risk	**3,934**	**10,202**	**459**	**14,595**	**619**	**281**
Total one-to-one hedge relationships			**8,384**	**21,381**	**2,671**	**32,436**	**508**	**(485)**
Macro hedge relationships								
Portfolio fair value hedges	Interest rate swap	Interest rate risk	**N/A**	**N/A**	**N/A**	**24,600**	**129**	**(57)**
Macro cash flow hedges	Interest rate swap	Interest rate risk	**N/A**	**N/A**	**N/A**	**22,604**	**837**	**(281)**
Total macro hedge relationships			**N/A**	**N/A**	**N/A**	**47,204**	**966**	**(338)**
Total of gross hedging derivatives			**N/A**	**N/A**	**N/A**	**79,640**	**1,474**	**(823)**
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**	**1,474**	**(823)**

			THE 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	1,004	-	1,351	39	(3)
	Cross currency swap	Interest rate risk	269	9,890	1,911	12,070	(17)	(708)
Cash flow hedges	Cross currency swap	FX risk	304	2,456	343	3,103	416	8
Total one-to-one hedge relationships			920	13,350	2,254	16,524	438	(703)
Macro hedge relationships								
Portfolio fair value hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	23,800	264	(14)
Macro cash flow hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	20,230	882	(298)
Total macro hedge relationships			N/A	N/A	N/A	44,030	1,146	(312)
Total of gross hedging derivatives			N/A	N/A	N/A	60,554	1,584	(1,015)
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	1,584	(1,015)

Note 24 Derivative financial instruments (continued)

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

				THE 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	**0.6721**	0.6947

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.

	THE 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	**24,417**	**(182)**	23,456	(343)
Debt issues and loan capital	**(14,664)**	**1,006**	(10,973)	1,052

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:

	THE 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	**603**	**(16)**	**587**	146	(83)	63
Net gains/(losses) from changes in fair value	**212**	**(307)**	**(95)**	454	(166)	288
Transferred to net interest income	**(231)**	**263**	**32**	3	233	236
Balance at end of year	**584**	**(60)**	**524**	603	(16)	587

[1] Comparative amounts have been revised to align to the current year's basis of presentation. The restatement for 2022 comparatives results in a $208 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 24 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:

			THE 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	**(130)**	**138**	**8**
	Cross currency swap	Interest rate risk	**62**	**(59)**	**3**
Cash flow hedges	Interest rate swap	Interest rate risk	**(28)**	**17**	**(11)**
	Cross currency swap	FX risk	**(45)**	**45**	**-**
Total			**(141)**	**141**	**-**

			THE 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	355	(363)	(8)
	Cross currency swap	Interest rate risk	(1,103)	1,104	1
Cash flow hedges	Interest rate swap	Interest rate risk	470	(458)	12
	Cross currency swap	FX risk	66	(66)	-
Total			(212)	217	5

Note 25 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 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 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 Banking Group uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

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

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

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

Fair value hierarchy

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

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

Valuation techniques

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

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

Note 25 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
Debt instruments	Trading securities and financial assets measured at FVIS Investment securities	New Zealand Government bonds	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.

Level 2 instruments

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

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

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

Note 25 Fair values of financial assets and financial liabilities (continued)

Level 3 instruments

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

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

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

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

	THE BANKING GROUP							
	2023				2022			
$ millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets measured at FVIS	**79**	**2,582**	**-**	**2,661**	86	2,032	-	2,118
Derivative financial instruments	**-**	**312**	**-**	**312**	-	169	-	169
Investment securities	**2,287**	**4,364**	**-**	**6,651**	1,982	3,641	-	5,623
Due from related entities	**-**	**2,017**	**-**	**2,017**	-	2,155	-	2,155
Total financial assets measured at fair value	**2,366**	**9,275**	**-**	**11,641**	2,068	7,997	-	10,065
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings at fair value[1]	**-**	**2,413**	**-**	**2,413**	-	2,939	-	2,939
Other financial liabilities[1]	**-**	**44**	**-**	**44**	-	-	-	-
Derivative financial instruments	**-**	**71**	**-**	**71**	-	118	-	118
Due to related entities	**-**	**1,180**	**-**	**1,180**	-	2,200	-	2,200
Debt issues at fair value[1]	**-**	**1,471**	**-**	**1,471**	-	5,490	-	5,490
Total financial liabilities measured at fair value	**-**	**5,179**	**-**	**5,179**	-	10,747	-	10,747

[1] 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.

Analysis of movements between fair value hierarchy levels

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

Notes to the financial statements

Note 25 Fair values of financial assets and financial liabilities (continued)

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

	THE BANKING GROUP				
	2023				
		Fair Value			
$ millions	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value					
Cash and balances with central banks	**9,233**	**9,233**	**-**	**-**	**9,233**
Collateral paid	**33**	**33**	**-**	**-**	**33**
Loans	**99,328**	**-**	**-**	**98,254**	**98,254**
Other financial assets	**314**	**-**	**-**	**314**	**314**
Due from related entities	**561**	**-**	**554**	**7**	**561**
Total financial assets not measured at fair value	**109,469**	**9,266**	**554**	**98,575**	**108,395**
Financial liabilities not measured at fair value					
Collateral received	**303**	**303**	**-**	**-**	**303**
Deposits and other borrowings	**79,783**	**-**	**78,057**	**1,741**	**79,798**
Other financial liabilities	**6,128**	**-**	**6,128**	**-**	**6,128**
Due to related entities	**1,553**	**-**	**1,553**	**-**	**1,553**
Debt issues[1]	**17,126**	**-**	**16,962**	**-**	**16,962**
Loan capital[1]	**2,666**	**-**	**1,162**	**1,625**	**2,787**
Total financial liabilities not measured at fair value	**107,559**	**303**	**103,862**	**3,366**	**107,531**

	THE BANKING GROUP				
	2022				
		Fair Value			
$ millions	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value					
Cash and balances with central banks	10,820	10,820	-	-	10,820
Collateral paid	42	42	-	-	42
Loans	96,882	-	-	95,528	95,528
Other financial assets	263	-	-	263	263
Due from related entities	451	-	446	5	451
Total financial assets not measured at fair value	108,458	10,862	446	95,796	107,104
Financial liabilities not measured at fair value					
Collateral received	82	82	-	-	82
Deposits and other borrowings	77,909	-	75,487	2,408	77,895
Other financial liabilities	4,348	-	4,348	-	4,348
Due to related entities	761	-	761	-	761
Debt issues[1]	14,443	-	14,242	-	14,242
Loan capital[1]	2,083	-	599	1,625	2,224
Total financial liabilities not measured at fair value	99,626	82	95,437	4,033	99,552

[1] The estimated fair value of debt issues and level 3 loan capital includes the impact of changes in the Banking Group's credit spreads since origination.

Notes to the financial statements

Note 26 Offsetting financial assets and financial liabilities

Accounting policy

Financial assets and financial liabilities are presented net on the balance sheet when the 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 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 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 Banking Group are further explained in the 'Management of risk mitigation' section under Note 13.5.

	THE 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]	44	-	44	-	-	(44)	-
Derivative financial instruments	312	-	312	-	(303)	-	9
Due from related entities - reverse repurchase agreements[2]	742	-	742	-	-	(742)	-
Due from related entities - derivative financial instruments[2]	1,275	-	1,275	(776)	-	-	499
Total assets	2,373	-	2,373	(776)	(303)	(786)	508
Liabilities							
Repurchase agreements[3]	5,094	-	5,094	-	-	(5,094)	-
Derivative financial instruments	71	-	71	-	(33)	(38)	-
Due to related entities - repurchase agreements[4]	404	-	404	-	-	(404)	-
Due to related entities - derivative financial instruments[4]	776	-	776	(776)	-	-	-
Total liabilities	6,345	-	6,345	(776)	(33)	(5,536)	-

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

[2] Forms part of due from related entities on the balance sheet (refer to Note 23).

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

[4] Forms part of due to related entities on the balance sheet (refer to Note 23).

Note 26 Offsetting financial assets and financial liabilities (continued)

	THE 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							
Derivative financial instruments	169	-	169	-	(77)	-	92
Due from related entities - reverse repurchase agreements[1]	57	-	57	-	-	(57)	-
Due from related entities - derivative financial instruments[1]	2,098	-	2,098	(874)	-	-	1,224
Total assets	2,324	-	2,324	(874)	(77)	(57)	1,316
Liabilities							
Repurchase agreements[2]	3,967	-	3,967	-	-	(3,967)	-
Derivative financial instruments	118	-	118	-	(33)	-	85
Due to related entities - repurchase agreements[3]	1,326	-	1,326	-	-	(1,326)	-
Due to related entities - derivative financial instruments[3]	874	-	874	(874)	-	-	-
Total liabilities	6,285	-	6,285	(874)	(33)	(5,293)	85

[1] Forms part of due from related entities on the balance sheet (refer to Note 23).

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

[3] Forms part of due to related entities on the balance sheet (refer to Note 23).

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 27 Credit related commitments, contingent assets and contingent liabilities

Accounting policy

Undrawn credit commitments

The 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 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 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 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 32 for further details on credit risk management and liquidity risk.

	THE BANKING GROUP	
$ millions	**2023**	2022
Letters of credit and guarantees[1,2]	**1,614**	1,609
Commitments to extend credit[3]	**27,588**	27,901
Total undrawn credit commitments	**29,202**	29,510

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

[2] Letters of credit and guarantees includes the value of exposures guaranteed by the Bank to NZ Branch, as disclosed in Note 23 Related entities.

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

Contingent assets

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

Contingent liabilities

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

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

Guarantees

As disclosed in Note 23, the Bank has an agreement with the NZ Branch whereby the Bank will reimburse the NZ Branch for any credit losses incurred by it due to certain customers of the Bank defaulting on certain financial market and international products.

Note 28 Segment reporting

Accounting policy

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

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

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

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

An investments and insurance unit provided funds management and insurance services until 28 February 2022 when the sale of Westpac Life-NZ-Limited to Fidelity Life Assurance Company Limited 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.

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

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

Reconciling items primarily represent:

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

	THE BANKING GROUP			
$ millions	**Consumer Banking and Wealth**	**Institutional and Business Banking**	**Reconciling Items**	**Total**
Year ended 30 September 2023				
Net interest income	**1,200**	**1,216**	**237**	**2,653**
Net fee and commissions				
Facility fees	**27**	**18**	**(1)**	**44**
Transaction fees and commissions	**164**	**73**	**12**	**249**
Other non-risk fee income	**6**	**21**	**(12)**	**15**
Fees and commissions expenses	**(75)**	**-**	**1**	**(74)**
Net fee and commissions	**122**	**112**	**-**	**234**
Other non-interest income	**-**	**-**	**14**	**14**
Total non-interest income	**122**	**112**	**14**	**248**
Net operating income	**1,322**	**1,328**	**251**	**2,901**
Operating expenses	**(734)**	**(508)**	**(49)**	**(1,291)**
Impairment (charges)/benefits	**(77)**	**(53)**	**(5)**	**(135)**
Profit before income tax	**511**	**767**	**197**	**1,475**
As at 30 September 2023				
Total gross loans	**60,004**	**39,911**	**(85)**	**99,830**
Total deposits and other borrowings	**44,980**	**34,803**	**2,413**	**82,196**

Note 28 Segment reporting (continued)

	THE BANKING GROUP			
$ millions	Consumer Banking and Wealth	Institutional and Business Banking	Reconciling Items	Total
Year ended 30 September 2022 (restated)				
Net interest income	1,140	1,099	52	2,291
Net fee and commissions				
Facility fees	24	14	3	41
Transaction fees and commissions	178	76	9	263
Other non-risk fee income	7	19	(12)	14
Fees and commissions expenses	(66)	-	-	(66)
Net fee and commissions	143	109	-	252
Other non-interest income	-	-	16	16
Total non-interest income	143	109	16	268
Net operating income	1,283	1,208	68	2,559
Operating expenses	(625)	(436)	(70)	(1,131)
Impairment (charges)/benefits	3	24	-	27
Profit before income tax	661	796	(2)	1,455
As at 30 September 2022				
Total gross loans	57,968	39,684	(374)	97,278
Total deposits and other borrowings	43,574	34,335	2,939	80,848

Note 29 Securitisation, covered bonds and other transferred assets

The 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 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 and liquidity purposes.

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

In October 2008, the 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 the Bank's internal residential mortgage-backed securitisation programme.

Under the internal residential mortgage-backed securitisation programme, the Bank 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.

The Bank 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 Banking Group will arise from these obligations.

Covered bonds

The Banking Group has a covered bond programme under which it may issue bonds (Covered Bonds). The Banking Group transfers, via assignment, from time to time housing loans originated by the Bank 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 the Bank. 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 the Bank to WNZCBL to fund the initial and all subsequent purchases of eligible housing loans and the liability representing the intercompany loan from WNZCBL to the Bank are fully eliminated in the Banking Group's financial statements.

Note 29 Securitisation, covered bonds and other transferred assets (continued)

The Banking Group is obliged to repurchase any housing loans sold to and held by WNZCBL (pursuant to the Bank'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 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.

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

	THE 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	**6,993**	**5,498**	**n/a**	**n/a**	**n/a**
Total	**29,629**	**25,641**	**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	6,395	5,293	n/a	n/a	n/a
Total	28,998	23,935	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. The Bank 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 the Bank 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 30 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 Banking Group does not control a structured entity then it will not be consolidated.

Note 30 Structured entities (continued)

The 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 Banking Group uses structured entities to securitise its financial assets through the Covered Bond Programme and the Bank's internal residential mortgage-backed securitisation programme. Refer to Note 29 for further details.

Funds managed by a member of the Ultimate Parent Bank Group

As disclosed in Note 23, the PIE Funds are consolidated within the financial statements of the Banking Group.

Non-contractual financial support

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

Unconsolidated structured entities

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

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 Banking Group's main interests in unconsolidated structured entities, which arise in the normal course of business, are loans and other credit commitments. The Banking Group lends to unconsolidated structured entities, subject to the 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.

The following table shows the 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, the maximum exposure to loss is the notional amounts.

	THE BANKING GROUP	
	2023	2022
$ millions	**Financing to Securitisation Vehicles**	Financing to Securitisation Vehicles
Assets		
Loans	**4,368**	3,892
Total on-balance sheet exposures	**4,368**	3,892
Total notional amounts of off-balance sheet exposures	**1,777**	1,322
Maximum exposure to loss	**6,145**	5,214
Size of structured entities[1]	**6,145**	5,214

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

Non-contractual financial support

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

Notes to the financial statements

Note 31 Capital management

The primary objectives of the Banking Group's capital management activities are to ensure that the Banking Group complies with the regulatory capital requirements prescribed by the Reserve Bank, maintains strong credit ratings and a strong capital position to support its business objectives and maximises shareholder value.

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

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

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

The following tables show the Banking Group's capital summary and capital ratios.

	THE BANKING GROUP	
	2023	2022
$ millions	**Unaudited**	Unaudited
Tier 1 capital		
Common Equity Tier 1 capital		
Total shareholder's equity	**9,144**	8,780
Less deductions from Common Equity Tier 1 capital	**(1,422)**	(1,276)
Total Common Equity Tier 1 capital	**7,722**	7,504
Additional Tier 1 capital instruments[1]	**1,125**	1,313
Total Tier 1 capital	**8,847**	8,817
Total Tier 2 capital	**1,204**	600
Total capital	**10,051**	9,417

[1] Classified as a liability and excludes capitalised transaction costs. Additional Tier 1 capital instruments and Tier 2 capital instruments are itemised in Note 21. Further details on convertibility for Additional Tier 1 capital instruments are noted in Note 21.

		THE BANKING GROUP	
	Reserve Bank	**2023**	2022
%	**Minimum Ratios**	**Unaudited**	Unaudited
Capital ratios			
Common Equity Tier 1 capital ratio	4.5	**11.1**	11.0
Tier 1 capital ratio	6.0	**12.7**	13.0
Total capital ratio	8.0	**14.4**	13.9
Prudential capital buffer ratio	4.5	**6.4**	5.9

The above table shows the capital adequacy ratios for the Banking Group based on the BPRs. Refer to Note iv. Capital adequacy and regulatory liquidity ratios of the Registered bank disclosures for further details.

Reserve Bank Capital Review

On 5 December 2019, the Reserve Bank announced changes to the capital adequacy framework that applies to New Zealand incorporated registered banks (including the Bank). The new framework includes the following components:

- Progressively increasing the total capital requirements from 10.5% of RWA to 18% for domestic systemically important banks (including the Bank) and 16% for all other banks over a seven-year period ending 1 July 2028, including:
    - Increasing the Tier 1 capital requirement from 8.5% to 16% of RWA for domestic systemically important banks and 14% for all other banks;
    - Increasing the AT1 limit from 1.5% to 2.5% of the Tier 1 capital requirement; and
    - Maintaining the existing Tier 2 capital limit of 2% of the total capital requirement.

Note 31 Capital management (continued)

These ratios include the minimum capital ratios that banks must maintain and the prudential capital buffer above the minimum capital ratios that banks must maintain to avoid restrictions on distributions (among other things).

- Eligible Tier 1 capital under the new framework comprises common equity and redeemable perpetual preference shares. Existing AT1 instruments are being progressively phased out by 1 July 2028;
- The RWA for Sovereign and Banks asset classes are classified under a standardised approach from 1 January 2022;
- Credit IRB RWA is subject to a floor of 85% of the standardised requirement from 1 January 2022;
- The IRB scalar increased from 1.06 to 1.2 from 1 October 2022; and
- The scalar for standardised exposures reduced from 1.06 to 1.0 from 1 October 2022.

The increases in the required level of bank capital started to come into effect on 1 July 2022 and will be fully implemented on 1 July 2028. The prudential capital buffer was increased from 2.5% to 3.5% on 1 July 2022, with a further increase of 1.0% to 4.5% effective on 1 July 2023. The new definitions of eligible capital came into effect on 1 October 2021.

Changes to Operational Risk measurement from AMA to Standardised Approach applied with effect from 1 July 2022 pursuant to a change to the Bank's conditions of registration.

Note 32 Risk management, funding and liquidity risk and market risk

Financial instruments are fundamental to the 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 Banking Group.

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

Principal risks	Note name	Note number
Overview	Risk management frameworks	32.1
Credit risk	Refer to Note 13 Credit risk management	13
Funding and liquidity risk	Liquidity modelling	32.2.1
The risk that the 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.	Sources of funding	32.2.2
	Assets pledged as collateral	32.2.3
	Contractual maturity of financial liabilities	32.2.4
	Expected maturity	32.2.5
Market risk	VaR	32.3.1
The risk of an adverse impact on the 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.	Non-traded market risk	32.3.2

32.1 Risk management frameworks

The Board is responsible for approving the Banking Group's Risk Appetite Statement and, through the BRCC, the Risk Management Framework and the Risk Management Strategy. The Board is also responsible for monitoring the effectiveness of risk management by the Banking Group. The Banking Group is wholly owned by the Ultimate Parent Bank and, therefore, a member of the group of companies comprising the Ultimate Parent Bank Group. Accordingly, the Banking Group's Risk Management Framework is closely aligned with the Ultimate Parent Bank's Risk Management Framework.

The Board has delegated authority to the BRCC to:

- review and recommend the Banking Group's Risk Appetite Statement to the Board for approval;
- approve the Banking Group's Risk Management Framework and Risk Management Strategy;
- review and monitor the risk profile and controls of the Banking Group consistent with the Banking Group's Risk Appetite Statement;
- approve frameworks, policies and processes for managing risk (consistent with the Banking Group's Risk Management Framework, Risk Management Strategy and 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 Banking Group maintains risk management frameworks and a number of supporting policies that define roles and responsibilities, acceptable practices, limits and key controls:

Note 32 Risk management, funding and liquidity risk and market risk (continued)

Risk	Risk management framework and controls	
Funding and liquidity risk	- Funding and liquidity risk is measured and managed in accordance with the policies and processes defined in the BRCC approved Liquidity Risk Management Framework which is part of the Banking Group's Board-approved Risk Management Framework. - Responsibility for managing the Banking Group's liquidity and funding positions in accordance with the Liquidity Risk Management Framework is delegated to Treasury, under the oversight of the Banking Group's ALCO and the Financial Markets and Treasury Risk unit. - The Banking Group's Liquidity Risk Management Framework sets out the Banking Group's funding and liquidity risk appetite, roles and responsibilities of key people managing funding and liquidity risk within the Banking Group, risk reporting and control processes and limits and targets used to manage the Banking Group's balance sheet. - Treasury undertakes an annual funding review that outlines the Banking Group'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.	- The Banking Group monitors the composition and stability of its funding to allow it to remain within the Banking Group's funding risk appetite and comply with regulatory requirements. - The Banking Group holds a portfolio of liquid assets for several purposes, including as a buffer against unforeseen funding requirements. The level of liquid assets held takes into account the liquidity requirements of the Banking Group's balance sheet under normal and stress conditions. - Treasury also maintains a contingent funding plan that outlines the steps that should be taken by the Banking Group in the event of an emerging 'funding crisis'. The plan is aligned with the Banking Group's broader Liquidity Crisis Management Policy which is approved by the BRCC. - Daily liquidity risk reports are reviewed by Treasury and the Financial Markets and Treasury Risk unit. Liquidity reports are presented to ALCO monthly and to the RISKCO and BRCC quarterly.
Market risk	- Market risk is measured and managed in accordance with the policies and processes defined in the BRCC approved Market Risk Management Framework which is part of the Banking Group's Board-approved Risk Management Framework. - Responsibility for managing the Banking Group's non-traded market risk in accordance with the Market Risk Management Framework is delegated to Treasury, under the oversight of the Banking Group's ALCO and the Financial Markets and Treasury Risk unit. - The Banking Group's Market Risk Management Framework sets out the Banking Group's market risk appetite, roles and responsibilities of key people managing market risk within the Banking Group, risk reporting and control processes and limits and targets used to manage market risk. - The Banking Group's Market Risk Management Framework makes a distinction between traded and non-traded market risk for the purposes of risk management, measurement and reporting.	- The Banking Group's Market Risk Management Framework does not allow for traded market risk, including equity and commodity price risks. Any traded market risk activities are conducted by the Ultimate Parent Bank's financial markets business through its NZ Branch and in accordance with the Ultimate Parent Bank's Market Risk Management Framework. - Non-traded market risk arises from banking book activities and is primarily comprised of IRRBB. The Banking Group does not carry material foreign exchange risks due to the risks being hedged. - Market risk is managed using VaR limit, NaR and structural risk limits (including credit spread and interest rate basis point value limits) as well as scenario analysis and stress testing. - Daily market risk reports are reviewed by Treasury, and the Financial Markets and Treasury Risk unit. Key market risk metrics are presented to ALCO monthly and to RISKCO and BRCC quarterly.

Climate change risk

The 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 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 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.

The Banking Group 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**'). The Banking Group 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 the Banking Group's approach to managing climate change risks against the four TCFD pillars is described below.

Note 32 Risk management, funding and liquidity risk and market risk (continued)

Governance:

- The Bank's Board is responsible for considering the social, ethical, and environmental impact of the Banking Group's activities and setting standards and monitoring compliance with the Banking Group's sustainability policies and practices. The Bank's RISKCO oversees material risks, including climate-related risks. The Bank's CREDCO, a subcommittee of RISKCO, oversees climate-related risks that present a credit risk to the Banking Group. In October 2023, the charters of the Bank's 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 the Bank's long-term resilience to climate risks.
- The Banking Group is also represented on the Ultimate Parent Bank 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 Ultimate Parent Bank Group and reports to the Ultimate Parent Bank Group's CREDCO.

Strategy:

- The Banking Group 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 the Banking Group.
- During the year ended 30 September 2022, the Ultimate Parent Bank joined the United Nations-convened Net Zero Banking Alliance reinforcing its commitment to the global transition to a net-zero economy by 2050.
- The Bank 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, the Bank launched a Sustainable Farm Loan that supports customers to achieve the Westpac Sustainable Farm Standard, an all-of-farm sustainability criteria designed for the Bank 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 Ultimate Parent Bank has committed to align the Ultimate Parent Bank 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 subsidiaries of the Ultimate Parent Bank Group, the Banking Group is covered by the Ultimate Parent Bank's NZBA commitment and targets.
- The Banking Group continues to evolve its ability to conduct climate-related scenario analysis.

Risk Management:

- Climate change risks are managed in accordance with the Banking Group's Risk Management Framework which is supported by the Banking Group's Sustainability Risk Management Framework (SRMF), the Banking Group's ESG Credit Risk Policy and the Bank'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 the Banking Group's changing needs and expectations.
- The Banking Group regularly reviews its operating environment and maintains an Emerging Risk Landscape. This helps the Banking Group 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:

- The Banking Group monitors its climate-related risks through metrics and targets covering its exposure to coastal hazards, sustainable finance, and its own operational emissions.
- The Banking Group'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 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 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 the Banking Group's approach to climate-related risks, refer to the 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 32 Risk management, funding and liquidity risk and market risk (continued)

32.2 Funding and liquidity risk

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

32.2.1 Liquidity modelling

The Banking Group is subject to the conditions of BS13. The following metrics are calculated and reported on a daily basis in accordance with BS13:

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

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

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

32.2.2 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, the balance is $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, the balance is $4,981 million under the FLP (30 September 2022: $3,871 million).

Liquid assets

The following table shows the 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.

	THE BANKING GROUP	
$ millions	**2023**	2022
Cash and balances with central banks	**9,233**	10,820
Supranational securities	**2,335**	1,900
NZ Government securities	**2,490**	788
NZ public securities	**3,059**	2,544
NZ corporate securities	**1,738**	1,236
Total on-balance sheet liquid assets	**18,855**	17,288

In addition, the 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 32 Risk management, funding and liquidity risk and market risk (continued)

Concentration of funding

	THE BANKING GROUP	
$ millions	**2023**	2022
Funding consists of		
Collateral received	**303**	82
Deposits and other borrowings	**82,196**	80,848
Other financial liabilities[1]	**5,098**	3,971
Due to related entities[2]	**1,922**	2,060
Debt issues[3]	**18,597**	19,933
Loan capital	**2,666**	2,083
Total funding	**110,782**	108,977
Analysis of funding by geographical areas[3]		
New Zealand	**91,749**	88,873
Australia	**730**	709
United Kingdom	**9,938**	8,220
United States of America	**3,016**	5,810
China	**2,822**	2,775
Other	**2,527**	2,590
Total funding	**110,782**	108,977
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	**40,027**	40,056
Forestry and fishing	**164**	180
Government, administration and defence	**3,539**	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]	**4,283**	4,107
Subtotal	**108,860**	106,917
Due to related entities[2]	**1,922**	2,060
Total funding	**110,782**	108,977

[1] Other financial liabilities, as presented above, are in respect of repurchase agreements 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] Includes deposits from non-residents.

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

Note 32 Risk management, funding and liquidity risk and market risk (continued)

32.2.3 Assets pledged as collateral

The Banking Group is required to provide collateral to other financial institutions, as part of standard terms, to secure liabilities. In addition to assets supporting the Covered Bond Programme disclosed in Note 29, the carrying value of these financial assets pledged as collateral is:

	THE BANKING GROUP	
$ millions	**2023**	2022
Cash	**33**	42
Securities pledged under repurchase agreements:		
Trading securities and financial assets measured at FVIS[1]	**14**	-
Investment securities[2]	**510**	1,397
Residential mortgage-backed securities[3]	**6,469**	4,998
Total amount pledged to secure liabilities (excluding Covered Bond Programme)	**7,026**	6,437

[1] As at 30 September 2023, $14 million of trading securities were pledged as collateral to the NZ Branch, which is recorded within due to related entities on the balance sheet (30 September 2022: nil).

[2] As at 30 September 2023, $389 million of investment securities were pledged as collateral to the NZ Branch, which is recorded within due to related entities on the balance sheet (30 September 2022: $1,397 million) and $121 million of investment securities were pledged to third parties which is recorded within other financial liabilities on the balance sheet (30 September 2022: nil).

[3] As at 30 September 2023, the Banking Group has undertaken repurchase agreements with the Reserve Bank, under the Funding for Lending Programme and Term Lending Facility, using residential mortgage-backed securities. For the Funding for Lending Programme, the repurchase cash amount at 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).

32.2.4 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 Banking Group manages inherent liquidity risk based on expected cash flows.

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

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

Notes to the financial statements

Note 32 Risk management, funding and liquidity risk and market risk (continued)

	THE 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	-	303	-	-	-	-	303
Deposits and other borrowings	39,788	7,257	12,709	21,808	2,014	-	83,576
Other financial liabilities	4	265	-	2,273	3,440	-	5,982
Derivative financial instruments:							
Held for trading	18	-	-	-	-	-	18
Held for hedging purposes (net settled)	-	-	2	4	(14)	1	(7)
Held for hedging purposes (gross settled):							
Cash outflow	-	-	21	908	82	389	1,400
Cash inflow	-	-	(6)	(885)	(22)	(375)	(1,288)
Due to related entities:							
Non-derivative balances	1,503	404	32	-	18	-	1,957
Derivative financial instruments:							
Held for trading	6	-	-	-	-	-	6
Held for hedging purposes (net settled)	-	46	140	(5)	174	-	355
Held for hedging purposes (gross settled):							
Cash outflow	-	21	67	272	6,044	101	6,505
Cash inflow	-	-	(6)	(19)	(5,531)	(109)	(5,665)
Debt issues	-	354	729	5,584	13,691	484	20,842
Loan capital	-	-	19	58	304	3,119	3,500
Total undiscounted financial liabilities	41,319	8,650	13,707	29,998	20,200	3,610	117,484
Total contingent liabilities and commitments							
Letters of credit and guarantees	1,614	-	-	-	-	-	1,614
Commitments to extend credit	27,588	-	-	-	-	-	27,588
Total undiscounted contingent liabilities and commitments	29,202	-	-	-	-	-	29,202

Note 32 Risk management, funding and liquidity risk and market risk (continued)

	THE 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	-	82	-	-	-	-	82
Deposits and other borrowings	43,277	6,960	11,873	17,744	1,656	-	81,510
Other financial liabilities	4	83	-	96	4,296	-	4,479
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	3	-	1	-	-	4
Held for hedging purposes (gross settled):							
Cash outflow	-	9	15	89	1,850	402	2,365
Cash inflow	-	-	(5)	(7)	(1,743)	(370)	(2,125)
Due to related entities:							
Non-derivative balances	685	1,326	43	-	31	2	2,087
Derivative financial instruments:							
Held for trading	(22)	-	-	-	-	-	(22)
Held for hedging purposes (net settled)	-	7	83	42	198	1	331
Held for hedging purposes (gross settled):							
Cash outflow	-	25	45	270	6,151	1,479	7,970
Cash inflow	-	-	(5)	(28)	(5,282)	(1,457)	(6,772)
Debt issues	-	670	2,613	3,495	12,968	1,944	21,690
Loan capital	-	-	9	28	149	2,306	2,492
Total undiscounted financial liabilities	43,944	9,165	14,671	21,730	20,274	4,307	114,091
Total contingent liabilities and commitments							
Letters of credit and guarantees	1,609	-	-	-	-	-	1,609
Commitments to extend credit	27,901	-	-	-	-	-	27,901
Total undiscounted contingent liabilities and commitments	29,510	-	-	-	-	-	29,510

Note 32 Risk management, funding and liquidity risk and market risk (continued)

32.2.5 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 Banking Group expects a large proportion of these balances to be retained.

	THE 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	**9,233**	**-**	**9,233**	10,820	-	10,820
Collateral paid	**33**	**-**	**33**	42	-	42
Trading securities and financial assets measured at FVIS	**1,675**	**986**	**2,661**	1,325	793	2,118
Derivative financial instruments	**127**	**185**	**312**	58	111	169
Investment securities	**1,475**	**5,176**	**6,651**	558	5,065	5,623
Loans	**15,509**	**83,819**	**99,328**	14,443	82,439	96,882
Due from related entities	**1,713**	**865**	**2,578**	1,322	1,284	2,606
All other assets	**497**	**1,347**	**1,844**	469	1,089	1,558
Total assets	**30,262**	**92,378**	**122,640**	29,037	90,781	119,818
Liabilities						
Collateral received	**303**	**-**	**303**	82	-	82
Deposits and other borrowings	**80,346**	**1,850**	**82,196**	79,283	1,565	80,848
Derivative financial instruments	**9**	**62**	**71**	3	115	118
Due to related entities	**2,033**	**700**	**2,733**	2,103	858	2,961
Debt issues	**6,166**	**12,431**	**18,597**	6,541	13,392	19,933
Loan capital	**-**	**2,666**	**2,666**	-	2,083	2,083
All other liabilities	**3,502**	**3,428**	**6,930**	399	4,614	5,013
Total liabilities	**92,359**	**21,137**	**113,496**	88,411	22,627	111,038

32.3 Market risk

32.3.1 VaR

The Banking Group uses VaR as one of the mechanisms for controlling 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.

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 key parameters of VaR are:

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

Note 32 Risk management, funding and liquidity risk and market risk (continued)

32.3.2 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 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):

	THE 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	**2.52**	**2.52**	**0.84**	**1.69**	1.12	3.58	0.98	1.91

VaR – IRRBB[1]

The table below depicts VaR for IRRBB:

	THE BANKING GROUP							
	2023				2022			
$ millions	As at	Maximum Exposure	Minimum Exposure	Average Exposure	As at	Maximum Exposure	Minimum Exposure	Average Exposure
Interest rate risk	**1.7**	**2.9**	**1.2**	**2.0**	1.7	3.3	0.8	1.8

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

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 Banking Group hedges its exposure to such interest rate risk using derivatives. Further details on the Banking Group's use of hedge accounting are discussed in Note 24.

Note 33 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

	THE BANKING GROUP	
$ millions	**2023**	2022
Cash and cash equivalents comprise:		
Cash and balances with central banks:		
Cash on hand	**202**	289
Balances with central banks	**9,031**	10,531
Cash and cash equivalents at end of the year	**9,233**	10,820

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

	THE BANKING GROUP	
$ millions	**2023**	2022
Net profit attributable to the owner of the Bank	**1,059**	1,047
Adjustments:		
Impairment charges/(benefits)	**135**	(27)
Computer software amortisation costs	**60**	47
Depreciation	**82**	88
(Gain)/loss from hedging ineffectiveness	**-**	(5)
Movement in accrued interest receivable	**(85)**	(76)
Movement in accrued interest payable	**611**	238
Movement in current and deferred tax	**126**	130
Share-based payments	**3**	3
Other non-cash items	**(60)**	62
Cash flows from operating activities before changes in operating assets and liabilities	**1,931**	1,507
Movement in collateral paid	**9**	143
Movement in trading securities and financial assets measured at FVIS	**(550)**	153
Movement in loans	**(2,327)**	(4,581)
Movement in other financial assets	**27**	3
Movement in due from related entities	**(795)**	920
Movement in other assets	**(2)**	(1)
Movement in collateral received	**221**	(106)
Movement in deposits and other borrowings	**1,348**	1,481
Movement in other financial liabilities	**1,130**	1,286
Movement in due to related entities	**(167)**	466
Movement in other liabilities	**9**	13
Net movement in external and related entity derivative financial instruments	**492**	266
Net cash provided by/(used in) operating activities	**1,326**	1,550

Registered bank disclosures

This section contains the additional disclosures required by the Order.

i. General information (Unaudited)

Ultimate Parent Bank

The Ultimate Parent Bank is incorporated in Australia under the Australian Corporations Act 2001 and its address for service of process is Level 18, Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

Limits on material financial support by the Ultimate Parent Bank

The Ultimate Parent Bank is an ADI under the Banking Act 1959 (Commonwealth of Australia) ('**Australian Banking Act**') and, as such, is subject to prudential regulation and supervision by APRA. APRA has the power to prescribe prudential requirements which may affect the ability of the Ultimate Parent Bank to provide material financial support to the Bank. Pursuant to current APRA requirements, and unless APRA provides otherwise, the Ultimate Parent Bank must comply with, among other prudential requirements, APS 222.

On 20 August 2019 APRA released the final revised standard for APS 222 which came into effect on 1 January 2022. Key changes include revisions to the limit for exposure to ADIs (or overseas based equivalents) from 50% of Total Regulatory Capital to 25% of Tier 1 Capital. The revised standard also included changes to the requirements for entities to be included in the Ultimate Parent Bank Extended Licensed Entity (Level 1). APS 222 includes the following prudential requirements:

- the Ultimate Parent Bank's exposure to the Bank (being an overseas equivalent of an ADI as defined in APS 222) must not exceed 25% of the Ultimate Parent Bank's Level 1 capital base (as defined in APS 222);
- the Ultimate Parent Bank must not hold unlimited exposures to the Bank; and
- the Ultimate Parent Bank must not enter into cross-default provisions whereby a default by the Bank on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default of the Ultimate Parent Bank in its obligations;
- when determining limits on acceptable levels of exposure to the Bank, the Ultimate Parent Bank must have regard to:
  - the level of exposures that would be approved for unrelated entities of broadly equivalent credit status; and
  - the impact on the Ultimate Parent Bank's stand-alone capital and liquidity positions in the event of a failure of the Bank or any other related entity to which it is exposed.

Under APS 222, APRA has the ability to set specific limits on the Ultimate Parent Bank's exposure to related entities, which include the Bank.

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

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

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

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

APRA requires that the ELE of the Ultimate Parent Bank limit its non-equity exposures to New Zealand banking subsidiaries to 5% of the Ultimate Parent 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 Ultimate Parent Bank and its subsidiary entities that have been approved by APRA to be included in the ELE for the purposes of measuring capital adequacy.

i. General information (Unaudited) (continued)

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. 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 Ultimate Parent Bank.

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

Voting securities and power to appoint directors

The Bank is a wholly-owned subsidiary of Westpac New Zealand Group Limited, a New Zealand incorporated company, which in turn is a wholly-owned subsidiary of Westpac Overseas Holdings No. 2 Pty Limited, an Australian incorporated company. Westpac Overseas Holdings No. 2 Pty Limited is, in turn, a wholly-owned subsidiary of the Ultimate Parent Bank.

At 30 September 2023, Westpac New Zealand Group Limited has a direct qualifying interest in 100% of the voting securities of the Bank. Westpac Overseas Holdings No. 2 Pty Limited and the Ultimate Parent Bank have an indirect qualifying interest in 100% of the voting securities of the Bank.

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

Priority of financial liabilities in the event of liquidation

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

Guarantee arrangements

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

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

Directorate

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

Name: Philippa Mary Greenwood, LLB **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Fisher & Paykel Healthcare Corporation Limited, The A2 Milk Company Limited, and ALP Studios Limited.
Name: Catherine Anne McGrath, LLB, BCom **Non-executive:** No **Country of Residence:** New Zealand **Primary Occupation:** Chief Executive, Westpac New Zealand Limited **Secondary Occupations:** Director **Board Audit Committee Member:** No **Independent Director:** No	**External Directorships:** Director of BT Funds Management (NZ) Limited.
Name: David John Green **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of Casa Verde Investments Limited, Abner & Hobson Limited, MyFarm UF1 GP Limited, BT Funds Management (NZ) Limited and EROAD Limited.

i. General information (Unaudited) (continued)

Name: Robert David Hamilton, BSc, BCom **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of Tourism Holdings Limited, Oceania Healthcare Limited, Stelvio Consulting Limited, and Kamari Consulting Limited
Name: David Thomas Havercroft, BA (Hons) **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of DJH Corporate Trustees Limited, Reflect Limited, The Guitar Gallery Limited, W3 Capital Limited, and Spark New Zealand Limited.
Name: Ian Samuel Knowles, MSc, BSc, FIstD **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Adminis Limited, Adminis NZ Limited, Adminis Custodial Nominees Limited, Adminis Investors Nominees Limited, ACNL Nominees No. 1 Limited, Leadrly Limited, On-Brand Partners (NZ) Limited, Tohora Holding Limited, Rangatira Limited, Fire Security Services 2016 Limited, Montoux Limited, Software Innovation NZ Limited, Umajin Inc, Growthcom Limited, Com Investments Limited, Com Nominees Limited, and CFB Group Inc.
Name: Jonathan Parker Mason, MBA, MA, BA **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes, Chair **Independent Director:** Yes	**External Directorships:** Director of Zespri Group Limited, Zespri International Limited and Allagash Limited.
Name: Christine Joy Parker, BGDipBus (HRM) **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Group Executive, Human Resources, Westpac Banking Corporation **Secondary Occupations:** Director **Board Audit Committee Member:** No **Independent Director:** No	**External Directorships:** Director of St. George Foundation Limited.
Name: Michael Campbell Rowland, B.Comm, FCA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Chief Financial Officer, Westpac Banking Corporation **Secondary Occupations:** Director **Board Audit Committee Member:** Yes **Independent Director:** No	**External Directorships:** Director of Rebalti Investments Pty Limited and Rebalti Pty Limited.

Changes to Directorate

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

Address for communications

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

Registered bank disclosures

i. General information (Unaudited) (continued)

Board Audit Committee

There is a Board Audit Committee that covers audit matters, comprising four members, all of whom are non-executive directors and three of whom are independent directors.

Conflicts of Interest Policy

The Bank's Conflicts of Interest Policy establishes procedures to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Bank and their personal, professional or business interests are managed appropriately.

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

Transactions with directors

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

- Has been entered into on terms other than those which would, in the ordinary course of business of the 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 duties.

Information pertaining to loans to and other transactions with Directors is disclosed in Note 23 of this Disclosure Statement.

Auditor

PricewaterhouseCoopers
PwC Tower, Level 27
15 Customs Street West
Auckland, New Zealand

Pending proceedings or arbitration

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

Credit ratings

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

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	A+	Stable
Moody's Investors Service	A1	Stable
S&P Global Ratings	AA-	Stable

The 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 statements

	THE BANKING GROUP				
$ millions	**2023**	2022	2021	2020	2019
Income statement					
Interest income	**6,243**	3,741	3,012	3,540	4,011
Interest expense	**(3,590)**	(1,450)	(946)	(1,665)	(2,068)
Net interest income	**2,653**	2,291	2,066	1,875	1,943
Non-interest income	**248**	268	240	243	329
Net operating income	**2,901**	2,559	2,306	2,118	2,272
Operating expenses	**(1,291)**	(1,131)	(1,099)	(1,030)	(961)
Impairment (charges)/benefits	**(135)**	27	84	(320)	10
Profit before income tax expense	**1,475**	1,455	1,291	768	1,321
Income tax expense	**(416)**	(408)	(360)	(218)	(357)
Net profit attributable to the owner of the Bank	**1,059**	1,047	931	550	964
Dividends paid or provided	**(652)**	(788)	(275)	(325)	(2,965)
Balance sheet					
Total assets	**122,640**	119,818	112,380	103,192	96,607
Total individually impaired assets	**62**	60	109	129	69
Total liabilities	**113,496**	111,038	104,017	95,502	89,190
Total shareholder's equity	**9,144**	8,780	8,363	7,690	7,417

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

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 the Bank under section 95 of the Banking (Prudential Supervision) Act 1989 requiring the Bank 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 the Bank and not to the Ultimate Parent 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 Bank's Board.

From 31 March 2021, the Reserve Bank amended the Bank's conditions of registration, requiring the Bank to discount the value of its liquid assets by approximately 14%. 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, the Bank 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 the Bank'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 the Bank. The Reserve Bank's revised policy on overseas bank branches will require changes to the activities the NZ Branch undertakes.

ii. Additional financial disclosures

Additional information on balance sheet

	THE BANKING GROUP	
$ millions	2023	2022
Interest earning and discount bearing assets	**119,546**	116,325
Interest and discount bearing liabilities	**99,776**	95,643

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 Banking Group's policy guidelines.

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 30 September 2023. The Banking Group uses this contractual repricing information as a base, which is then altered to take account of customer behaviour, to manage its interest rate risk.

	THE BANKING GROUP						
	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**	**-**	**-**	**-**	**-**	**201**	**9,233**
Collateral paid	**33**	**-**	**-**	**-**	**-**	**-**	**33**
Trading securities and financial assets measured at FVIS	**1,223**	**293**	**158**	**522**	**465**	**-**	**2,661**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**312**	**312**
Investment securities	**234**	**99**	**1,142**	**914**	**4,262**	**-**	**6,651**
Loans	**46,466**	**8,361**	**18,596**	**18,346**	**8,119**	**(560)**	**99,328**
Other financial assets	**-**	**-**	**-**	**-**	**-**	**314**	**314**
Due from related entities	**1,281**	**-**	**-**	**-**	**-**	**1,297**	**2,578**
Total financial assets	**58,269**	**8,753**	**19,896**	**19,782**	**12,846**	**1,564**	**121,110**
Non-financial assets							**1,530**
Total assets							**122,640**
Financial liabilities							
Collateral received	**303**	**-**	**-**	**-**	**-**	**-**	**303**
Deposits and other borrowings	**47,265**	**12,081**	**8,991**	**1,055**	**795**	**12,009**	**82,196**
Other financial liabilities	**5,096**	**-**	**-**	**-**	**-**	**1,076**	**6,172**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**71**	**71**
Due to related entities	**1,904**	**-**	**-**	**-**	**18**	**811**	**2,733**
Debt issues	**1,195**	**2,908**	**3,171**	**1,108**	**11,207**	**(992)**	**18,597**
Loan capital	**1,494**	**-**	**-**	**-**	**1,185**	**(13)**	**2,666**
Total financial liabilities	**57,257**	**14,989**	**12,162**	**2,163**	**13,205**	**12,962**	**112,738**
Non-financial liabilities							**758**
Total liabilities							**113,496**
On-balance sheet interest rate repricing gap	**1,012**	**(6,236)**	**7,734**	**17,619**	**(359)**		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	**16,313**	**1,482**	**(10,029)**	**(12,096)**	**4,330**		
Net interest rate repricing gap	**17,325**	**(4,754)**	**(2,295)**	**5,523**	**3,971**		

ii. Additional financial disclosures (continued)

Additional information on liquidity risk

Refer to Note 32.2.4 Contractual maturity of financial liabilities which shows the maturity analyses of financial liabilities.

Reconciliation of mortgage-related amounts

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

	THE BANKING GROUP
$ millions	**30 Sep 23**
Residential mortgages - total gross loans (as disclosed in Note 11, Note 13.4 and Note iii. Asset quality)	**65,766**
Reconciling items:	
Unamortised deferred fees and expenses	**(422)**
Fair value hedge adjustments	**182**
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. Capital adequacy and regulatory liquidity ratios)	**74,808**
Accrued interest receivable	**89**
Partial write-offs	**4**
Residential mortgages - EAD (as disclosed in Credit risk exposures by asset class in Note iv. Capital adequacy and regulatory liquidity ratios)	**74,901**

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

iii. Asset quality

Past due assets

	THE BANKING GROUP			
	30 Sep 23			
$ millions	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Past due but not individually impaired assets				
Less than 30 days past due	**1,006**	**81**	**273**	**1,360**
At least 30 days but less than 60 days past due	**152**	**12**	**80**	**244**
At least 60 days but less than 90 days past due	**95**	**6**	**8**	**109**
At least 90 days past due	**199**	**19**	**98**	**316**
Total past due but not individually impaired assets	**1,452**	**118**	**459**	**2,029**

	THE BANKING GROUP			
	30 Sep 22			
$ millions	Residential Mortgages	Other Retail	Corporate	Total
Past due but not individually impaired assets				
Less than 30 days past due	876	88	171	1,135
At least 30 days but less than 60 days past due	92	12	51	155
At least 60 days but less than 90 days past due	58	6	48	112
At least 90 days past due	129	20	75	224
Total past due but not individually impaired assets	1,155	126	345	1,626

Movements in components of loss allowance

Refer to Note 12 Provision for expected credit losses for the movements in the Banking Group's loss allowance components, as required by NZ IFRS 9.

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.

	THE 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	**85,362**	**11,374**	**482**	**60**	**97,278**
Transfers:					
Transfers to Stage 1	**9,936**	**(9,892)**	**(43)**	**(1)**	**-**
Transfers to Stage 2	**(22,816)**	**23,013**	**(195)**	**(2)**	**-**
Transfers to Stage 3 CAP	**(61)**	**(596)**	**671**	**(14)**	**-**
Transfers to Stage 3 IAP	**-**	**(6)**	**(32)**	**38**	**-**
Net further lending/(repayment)	**(2,995)**	**1,090**	**(17)**	**(3)**	**(1,925)**
New financial assets originated	**15,026**	**-**	**-**	**-**	**15,026**
Financial assets derecognised during the year	**(8,317)**	**(2,059)**	**(133)**	**(4)**	**(10,513)**
Amounts written-off	**-**	**-**	**(24)**	**(12)**	**(36)**
Total gross carrying amount as at 30 September 2023	**76,135**	**22,924**	**709**	**62**	**99,830**
Provision for ECL as at 30 September 2023	**(76)**	**(296)**	**(107)**	**(23)**	**(502)**
Total net carrying amount as at 30 September 2023	**76,059**	**22,628**	**602**	**39**	**99,328**

	THE 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	84,661	7,833	500	109	93,103
Transfers:					
Transfers to Stage 1	4,568	(4,463)	(105)	-	-
Transfers to Stage 2	(8,707)	8,914	(204)	(3)	-
Transfers to Stage 3 CAP	(112)	(349)	471	(10)	-
Transfers to Stage 3 IAP	(1)	(12)	(13)	26	-
Net further lending/(repayment)	(2,462)	73	(10)	(8)	(2,407)
New financial assets originated	20,181	-	-	-	20,181
Financial assets derecognised during the year	(12,766)	(622)	(134)	(5)	(13,527)
Amounts written-off	-	-	(23)	(49)	(72)
Total gross carrying amount as at 30 September 2022	85,362	11,374	482	60	97,278
Provision for ECL as at 30 September 2022	(85)	(215)	(69)	(27)	(396)
Total net carrying amount as at 30 September 2022	85,277	11,159	413	33	96,882

iii. Asset quality (continued)

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

The impacts of changes in gross carrying amounts of loans on expected loss allowance can be further disaggregated into the following types of credit exposure:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	Total
$ millions	CAP	CAP	CAP	IAP	
Residential mortgages					
Total gross carrying amount as at 30 September 2022	**57,337**	**6,172**	**340**	**20**	**63,869**
Transfers:					
Transfers to Stage 1	6,009	(5,980)	(29)	-	-
Transfers to Stage 2	(15,225)	15,373	(148)	-	-
Transfers to Stage 3 CAP	(45)	(373)	424	(6)	-
Transfers to Stage 3 IAP	-	(1)	(26)	27	-
Net further lending/(repayment)	(2,906)	343	(12)	(1)	(2,576)
New financial assets originated	9,360	-	-	-	9,360
Financial assets derecognised during the year	(4,031)	(776)	(72)	(3)	(4,882)
Amounts written-off	-	-	-	(5)	(5)
Total gross carrying amount as at 30 September 2023	**50,499**	**14,758**	**477**	**32**	**65,766**
Provision for ECL as at 30 September 2023	(37)	(139)	(61)	(10)	(247)
Total net carrying amount as at 30 September 2023	**50,462**	**14,619**	**416**	**22**	**65,519**
Other retail					
Total gross carrying amount as at 30 September 2022	**2,063**	**708**	**56**	**2**	**2,829**
Transfers:					
Transfers to Stage 1	1,122	(1,112)	(9)	(1)	-
Transfers to Stage 2	(1,137)	1,153	(16)	-	-
Transfers to Stage 3 CAP	(7)	(62)	72	(3)	-
Transfers to Stage 3 IAP	-	-	(3)	3	-
Net further lending/(repayment)	(282)	133	(2)	1	(150)
New financial assets originated	382	-	-	-	382
Financial assets derecognised during the year	(277)	(95)	(17)	(1)	(390)
Amounts written-off	-	-	(23)	-	(23)
Total gross carrying amount as at 30 September 2023	**1,864**	**725**	**58**	**1**	**2,648**
Provision for ECL as at 30 September 2023	(11)	(34)	(12)	(1)	(58)
Total net carrying amount as at 30 September 2023	**1,853**	**691**	**46**	**-**	**2,590**
Corporate					
Total gross carrying amount as at 30 September 2022	**25,841**	**4,494**	**86**	**38**	**30,459**
Transfers:					
Transfers to Stage 1	2,805	(2,800)	(5)	-	-
Transfers to Stage 2	(6,454)	6,487	(31)	(2)	-
Transfers to Stage 3 CAP	(9)	(161)	175	(5)	-
Transfers to Stage 3 IAP	-	(5)	(3)	8	-
Net further lending/(repayment)	189	590	(3)	(3)	773
New financial assets originated	5,131	-	-	-	5,131
Financial assets derecognised during the year	(3,925)	(1,164)	(44)	-	(5,133)
Amounts written-off	-	-	(1)	(7)	(8)
Total gross carrying amount as at 30 September 2023	**23,578**	**7,441**	**174**	**29**	**31,222**
Provision for ECL as at 30 September 2023	(28)	(123)	(34)	(12)	(197)
Total net carrying amount as at 30 September 2023	**23,550**	**7,318**	**140**	**17**	**31,025**

The above gross carrying amount table does not include 'Other' credit exposures (refer to Note 11) on the basis that the provision for ECL is nil.

iii. Asset quality (continued)

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	Total
$ millions	CAP	CAP	CAP	IAP	
Residential mortgages					
Total gross carrying amount as at 30 September 2021	56,573	3,878	382	21	60,854
Transfers:					
Transfers to Stage 1	2,376	(2,313)	(63)	-	-
Transfers to Stage 2	(4,856)	5,022	(166)	-	-
Transfers to Stage 3 CAP	(73)	(208)	287	(6)	-
Transfers to Stage 3 IAP	(1)	-	(9)	10	-
Net further lending/(repayment)	(3,724)	41	(7)	(1)	(3,691)
New financial assets originated	12,946	-	-	-	12,946
Financial assets derecognised during the year	(5,904)	(248)	(84)	(1)	(6,237)
Amounts written-off	-	-	-	(3)	(3)
Total gross carrying amount as at 30 September 2022	57,337	6,172	340	20	63,869
Provision for ECL as at 30 September 2022	(40)	(87)	(43)	(9)	(179)
Total net carrying amount as at 30 September 2022	57,297	6,085	297	11	63,690
Other retail					
Total gross carrying amount as at 30 September 2021	2,519	392	64	1	2,976
Transfers:					
Transfers to Stage 1	719	(709)	(10)	-	-
Transfers to Stage 2	(1,041)	1,059	(18)	-	-
Transfers to Stage 3 CAP	(16)	(61)	77	-	-
Transfers to Stage 3 IAP	-	-	(1)	1	-
Net further lending/(repayment)	(193)	82	(13)	1	(123)
New financial assets originated	440	-	-	-	440
Financial assets derecognised during the year	(365)	(55)	(20)	-	(440)
Amounts written-off	-	-	(23)	(1)	(24)
Total gross carrying amount as at 30 September 2022	2,063	708	56	2	2,829
Provision for ECL as at 30 September 2022	(12)	(36)	(13)	(1)	(62)
Total net carrying amount as at 30 September 2022	2,051	672	43	1	2,767
Corporate					
Total gross carrying amount as at 30 September 2021	25,440	3,563	54	87	29,144
Transfers:					
Transfers to Stage 1	1,473	(1,441)	(32)	-	-
Transfers to Stage 2	(2,810)	2,833	(20)	(3)	-
Transfers to Stage 3 CAP	(23)	(80)	107	(4)	-
Transfers to Stage 3 IAP	-	(12)	(3)	15	-
Net further lending/(repayment)	1,506	(50)	10	(8)	1,458
New financial assets originated	6,049	-	-	-	6,049
Financial assets derecognised during the year	(5,794)	(319)	(30)	(4)	(6,147)
Amounts written-off	-	-	-	(45)	(45)
Total gross carrying amount as at 30 September 2022	25,841	4,494	86	38	30,459
Provision for ECL as at 30 September 2022	(33)	(92)	(13)	(17)	(155)
Total net carrying amount as at 30 September 2022	25,808	4,402	73	21	30,304

The above gross carrying amount table does not include 'Other' credit exposures (refer to Note 11) on the basis that the provision for ECL is nil.

Registered bank disclosures

iii. Asset quality (continued)

Other asset quality information

	THE BANKING GROUP				
	30 Sep 23				
$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
Undrawn commitments with individually impaired counterparties	-	-	1	-	1
Other assets under administration	-	-	-	-	-

	THE BANKING GROUP				
	30 Sep 22				
$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
Undrawn commitments with individually impaired counterparties	1	-	1	-	2
Other assets under administration	-	-	-	-	-

iv. Capital adequacy and regulatory liquidity ratios (Unaudited)

The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the Reserve Bank BPRs.

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

The Banking Group's capital summary as at 30 September 2023

		THE BANKING GROUP
$ millions	Note	**2023**
Tier 1 capital		
Common Equity Tier 1 capital		
Paid-up ordinary shares issued by the Bank plus related share premium	22	**7,300**
Retained earnings (net of appropriations)		**1,754**
Accumulated other comprehensive income and other disclosed reserves[1]		**90**
Less deductions from Common Equity Tier 1 capital		
Goodwill		**(477)**
Other intangible assets[2]		**(480)**
Cash flow hedge reserve		**(377)**
Deferred tax asset deduction		**(77)**
Expected loss excess over eligible allowance		**(11)**
Total Common Equity Tier 1 capital		**7,722**
Additional Tier 1 capital		
Additional Tier 1 capital instruments[3]	21	**1,125**
Total additional Tier 1 capital		**1,125**
Total Tier 1 capital		**8,847**
Tier 2 capital		
Tier 2 capital instruments[3]	21	**1,200**
Revaluation reserves		**-**
Eligible impairment allowance in excess of expected loss		**4**
Total Tier 2 capital		**1,204**
Total capital		**10,051**

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

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

[3] Classified as a liability under Generally Accepted Accounting Practice and excludes capitalised transaction costs. Additional Tier 1 capital instruments and Tier 2 capital instruments are itemised in Note 21. Further details on convertibility for Additional Tier 1 capital instruments are noted in Note 21.

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Capital Structure

Refer to Note 21 Loan capital and Note 22 Share capital for information on the Banking Group's capital structure.

Credit risk subject to the IRB approach

Credit risk exposures by asset class

The Banking Group's credit risk exposures by asset class as at 30 September 2023

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Residential mortgages						
Up to and including 0.10	-	-	-	-	-	-
Over 0.10 up to and including 0.50	0.47	34,806	14.26	11.57	4,833	387
Over 0.50 up to and including 1.0	0.70	26,104	21.09	22.73	7,120	569
Over 1.0 up to and including 2.5	1.53	12,732	23.08	44.99	6,873	550
Over 2.5 up to and including 10.0	3.71	748	26.02	87.96	789	63
Over 10.0 up to and including 99.99	-	-	-	-	-	-
Default	100.00	511	21.28	116.18	713	57
Total	1.44	74,901	18.31	22.62	20,328	1,626
Other retail						
Up to and including 0.10	0.05	721	46.38	6.83	59	5
Over 0.10 up to and including 0.50	0.19	856	54.40	21.01	216	17
Over 0.50 up to and including 1.0	0.54	281	55.97	42.02	142	11
Over 1.0 up to and including 2.5	1.77	512	66.89	80.53	494	40
Over 2.5 up to and including 10.0	5.30	328	70.07	104.21	410	33
Over 10.0 up to and including 99.99	19.05	51	76.80	154.59	97	8
Default	100.00	13	80.89	98.64	15	1
Total	1.91	2,762	57.18	43.22	1,433	115
Small business						
Up to and including 0.10	0.10	27	23.13	5.74	2	-
Over 0.10 up to and including 0.50	0.33	923	26.23	14.51	161	13
Over 0.50 up to and including 1.0	0.91	601	31.63	30.87	223	18
Over 1.0 up to and including 2.5	1.83	340	27.64	34.96	142	11
Over 2.5 up to and including 10.0	4.59	162	29.98	43.93	86	7
Over 10.0 up to and including 99.99	16.11	18	35.51	67.90	13	2
Default	100.00	52	29.54	288.17	179	14
Total	3.62	2,123	28.39	31.66	806	65
Corporate/Business lending						
Up to and including 0.04	0.03	6,642	48.46	20.91	1,667	133
Over 0.04 up to and including 0.10	0.07	4,180	49.08	22.96	1,152	92
Over 0.10 up to and including 0.40	0.22	8,861	41.19	37.88	4,028	322
Over 0.40 up to and including 3.0	1.23	14,111	31.36	62.00	10,497	840
Over 3.0 up to and including 10.0	4.78	637	32.90	104.87	802	65
Over 10.0 up to and including 99.0	23.18	1,212	38.68	185.02	2,692	215
Default	100.00	238	37.67	27.84	79	6
Total	2.08	35,881	39.34	48.58	20,917	1,673
Total credit risk exposures subject to the internal ratings based approach		115,667			43,484	3,479

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

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

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

	Undrawn Commitments and other Off-Balance Sheet Contingent Liabilities[1]		Counterparty Credit Risk on Derivatives and Securities Financing Transactions	
$ millions	**Value**	**EAD**	**Value**	**EAD**
Residential mortgages	**12,862**	**9,282**	**-**	**-**
Other retail	**2,747**	**1,559**	**-**	**-**
Small business	**803**	**658**	**-**	**-**
Corporate/Business lending	**9,999**	**9,999**	**2,671**	**91**
Total	**26,411**	**21,498**	**2,671**	**91**

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

Additional mortgage information

Residential mortgages by LVR as at 30 September 2023

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

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

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

	THE BANKING GROUP					
	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**

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Specialised lending subject to the slotting approach

The Banking Group's specialised lending: Project and property finance credit risk exposures as at 30 September 2023

On-balance sheet exposures subject to the slotting approach	Total Exposures After Credit Risk Mitigation $ millions	Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Supervisory slotting grade				
Strong	3,855	70.00	3,238	260
Good	2,595	90.00	2,802	224
Satisfactory	284	115.00	392	31
Weak	188	250.00	564	45
Default	18	-	-	-
Total on-balance sheet exposures subject to the slotting approach	**6,940**	**83.35**	**6,996**	**560**

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

Off-balance sheet exposures subject to the slotting approach	EAD $ millions	Average Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Undrawn commitments and other off-balance sheet exposures	1,346	82.34	1,331	106
Total specialised lending exposures subject to the slotting approach	**8,286**	**83.74**	**8,327**	**666**

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

Credit risk exposures subject to the standardised approach

The Banking Group's credit risk exposures subject to the standardised approach as at 30 September 2023

BPR130 requires IRB Banks to apply Standardised RWA treatment to Sovereign and Bank Exposure Classes (which includes Sovereigns and Central Banks, Multilateral Development Banks, Public Sector Entities and Banks). The following table includes exposures where this has been applied.

Calculation of on-balance sheet exposures

	Total Exposure After Credit Risk Mitigation $ millions	Average Risk Weight %	Risk-weighted Exposure $ millions	Minimum Pillar 1 Capital Requirement $ millions
Sovereigns and central banks	11,891	-	-	-
Multilateral development banks and other international organisations	1,980	-	-	-
Public sector entities	2,257	20.00	451	36
Banks	1,750	45.90	803	65
Past due assets	1	108.39	1	-
Other assets[1]	2,048	47.69	977	78
Total on-balance sheet exposures subject to the standardised approach	**19,927**	**11.20**	**2,232**	**179**

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

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Calculation of off-balance sheet exposures

	Total Exposure Principal Amount $ millions	Average Credit Conversion Factor %	Credit Equivalent Amount $ millions	Average Risk Weight %	Risk-weighted Exposure $ millions	Minimum Pillar 1 Capital Requirement $ millions
Total off-balance sheet exposures subject to the standardised approach	**1,052**	**37.36**	**393**	**26.00**	**102**	**7**
Counterparty credit risk for counterparties subject to the standardised approach						
FX contracts	**17,989**	**N/A**	**990**	**20.00**	**198**	**16**
Interest rate contracts	**67,491**	**N/A**	**391**	**20.00**	**78**	**7**
Other	**-**	**N/A**	**-**	**-**	**406**	**32**
Total counterparty credit risk for counterparties subject to the standardised approach	**85,480**		**1,381**		**682**	**55**
Standardised subtotal (on- and off-balance sheet)			**21,701**		**3,016**	**241**

Credit risk mitigation

The Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities. This includes the Banking Group establishing that it has direct, irrevocable and unconditional recourse to collateral and other credit enhancements through obtaining legally enforceable documentation.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to LGD. Due to system limitations, the value of the guarantee is not always separately recorded, and therefore, neither this value nor a close alternative is available for disclosure, under Clause 7 of Schedule 11 to the Order. The Banking Group does not apply any credit risk mitigation from eligible financial collateral for exposures subject to the standardised approach or from credit derivatives as at 30 September 2023.

Equity risk

The Banking Group's equity exposures as at 30 September 2023

Equity	Total Exposure $ millions	Risk Weight %	Risk-weighted Exposure $ millions	Minimum Pillar 1 Capital Requirement $ millions
Equity holdings (not deducted from capital) included in the NZX 50 or overseas equivalent index	**-**	**300**	**-**	**-**
All other equity holdings (not deducted from capital)	**3**	**400**	**14**	**1**

Application of standardised floor to total credit risk RWA

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

- The greater of:
  - 1.2 x total RWA subject to the IRB RWA treatment (as shown in the tables in the sections Credit risk subject to the IRB approach and Specialised lending subject to the slotting approach on pages 87 and 89 respectively); and
  - 0.85 x total Standardised Equivalent RWA for each credit risk exposure subject to the IRB RWA treatment (commonly referred to as the standardised floor); and
- 1.0 x total RWA subject to the Standardised RWA treatment.

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

The following table shows the output from these calculations, and the resulting total credit risk RWA used in the calculation of the Bank and the Banking Group's total capital requirements and capital ratios as at 30 September 2023.

	THE BANKING GROUP			
	30 Sep 23			
	RWA for modelled exposures			
$ millions	RWA calculated using models[1,2]	RWA recalculated using standardised approach	RWA for standardised exposures[3]	Total credit risk RWA
Total IRB and supervisory slotting exposure	51,811	67,345		
Standardised floor		57,243		
RWA with floor applied		**57,243**	**3,030**	**60,273**

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

[2] This amount includes $43,484 million for IRB classes and $8,327 million for supervisory slotting exposures.

[3] This amount includes $3,016 million for exposures subject to the standardised approach and $14 million for equity exposures.

Operational risk

Operational risk capital requirement

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

	THE BANKING GROUP	
	2023	
$ millions	Implied Risk-weighted Exposure	Total Operational Risk Capital Requirement
Standardised Approach		
Operational risk	7,305	584

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

Market risk

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

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six months ended 30 September 2023 of the aggregate capital charge for that category of market risk derived in accordance with BPR140.

The following table provides a summary of the Banking Group's capital charges by risk type as at the reporting date and the peak end-of-day capital charges by risk type for the six months ended 30 September 2023:

	THE BANKING GROUP	
	2023	
$ millions	Implied Risk-weighted Exposure	Aggregate Capital Charge
End-of-period		
Interest rate risk	1,985	159
Foreign currency risk	-	-
Equity risk	-	-
Peak end-of-day		
Interest rate risk	3,165	253
Foreign currency risk	-	-
Equity risk	-	-

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Total capital requirements

Banking Group Pillar I Total Capital Requirement

	THE BANKING GROUP		
	2023		
$ millions	Total Exposure After Credit Risk Mitigation[1]	Risk-weighted Exposure or Implied Risk-weighted Exposure	Total Capital Requirement
Total credit risk	**133,837**	**60,273**	**4,822**
Operational risk	**N/A**	**7,305**	**584**
Market risk	**N/A**	**1,985**	**159**
Total	**133,837**	**69,563**	**5,565**

[1] The total credit risk amount includes $104,490 million for exposures subject to IRB approach and $7,643 million for exposures subject to the slotting approach, being the equivalent exposure under the standardised approach of $115,667 million EAD for credit risk exposures subject to IRB approach and $8,286 million EAD for specialised lending subject to slotting approach.

Capital ratios

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

In accordance with the Reserve Bank BPRs, existing capital instruments that have conversion features are subject to a transitional phase-out. In line with the transitional phase-out schedule contained in BPR110, the maximum eligible amount will decline by 12.5% each calendar year, with the lower of the outstanding amount or 75.0% of the total nominal amount of affected instruments outstanding as at 30 September 2021 recognisable as regulatory capital between 1 January 2023 and 31 December 2023 (30 September 2022: 87.5% between 1 January 2022 and 31 December 2022).

For the purposes of calculating the capital adequacy ratios for the Bank on a solo basis, a subsidiary that is not a securitisation SPV must be consolidated with the Bank if it is a wholly-owned and wholly-funded subsidiary of the Banking Group. In this context, wholly-funded by the Bank means there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue or trade creditors, where aggregate exposure to trade creditors does not exceed the greater of 5% of the subsidiary's shareholder's equity and 1% of the subsidiary's total assets. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank or is ultimately owned by the Bank through a chain of ownership where each entity is 100% owned by its parent. An SPV must be consolidated with the Bank if it is required to be consolidated with the Banking Group under New Zealand Generally Accepted Accounting Practice and is a covered bond SPV, or an internal RMBS SPV, that is, an SPV that is set up to securitise residential mortgage loans originated by the Bank and is funded exclusively by the Bank. The Bank's two SPVs have been consolidated in accordance with the Reserve Bank's prudential requirements for the purposes of calculating solo capital.

	THE BANKING GROUP			THE BANK	
%	Reserve Bank Minimum Ratios	30 Sep 23	30 Sep 22	30 Sep 23	30 Sep 22
Common Equity Tier 1 capital ratio	4.5	**11.1**	11.0	**11.1**	11.0
Tier 1 capital ratio	6.0	**12.7**	13.0	**12.7**	12.9
Total capital ratio	8.0	**14.4**	13.9	**14.4**	13.8
Prudential capital buffer ratio	4.5	**6.4**	5.9	**6.4**	N/A

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Capital for other material risks

Summary of ICAAP

The Banking Group's ICAAP outlines the Banking Group's approach to meeting minimum capital requirements and confirming that capital held by the Bank is commensurate with its risk profile. The Banking Group's ICAAP complies with the requirements set out in Part D of the Reserve Bank document 'Capital Adequacy' (BPR100) in accordance with the Bank's conditions of registration.

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

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

The Banking Group's internal capital allocation for 'other material risks' is $283 million as at 30 September 2023 (30 September 2022: $350 million).

Ultimate Parent Bank Group Basel III capital adequacy ratios

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

%	30 Sep 23 Unaudited	30 Sep 22 Unaudited[4]
Ultimate Parent Bank 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
Ultimate Parent 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 Ultimate Parent Bank Group are publicly available in the Ultimate Parent Bank Group's Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

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

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

Under APRA's Prudential Standards, ADIs, including the Ultimate Parent Bank Group and the Ultimate Parent Bank, are required to maintain minimum ratios of capital to risk weighted assets, as determined by APRA, which are at least equal to those specified under the Basel III capital framework. For the calculation of risk weighted assets, the Ultimate Parent Bank Group is accredited by APRA to apply advanced models. The Ultimate Parent Bank Group uses the Advanced IRB approach for credit risk, the Standardised Measurement Approach for operational risk and the internal model approach for IRRBB for calculating regulatory capital.

From 1 January 2023, APRA's revised capital framework, including updated prudential standards for capital adequacy and credit risk capital, became effective. As part of the revised framework, APRA has set a Total Common Equity Tier 1 (CET1) Requirement for Domestic Systemically Important Banks (D-SIBs) of 10.25% (noting that APRA may apply higher CET1 requirements for an individual bank). This requirement includes a capital conservation buffer of 4.75% applicable to D-SIBs and a base level for the countercyclical capital buffer of 1.0% which APRA may vary between 0% and 3.5%. The Ultimate Parent Bank Board has determined that the Ultimate Parent Bank Group will target a CET1 operating capital range of between 11.0% and 11.5%, in normal operating conditions.

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

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

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

Regulatory liquidity ratios

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

	THE BANKING GOUP	
%	30 Sep 23	30 Jun 23
Average for the three months ended		
One-week mismatch ratio	**10.2**	9.4
One-month mismatch ratio	**10.1**	9.2
Core funding ratio	**88.8**	88.3

On 31 March 2021, the Reserve Bank amended the Bank's conditions of registration, requiring the Bank to discount the value of its liquid assets by approximately 14%. The Reserve Bank subsequently reduced the overlay quantum to approximately 7% on 15 August 2022, and removed the remaining overlay from 15 September 2023. Refer to Other material matters on page 80 for further detail.

v. Concentration of credit exposures to individual counterparties

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

The number of individual non-bank counterparties to which the Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Banking Group's Common Equity Tier 1 capital:

	THE BANKING GROUP	
	Exposure as at 30 September 2023[1]	Peak end-of-day exposure over six months to 30 September 2023
Exposures to non-bank counterparties[2]		
With a long-term credit rating of A- or A3 or above, or its equivalent		
Exceeds 10% and not 15%	**1**	**-**
Exceeds 15% and not 20%	**1**	**2**

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

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

The peak end-of-day aggregate credit exposure to each individual counterparty (which are not members of a group of closely related counterparties) or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the six-month period ending 30 September 2023, and then dividing that amount by the Banking Group's Common Equity Tier 1 capital as at 30 September 2023.

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

vi. Credit exposures to connected persons

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

The Reserve Bank defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits. Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier 1 capital of the Banking Group have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the year ended 30 September 2023 and then dividing that amount by the Banking Group's Tier 1 capital as at 30 September 2023.

Credit exposures to connected persons reported in the following table have been calculated on a bilateral net basis. Netting has occurred in respect of certain transactions which are the subject of a bilateral netting agreement. On this basis, there is a limit of 125% of the Banking Group's Tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

	THE BANKING GROUP	
$ millions	**As at 30 Sep 23**	**Peak End-of-day for the Year Ended 30 Sep 23**
Credit exposures to connected persons:		
On gross basis, before netting	**3,134**	**3,941**
As a percentage of Tier 1 capital of the Banking Group at end of the year	**35.4%**	**44.5%**
Amount that has been netted off in determining the net exposure	**1,688**	**1,767**
As a percentage of Tier 1 capital of the Banking Group at end of the year	**19.1%**	**20.0%**
On partial bilateral net basis	**1,446**	**2,174**
As a percentage of Tier 1 capital of the Banking Group at end of the year	**16.3%**	**24.6%**
Credit exposures to non-bank connected persons	**1**	**1**
As a percentage of Tier 1 capital of the Banking Group at end of the year	**0.0%**	**0.0%**

As at 30 September 2023, the rating-contingent limit applicable to the Banking Group was 60% of Tier 1 capital on a bilateral net basis. There have been no changes to this rating-contingent limit over the year ended 30 September 2023. Within the overall rating-contingent limit there is a sub-limit of 15% of Tier 1 capital which applies to the aggregate credit exposure to non-bank connected persons.

Where a bank is funding a large loan it is common practice to share the risk of a customer default through risk transfer to an acceptable entity. These arrangements are called risk lay-off arrangements. As at 30 September 2023, the Banking Group had $17 million of aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons).

The aggregate amount of the Banking Group's loss allowance for credit exposures to connected persons that are credit impaired was nil as at 30 September 2023.

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

Insurance business

The Banking Group does not conduct any insurance business.

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

Securitisation

The Banking Group uses structured entities to securitise its financial assets through the Covered Bond Programme and the Bank's internal residential mortgage-backed securitisation programme. Refer to Note 29 Securitisation, covered bonds and other transferred assets for further information and amounts of outstanding securitised assets.

Funds management and other fiduciary activities

The Bank markets the retail managed investment products of BTNZ, a member of the Ultimate Parent Bank Group, through its branches, advisory business and private bank. The Bank derives distribution fees from the sale of these managed investment products, marketed on behalf of BTNZ (except the PIE Funds). The Bank also provides investment advice to a number of clients (including investors in BTNZ's managed investment products), which includes the provision of other fiduciary activities.

The PIE Funds are administered by the Banking Group (refer to Note 23 for further details) and invest in deposits with the Bank. The Bank is considered to control the PIE Funds, and as such they are consolidated within the financial statements of the Banking Group. As at 30 September 2023, $4,227 million (30 September 2022: $3,271 million) of funds under management were invested by the PIE Funds in the Bank's deposits.

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 Banking Group (30 September 2022: nil).

Marketing and distribution of insurance products

On 28 February 2022, the sale of Westpac Life-NZ- Limited (renamed Fidelity Insurance Limited on 28 February 2022) to Fidelity Life Assurance Company Limited was completed, at which point Westpac Life-NZ- Limited ceased to be a subsidiary of the Ultimate Parent Bank and a related entity of the Banking Group. As part of the transaction, the Bank entered into a 15-year alliance with Fidelity Insurance Limited for the distribution of Fidelity Insurance Limited's life insurance products to the Banking Group's customers. With effect from 30 June 2023, Fidelity Insurance Limited's insurance business was transferred to Fidelity Life Assurance Company Limited, and therefore, the alliance agreement between Fidelity Insurance Limited and the Bank was novated to Fidelity Life Assurance Company Limited.

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

Financial services provided to entities conducting the above activities

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

Assets purchased from entities conducting the above activities

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

Funding provided to entities in aggregate and individually

During the year ended 30 September 2023, the Banking Group did not provide any funding to entities that provide services relating to the Banking Group's involvement in conducting trust and custodial activities, funds management and other fiduciary activities, securitisation activities or insurance product marketing and distribution activities described in this note (30 September 2022: nil).

viii. Risk management policies

Information about risk

Risk Management Framework

The 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 Banking Group's Risk Management Framework is the totality of systems, structures, policies, processes and people who identify, measure, evaluate, monitor, report and control or mitigate internal and external sources of material risks.

The 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: manages the risks they originate

Business units and core functions proactively identify, evaluate, own and manage the risks in their businesses, that originate within approved risk appetite and policies.

The First Line is required to establish and maintain appropriate governance structures, 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 sets frameworks, controls (including policies and limits) and standards for use across the Banking Group. They can require remediation or cessation of activity where these are not adhered to. Their approach will be risk-based and proportionate to First Line activities.

The Second Line of Defence reviews and challenges the First Line activities and decisions that materially affect the Banking Group's risk position and independently evaluates the effectiveness of First Line controls, monitoring, compliance and risk management. In addition, the Second Line of Defence provides insight to the First Line assisting in developing, maintaining and enhancing the business' approach to risk management and considers and reports the aggregated risk profile of the Banking Group to ensure end-to-end oversight of risk.

The Second Line is operationally independent from First Line, with unfettered access to Board and BRCC.

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 Banking Group's governance, risk management and internal controls.

Financial risks

Refer to Note 32 Risk management, funding and liquidity risk and market risk for a discussion of the financial risks faced by the 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 definition excludes strategic risk. While the definition includes legal risk and regulator risk, these are reflected primarily in compliance and conduct risk.

Operational risk represents a category of risk that could have the potential to impact the Banking Group's ability to achieve business objectives. In addition, operational risk events could have a negative impact on financial performance, and/or result in poor customer outcomes and/or reputational damage.

The Banking Group has an Operational Risk Management Framework, which is aligned to the Ultimate Parent Bank's Operational Risk Framework and outlines the business requirements for managing operational risk with respect to governance, risk and control assessments, incident management, issues management and ongoing reporting and monitoring. This Framework is approved by the BRCC.

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

Effective 1 July 2022, the Reserve Bank approved the Bank's transition from the Advanced Measurement Approach for calculating Operational Risk Capital as set out in *BPR151: AMA Operational Risk* to the Standardised Approach as set out in *BPR150: Standardised Operational Risk*. In addition, the Bank continues to maintain controls to comply with the qualitative requirements as set out in Section B1 of BPR151.

Compliance and conduct risk

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

The 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 Banking Group manages compliance and conduct risks by implementing and embedding frameworks, systems, policies, standards, procedures and controls.

The Banking Group has a Compliance and Conduct Risk Management Framework which is supported by compliance and conduct policies and there is a dedicated compliance function to assist the business in managing its compliance and conduct risks.

viii. Risk management policies (continued)

The Banking Group's RISKCO is responsible for overseeing the effectiveness and implementation of the Compliance and Conduct Risk Management Framework. RISKCO oversees compliance and conduct risks across the Banking Group and regularly reports material matters to the Banking Group's BRCC and the relevant Ultimate Parent Bank Group Risk Committee.

Financial crime risk

Financial crime risk is the risk that the Banking Group fails to prevent financial crime and comply with applicable global financial crime regulatory obligations. Financial crime risk includes the risk that the 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 Banking Group applies the Financial Crime Risk Management Framework, which describes the Banking Group's approach to managing Financial Crime Risk. Under this Framework, the 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.

Cyber risk

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

The Banking Group proactively manages cyber risk exposure, to limit the likelihood of inappropriate access, manipulation or damage to the 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

Reputation & 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 Banking Group's integrity and competence by clients, counterparties, investors, regulators, employees or the public.

The Banking Group seeks to cultivate stakeholders' trust in the 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 Banking Group makes inappropriate strategic choices, does not implement its strategies successfully, or does not respond effectively to changes in the operating environment.

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

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

Capital adequacy

Refer to Note 31 Capital management for the Banking Group's approach to assessing the adequacy of its capital to support current and future activities and the role that directors and senior management take in the capital management process.

Reviews of the Banking Group's risk management systems

Westpac New Zealand Audit, with support from the Ultimate Parent Bank's Group Audit unit, periodically reviews the Bank's Operational, Compliance, Market, Funding, Credit, Model and Liquidity Risk Frameworks. The periodic reviews follow the 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 Banking Group or the Ultimate Parent Bank, though they are independent and have no direct authority over the activities of management.

Various external reviews of the Bank'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 Banking Group

The Banking Group has an internal audit function headed by the Chief Internal Auditor who reports directly to the Banking Group's Board Audit Committee.

Registered bank disclosures

viii. Risk management policies (continued)

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

The Board Audit Committee meets regularly, and its responsibilities include the oversight of the Banking Group's statutory financial reporting requirements and the internal audit function.

Measurement of impaired assets

Impaired assets are measured on a monthly basis. Refer to Note 6 Impairment charges/(benefits) and Note 12 Provision for expected credit losses which describe the approaches the Banking Group follows for assessing asset impairment.

Recoverable amounts are represented by net loans, which are calculated as gross loans less provisions for impairment.

Credit risk mitigation

Refer to Note 13.5 Credit risk mitigation, collateral and other credit enhancements and Note 26 Offsetting financial assets and financial liabilities for the policies and processes the Banking Group follows to mitigate credit risk.

Where the effect of credit risk mitigation through eligible collateral is used to reduce our measure of risk, the Banking Group, as an Advanced IRB Bank, uses the comprehensive method to measure the mitigating effects of the collateral or eligible guarantees.

Additional information about credit risk

Classification of Banking Group exposures by regulatory exposure class

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

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

viii. Risk management policies (continued)

Overview of the internal credit risk ratings process by portfolio

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

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

- direct lending exposures;
- contingent lending exposures;
- pre-settlement exposures;
- FX settlement exposures; and
- transaction exposures.

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

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

PD

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

LGD

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

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

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

EAD and CCF

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

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

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

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

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

viii. Risk management policies (continued)

PD

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

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

LGD

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

EAD

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

Additional information about operational risk

Calculating operational risk capital

Operational risk regulatory capital is calculated on a quarterly basis. Standardised operational risk capital is based on a prescribed formula universal to all New Zealand registered banks that apply this approach to Operational Risk capital calculation.

The standardised operational risk capital requirement is the sum of two components, covering the operational risk arising on retail and commercial banking business on the one hand and all other activities on the other. The calculation takes into account a combination of loans, advances and securities in the retail and commercial parts of the bank and proportions of various income components for all other activities.

Controls surrounding credit risk rating systems

Refer to Note 13.1 Credit risk management framework and Note 13.2 Credit risk ratings system for a discussion of the control mechanisms for the rating systems the Banking Group uses to measure credit risk.

Conditions of registration

Conditions of registration for Westpac New Zealand Limited

The registration of the Bank in New Zealand is subject to the following conditions, which applied on and after 15 September 2023:

The registration of the Bank as a registered bank is subject to the following conditions:

1. That:
   (a) the Total capital ratio of the Banking Group is not less than 8%;
   (b) the Tier 1 capital ratio of the Banking Group is not less than 6%;
   (c) the Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5%;
   (d) the Total capital of the Banking Group is not less than $30 million;

For the purposes of this condition of registration,:

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" included in "total RWA equivalents" has the same meaning as in BPR150: Standardised Operational Risk;

"Total capital" has the same meaning as in BPR110: Capital Definitions.

1A. That:
   (a) the bank has an internal capital adequacy assessment process ('**ICAAP**') that accords with the requirements set out in Part D of BPR100: Capital Adequacy;
   (b) under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the bank must:
   (a) comply with the minimum requirements for using the IRB approach set out in BPR134: IRB Minimum System Requirements;
   (b) comply with the minimum qualitative requirements for using the AMA approach for operational risk set out in subpart B1 of BPR151: AMA Operational Risk;
   (c) follow the process in Part E of BPR120: Capital Adequacy Process Requirements for obtaining Reserve Bank approval for any changes to any IRB credit risk model;
   (d) maintain a compendium of approved models in accordance with the requirements of section E1.5 of BPR120: Capital Adequacy Process requirements.

1C. That if the Prudential Capital Buffer ('**PCB**') ratio of the Banking Group is 4.5% or less, the bank must:
   (a) according to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the Banking Group's PCB ratio; and:

Banking Group's PCB ratio	Percentage limit on distributions of the Bank's earnings	Capital Buffer Response Framework stage
0% – 0.5%	0%	Stage 3
>0.5 – 1%	30%	Stage 2
>1 – 2%	60%	Stage 1
>2 – 4.5%	100%	None

   (b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration:

"prudential capital buffer ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

1CA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, "transitional AT1 capital instrument" has the meaning given in section A2.3 of BPR110: Capital Definitions and "loss absorption trigger event" and "non-viability trigger event" have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.

1D. That—
   (a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and
   (b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration,:

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

1E. That for the purposes of LGD estimates for farm lending exposures covered by a Deed of Indemnity from the Crown under the North Island Weather Events Loan Guarantee Scheme, the bank may choose to apply either the relevant minimum LGD in Table C3.2 of BPR133, or an LGD of 8.5%.

For the purposes of this condition of registration, "LGD" (loss given default) has the meaning given in BPR001: Glossary.

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

Conditions of registration

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration:

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

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

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

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

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

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier 1 capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled 'Connected exposures policy' (BS8) dated October 2021.

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

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

   (a) the board of the bank must have at least five directors;

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

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

   (d) an alternate director:

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

      (ii) for an independent director must be independent;

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

   (f) the chairperson of the board of the bank must be independent; and

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

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

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:

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

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

8. That a person must not be appointed as chairperson of the board of the bank unless:

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

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

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;

   (b) the committee must have at least three members;

   (c) every member of the committee must be a non-executive director of the bank;

   (d) the majority of the members of the committee must be independent; and

   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

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

Conditions of registration

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:

    (a) that the bank's clearing and settlement obligations due on a day can be met on that day;

    (b) that the bank's financial risk positions on a day can be identified on that day;

    (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

    (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

    This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2023 or when the existing outsourcing arrangement becomes compliant with condition 22, from which point in time condition 22 will apply to that outsourcing arrangement.

    For the purpose of this condition of registration:

    (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and

    (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled 'Outsourcing Policy' (BS11) dated September 2022.

12. That:

    (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;

    (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together '**CEO**') is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and

    (c) all staff employed by the bank have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and are accountable (directly or indirectly) to the CEO of the bank.

13. That, for the purposes of calculating the bank's capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the bank.

14. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:

    (a) the one-week mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day;

    (b) the one-month mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day; and

    (c) the one-year core funding ratio of the Banking Group is not less than 75 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled 'Liquidity Policy' (BS13) dated July 2022 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated July 2022.

15. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

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

    For the purposes of this condition:

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

    "SPV" means a person:

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

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

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

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

17. That:

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

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

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

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

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

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

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

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

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

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

(i) all liabilities are frozen in full; and

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

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

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

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

(e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

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

For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

19. That the bank has an Implementation Plan that:

(a) is up-to-date; and

(b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: 'Open Bank Resolution Pre-positioning Requirements Policy' (BS17) dated June 2022.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

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

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

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

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

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

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

For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

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

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

22. That the bank must comply with the Reserve Bank of New Zealand document 'Outsourcing Policy' (BS11) dated September 2022.

23. That, for a loan-to-valuation measurement period ending on or after 31 August 2023, the total of the bank'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.

24. That, for a loan-to-valuation measurement period ending on or after 31 August 2023, the total of the bank'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.

25. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the 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 Westpac New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

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

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1D, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are —

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2021
BPR120: Capital adequacy process requirements	1 July 2021
BPR130: Credit risk RWAs overview	1 July 2021
BPR131: Standardised credit risk RWAs	1 October 2021
BPR132: Credit risk mitigation	1 October 2021
BPR133: IRB credit risk RWAs	1 October 2021
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021

Conditions of registration

BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 July 2021

In conditions of registration 23 to 25,:

"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:

"loan-to-valuation measurement period" means a period of three calendar months ending on the last day of the third calendar month.

Material non-compliance with conditions of registration

CoR14 non-compliance

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

CoR22 non-compliance

Outsourcing Arrangements without required risk mitigants in place

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

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

BS11 compendium requirements

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

CoR 18, 19 and 21 non-compliance

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

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

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

Conditions of registration

Changes to conditions of registration

The following changes to the 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.
- With effect from 1 July 2023, the Bank's Prudential Capital Buffer ratio was increased from 3.5% to 4.5%.
- With effect from 23 August 2023, the Bank's conditions of registration were amended to permit the Bank to apply a different Loss Given Default, for farm lending exposures covered by the North Island Weather Events Loan Guarantee Scheme.
- With effect from 15 September 2023, the Bank's liquidity overlay was removed.

Since the reporting date for this disclosure statement, and with effect from 1 October 2023, changes to the Bank's conditions of registration have occurred to incorporate the Reserve Bank's decisions relating to the Mutual Capital Instruments, Risk Weights Omnibus, and Connected Exposures consultations.

Independent auditor's report

To the shareholder of Westpac New Zealand Limited

Our opinion

In our opinion, the accompanying:

- consolidated financial statements, excluding the information disclosed in accordance with Schedules 4, 7, 11, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), of Westpac New Zealand Limited (the "Bank"), including the entities it controlled as at 30 September 2023 or from time to time during the financial year (the "Banking Group"), present fairly, in all material respects, the financial position of the 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, 13, 14, 15 and 17 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 Banking Group's consolidated financial statements (the "Financial Statements") required by clause 24 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, 11, 13, 14, 15 and 17 of the Order within notes 12, 13, 31 and 32 of the Financial Statements, which includes significant accounting policies and other explanatory information.
- The Supplementary Information within notes 12, 13, 31 and 32 of the Financial Statements and notes ii, iii and v to viii of the registered bank disclosures for the year ended 30 September 2023 of the Banking Group.

We have not audited the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order within note 31 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.

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Independence

We are independent of the 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 Banking Group in the areas of system pre-implementation and data migration assessment, and other assurance and audit related services. Other assurance and audit related services include assurance over compliance with regulations and agreed upon procedures over the issue of comfort letters and debt issuance programmes. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities. The provision of these other services and these relationships have not impaired our independence as auditor of the 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 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 on loans and credit commitments is a key audit matter are:	Our audit procedures included testing the design and operating effectiveness of selected controls relating to the 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; ● 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

Description of the key audit matter	How our audit addressed the key audit matter
• 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.	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 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 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 Banking Group's disclosures in the financial statements against the requirements of NZ IFRS.
IT systems and controls The 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 Banking Group. Furthermore, during the current financial year, the 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 Banking Group's controls over IT systems include: • user access to applications, process and data; • program development and changes; • segregation of duties and privileged user accounts; and • IT operations.	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 Banking Group; • how controls are designed to enforce segregation of duties and the use of privileged accounts to 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

Description of the key audit matter	How our audit addressed the key audit matter
	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 Banking Group materiality is $73.7 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 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 and Institutional and Business Banking divisions as well as the 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 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 Banking Group, the financial reporting processes and controls, and the industry in which the Banking Group operates. Certain operational processes which are critical to financial reporting for the 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 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 Annual Report and Disclosure Statement presented in accordance with Schedule 2 of the Order on pages 5 and 6, 75 to 80 and 102 to 107, and the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order within note 31 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 capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 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 are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 24 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 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, 11, 13, 14, 15 and 17 of the Order.

In preparing the Financial Statements, the Directors are responsible for assessing the 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 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 Bank's shareholder. 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 Bank and the Bank's shareholder, 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
24 November 2023

Auckland

Independent Assurance Report

To the shareholder of Westpac New Zealand Limited

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

Our conclusion

We have undertaken a limited assurance engagement on Westpac New Zealand Limited (the "Bank")'s compliance, in all material respects, with clause 21 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") which requires information prescribed in Schedule 11 of the Order relating to capital adequacy and regulatory liquidity requirements to be disclosed in its 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 Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order and disclosed in note iv of the registered bank disclosures, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

Basis for conclusion

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

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

Directors' responsibilities

The Directors are responsible on behalf of the Bank for compliance with the Order, including clause 21 of the Order which requires information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 11 of the Order to be included in the Disclosure Statement, for the identification of risks that may threaten compliance with that clause, controls that would mitigate those risks and monitoring ongoing compliance.

Our independence and quality management

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

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

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

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Assurance practitioner's responsibilities
Our responsibility is to express a limited assurance conclusion on whether the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order is not, in all material respects, disclosed in accordance with Schedule 11 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order, is not, in all material respects, disclosed in accordance with Schedule 11 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 21 of the Order in respect of the information relating to capital adequacy and regulatory liquidity requirements is likely to arise.

Given the circumstances of the engagement we:

- obtained an understanding of the process, models, data and internal controls implemented over the preparation of the information relating to capital adequacy and regulatory liquidity requirements;
- obtained an understanding of the Bank's compliance framework and internal control environment to ensure the information relating to capital adequacy and regulatory liquidity requirements is in compliance with the Reserve Bank of New Zealand's (the "RBNZ") prudential requirements for banks;
- obtained an understanding and assessed the impact of any matters of non-compliance with the RBNZ's prudential requirements for banks that relate to capital adequacy and regulatory liquidity requirements and inspected relevant correspondence with the RBNZ;
- performed analytical and other procedures on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order, and considered its consistency with the annual financial statements; and
- agreed the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order to information extracted from the Bank's models, accounting records or other supporting documentation, which included publicly available information as prescribed by clause 18 of Schedule 11 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 Bank's information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 11 of the Order to be included in the Disclosure Statement in compliance with clause 21 of the Order does not provide assurance on whether compliance will continue in the future.

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

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

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

PricewaterhouseCoopers

Chartered Accountants
24 November 2023

Auckland, New Zealand

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TOGETHER
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Westpac New Zealand Limited.

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