WESTPAC BANKING CORPORATION – NEW ZEALAND BANKING GROUP

Disclosure Statement

For the year ended 30 September 2021

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Contents

Glossary of terms

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

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

- **Overseas Bank** – refers to Westpac Banking Corporation;
- **Overseas Banking Group** – refers to the Overseas Bank and all other entities included in the Overseas Bank’s group for the purposes of public reporting of the group financial statements in Australia;
- **NZ Branch** – refers to the New Zealand business (as defined in the Order) of the Overseas Bank;
- **Westpac New Zealand** – refers to Westpac New Zealand Limited; and
- **NZ Banking Group** – refers to the financial reporting group (as defined in the Order) of the Overseas Bank. Controlled entities of the NZ Banking Group as at 30 September 2021 are set out in Note 22 Related entities.

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

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

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

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

(b) is not false or misleading.

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, over the year ended 30 September 2021:

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

(b) except as noted on pages 92 to 94, the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group, as defined in Westpac New Zealand's Disclosure Statement for the year ended 30 September 2021. Refer to section vi. Risk Management Policies – Risk management frameworks on page 101 of this Disclosure Statement for further detail regarding the entities which had systems in place to monitor and control the material risks of relevant members of the NZ Banking Group.

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

Catherine McGrath

Andrew Bashford

Dated this 2nd day of December 2021

Income statement for the year ended 30 September 2021

		NZ BANKING GROUP	
$ millions	Note	**2021**	2020
Interest income:			
Calculated using the effective interest rate method	2	**3,012**	3,546
Other	2	**29**	50
Total interest income	2	**3,041**	3,596
Interest expense	2	**(983)**	(1,703)
Net interest income		**2,058**	1,893
Net fees and commissions income	3	**158**	157
Net wealth management and insurance income	3	**126**	169
Trading income	3	**203**	116
Other income	3	**5**	18
Net operating income before operating expenses and impairment charges		**2,550**	2,353
Operating expenses	4	**(1,160)**	(1,082)
Impairment (charges)/benefits	6	**84**	(320)
Profit before income tax		**1,474**	951
Income tax expense	7	**(417)**	(270)
Net profit attributable to the owner of the NZ Banking Group		**1,057**	681

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

Statement of comprehensive income for the year ended 30 September 2021

	NZ BANKING GROUP	
$ millions	**2021**	2020
Net profit attributable to the owner of the NZ Banking Group	**1,057**	681
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Gains/(losses) recognised in equity on:		
Investment securities	**(162)**	74
Cash flow hedging instruments	**128**	(68)
Transferred to income statement:		
Cash flow hedging instruments	**56**	73
Income tax on items taken to or transferred from equity:		
Investment securities	**45**	(21)
Cash flow hedging instruments	**(52)**	(1)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit obligation recognised in equity (net of tax)	**13**	(4)
Other comprehensive income for the year (net of tax)	**28**	53
Total comprehensive income attributable to the owner of the NZ Banking Group	**1,085**	734

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

Balance sheet as at 30 September 2021

		NZ BANKING GROUP	
$ millions	Note	**2021**	2020
Assets			
Cash and balances with central banks	32	**8,604**	4,488
Collateral paid		**207**	397
Trading securities and financial assets measured at fair value through income statement ('**FVIS**')	9	**4,535**	4,224
Derivative financial instruments	23	**3,852**	5,660
Investment securities	10	**4,680**	5,021
Loans	11	**93,025**	88,354
Other financial assets	13	**1,388**	555
Life insurance assets	14	**-**	375
Due from related entities	22	**1,739**	2,713
Property and equipment		**410**	398
Deferred tax assets	15	**226**	242
Intangible assets	16	**721**	696
Other assets		**79**	73
Assets held for sale	33	**382**	-
Total assets		**119,848**	113,196
Liabilities			
Collateral received		**320**	508
Deposits and other borrowings	17	**79,367**	73,970
Other financial liabilities	18	**4,850**	1,979
Derivative financial instruments	23	**2,620**	5,417
Due to related entities	22	**2,410**	2,560
Debt issues	19	**16,304**	15,799
Current tax liabilities		**61**	88
Provisions	20	**243**	210
Other liabilities		**382**	400
Loan capital	21	**2,988**	3,220
Liabilities held for sale	33	**99**	-
Total liabilities		**109,644**	104,151
Net assets		**10,204**	9,045
Head office account			
Branch capital		**1,300**	1,300
Retained profits		**1,187**	1,078
Total head office account		**2,487**	2,378
NZ Banking Group equity			
Share capital		**488**	143
Reserves		**3**	(12)
Retained profits		**7,226**	6,536
Total NZ Banking Group equity		**7,717**	6,667
Total equity attributable to the owner of the NZ Banking Group		**10,204**	9,045

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

Signed on behalf of the Board of Directors.

Director

2 December 2021

Peter King

Director

2 December 2021

Statement of changes in equity for the year ended 30 September 2021

	NZ BANKING GROUP						
	NZ BRANCH		OTHER MEMBERS OF THE NZ BANKING GROUP				
	Head Office Account			Reserves			
$ millions	Branch Capital	Retained Profits	Share Capital	Investment Securities Reserve	Cash Flow Hedge Reserve	Retained Profits	Total Equity
As at 1 October 2019	1,300	989	143	4	(73)	6,294	8,657
Year ended 30 September 2020							
Net profit attributable to the owner of the NZ Banking Group	-	89	-	-	-	592	681
Net gains/(losses) from changes in fair value	-	-	-	74	(68)	-	6
Income tax effect	-	-	-	(21)	19	-	(2)
Transferred to income statement	-	-	-	-	73	-	73
Income tax effect	-	-	-	-	(20)	-	(20)
Remeasurement of defined benefit obligations	-	-	-	-	-	(5)	(5)
Income tax effect	-	-	-	-	-	1	1
Total comprehensive income for the year ended 30 September 2020	-	89	-	53	4	588	734
Transactions with owner:							
Dividends paid on ordinary shares (refer to Note 22)	-	-	-	-	-	(346)	(346)
As at 30 September 2020	1,300	1,078	143	57	(69)	6,536	9,045
Year ended 30 September 2021							
Impact from change in accounting policy[1]	**-**	**-**	**-**	**-**	**-**	**(6)**	**(6)**
Restated opening balance	**1,300**	**1,078**	**143**	**57**	**(69)**	**6,530**	**9,039**
Net profit attributable to the owner of the NZ Banking Group	**-**	**109**	**-**	**-**	**-**	**948**	**1,057**
Net gains/(losses) from changes in fair value	**-**	**-**	**-**	**(162)**	**128**	**-**	**(34)**
Income tax effect	**-**	**-**	**-**	**45**	**(36)**	**-**	**9**
Transferred to income statement	**-**	**-**	**-**	**-**	**56**	**-**	**56**
Income tax effect	**-**	**-**	**-**	**-**	**(16)**	**-**	**(16)**
Remeasurement of defined benefit obligations	**-**	**-**	**-**	**-**	**-**	**18**	**18**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**(5)**	**(5)**
Total comprehensive income for the year ended 30 September 2021	**-**	**109**	**-**	**(117)**	**132**	**961**	**1,085**
Transactions with owner:							
Ordinary share capital issued (refer to Note 22)	**-**	**-**	**345**	**-**	**-**	**-**	**345**
Dividends paid on ordinary shares (refer to Note 22)	**-**	**-**	**-**	**-**	**-**	**(265)**	**(265)**
As at 30 September 2021	**1,300**	**1,187**	**488**	**(60)**	**63**	**7,226**	**10,204**

[1] Refer to Note 1 for further details.

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 2021

$ millions	Note	NZ BANKING GROUP 2021	2020
Cash flows from operating activities			
Interest received[1]		**3,199**	3,627
Interest paid		**(1,130)**	(1,894)
Non-interest income received		**552**	114
Operating expenses paid		**(983)**	(901)
Income tax paid		**(384)**	(398)
Cash flows from operating activities before changes in operating assets and liabilities		**1,254**	548
Net (increase)/decrease in:			
Collateral paid		**190**	20
Trading securities and financial assets measured at FVIS		**(186)**	450
Loans[1]		**(4,875)**	(4,002)
Other financial assets		**42**	10
Due from related entities		**910**	(148)
Other assets		**5**	(7)
Net increase/(decrease) in:			
Collateral received		**(188)**	(115)
Deposits and other borrowings		**5,397**	8,364
Other financial liabilities		**2,443**	308
Due to related entities		**33**	(15)
Other liabilities		**38**	1
Net movement in external and related entity derivative financial instruments[2]		**(1,148)**	61
Net cash provided by/(used in) operating activities	32	**3,915**	5,475
Cash flows from investing activities			
Purchase of investment securities		**(648)**	(2,418)
Proceeds from investment securities		**673**	1,909
Net movement in life insurance assets		**(3)**	(40)
Purchase of capitalised computer software		**(103)**	(83)
Purchase of property and equipment		**(26)**	(29)
Purchase of associates		**(2)**	-
Proceeds from other investing activities		**9**	-
Net cash provided by/(used in) investing activities		**(100)**	(661)
Cash flows from financing activities			
Issue of ordinary share capital		**345**	-
Net movement in due to related entities		**(351)**	(8)
Proceeds from debt issues	19	**9,476**	5,175
Repayments of debt issues[2]	19	**(8,369)**	(7,120)
Payments for the principal portion of lease liabilities		**(49)**	(46)
Dividends paid to ordinary shareholder	22	**(265)**	(346)
Net cash provided by/(used in) financing activities		**787**	(2,345)
Net increase/(decrease) in cash and cash equivalents		**4,602**	2,469
Cash and cash equivalents at the beginning of the year		**4,543**	2,074
Cash and cash equivalents at the end of the year	32	**9,145**	4,543

[1] Comparatives have been restated to correctly reflect the classification of amortisation of deferred acquisition costs as a non-cash movement within interest income and loans. The restatement for 2020 comparatives results in a $56 million increase in loans from ($3,946) million to ($4,002) million and a corresponding increase in interest income received from $3,571 million to $3,627 million.

[2] Comparatives have been restated to correctly reflect the classification of cash and non-cash movements relating to certain matured deals. The restatement for 2020 comparatives results in a $73 million decrease in Net movement in external and related entity derivative financial instruments from $134 million to $61 million and corresponding decrease in Repayment of debt issues from ($7,193) million to ($7,120) million.

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

Notes to the financial statements

Note 1 Financial statements preparation

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

- **Overseas Bank** – refers to Westpac Banking Corporation;
- **Overseas Banking Group** – refers to the Overseas Bank and all other entities included in the Overseas Bank's group for the purposes of public reporting of the group financial statements in Australia;
- **NZ Branch** – refers to the New Zealand business (as defined in the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) ('**Order**')) of the Overseas Bank;
- **Westpac New Zealand** – refers to Westpac New Zealand Limited; and
- **NZ Banking Group** – refers to the financial reporting group (as defined in the Order) of the Overseas Bank. Controlled entities of the NZ Banking Group as at 30 September 2021 are set out in Note 22.

The Overseas Bank is registered as a public company limited by shares under the Australian Corporations Act 2001 and is entered on the register maintained under the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**'). The Overseas Bank provides a broad range of banking and financial services, including consumer, business and institutional banking and wealth management services.

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

The financial statements are for the NZ Banking Group.

These financial statements were authorised for issue by the Overseas Bank's Board of Directors (the '**Board**') on 2 December 2021. 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 New Zealand equivalents to International Financial Reporting Standards ('**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 ('**IASB**').

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 other comprehensive income (**'OCI'**).

(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

Software-as-a-Service arrangements

The NZ Banking Group previously capitalised costs incurred in configuring or customising Software-as-a-Service ('**SaaS**') arrangements as intangible assets as the NZ Banking Group considered that it would benefit from these implementation costs over the contract term of the SaaS arrangements. Following the IFRS Interpretation Committee ('**IFRIC**') agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement* which was published in April 2021, the NZ Banking Group has reconsidered its accounting treatment and adopted the treatment set out in this IFRIC agenda decision. The revised accounting policy capitalises these costs as intangible assets only if the implementation activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Costs that do not meet these criteria are expensed as incurred, unless they are paid to the suppliers of the SaaS arrangement to significantly customise the cloud-based software for the NZ Banking Group, in which case they are recognised as a prepayment for services and amortised over the expected period of use of the SaaS arrangement.

The change in policy has been applied retrospectively, however as the impact on prior years was not material the amount relating to prior years has been adjusted through opening retained earnings and comparatives have not been restated. A positive number indicates an increase in the relevant balance, while a negative number indicates a reduction in the relevant balance.

Notes to the financial statements

Note 1 Financial statements preparation (continued)

The impact on the NZ Banking Group's financial statements to reflect the write-off of previously capitalised costs is as follows:

	THE NZ BANKING GROUP		
$ millions	**Impact for 2021**	**Prior year impact on opening balance sheet**	**Total**
Balance Sheet			
Intangible assets - computer software	(3)	(9)	**(12)**
Deferred tax assets	1	3	**4**
Opening retained earnings	-	(6)	**(6)**
Income Statement			
Operating expenses	3	-	**3**
Tax expense	(1)	-	**(1)**
Net profit after tax	(2)	-	**(2)**

In addition, the NZ Banking Group reclassified $3 million from intangible assets – computer software to other assets – prepayments.

(v) Standards adopted during the year ended 30 September 2021

Revision to the Conceptual Framework

A revised Conceptual Framework ('**Framework**') was adopted by the NZ Banking Group on 1 October 2020. The Framework includes new definitions and recognition criteria for assets, liabilities, income and expenses and other relevant financial reporting concepts. These changes did not have a material impact on the NZ Banking Group.

Amendments to Interest Rate Benchmark Reform – Phase 2

Interest Rate Benchmark Reform ('**IBOR reform**') - Phase 2 was early adopted, as permitted by the standard, by the NZ Banking Group for the financial year ended 30 September 2021. IBOR reform - Phase 2 makes amendments to NZ IFRS 9 *Financial Instruments* ('**NZ IFRS 9**'), NZ IAS 39 *Financial Instruments: Recognition and Measurement* ('**NZ IAS 39**'), and NZ IFRS 7 *Financial Instruments: Disclosures* ('**NZ IFRS 7**') resulting from IBOR reform. Amendments are also made to NZ IFRS 4 *Insurance Contracts* ('**NZ IFRS 4**') and NZ IFRS 16 *Leases* ('**NZ IFRS 16**'). The amendments:

- allow the NZ Banking Group to account for a change in contractual cash flows of a financial instrument or lease liability that are a direct result of the IBOR reform to be accounted for prospectively by updating the effective interest rate rather than recognising a modification gain or loss provided that the change is made on an economically equivalent basis;
- allow the NZ Banking Group to continue hedge accounting and not trigger a de-designation when the following occurs specific to IBOR reform:
  - changes to hedge documentation to update the hedged risk, item and instrument;
  - changes to the method of assessing hedge ineffectiveness;
  - once the hedge relationship has been converted from the London Inter-bank Offered Rate ('**LIBOR**') to Alternative Reference Rates ('**ARR**') the cumulative change in fair value for ineffectiveness testing could be reset to zero if this would improve the retrospective effectiveness test;
  - this amendment can apply to macro cash flow and fair value hedges where subgroups can be formed within the portfolio of hedges where some are under the existing LIBOR rate and others have already changed to the ARR;
- require additional disclosures including:
  - quantitative information regarding all financial instruments linked to IBOR which have not been yet converted to ARR;
  - changes to the entity's risk management strategy arising from IBOR reform; and
  - the management of the NZ Banking Group's transition to ARR.

There was no impact on opening retained earnings due to the adoption of the standard. Comparative information is not required to be restated. Note 31 provides further information regarding the NZ Banking Group's exposure to IBOR reform.

b. Basis of aggregation

The NZ Banking Group as at 30 September 2021 has been aggregated by combining the sum of the capital and reserves of the NZ Branch, and the consolidated capital and reserves of Westpac New Zealand Group Limited, BT Financial Group (NZ) Limited, Westpac Financial Services Group-NZ-Limited, Westpac Group Investment-NZ-Limited, and their subsidiaries (including structured entities). For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

Subsidiaries (including structured entities) are those entities over which the members of the NZ Banking Group have control. Control exists when it is exposed to, or has rights to, variable returns from the subsidiaries, and has the ability to affect those returns through its power over the entities. All transactions between entities within the NZ Banking Group are eliminated. Subsidiaries are fully consolidated from the date on which control commences and are de-consolidated from the date that control ceases.

Notes to the financial statements

Note 1 Financial statements preparation (continued)

(i) Business combinations

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

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

(ii) Foreign currency translation

Functional and presentational currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange ('**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.

(iii) Head office account, share capital and reserves

Head office account - Branch capital

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

Ordinary shares

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

Investment securities reserve

This comprises the changes in the fair value of debt securities measured at fair value through other comprehensive income ('**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.

c. Financial assets and financial liabilities

(i) Recognition

Purchases and sales by regular way of financial assets, except for loans and receivables, are recognised on trade-date; the date on which the NZ Banking Group commits to purchase or sell the asset. Loans and receivables are recognised on settlement date, when cash is advanced to the borrowers.

Financial liabilities are recognised when an obligation arises.

(ii) Derecognition

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

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

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

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

(iii) Classification and measurement

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, life insurance assets and due from related entities.

Notes to the financial statements

Note 1 Financial statements preparation (continued)

Financial assets

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 solely payments of principal and interest ('**SPPI**').

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

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

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 or 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 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 rate method. They are presented net of provision for expected credit losses ('**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 is set out in the note for the relevant item.

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

d. Critical accounting assumptions and estimates

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

- Note 7 Income tax expense
- Note 12 Provision for expected credit losses
- Note 14 Life insurance assets
- Note 15 Deferred tax assets
- Note 16 Intangible assets
- Note 20 Provisions
- Note 24 Fair value of financial assets and financial liabilities

Notes to the financial statements

Note 1 Financial statements preparation (continued)

Impact of COVID-19

The COVID-19 pandemic and the measures put in place domestically and globally to control the spread of the virus continue to impact global economies and financial markets. As a result, COVID-19's economic impact remains uncertain, and judgement is required in relation to our critical accounting assumptions and estimates, primarily relating to:

- expected credit losses ('**ECL**'); and
- recoverable amount assessments of intangible assets.

As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, the actual economic conditions are likely to be different from forecast which may significantly impact accounting estimates included in these financial statements. The impact of COVID-19 is discussed further in each of the related notes.

e. Future developments in accounting standards

NZ IFRS 17 *Insurance Contracts* ('**NZ IFRS 17**') was issued in August 2017 with an amendment issued in August 2020. The standard will be effective for the 30 September 2024 year end unless early adopted. This will replace NZ IFRS 4 *Insurance Contracts*. However, the NZ Banking Group's remaining insurance business is classified as held for sale with the sale transactions expected to complete prior to NZ IFRS 17 taking effect. As a result, we do not anticipate the standard having any impact on the NZ Banking Group.

Other amendments to existing standards that are not yet effective are not expected to have a material impact on the NZ Banking Group.

Notes to the financial statements

Note 2 Net interest income

Accounting policy

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

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

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

		NZ BANKING GROUP	
$ millions	Note	**2021**	2020
Interest income			
Calculated using the effective interest rate method			
Cash and balances with central banks		**16**	13
Collateral paid		**-**	3
Investment securities		**79**	102
Loans		**2,916**	3,408
Due from related entities	22	**-**	18
Other interest income		**1**	2
Total interest income calculated using the effective interest rate method		**3,012**	3,546
Other			
Trading securities and financial assets measured at FVIS		**29**	50
Total other		**29**	50
Total interest income		**3,041**	3,596
Interest expense			
Calculated using the effective interest rate method			
Collateral received		**-**	4
Deposits and other borrowings		**426**	918
Due to related entities	22	**18**	25
Debt issues		**145**	244
Loan capital		**122**	139
Other interest expense		**6**	9
Total interest expense calculated using the effective interest rate method		**717**	1,339
Other			
Deposits and other borrowings		**20**	18
Debt issues		**7**	33
Other interest expense[1]		**239**	313
Total other		**266**	364
Total interest expense		**983**	1,703
Net interest income		**2,058**	1,893

[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, net wealth management and insurance income, trading income and other income.

Net fees and commissions income

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

Fees and commissions income

Fees and commissions income is recognised when the performance obligation is satisfied by transferring the promised good or service to the customer. Fees and commissions income includes facility fees, transaction fees and commissions and other non-risk fee income.

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

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

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

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

Fees and commissions expenses

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

Net wealth management and insurance income

Net wealth management income

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

Net insurance income and change in policy liabilities

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

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

Life insurance contract claims are recognised as an expense when the liability has been established.

Trading income

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

Notes to the financial statements

Note 3 Non-interest income (continued)

$ millions	NZ BANKING GROUP 2021	2020
Net fees and commissions income		
Facility fees	**54**	54
Transaction fees and commissions	**140**	135
Other non-risk fee income	**21**	27
Fees and commissions income	**215**	216
Credit card loyalty programmes	**(32)**	(33)
Transaction fees and commissions related expenses	**(25)**	(26)
Fees and commissions expenses	**(57)**	(59)
Net fees and commissions income	**158**	157
Net wealth management and insurance income		
Net wealth management income	**53**	51
Net insurance income and change in policy liabilities	**73**	118
Net wealth management and insurance income	**126**	169
Trading income	**203**	116
Other income		
Net ineffectiveness on qualifying hedges	**(4)**	10
Other non-interest income	**9**	8
Total other income	**5**	18
Total non-interest income	**492**	460

Deferred income in relation to the credit card loyalty programmes for the NZ Banking Group was $31 million as at 30 September 2021 (30 September 2020: $31 million). This will be recognised as fees and commissions income as the credit card reward points are redeemed.

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

Non-interest income in scope of NZ IFRS 15 *Revenue from Contracts with Customers* can be further disaggregated into the following operating segments and is consistent with the segment descriptions detailed in Note 27.

	NZ BANKING GROUP					
$ millions	Consumer Banking and Wealth	Institutional and Business Banking	Financial Markets, International Trade and Payments	Investments and Insurance	Reconciling Items	Total
Year ended 30 September 2021						
Fees and commissions income						
Facility fees	**26**	**16**	**1**	**-**	**11**	**54**
Transaction fees and commissions	**100**	**45**	**-**	**-**	**(5)**	**140**
Other non-risk fee income	**9**	**14**	**11**	**-**	**(13)**	**21**
Fees and commissions income	**135**	**75**	**12**	**-**	**(7)**	**215**
Fees and commissions expenses	**(57)**	**-**	**-**	**-**	**-**	**(57)**
Net fees and commissions income	**78**	**75**	**12**	**-**	**(7)**	**158**
Wealth management income	**15**	**-**	**-**	**38**	**-**	**53**
Year ended 30 September 2020 (restated)						
Fees and commissions income						
Facility fees	33	16	-	-	5	54
Transaction fees and commissions	73	55	2	-	5	135
Other non-risk fee income	11	15	12	-	(11)	27
Fees and commissions income	117	86	14	-	(1)	216
Fees and commissions expenses	(59)	-	-	-	-	(59)
Net fees and commissions income	58	86	14	-	(1)	157
Wealth management income	14	-	-	37	-	51

Notes to the financial statements

Note 4 Operating expenses

		NZ BANKING GROUP	
$ millions	Note	2021	2020
Staff expenses		**600**	544
Lease expense		**27**	26
Depreciation		**95**	99
Technology services and telecommunications		**70**	71
Purchased services[1]		**132**	111
Consultant costs		**37**	23
Software amortisation costs		**61**	66
Related entities - management fees	22	**10**	14
Other		**128**	128
Total operating expenses		**1,160**	1,082

[1] Comparatives have been restated to separately present consultant costs which were previously included in purchased services.

Note 5 Auditor's remuneration

	NZ BANKING GROUP	
$'000s	2021	2020
Audit and audit related services		
Audit and review of financial statements[1]	**3,290**	3,506
Other audit related services[2,3]	**382**	381
Total remuneration for audit and other audit related services	**3,672**	3,887
Other services	**-**	-
Total remuneration for non-audit services	**-**	-
Total remuneration for audit, other audit related services and non-audit services	**3,672**	3,887

[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, regulatory liquidity returns, debt issuance programmes, solvency projections, solvency returns, net tangible assets return and historical financial information in relation to the proposed demerger of Westpac New Zealand.

[3] $53,872 out of other audit related services were paid to PwC Australia for the issue of comfort letters.

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

The external auditor also provides audit and non-audit services to non-consolidated entities, including non-consolidated trusts and non-consolidated superannuation funds or pension funds of which a member of the NZ Banking Group is manager or responsible entity. During the year ended 30 September 2021, the fees in respect of these services were $ 475,271 (30 September 2020: $ 449,025).

Notes to the financial statements

Note 6 Impairment charges/(benefits)

Accounting policy

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

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

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

Uncollectable loans

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

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

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Provisions raised/(released):		
Performing	**(95)**	205
Non-performing	**(1)**	105
Bad debts written-off/(recovered) directly to the income statement	**12**	10
Impairment charges/(benefits)	**(84)**	320
of which relates to:		
Loans and credit commitments	**(84)**	320
Impairment charges/(benefits)	**(84)**	320

Impairment charges/(benefits) on all other financial assets are not material to the NZ Banking Group. Refer to Note 12 for details on the impact of COVID-19 on the provision for ECL.

Notes to the financial statements

Note 7 Income tax expense

Accounting policy

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

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

Goods and services tax ('GST')

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

Critical accounting assumptions and estimates

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Income tax expense		
Current tax:		
Current year	**419**	374
Prior year adjustments	**(2)**	-
Deferred tax (refer to Note 15):		
Current year	**(1)**	(105)
Prior year adjustments	**1**	1
Total income tax expense	**417**	270

Profit before income tax	**1,474**	951
Tax calculated at tax rate of 28%	**413**	266
Other non-assessable items	**(2)**	-
Expenses not deductible for tax purposes	**7**	3
Prior year adjustments	**(1)**	1
Total income tax expense	**417**	270

The effective tax rate for the year ended 30 September 2021 was 28.3% (30 September 2020: 28.4%).

Note 8 Imputation credit account

	NZ BANKING GROUP	
$ millions	**2021**	2020
Imputation credits available for use in subsequent reporting periods[1]	**1,254**	1,381

[1] If the sale of Westpac Life-NZ- Limited ('**Westpac Life**') to Fidelity Life Assurance Company Limited proceeds to completion (refer to Note 33), imputation credits of up to $40m attributable to Westpac Life may be forfeited to the extent not utilised before the change in ownership.

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 and are held at fair value.

Reverse repurchase agreements

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

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Government and semi-government securities	**2,512**	2,684
Other debt securities	**1,326**	993
Reverse repurchase agreements	**697**	547
Total trading securities and financial assets measured at FVIS	**4,535**	4,224

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

Include 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 gains and losses recognised in OCI except for interest income, impairment charges and FX gains and losses and fair value hedge adjustments which are recognised in the income statement.

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

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Government and semi-government securities	**3,526**	3,844
Other debt securities	**1,154**	1,177
Total investment securities	**4,680**	5,021

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

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

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Residential mortgages	**60,849**	55,230
Other retail	**2,976**	3,299
Corporate	**29,547**	30,340
Other	**129**	92
Total gross loans	**93,501**	88,961
Provision for ECL on loans (refer to Note 12)	**(476)**	(607)
Total net loans	**93,025**	88,354

Notes to the financial statements

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, investment securities and credit commitments.

The ECL is recognised as follows:

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

Measurement

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

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

- Probability of default (‘**PD**’): the probability that a counterparty will default;
- Loss given default (‘**LGD**’): the loss that is expected to arise in the event of a default; and
- Exposure at default (‘**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.

Stage 3: Lifetime ECL – non-performing

For financial assets that are non-performing a provision for lifetime ECL is recognised. Indicators include a breach of contract with the NZ Banking Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on an individual basis.

Financial assets in Stage 3 are those that are in default. A default occurs when the NZ Banking Group considers that the customer is unable to repay its credit obligations in full, irrespective of recourse by the NZ Banking Group to actions such as realising security, or the customer is more than 90 days past due on any material credit obligation. This definition is aligned to the Reserve Bank regulatory definition of default.

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 the customer risk grade. Financial assets in Stage 3 are assessed on an individual basis and calculated collectively for those below a specified threshold.

Expected life

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

Movement between stages

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

Note 12 Provision for expected credit losses (continued)

Accounting policy (continued)

Critical accounting assumptions and estimates

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

Significant increase in credit risk

Determining when a financial asset has experienced a significant increase in credit risk ('**SICR**') since origination is a critical accounting judgement. In the current period the NZ Banking Group has revised the methodology to determine a significant increase in risk from one which was primarily based on changes in internal customer risk grades since origination of the facility and based on a sliding scale, to one which is directly driven by the change in the probability of default ('**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. This change did not have a material impact to the NZ Banking Group's provision for ECL.

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

The deferral of payments by customers in hardship arrangements is generally treated as an indication of a SICR, however in the prior year COVID-19 support packages for mortgages and business loans were not, in isolation, treated as an indication of SICR. The NZ Banking Group classified these deferral packages into different categories of risk which were assessed for an increased likelihood of a risk of default to determine whether a SICR has occurred. The NZ Banking Group does not apply the low credit risk exemption which assumes investment grade facilities do not have a significant increase in credit risk.

Forward-looking macroeconomic information

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

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

- Base case scenario

  This scenario utilises the internal Westpac economics forecast 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 current base case scenario. The more severe loss outcome for the downside is generated under a recession scenario in which the combination of negative GDP growth, declines in residential property prices and an increase in the unemployment rate simultaneously impact ECL across all portfolios from the reporting date.

The macroeconomic scenarios are weighted based on the NZ Banking Group's best estimate of the relative likelihood of each scenario. The weighting applied to each of the three macroeconomic scenarios takes into account historical frequency, current trends, and forward-looking conditions.

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

Overlays

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

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

Note 12 Provision for expected credit losses (continued)

Loans and credit commitments

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:

- The "Transfers between stages" lines represent transfers between Stage 1, Stage 2 and Stage 3 prior to remeasurement of the provision for ECL.
- The "new financial assets originated" line represents new accounts originated during the year.
- The "financial assets derecognised during the period" line represents loans derecognised due to final repayments during the year.
- The "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 due to forward-looking economic scenarios, changes in overlays, 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 following table shows the collectively assessed provisions ('**CAP**') and individually assessed provisions ('**IAP**') for loans and credit commitments.

	NZ BANKING GROUP									
	2021					2020				
	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	**41**	**69**	**46**	**8**	**164**	44	121	70	6	241
Other retail	**16**	**53**	**22**	**1**	**92**	21	70	31	2	124
Corporate	**28**	**126**	**6**	**60**	**220**	31	140	6	65	242
Total provision for ECL on loans (refer to Note 11)	**85**	**248**	**74**	**69**	**476**	96	331	107	73	607
Provision for ECL on credit commitments										
Residential mortgages	**5**	**1**	**-**	**-**	**6**	5	2	-	-	7
Other retail	**5**	**9**	**1**	**-**	**15**	7	11	-	1	19
Corporate	**7**	**21**	**-**	**-**	**28**	8	16	-	-	24
Total provision for ECL on credit commitments (refer to Note 20)	**17**	**31**	**1**	**-**	**49**	20	29	-	1	50
Total provision for ECL on loans and credit commitments	**102**	**279**	**75**	**69**	**525**	116	360	107	74	657
Gross carrying amount	**85,020**	**7,871**	**501**	**109**	**93,501**	81,172	7,079	573	137	88,961
Coverage ratio (%)[1]	**0.12**	**3.54**	**14.97**	**63.30**	**0.56**	0.14	5.09	18.67	54.01	0.74

[1] Coverage ratio is calculated using total provision for ECL on loans and credit commitments over gross carrying amount (excluding credit commitments).

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

Movement in provision for ECL on loans and credit commitments

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

	NZ BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Provision for ECL on loans and credit commitments as at 30 September 2020	**116**	**360**	**107**	**74**	**657**
Due to changes in credit quality:					
Transfers to Stage 1	**133**	**(113)**	**(20)**	**-**	**-**
Transfers to Stage 2	**(12)**	**88**	**(76)**	**-**	**-**
Transfers to Stage 3 CAP	**-**	**(31)**	**33**	**(2)**	**-**
Transfers to Stage 3 IAP	**-**	**(1)**	**(1)**	**2**	**-**
Reversals of previously recognised impairment charges	**-**	**-**	**-**	**(33)**	**(33)**
New financial assets originated	**16**	**-**	**-**	**-**	**16**
Financial assets derecognised during the year	**(12)**	**(42)**	**(23)**	**-**	**(77)**
Changes in CAP due to amounts written off	**-**	**-**	**(34)**	**-**	**(34)**
Other charges/(credits) to the income statement	**(139)**	**18**	**89**	**64**	**32**
Total charges/(credits) to the income statement for ECL	**(14)**	**(81)**	**(32)**	**31**	**(96)**
Amounts written off from IAP	**-**	**-**	**-**	**(36)**	**(36)**
Total provision for ECL on loans and credit commitments as at 30 September 2021	**102**	**279**	**75**	**69**	**525**

	NZ BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Provision for ECL on loans and credit commitments as at 30 September 2019	91	180	53	28	352
Due to changes in credit quality:					
Transfers to Stage 1	425	(400)	(25)	-	-
Transfers to Stage 2	(53)	143	(87)	(3)	-
Transfers to Stage 3 CAP	-	(85)	86	(1)	-
Transfers to Stage 3 IAP	-	(21)	(7)	28	-
Reversals of previously recognised impairment charges	-	-	-	(11)	(11)
New financial assets originated	23	-	-	-	23
Financial assets derecognised during the year	(14)	(40)	(19)	-	(73)
Changes in CAP due to amounts written off	-	-	(33)	-	(33)
Other charges/(credits) to the income statement	(356)	583	139	38	404
Total charges/(credits) to the income statement for ECL	25	180	54	51	310
Amounts written off from IAP	-	-	-	(5)	(5)
Total provision for ECL on loans and credit commitments as at 30 September 2020	116	360	107	74	657

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

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

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

	NZ BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 30 September 2020	**49**	**123**	**70**	**6**	**248**
Due to changes in credit quality:					
Transfers to Stage 1	37	(28)	(9)	-	-
Transfers to Stage 2	(3)	54	(51)	-	-
Transfers to Stage 3 CAP	-	(6)	7	(1)	-
Transfers to Stage 3 IAP	-	-	(1)	1	-
Reversals of previously recognised impairment charges	-	-	-	(3)	(3)
New financial assets originated	6	-	-	-	6
Financial assets derecognised during the year	(3)	(7)	(17)	-	(27)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(40)	(66)	47	5	(54)
Total charges/(credits) to the income statement for ECL	**(3)**	**(53)**	**(24)**	**2**	**(78)**
Amounts written off from IAP	-	-	-	-	-
Total provision for ECL on loans and credit commitments as at 30 September 2021	**46**	**70**	**46**	**8**	**170**
Other retail					
Provision for ECL as at 30 September 2020	**28**	**81**	**31**	**3**	**143**
Due to changes in credit quality:					
Transfers to Stage 1	83	(76)	(7)	-	-
Transfers to Stage 2	(7)	28	(21)	-	-
Transfers to Stage 3 CAP	-	(23)	24	(1)	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	(1)	(1)
New financial assets originated	4	-	-	-	4
Financial assets derecognised during the year	(6)	(20)	(5)	-	(31)
Changes in CAP due to amounts written off	-	-	(34)	-	(34)
Other charges/(credits) to the income statement	(81)	72	35	1	27
Total charges/(credits) to the income statement for ECL	**(7)**	**(19)**	**(8)**	**(1)**	**(35)**
Amounts written off from IAP	-	-	-	(1)	(1)
Total provision for ECL on loans and credit commitments as at 30 September 2021	**21**	**62**	**23**	**1**	**107**
Corporate					
Provision for ECL as at 30 September 2020	**39**	**156**	**6**	**65**	**266**
Due to changes in credit quality:					
Transfers to Stage 1	13	(9)	(4)	-	-
Transfers to Stage 2	(2)	6	(4)	-	-
Transfers to Stage 3 CAP	-	(2)	2	-	-
Transfers to Stage 3 IAP	-	(1)	-	1	-
Reversals of previously recognised impairment charges	-	-	-	(29)	(29)
New financial assets originated	6	-	-	-	6
Financial assets derecognised during the year	(3)	(15)	(1)	-	(19)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(18)	12	7	58	59
Total charges/(credits) to the income statement for ECL	**(4)**	**(9)**	**-**	**30**	**17**
Amounts written off from IAP	-	-	-	(35)	(35)
Total provision for ECL on loans and credit commitments as at 30 September 2021	**35**	**147**	**6**	**60**	**248**

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

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

	NZ BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 30 September 2019	22	19	31	6	78
Due to changes in credit quality:					
Transfers to Stage 1	200	(186)	(14)	-	-
Transfers to Stage 2	(26)	86	(60)	-	-
Transfers to Stage 3 CAP	-	(46)	47	(1)	-
Transfers to Stage 3 IAP	-	-	(2)	2	-
Reversals of previously recognised impairment charges	-	-	-	(3)	(3)
New financial assets originated	11	-	-	-	11
Financial assets derecognised during the year	(4)	(10)	(14)	-	(28)
Changes in CAP due to amounts written off	-	-	(1)	-	(1)
Other charges/(credits) to the income statement	(154)	260	83	3	192
Total charges/(credits) to the income statement for ECL	27	104	39	1	171
Amounts written off from IAP	-	-	-	(1)	(1)
Total provision for ECL on loans and credit commitments as at 30 September 2020	49	123	70	6	248
Other retail					
Provision for ECL as at 30 September 2019	46	55	19	-	120
Due to changes in credit quality:					
Transfers to Stage 1	213	(202)	(11)	-	-
Transfers to Stage 2	(25)	49	(24)	-	-
Transfers to Stage 3 CAP	-	(32)	32	-	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	(1)	(1)
New financial assets originated	6	-	-	-	6
Financial assets derecognised during the year	(6)	(19)	(5)	-	(30)
Changes in CAP due to amounts written off	-	-	(32)	-	(32)
Other charges/(credits) to the income statement	(206)	230	52	4	80
Total charges/(credits) to the income statement for ECL	(18)	26	12	3	23
Amounts written off from IAP	-	-	-	-	-
Total provision for ECL on loans and credit commitments as at 30 September 2020	28	81	31	3	143
Corporate					
Provision for ECL as at 30 September 2019	23	106	3	22	154
Due to changes in credit quality:					
Transfers to Stage 1	12	(12)	-	-	-
Transfers to Stage 2	(2)	8	(3)	(3)	-
Transfers to Stage 3 CAP	-	(7)	7	-	-
Transfers to Stage 3 IAP	-	(21)	(5)	26	-
Reversals of previously recognised impairment charges	-	-	-	(7)	(7)
New financial assets originated	6	-	-	-	6
Financial assets derecognised during the year	(4)	(11)	-	-	(15)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	4	93	4	31	132
Total charges/(credits) to the income statement for ECL	16	50	3	47	116
Amounts written off from IAP	-	-	-	(4)	(4)
Total provision for ECL on loans and credit commitments as at 30 September 2020	39	156	6	65	266

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

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

Impact of Overlays on the provision for ECL

The following table shows the attribution of the total provision for ECL between modelled provision for ECL and portfolio overlays.

Where there is increased uncertainty regarding the required forward-looking economic conditions under NZ IFRS 9, or limitations of the historical data used to calibrate the models to current stressed environments, overlays are typically used to address areas of potential risk not captured in the underlying modelled ECL.

	NZ BANKING GROUP	
$ millions	**2021**	2020
Modelled provision for ECL	**448**	522
Portfolio Overlays	**77**	135
Total provision for ECL	**525**	657

Details of these changes, which are based on reasonable and supportable information up to the date of this disclosure statement, are provided below.

Modelled provision for ECL

The modelled provision for ECL is a probability weighted estimate based on three scenarios which together are representative of the NZ Banking Group's view of the forward-looking distribution of potential loss outcomes. The changes in provisions as a result of changes in modelled ECL are reflected through the "Other charges/(credits) to the income statement" line in the "Movements in components of loss allowance" table.

The base case scenario uses the NZ Banking Group's latest economic forecasts as at 30 September 2021. The latest view considers both the economic and societal impacts of COVID-19, taking into consideration the unwind of government and bank stimulus and support measures.

The NZ Banking Group's forecast assumes the following:

Key macroeconomic assumptions for base case scenario	**30 September 2021**	30 September 2020
Annual GDP	Forecast growth of 10.9% over the next 12 months.	Forecasted growth of 6.7% over the next 12 months
Residential property prices	Forecast growth to peak at 26 % during the financial year and then fall to 1.6% at September 2022.	Forecasted growth of 6.8% over the next 12 months
Cash rate	Increase of 100 bps expected over the next 12 months.	Reduction of 50 bps in the next 12 months
Unemployment rate	Forecast to peak at 4.2% in December 2021 then ease to 3.5% by September 2022.	Forecast to peak at 7% (December 2020) and then fall to 6.6% at September 2021

The downside scenario is a more severe scenario with ECL higher than the base case scenario. The more severe loss outcome for the downside is generated under a recession scenario in which the combination of negative GDP growth, declines in residential property prices and an increase in the unemployment rate simultaneously impact expected credit losses across all portfolios from the reporting date. The assumptions in this scenario and relativities to the base case scenario 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 decline in provisions for loans and commitments in the year ended 30 September 2021 was primarily due to more positive forward-looking economic inputs, improved portfolio performance and a decline in some higher risk exposures.

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Reported probability-weighted ECL	**525**	657
100% base case ECL	**412**	492
100% downside ECL	**700**	902

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 would increase by $57 million (2020: $33 million) based on applying the average provision coverage ratios by stage to the movement in the gross exposure by stage.

The following table indicates the weightings applied by the NZ Banking Group.

	NZ BANKING GROUP	
Macroeconomic scenario weightings (%)	**2021**	2020
Upside	**5**	5
Base	**55**	55
Downside	**40**	40

Scenario weights have remained unchanged since 30 September 2020 mainly to reflect the high degree of risk around severe loss outcomes. Extraordinary policy measures have eased financial conditions and supported the economy, helping to contain financial stability risks. As the COVID-19 pandemic and associated impacts extend, this could lead to higher credit losses than those modelled under the base case. In particular, the current base case economic forecast indicates a relatively short and sharp economic impact from recent lockdowns followed by a subsequent recovery.

The COVID-19 pandemic is leading to material structural shifts in the behaviour of the economy and customers, and unprecedented actions by banks, governments, and regulators in response. ECL models are expected to be subject to a higher than usual level of uncertainty during this period. In this environment there is a heightened need for the application of judgement to reflect these evolving relationships and risks.

This judgement has been applied in the form of the revision to downside scenario and COVID-19 overlays.

Portfolio Overlays

Portfolio overlays are typically used to address areas of potential risk, including significant uncertainty, not captured in the underlying modelled provision for ECL.

The NZ Banking Group's total portfolio overlays at 30 September 2021 were $77 million (2020: $135 million). Included in the total overlays were:

- $74 million (30 September 2020: $128 million) related to COVID-19 overlays; and
- $3 million (30 September 2020: $7 million) reflecting other risks.

Determination of portfolio overlays requires expert judgement and is thoroughly documented and subject to internal governance and oversight. For example, if the risk of delayed losses is judged to have dissipated or actual stress emerges, the overlay will be removed or reduced.

COVID-19 overlays

Business lending (including institutional)

A new overlay was introduced at 31 March 2021 to reflect the risk that some businesses may have been protected from default or stress because of COVID-19 related support packages and government stimulus and may become stressed once these measures are removed. The overlay was retained at 30 September 2021 due to the uncertainty around the impact of recent lockdowns and associated support measures, increasing the likelihood for temporarily suppressing losses. This overlay is included in stage 1 and stage 2. As at 30 September 2021 the COVID-19 overlay for business lending (including institutional) is $28 million for the NZ Banking Group. This replaced the business lending overlay of $66 million recognised at 30 September 2020.

Retail lending

Customers who received retail deferral packages which expired 31 March 2021 have had six months of performance post exit with the risk now reflected in underlying ECL. Most recent forecasts suggest that structural unemployment is not likely to change in the medium term. As such, retail lending overlays associated with COVID-19 from prior year in relation to the risk of increase in structural unemployment have been removed. These decreases were partially offset by a new overlay for the risk of delayed losses in the retail portfolio. This new overlay reflects the flow-on impact to the retail portfolio from the delayed business losses and unemployment risk. This overlay is included in stage 1 and stage 2. As at 30 September 2021, the COVID-19 overlay for retail lending is $46 million for the Banking Group (30 September 2020: $62 million).

Note 12 Provision for expected credit losses (continued)

Impact of changes in credit exposures on the provision for ECL

- Stage 1 exposures had a net increase of $3.8 billion (30 September 2020: increased by $0.7 billion) for the NZ Banking Group primarily driven by increases in residential mortgages due to new lending in this financial year, and movement in exposures from stage 2 to stage 1 due to increases in residential mortgages due to customers exiting deferral packages, improved portfolio performance and decline in some higher risk exposures. This increase from portfolio growth is partially offset by an additional $4.8 billion transferred to stage 2 to account for changes in staging methodology, COVID-19 overlays and increased severity of the downside macroeconomic scenario. Stage 1 ECL has decreased mainly due to a more positive macro-economic outlook compared to the prior year.
- Stage 2 credit exposures increased by $792 million (30 September 2020: increased by $3 billion) for the NZ Banking Group mainly driven by $4.8 billion transferred from stage 1 to account for changes in staging methodology, COVID-19 overlays and increased severity of the downside macroeconomic scenario. This increase is partially offset by a decrease in residential mortgages resulting from customers exiting deferral packages. Stage 2 ECL has decreased driven by the reductions in COVID-19 overlays and impacts due to a more positive macro-economic outlook compared to the prior year.
- Stage 3 credit exposures had a net decrease of $100 million (30 September 2020: increased by $262 million) for the NZ Banking Group driven by reductions in 90 days past due exposures in residential mortgages and higher writebacks from the corporate portfolio. Stage 3 ECL has decreased in line with the decrease 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 $24 million for the NZ Banking Group (30 September 2020: $27 million).

Note 13 Other financial assets

	NZ BANKING GROUP	
$ millions	**2021**	2020
Accrued interest receivable	**98**	113
Trade debtors	**4**	4
Securities sold not delivered	**663**	288
Interbank lending	**541**	55
Other	**82**	95
Total other financial assets	**1,388**	555

Note 14 Life insurance assets

Accounting policy

The NZ Banking Group conducts insurance business through one of its controlled entities, Westpac Life, which is licensed under the Insurance (Prudential Supervision) Act 2010 (‘**IPSA**’).

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

Investments held by the NZ Banking Group's life insurance company, including investments in funds managed by the NZ Banking Group and other debt securities, are designated at FVIS. Changes in the fair value are recognised in non-interest income. The determination of fair value involves the same judgements as other financial assets, which are described in the critical accounting assumptions and estimates in Note 24.

The value of net insurance policy assets is calculated using the margin on services methodology ('**MoS**'), in accordance with New Zealand Societies of Actuaries Professional Standard 20 *Determination of Life Insurance Policy Liabilities*.

MoS accounts for the associated risks and uncertainties of each type of life insurance contract written. At each reporting date, planned profit margins and an estimate of future liabilities are calculated. Profit margins are released to non-interest income over the period that life insurance is provided to the policyholders. The cost incurred in acquiring specific insurance contracts is deferred provided that these amounts are recoverable out of planned profit margins. The deferred amounts are recognised as a reduction in life insurance policy liabilities and are amortised to non-interest income over the same period as the planned profit margins.

It is a requirement of the IPSA that a life insurance company must have at least one statutory fund in respect of its life insurance business. A statutory fund was established by Westpac Life on 1 October 2012. The statutory fund is subject to restrictions imposed under IPSA. The main restrictions are:

- that the assets in the statutory fund are only available to meet the liabilities and expenses of the life insurance business and cannot be used to support any other business of the life insurance company; and
- distribution of the retained profits of a statutory fund may only be made when certain solvency and other requirements are met.

Refer to Note 3 for details on the accounting policy related to net life insurance income and change in policy liabilities. Total life insurance assets are classified as assets held for sale on the balance sheet. Refer to Note 33 for further information.

Critical accounting assumptions and estimates

The key factors that affect the estimation of net insurance policy assets are:

- the cost of providing benefits and administering contracts;
- mortality and morbidity experience which includes policyholder benefit enhancements;
- discontinuance rates, which affects the NZ Banking Group’s ability to recover the cost of acquiring new business over the life of the contracts; and
- the discount rate of projected future cash flows.

Regulation, competition, interest rates, taxes, securities market conditions and general economic conditions also affect the estimation of net insurance policy assets.

	NZ BANKING GROUP	
$ millions	**2021**	2020
Investment assets	-	214
Net insurance policy assets	-	161
Total life insurance assets	-	375

In 2021, the entire life insurance assets balance for the NZ Banking Group were reclassified as assets held for sale (refer to Note 33 for further information).

Note 15 Deferred tax assets

Accounting policy

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

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

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

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

Deferred tax is not recognised for the following temporary differences:

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

Critical accounting assumptions and estimates

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Deferred tax assets/(liabilities) comprise the following temporary differences:		
Provision for ECL on loans	**133**	170
Provision for ECL on credit commitments	**14**	14
Cash flow hedges	**(24)**	28
Provision for employee entitlements	**23**	28
Compliance, regulation and remediation provisions	**21**	12
Software, property and equipment	**(48)**	(56)
Lease liabilities	**81**	79
Net insurance policy assets	**-**	(47)
Financial instruments	**17**	13
Other temporary differences	**9**	1
Net deferred tax assets	**226**	242
The deferred tax (charge)/credit in income tax expense comprises the following temporary differences:		
Provision for ECL on loans	**(37)**	80
Provision for ECL on credit commitments	**-**	5
Provision for employee entitlements	**-**	5
Compliance, regulation and remediation provisions	**9**	(1)
Software, property and equipment	**5**	(67)
Lease liabilities	**2**	79
Net insurance policy assets	**9**	(4)
Financial instruments	**4**	5
Other temporary differences	**8**	2
Total deferred tax (charge)/credit in income tax expense	**-**	104
Deferred tax balances reclassified to assets held for sale		
Net insurance policy assets	**38**	-
Total deferred tax balances reclassified to assets held for sale	**38**	-
The deferred tax (charge)/credit in OCI comprises the following temporary differences:		
Cash flow hedges	**(52)**	(1)
Provision for employee entitlements	**(5)**	1
Total deferred tax (charge)/credit in OCI	**(57)**	-
The deferred tax adjustment to opening retained earnings comprises the following temporary differences:		
Software, property and equipment	**3**	-
Total deferred tax adjustment to opening retained earnings	**3**	-

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 cash generating unit's ('**CGU**') carrying value exceeds its recoverable amount. Recoverable amount means the higher of the CGU's fair value less costs to sell and its value-in-use.

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

Finite life intangible assets

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

Intangible	Useful life	Depreciation method
Goodwill	Indefinite	Not applicable
Computer software	3 to 8 years	Straight-line or diminishing balance method (using the Sum of the Years Digits)

Critical accounting assumptions and estimates

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

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Goodwill	**525**	525
Computer software[1]	**196**	171
Total intangible assets	**721**	696

[1] Includes the impact of a change in accounting policy in 2021 with respect to the treatment of configuring or customising SaaS arrangements amounting to $12 million for the NZ Banking Group (refer to Note 1).

Goodwill has been allocated to the following CGUs:

Consumer Banking and Wealth	**512**	512
BT New Zealand[1]	**13**	13
Net carrying amount of goodwill	**525**	525

[1] BT New Zealand forms part of the Investments and Insurance operating segment, as described in Note 27.

Impairment testing and results

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

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

Note 16 Intangible assets (continued)

Significant assumptions used in recoverable amount calculations

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

	Discount rate		Cash flows	
	Equity rate / adjusted pre-tax equity rate		Forecast period / terminal growth rate	
	2021	2020	**2021**	2020
Consumer Banking and Wealth	**9.0% / 12.2%**	11.0% / 14.5%	**3 years / 2%**	3 years / 2%
BT New Zealand	**9.0% / 12.2%**	11.0% / 14.5%	**3 years / 2%**	3 years / 2%

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

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

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

Note 17 Deposits and other borrowings

Accounting policy

Deposits and other borrowings are initially recognised at fair value and subsequently either measured at amortised cost using the effective interest rate 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 as non-interest income. The change in the fair value that is due 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 rate method.

	NZ BANKING GROUP	
$ millions	**2021**	2020
Certificates of deposit	**3,450**	2,996
Non-interest bearing, repayable at call	**14,737**	11,571
Other interest bearing:		
At call	**32,849**	28,412
Term	**28,331**	30,991
Total deposits and other borrowings	**79,367**	73,970
Deposits at fair value	**3,450**	2,996
Deposits at amortised cost	**75,917**	70,974
Total deposits and other borrowings	**79,367**	73,970

Note 18 Other financial liabilities

Accounting policy

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

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

Repurchase agreements

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

The cash consideration received is recognised as a liability (repurchase agreements). Repurchase agreements are designated at fair value as 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, subsequent to initial recognition, these liabilities are measured at fair value with changes in fair value (except credit risk) recognised through 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 through the income statement.

	NZ BANKING GROUP	
$ millions	**2021**	2020
Accrued interest payable	**130**	213
Securities purchased not delivered	**622**	133
Trade creditors and other accrued expenses	**93**	71
Interbank placements	**9**	1,194
Securities sold short	**962**	316
Repurchase agreements[1]	**3,014**	33
Other	**20**	19
Total other financial liabilities	**4,850**	1,979
Other financial liabilities at fair value	**1,880**	349
Other financial liabilities at amortised cost	**2,970**	1,630
Total other financial liabilities	**4,850**	1,979

[1] Repurchase agreements include those under the Funding for Lending Programme ('**FLP**') and Term Lending Facility ('**TLF**'). Refer to Note 28 for further details.

Note 19 Debt issues

Accounting policy

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

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

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

The change in the fair value that is due to credit risk is recognised in OCI except where it would create an accounting mismatch, in which case it is also recognised in non-interest income.

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

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Short-term debt		
Commercial paper	**2,979**	2,502
Total short-term debt	**2,979**	2,502
Long-term debt		
Non-domestic medium-term notes	**5,570**	5,329
Covered bonds	**4,347**	4,457
Domestic medium-term notes	**3,408**	3,511
Total long-term debt	**13,325**	13,297
Total debt issues	**16,304**	15,799
Debt issues at fair value	**2,979**	2,502
Debt issues at amortised cost	**13,325**	13,297
Total debt issues	**16,304**	15,799

	NZ BANKING GROUP	
$ millions	**2021**	2020
Movement reconciliation		
Balance at beginning of the year	**15,799**	17,846
Issuances	**9,476**	5,175
Maturities, repayments, buy backs and reductions[2]	**(8,369)**	(7,120)
Total cash movements	**1,107**	(1,945)
FX translation impact[2]	**(538)**	(68)
Fair value hedge accounting adjustments	**(74)**	(41)
Other[1]	**10**	7
Total non-cash movements	**(602)**	(102)
Balance at end of the year	**16,304**	15,799

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

[2] Comparatives have been restated to correctly reflect the classification of cash and non-cash movements relating to certain matured deals. The restatement for 2020 comparatives results in a $73 million decrease in FX translation movements from $5 million to ($68) million and corresponding decrease in maturity, replacements, buy backs and reductions from ($7,193) million to ($7,120) million.

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

Compliance, regulation and remediation provisions

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

Critical accounting assumptions and estimates

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Annual leave and other employee benefits	**86**	69
Provision for ECL on credit commitments (refer to Note 12)	**49**	50
Compliance, regulation and remediation provisions[1]	**76**	43
Lease restoration obligations	**30**	31
Other	**2**	17
Total provisions	**243**	210

[1] The NZ Banking Group has raised an additional provision of $68 million during the year ended 30 September 2021 (30 September 2020: $16 million). This reflects an increase in the identified number of instances where issues requiring remediation had occurred, together with associated interest and programme costs. During the year ended 30 September 2021, $25 million has been paid to customers (30 September 2020: $18 million) and $10 million of unutilised provisions were reversed (30 September 2020: $3 million).

Compliance, regulation and remediation provisions

At balance date, the NZ Banking Group has a provision of $76 million relating to estimated customer remediation costs (30 September 2020: $43 million). This relates to matters pertaining to the provision of services to our customers identified as a result of regulatory action and internal reviews, including its review of processes for some products relating to the requirements of the Credit Contracts & Consumer Finance Act 2003 ('**CCCFA**').

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

A number of different estimates and judgements have been applied in measuring the provision at 30 September 2021, including the number of impacted customers, the refund per customer and the additional costs to run the remediation program. It is possible that the final outcome could be below or above the provision, if the actual outcome differs from the assumptions used in estimating the provision. Remediation processes may change over time as further facts emerge and such changes could result in a change to the final exposure.

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

Note 21 Loan capital

Accounting policy

Loan capital are instruments which qualify for inclusion as regulatory capital under either the Reserve Bank Capital Adequacy Framework or, in relation to the Overseas Bank, the Australian Prudential Regulation Authority ('**APRA**') Prudential Standards. Loan capital is initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. Interest expense incurred is recognised in net interest income.

	NZ BANKING GROUP	
$ millions	**2021**	2020
Additional Tier 1 loan capital - USD AT1 securities	**1,900**	2,097
Tier 2 loan capital - Convertible subordinated notes	**1,088**	1,123
Total loan capital	**2,988**	3,220

	NZ BANKING GROUP	
$ millions	**2021**	2020
Movement reconciliation		
Balance at beginning of the year	**3,220**	3,185
Total cash movements	**-**	-
FX translation impact	**(115)**	(97)
Fair value hedge accounting adjustments	**(119)**	129
Other[1]	**2**	3
Total non-cash movements	**(232)**	35
Balance at end of the year	**2,988**	3,220

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

Additional Tier 1 loan capital

A summary of the key terms and features of the Additional Tier 1 loan capital ('**USD AT1 securities**') is provided below.

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

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

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

Interest payable

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

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

Redemption

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

Note 21 Loan capital (continued)

Conversion

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

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

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

Tier 2 loan capital

A summary of the key terms and features of the Tier 2 loan capital ('**Tier 2 notes**') is provided below.

$	Issue date	Counterparty	Interest rate	Maturity date	Optional redemption date
AU$1,040 million notes	8 September 2015	London Branch of the Overseas Bank	Australian 90 day bank bill rate + 2.87% p.a.	22 March 2026	22 December 2021 and every interest payment date thereafter

Interest payable

Interest payments on the Tier 2 notes are subject to Westpac New Zealand being solvent at the time of, and immediately following the interest payment. Refer to Note 22.

Early redemption

Westpac New Zealand did not elect to redeem all or some of the Tier 2 notes for their face value together with accrued interest (if any) on 22 March 2021 (the first optional redemption date) or any subsequent quarterly optional redemption date. Westpac New Zealand may elect to redeem all or some of the Tier 2 notes for their face value together with accrued interest (if any) on any interest payment date thereafter, subject to the Reserve Bank's prior written approval. Early redemption of all of the Tier 2 notes for certain tax or regulatory reasons is permitted on an interest payment date subject to the Reserve Bank's prior written approval.

Conversion

If a non-viability trigger event occurs, Westpac New Zealand must convert such number of the Tier 2 notes into a variable number of ordinary shares issued by Westpac New Zealand (calculated with reference to the net assets of Westpac New Zealand and the total number of ordinary shares on issue on the conversion date) that is sufficient to satisfy the direction of the Reserve Bank or the decision of the statutory manager. A non-viability trigger event occurs when the Reserve Bank or the statutory manager (appointed pursuant to section 117 of the Reserve Bank Act) directs Westpac New Zealand to convert or write off all or some of Westpac New Zealand's Tier 2 notes. If conversion of the Tier 2 notes fails to take effect within five business days, holders' rights in relation to the Tier 2 notes will be immediately and irrevocably terminated.

Note 22 Related entities

Related entities

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

NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of the Overseas Banking Group including the NZ Branch and the following controlled entities as at 30 September 2021 whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business:

Name of entity	Principal activity	Notes
BT Financial Group (NZ) Limited ('**BTFGNZL**')	Holding company	
BT Funds Management (NZ) Limited ('**BTNZ**')	Funds management company	
Westpac Financial Services Group-NZ-Limited ('**WFSGNZL**')	Holding company	
Westpac Life-NZ- Limited ('**Westpac Life**')	Life insurance company	
Westpac Nominees-NZ-Limited ('**WNNZL**')	Nominee company	
Westpac Superannuation Nominees-NZ-Limited ('**WSNNZL**')	Nominee company	
Westpac Group Investment-NZ-Limited ('**WGINZL**')	Holding company	
Westpac Holdings-NZ-Limited ('**WHNZL**')	Holding company	
Westpac Capital-NZ-Limited ('**WCNZL**')	Finance company	
Westpac Equity Investments NZ Limited	Non-active company	
Westpac New Zealand Group Limited ('**WNZGL**')	Holding company	
Westpac New Zealand Limited	Registered bank	
Westpac NZ Operations Limited ('**WNZOL**')	Holding company	
Aotearoa Financial Services Limited	Non-active company	
Number 120 Limited	Finance company	
Red Bird Ventures Limited	Corporate venture capital company	
Akahu Technologies Limited	Software company	29.6% owned[1]
The Home Mortgage Company Limited	Residential mortgage company	
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 NZ Covered Bond Holdings Limited ('**WNZCBHL**')	Holding company	19% owned[2]
Westpac NZ Covered Bond Limited ('**WNZCBL**')	Guarantor	19% owned[2]
Westpac NZ Securitisation Holdings Limited ('**WNZSHL**')	Holding company	19% owned[3]
Westpac NZ Securitisation Limited ('**WNZSL**')	Funding company	19% owned[3]
Westpac NZ Securitisation No.2 Limited ('**WNZSL2**')	Non-active company	19% owned[3]
Westpac Cash PIE Fund	Portfolio investment entity	Not owned[4]
Westpac Notice Saver PIE Fund	Portfolio investment entity	Not owned[4]
Westpac Term PIE Fund	Portfolio investment entity	Not owned[4]

[1] On 17 December 2020, the NZ Banking Group, through its subsidiary Red Bird Ventures Limited, acquired 29.6% equity in Akahu Technologies Limited, an investment in associate, which is not a controlled entity.

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

[3] The NZ Banking Group, through WNZOL (9.5%) and WHNZL (9.5%), has a total qualifying interest of 19% in WNZSHL and its wholly-owned subsidiaries, WNZSL and WNZSL2. Westpac New Zealand is considered to control WNZSHL, WNZSL and WNZSL2 based on contractual arrangements in place, and as such WNZSHL, WNZSL and WNZSL2 are consolidated within the financial statements of the NZ Banking Group.

[4] 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 Portfolio Investment Entities ('**PIE**'), where BTNZ is the manager and issuer. The manager has appointed Westpac New Zealand to perform all customer management and account administration for the PIE Funds. Westpac New Zealand is the PIE Funds' registrar and administration manager. Westpac New Zealand does not hold any units in the PIE Funds, however is considered to control them, and as such the PIE Funds are consolidated in the financial statements of the NZ Banking Group.

Two non-active companies, Capital Finance New Zealand Limited and Sie-Lease (New Zealand) Pty Limited were deregistered on 30 October 2020.

On 22 March 2021, WNZGL issued 345 million ordinary shares to its immediate parent company, Westpac Overseas Holdings No.2 Pty Limited, for $1 per share.

On 6 July 2021, the Overseas Banking Group announced the sale of Westpac Life to Fidelity Life Assurance Company Limited. Refer to Note 33 Assets and liabilities held for sale.

Note 22 Related entities (continued)

Other than disclosed above, there have been no changes in the ownership percentages since 30 September 2020.

On 13 July 2021, Red Bird Ventures Limited entered into an agreement with Humm (NZ) Limited and Bundll (NZ) Limited. The agreement provided Red Bird the ability to subscribe for between 40% and 49% of the shares in Bundll (NZ) Limited through a call option which expires on 13 January 2022. As at 30 September 2021, the call option has not been exercised.

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

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

Nature of transactions

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

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

The NZ Banking Group enters into derivative transactions with the Overseas Bank (refer to Note 23). They are accounted for as trading derivatives except for cross currency swaps in place with the Overseas Bank, which are designated in a cash flow hedge relationship to hedge the currency risk exposure of funding from the London Branch and Tier 2 notes issued to the London Branch (refer to Note 21).

Transactions with related entities

		NZ BANKING GROUP	
$ millions	**Note**	**2021**	2020
Overseas Bank			
Interest income	2	**-**	18
Interest expense:			
Loan capital[1]		**33**	39
Other[2]	2	**18**	25
Operating expenses - management fees	4	**10**	14
Funding repaid		**29**	18
Other controlled entities of the Overseas Bank			
WGINZL dividend paid to Westpac Overseas Holdings Pty Limited and Westpac Custodian Nominees Pty Limited		**-**	2
WFSGNZL dividend paid to Westpac Equity Holdings Pty Limited ('**WEHPL**')		**-**	6
BTFGNZL dividend paid to WEHPL		**-**	23
WNZGL dividend paid to Westpac Overseas Holdings No. 2 Pty Limited		**265**	315

[1] Interest expense paid on the Tier 2 notes issued by the NZ Banking Group and held by related parties.

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

Due from and to related entities

	NZ BANKING GROUP	
$ millions	**2021**	2020
Due from related entities		
Overseas Bank	**1,739**	2,713
Total due from related entities	**1,739**	2,713
Due from related entities at fair value[1]	**1,115**	1,179
Due from related entities at amortised cost	**624**	1,534
Total due from related entities	**1,739**	2,713
Due to related entities		
Overseas Bank	**2,410**	2,560
Total due to related entities	**2,410**	2,560
Due to related entities at fair value[2]	**1,184**	1,020
Due to related entities at amortised cost	**1,226**	1,540
Total due to related entities	**2,410**	2,560

[1] Consists of derivative financial instruments of $1,115 million (30 September 2020: $1,179 million) (refer to Note 23).

[2] Consists of derivative financial instruments of $1,184 million (30 September 2020: $1,020 million) (refer to Note 23).

Note 22 Related entities (continued)

Key management personnel compensation

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

	NZ BANKING GROUP	
$'000s	**2021**	2020
Salaries and other short-term benefits	**9,224**	6,536
Post-employment benefits	**626**	705
Termination benefits	**1,087**	-
Share-based payments[1]	**3,333**	2,339
Total key management personnel compensation	**14,270**	9,580
Loans to key management personnel	**10,370**	27,763
Deposits from key management personnel	**19,276**	12,492
Interest income on amounts due from key management personnel	**281**	930
Interest expense on amounts due to key management personnel	**56**	155

[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 grand date of hurdled and unhurdled share rights granted during the four years ending 30 September 2021. The methodology applied to calculate fair value at grant date has been updated with a consistent external valuation using the invitation opt out date. The comparative has been restated to align with current year presentation.

Where the Directors of the Overseas Bank have received remuneration from the NZ Banking Group, the amounts are included above. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2021 Annual Financial Report.

Loans and deposits with key management personnel

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

As at 30 September 2021, 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 2020: nil). These loans have been included within the loan portfolio when determining collectively assessed provisions.

Other key management personnel transactions

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

Note 23 Derivative financial instruments

Accounting policy

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

The NZ Banking Group uses derivative financial instruments for meeting customers' needs; our asset and liability risk management ('**ALM**') activities, and undertaking market making and positioning activities.

Trading derivatives

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

Hedging derivatives

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

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

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

Notes to the financial statements

Note 23 Derivative financial instruments (continued)

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

	NZ BANKING GROUP					
	2021					
	Trading		Hedging		Total derivatives carrying value	
$ millions	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate contracts						
Swap agreements	**6,282**	**(5,629)**	**403**	**(185)**	**6,685**	**(5,814)**
Total interest rate contracts	**6,282**	**(5,629)**	**403**	**(185)**	**6,685**	**(5,814)**
FX contracts						
Spot and forward contracts	**988**	**(968)**	**-**	**-**	**988**	**(968)**
Cross currency swap agreements (principal and interest)	**1,178**	**(977)**	**240**	**(169)**	**1,418**	**(1,146)**
Total FX contracts	**2,166**	**(1,945)**	**240**	**(169)**	**2,406**	**(2,114)**
Total of gross derivatives	**8,448**	**(7,574)**	**643**	**(354)**	**9,091**	**(7,928)**
Impact of netting arrangements	**(4,124)**	**4,124**	**-**	**-**	**(4,124)**	**4,124**
Total of net derivatives	**4,324**	**(3,450)**	**643**	**(354)**	**4,967**	**(3,804)**
Consisting of:						
Derivatives held with external counterparties	**3,209**	**(2,287)**	**643**	**(333)**	**3,852**	**(2,620)**
Derivatives held with related parties	**1,115**	**(1,163)**	**-**	**(21)**	**1,115**	**(1,184)**

	NZ BANKING GROUP					
	2020					
	Trading		Hedging		Total derivatives carrying value	
$ millions	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate contracts						
Swap agreements	10,108	(9,431)	383	(566)	10,491	(9,997)
Total interest rate contracts	10,108	(9,431)	383	(566)	10,491	(9,997)
FX contracts						
Spot and forward contracts	642	(640)	-	-	642	(640)
Cross currency swap agreements (principal and interest)	781	(1,261)	594	(208)	1,375	(1,469)
Total FX contracts	1,423	(1,901)	594	(208)	2,017	(2,109)
Total of gross derivatives	11,531	(11,332)	977	(774)	12,508	(12,106)
Impact of netting arrangements	(5,669)	5,669	-	-	(5,669)	5,669
Total of net derivatives	5,862	(5,663)	977	(774)	6,839	(6,437)
Consisting of:						
Derivatives held with external counterparties	4,683	(4,708)	977	(709)	5,660	(5,417)
Derivatives held with related parties	1,179	(955)	-	(65)	1,179	(1,020)

Note 23 Derivative financial instruments (continued)

Hedge accounting

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

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

Fair value hedges

Interest rate risk

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

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

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

Cash flow hedges

Interest rate risk

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

FX risk

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

Economic hedges

As part of the NZ Banking Group’s ALM activities, economic hedges may be entered into to hedge long-term funding transactions.

Interest Rate Benchmark Reform

The NZ Banking Group’s hedging relationships include hedged items and hedging instruments that are impacted by IBOR reform. Refer to Note 31.5 for further details of the NZ Banking Group’s exposure to IBOR reform.

Note 23 Derivative financial instruments (continued)

Hedging instruments

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

			NZ BANKING GROUP					
			2021					
			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	**410**	**1,351**	**1,816**	**3,577**	**89**	**(54)**
	Cross currency swap	Interest rate risk	**1,686**	**3,739**	**3,035**	**8,460**	**64**	**16**
Cash flow hedges	Cross currency swap	FX risk	**2,931**	**4,827**	**3,035**	**10,793**	**176**	**(185)**
Total one-to-one hedge relationships			**5,027**	**9,917**	**7,886**	**22,830**	**329**	**(223)**
Macro hedge relationships								
Portfolio fair value hedges	Interest rate swap	Interest rate risk	**N/A**	**N/A**	**N/A**	**26,596**	**56**	**(25)**
Macro cash flow hedges	Interest rate swap	Interest rate risk	**N/A**	**N/A**	**N/A**	**21,798**	**258**	**(106)**
Total macro hedge relationships			**N/A**	**N/A**	**N/A**	**48,394**	**314**	**(131)**
Total of gross hedging derivatives			**N/A**	**N/A**	**N/A**	**71,224**	**643**	**(354)**
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**	**643**	**(354)**

			NZ BANKING GROUP					
			2020					
			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	673	1,761	1,896	4,330	208	(179)
	Cross currency swap	Interest rate risk	1,823	4,426	356	6,605	111	19
Cash flow hedges	Cross currency swap	FX risk	3,128	7,162	356	10,646	483	(227)
Total one-to-one hedge relationships			5,624	13,349	2,608	21,581	802	(387)
Macro hedge relationships								
Portfolio fair value hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	21,505	-	(202)
Macro cash flow hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	13,587	175	(185)
Total macro hedge relationships			N/A	N/A	N/A	35,092	175	(387)
Total of gross hedging derivatives			N/A	N/A	N/A	56,673	977	(774)
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	977	(774)

Note 23 Derivative financial instruments (continued)

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

NZ BANKING GROUP					
			Currency /	Weighted average rate	
$ millions	Hedging instrument	Hedged risk	Currency pair	2021	2020
Cash flow hedges	Cross currency swap	FX risk	CHF:NZD	**0.6730**	0.6730
			EUR:NZD	**0.6086**	0.6160
			GBP:NZD	**-**	0.4538
			NZD:AUD	**1.0665**	1.1272
			HKD:NZD	**4.9670**	4.9670

Impact of hedge accounting on the balance sheet and reserves

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

NZ BANKING GROUP				
	2021		2020	
$ 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	**1,728**	**17**	2,520	119
Loans	**26,539**	**(57)**	21,647	142
Debt issues	**(10,431)**	**(149)**	(8,923)	(342)

There were no (30 September 2020: nil) accumulated FVHA adjustments included in the above carrying amounts relating to hedged items that have ceased to be adjusted for hedging gains and losses.

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

NZ BANKING GROUP						
	2021			2020		
$ millions	Interest rate risk	FX risk	Total	Interest rate risk	FX risk	Total
Cash flow hedge reserve						
Balance at beginning of the year	**(9)**	**(87)**	**(96)**	(29)	(72)	(101)
Net gains/(losses) from changes in fair value	**158**	**(30)**	**128**	(18)	(50)	(68)
Transferred to net interest income	**11**	**45**	**56**	38	35	73
Balance at end of year	**160**	**(72)**	**88**	(9)	(87)	(96)

There were no (30 September 2020: nil) balances remaining in the cash flow hedge reserve relating to hedge relationships for which hedge accounting is no longer applied.

Note 23 Derivative financial instruments (continued)

Hedge effectiveness

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

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

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

			NZ BANKING GROUP		
			2021		
$ 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	**176**	**(178)**	**(2)**
	Cross currency swap	Interest rate risk	**(71)**	**70**	**(1)**
Cash flow hedges	Interest rate swap	Interest rate risk	**167**	**(169)**	**(2)**
	Cross currency swap	FX risk	**15**	**(15)**	**-**
Total			**287**	**(292)**	**(5)**

			NZ BANKING GROUP		
			2020		
$ 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	124	(124)	-
	Cross currency swap	Interest rate risk	(40)	39	(1)
Cash flow hedges	Interest rate swap	Interest rate risk	31	(20)	11
	Cross currency swap	FX risk	(15)	15	-
Total			100	(90)	10

Notes to the financial statements

Note 24 Fair values of financial assets and financial liabilities

Accounting policy

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

On initial recognition, the transaction price generally represents the fair value of the financial instrument unless there is observable information from an active market to the contrary. Where 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 when the inputs become observable.

Critical accounting assumptions and estimates

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

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

product type;

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

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

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

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

These adjustments incorporate bid/offer spreads, credit valuation adjustments ('**CVA**') and funding valuation adjustments ('**FVA**').

Fair Valuation Control Framework

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

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

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

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

Fair value hierarchy

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

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

Valuation techniques

The NZ Banking Group applies market accepted valuation techniques in determining the fair valuation of over-the-counter ('**OTC**') derivatives. This includes CVA and FVA, 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:

Notes to the financial statements

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

Financial instruments measured at fair value

Level 1 instruments

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

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

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

Level 2 instruments

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

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

Instrument	Balance sheet category	Includes:	Valuation
Interest rate products	Derivative financial instruments Due from related entities Due to related entities	Interest rate swaps, forwards and options – derivative financial instruments	Industry standard valuation models are used to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced from brokers and consensus data providers. If consensus prices are not available, these are classified as Level 3 instruments.
FX products	Derivative financial instruments Due from related entities Due to related entities	FX swaps and FX forward contracts - derivative financial instruments	Derived from market observable inputs or consensus pricing providers using industry standard models.
Asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities	Asset backed securities	Valued using an industry approach to value floating rate debt with prepayment features. The main inputs to the model are the trading margin and the weighted average life of the security. These inputs are sourced from a consensus data provider. If consensus prices are not available these are classified as Level 3 instruments.

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

Instrument	Balance sheet category	Includes:	Valuation
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities Other financial liabilities	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities, off-shore securities and corporate bonds Repurchase agreements and reverse repurchase agreements over non-asset backed debt securities	Valued using observable market prices which are sourced from independent pricing services, broker quotes or inter-dealer prices.
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 applicable credit rating of the NZ Banking Group.
Life insurance assets	Life insurance assets included in assets held for sale	Local authority securities, investment grade corporate bonds, life insurance contract liabilities and units in unlisted unit trusts	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market inputs.

Level 3 instruments

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

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

Instrument	Balance sheet category	Includes:	Valuation
Interest rate derivatives	Derivative financial instruments	Non-vanilla interest rate (inflation indexed) derivatives and long dated NZD caps	Valued using industry standard valuation models utilising observable market inputs which are determined separately for each parameter. Where unobservable, inputs will be set with reference to an observable proxy.

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

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

	NZ BANKING GROUP							
	2021				2020			
$ millions	**Level 1**	**Level 2**	**Level 3[1]**	**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	**891**	**3,644**	**-**	**4,535**	1,188	3,036	-	4,224
Derivative financial instruments	**1**	**3,851**	**-**	**3,852**	-	5,660	-	5,660
Investment securities	**2,152**	**2,528**	**-**	**4,680**	2,504	2,517	-	5,021
Life insurance assets	**-**	**-**	**-**	**-**	-	375	-	375
Assets held for sale	**-**	**370**	**-**	**370**	-	-	-	-
Due from related entities	**16**	**1,099**	**-**	**1,115**	3	1,176	-	1,179
Total financial assets measured at fair value	**3,060**	**11,492**	**-**	**14,552**	3,695	12,764	-	16,459
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings at fair value[2]	**-**	**3,450**	**-**	**3,450**	-	2,996	-	2,996
Other financial liabilities[2]	**932**	**948**	**-**	**1,880**	282	67	-	349
Derivative financial instruments	**10**	**2,607**	**3**	**2,620**	1	5,416	-	5,417
Due to related entities	**7**	**1,177**	**-**	**1,184**	4	1,016	-	1,020
Debt issues at fair value[2]	**-**	**2,979**	**-**	**2,979**	-	2,502	-	2,502
Total financial liabilities measured at fair value	**949**	**11,161**	**3**	**12,113**	287	11,997	-	12,284

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

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the year ended 30 September 2021 (30 September 2020: no material changes in fair value).

Analysis of movements between fair value hierarchy levels

During the year, there were no material transfers between levels of the fair value hierarchy (30 September 2020: no material transfers between levels).

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

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 credit worthiness 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.
Debt issues and loan capital	Fair values are calculated using a discounted cash flow model. The discount rates applied reflect the terms of the instruments, the timing of the estimated cash flows and are adjusted for any changes in the NZ Banking Group's credit spreads.
Due to related entities	Fair values are calculated in respect of long-term debt using a discounted cash flow model. The discount rate applied reflects the terms of the loan and the timing of the estimated cash flows. The carrying value of all other balances 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.
Liabilities held for sale	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.
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.

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

	NZ BANKING GROUP				
	2021				
	Carrying	Fair Value			
$ millions	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value					
Cash and balances with central banks	8,604	8,604	-	-	8,604
Collateral paid	207	207	-	-	207
Loans	93,025	-	-	92,880	92,880
Other financial assets	1,388	-	541	847	1,388
Due from related entities	624	-	624	-	624
Total financial assets not measured at fair value	103,848	8,811	1,165	93,727	103,703
Financial liabilities not measured at fair value					
Collateral received	320	320	-	-	320
Deposits and other borrowings	75,917	-	74,307	1,641	75,948
Other financial liabilities	2,970	-	2,970	-	2,970
Due to related entities	1,226	-	1,226	-	1,226
Debt issues[1]	13,325	-	13,423	-	13,423
Loan capital[1]	2,988	-	1,942	1,095	3,037
Liabilities held for sale	2	-	2	-	2
Total financial liabilities not measured at fair value	96,748	320	93,870	2,736	96,926

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

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

	NZ BANKING GROUP				
	2020				
	Carrying	Fair Value			
$ millions	Amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value					
Cash and balances with central banks	4,488	4,488	-	-	4,488
Collateral paid	397	397	-	-	397
Loans	88,354	-	-	88,693	88,693
Other financial assets	555	-	55	500	555
Due from related entities	1,534	-	1,534	-	1,534
Total financial assets not measured at fair value	95,328	4,885	1,589	89,193	95,667
Financial liabilities not measured at fair value					
Collateral received	508	508	-	-	508
Deposits and other borrowings	70,974	-	69,937	1,179	71,116
Other financial liabilities	1,630	-	1,630	-	1,630
Due to related entities	1,540	-	1,542	-	1,542
Debt issues[1]	13,297	-	13,517	-	13,517
Loan capital[1]	3,220	-	1,928	1,137	3,065
Total financial liabilities not measured at fair value	91,169	508	88,554	2,316	91,378

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

Note 25 Offsetting financial assets and financial liabilities

Accounting policy

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

Some of the NZ Banking Group's offsetting arrangements are not enforceable in all circumstances. The amounts in the tables below may not tie back to the balance sheet if there are balances which are not subject to offsetting or enforceable netting arrangements. The amounts presented in this note do not represent the credit risk exposure of the NZ Banking Group. Refer to Note 31.2 for information on credit risk management. The offsetting and collateral arrangements and other credit risk mitigation strategies used by the NZ Banking Group are further explained in the 'Management of risk mitigation' section under Note 31.2.

Note 25 Offsetting financial assets and financial liabilities (continued)

	NZ BANKING GROUP						
	2021						
	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 in the Balance Sheet**	**Other Recognised Financial Instruments**	**Cash Collateral**	**Financial Instrument Collateral**	**Net Amount**
Assets							
Reverse repurchase agreements[1]	**697**	**-**	**697**	**-**	**-**	**(692)**	**5**
Derivative financial instruments[2]	**7,739**	**(4,124)**	**3,615**	**(2,019)**	**(314)**	**-**	**1,282**
Due from related entities - derivative financial instruments[3]	**1,115**	**-**	**1,115**	**(1,115)**	**-**	**-**	**-**
Total assets	**9,551**	**(4,124)**	**5,427**	**(3,134)**	**(314)**	**(692)**	**1,287**
Liabilities							
Repurchase agreements[4]	**3,014**	**-**	**3,014**	**-**	**-**	**(3,014)**	**-**
Derivative financial instruments[2]	**6,607**	**(4,124)**	**2,483**	**(2,019)**	**(144)**	**-**	**320**
Due to related entities - derivative financial instruments[5]	**1,184**	**-**	**1,184**	**(1,115)**	**-**	**-**	**69**
Total liabilities	**10,805**	**(4,124)**	**6,681**	**(3,134)**	**(144)**	**(3,014)**	**389**

	NZ BANKING GROUP						
	2020						
	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 in the Balance Sheet	Other Recognised Financial Instruments	Cash Collateral	Financial Instrument Collateral	Net Amount
Assets							
Reverse repurchase agreements[1]	547	-	547	-	-	(547)	-
Derivative financial instruments[2]	10,877	(5,669)	5,208	(3,106)	(472)	-	1,630
Due from related entities - derivative financial instruments[3]	1,179	-	1,179	(1,020)	-	-	159
Total assets	12,603	(5,669)	6,934	(4,126)	(472)	(547)	1,789
Liabilities							
Repurchase agreements[4]	33	-	33	-	-	(33)	-
Derivative financial instruments[2]	10,814	(5,669)	5,145	(3,106)	(359)	-	1,680
Due to related entities - derivative financial instruments[5]	1,020	-	1,020	(1,020)	-	-	-
Total liabilities	11,867	(5,669)	6,198	(4,126)	(359)	(33)	1,680

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

[2] $236 million (2020: $452 million) of derivative financial assets and $136 million (2020: $272 million) of derivative financial liabilities are not subject to enforceable netting arrangements.

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

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

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

Notes to the financial statements

Note 25 Offsetting financial assets and financial liabilities (continued)

Other recognised financial instruments

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

Cash collateral and financial instrument collateral

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

Note 26 Credit related commitments, contingent assets and contingent liabilities

Accounting policy

Undrawn credit commitments

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

Contingent assets

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

Contingent liabilities

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

Undrawn credit commitments

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

Westpac New Zealand is obliged to repurchase any loan sold to and held by:

(a) WNZSL (pursuant to its securitisation programme) where the loan does not meet certain terms and conditions of the WNZSL securitisation programme;

(b) WNZCBL (pursuant to Westpac New Zealand's Global Covered Bond Programme ('**CB Programme**')) where:

  (i) it is discovered that there has been a material breach of a sale warranty (or any such sale warranty is materially untrue);

  (ii) the loan becomes materially impaired or is enforced prior to the second monthly covered bond payment date falling after the assignment of the loan; or

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

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Letters of credit and guarantees[1]	**948**	968
Commitments to extend credit[2]	**28,140**	27,897
Total undrawn credit commitments	**29,088**	28,865

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

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

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

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

The NZ Banking Group is reviewing its processes for some products relating to the requirements of the Credit Contracts & Consumer Finance Act 2003 ('**CCCFA**'). The outcome of this complex review is uncertain and could result in customer remediation, regulatory action, litigation and reputational damage.

All potential claims and other liabilities are assessed on a case-by-case basis. A provision will be recognised where the NZ Banking Group has conducted an assessment which determines the likelihood of loss as probable and where its potential loss can be reliably estimated. Where a provision has not been recognised, 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 potential liability cannot be determined accurately.

Note 27 Segment reporting

Accounting policy

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

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

The NZ Banking Group operates predominantly in the Consumer Banking and Wealth, Institutional and Business Banking, Financial Markets, International Trade and Payments, and Investments and Insurance sectors within New Zealand. On this basis, no geographical segment reporting is provided.

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

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

On 1 October 2020, the Commercial, Corporate and Institutional Banking segment was renamed to Institutional and Business Banking.

Segment comparative information for the year ended 30 September 2020 has been restated to ensure consistent presentation with the current reporting period, reflecting changes to expense allocations between segments during the period.

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

- Consumer Banking and Wealth provides financial services predominantly for individuals;
- Institutional and Business Banking provides a broad range of financial services for commercial, corporate, property finance, agricultural, institutional and government customers;
- Financial Markets provides foreign exchange, interest rate derivatives, government and credit products, commodities, carbon and energy capabilities. International Trade and Payments provide international trade solutions, payments products and services to consumer, business and institutional customers; and
- Investments and Insurance provides funds management and insurance services. This segment comprises of an operation that Westpac ultimately plans to exit with agreements in place for the sale of Westpac Life. Refer to Note 33 Asset and Liabilities held for sale.

Reconciling items primarily represent:

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

Note 27 Segment reporting (continued)

	NZ BANKING GROUP					
$ millions	Consumer Banking and Wealth	Institutional and Business Banking	Financial Markets, International Trade and Payments	Investments and Insurance	Reconciling Items	Total
Year ended 30 September 2021						
Net interest income	**1,117**	**959**	**28**	**1**	**(47)**	**2,058**
Non-interest income	**133**	**105**	**131**	**107**	**16**	**492**
Net operating income before operating expenses and impairment charges	**1,250**	**1,064**	**159**	**108**	**(31)**	**2,550**
Operating expenses	**(677)**	**(386)**	**(27)**	**(44)**	**(26)**	**(1,160)**
Impairment (charges)/benefits	**78**	**6**	**-**	**-**	**-**	**84**
Profit before income tax	**651**	**684**	**132**	**64**	**(57)**	**1,474**
Year ended 30 September 2020 (restated)						
Net interest income	1,002	907	33	1	(50)	1,893
Non-interest income	119	116	128	109	(12)	460
Net operating income before operating expenses and impairment charges	1,121	1,023	161	110	(62)	2,353
Operating expenses	(663)	(355)	(30)	(30)	(4)	(1,082)
Impairment (charges)/benefits	(165)	(155)	-	-	-	(320)
Profit before income tax	293	513	131	80	(66)	951
As at 30 September 2021						
Total gross loans	**54,374**	**38,809**	**403**	**-**	**(85)**	**93,501**
Total deposits and other borrowings	**40,371**	**35,546**	**-**	**-**	**3,450**	**79,367**
As at 30 September 2020 (restated)						
Total gross loans	48,979	39,457	383	-	142	88,961
Total deposits and other borrowings	38,637	32,337	-	-	2,996	73,970

Note 28 Securitisation, covered bonds and other transferred assets

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

Securitisation

Securitisation is the transferring of assets (or an interest in either the assets or the cash flows arising from the assets) to a structured entity which then issues interest bearing debt securities to third party investors.

Own assets securitised

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

For securitisation structured entities which the NZ Banking Group controls, as defined in Note 29, the structured entities are classified as subsidiaries and consolidated. When assessing whether the NZ Banking Group controls a structured entity, it considers its exposure to and ability to affect variable returns. The NZ Banking Group may have variable returns from a structured entity through ongoing exposures to the risks and rewards associated with the assets, the provision of derivatives, liquidity facilities, trust management and operational services.

In October 2008, WNZSL was set up as part of Westpac New Zealand's internal residential mortgage-backed securitisation programme. Under this programme Westpac New Zealand sold the rights (but not the obligations) of a pool of housing loans to WNZSL. The purchase was funded by WNZSL's issuance of residential mortgage-backed securities ('**RMBS**'). The RMBS and an equivalent liability in the form of a deemed loan from Westpac New Zealand to WNZSL are fully eliminated in the NZ Banking Group's financial statements. Refer to Note 26 for a description of the NZ Banking Group's obligation to repurchase certain housing loans sold to WNZSL.

Covered bonds

The NZ Banking Group has a covered bond programme whereby selected pools of housing loans it originates are assigned to a bankruptcy remote structured entity. WNZCBL is a special purpose entity established to purchase from time to time, and hold the rights, but not the obligations, of a pool of housing loans ('**cover pool**') and to provide a financial guarantee (in addition to that of Westpac New Zealand) in respect of obligations under the covered bonds issued from time to time by WSNZL under the CB Programme. That financial guarantee is supported by WNZCBL granting security in favour of the covered bondholders over the cover pool.

The intercompany loan made by Westpac New Zealand to WNZCBL to fund the initial purchase (and subsequent further purchases which increased the cover pool) and the liability representing the deemed loan from WNZCBL to Westpac New Zealand are fully eliminated in the NZ Banking Group's financial statements. Refer to Note 26 for a description of the NZ Banking Group's obligation to repurchase certain housing loans sold to WNZCBL.

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 as they are managed as part of a trading portfolio, otherwise they are measured on an amortised cost basis.

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

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

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

	NZ BANKING GROUP				
			For those liabilities that only have recourse to the transferred assets:		
$ millions	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities	Net fair value position
2021					
Securitisation - own assets[1]	**13,988**	**13,966**	**13,967**	**13,966**	**1**
Covered bonds[2]	**7,520**	**4,347**	**n/a**	**n/a**	**n/a**
Repurchase agreements	**3,431**	**3,014**	**n/a**	**n/a**	**n/a**
Total	**24,939**	**21,327**	**13,967**	**13,966**	**1**
2020					
Securitisation - own assets[1]	14,437	14,403	14,404	14,403	1
Covered bonds[2]	7,524	4,468	n/a	n/a	n/a
Repurchase agreements	33	33	n/a	n/a	n/a
Total	21,994	18,904	14,404	14,403	1

[1] The most senior rated securities at 30 September 2021 of $12,750 million (30 September 2020: $13,186 million) qualify as eligible collateral for repurchase agreements with the Reserve Bank. Westpac New Zealand complies with the Reserve Bank's guidelines for its overnight reverse repurchase agreement facility and open market operations, which allows banks in New Zealand to offer RMBS as collateral for the Reserve Bank's repurchase agreements.

[2] The difference between the carrying values of the covered bonds and the assets pledged allows for the immediate issuance of additional covered bonds if required. These additional assets can be repurchased by Westpac New Zealand at its discretion, subject to the conditions set out in the transaction documents. The cover pool is comprised of housing loans up to a value of $7,500 million as at 30 September 2021 (30 September 2020: $7,500 million). Over time, the composition of the cover pool will include, in addition to housing loans, accrued interest (representing accrued and unpaid interest on the outstanding housing loans) and cash (representing collections of principal and interest from the underlying housing loans).

Note 29 Structured entities

Accounting policy

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

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

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

Consolidated structured entities

Securitisation and covered bonds

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

NZ Banking Group managed funds

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

Non-contractual financial support

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

Note 29 Structured entities (continued)

Unconsolidated structured entities

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

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

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

Loans and other credit commitments	The NZ Banking Group lends to unconsolidated structured entities, subject to the NZ Banking Group's collateral and credit approval processes, in order to earn interest and fees and commissions income. The structured entities are mainly securitisation entities.
Investment management agreements	The NZ Banking Group manages funds that provide customers with investment opportunities. The NZ Banking Group also manages superannuation funds for its employees. The NZ Banking Group earns management fee income which is recognised in non-interest income. The NZ Banking Group may also retain units in these investment management funds, primarily through its consolidated life insurance entity. The NZ Banking Group earns fund distribution income and recognises fair value movements through non-interest income.

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

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

	NZ BANKING GROUP					
	2021			2020		
$ millions	**Financing to Securitisation Vehicles**	**Group Managed Funds**	**Total**	Financing to Securitisation Vehicles	Group Managed Funds	Total
Assets						
Loans	**3,128**	**-**	**3,128**	3,321	-	3,321
Life insurance assets[2]	**-**	**-**	**-**	-	213	213
Held for sale assets	**-**	**237**	**237**	-	-	-
Total on-balance sheet exposures	**3,128**	**237**	**3,365**	3,321	213	3,534
Total notional amounts of off-balance sheet exposures	**1,563**	**16**	**1,579**	1,319	69	1,388
Maximum exposure to loss	**4,691**	**253**	**4,944**	4,640	282	4,922
Size of structured entities[1]	**4,691**	**12,175**	**16,866**	4,640	11,969	16,609

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

[2] Balances reclassified to assets held for sale. Refer to Note 33 Assets and liabilities held for sale.

Non-contractual financial support

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

Notes to the financial statements

Note 30 Capital Management

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

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

There are no regulatory capital requirements that apply specifically to the NZ Branch or the NZ Banking Group. NZ Banking Group capital is managed as part of the Overseas Banking Group's Internal Capital Adequacy Process ('**ICAAP**'). The Overseas Bank's Board is responsible for ensuring that capital adequacy of the Overseas Banking Group and the Overseas Bank is maintained.

Under APRA's Prudential Standards, Australian authorised deposit-taking institutions ('**ADI**'), including the Overseas Banking Group and the Overseas Bank are required to maintain minimum ratios of capital to risk weighted assets, as determined by APRA. For the calculation of risk weighted assets, the Overseas Banking Group and the Overseas Bank is accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime. The Overseas Banking Group uses the Advanced Internal Ratings Based ('**Advanced IRB**') approach for credit risk, the Advanced Measurement Approach ('**AMA**') for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital. 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 ('**BCBS**'), except where APRA has exercised certain discretions.

The Overseas Banking Group (excluding entities specifically excluded by APRA regulations), and the Overseas Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2021.

The Overseas Banking Group's approach to capital management seeks to ensure that it is adequately capitalised as an ADI.

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

- the development of a capital management strategy, including consideration of regulatory minimums, capital buffers and contingency plans. The current APRA regulatory capital minimums together with the capital conservation buffer are the Total CET1 Requirement. The Total CET1 Requirement for the Overseas Banking Group is at least 8.0%, based upon an industry minimum CET1 requirement of 4.5% plus a capital buffer of at least 3.5% applicable to D-SIBs[1,2,3];
- consideration of both regulatory and economic capital requirements;
- a stress testing framework that challenges the capital measures, coverage and requirements, including the impact of adverse economic scenarios; and
- consideration of the perspectives of external stakeholders including rating agencies and equity and debt investors.

The table below represents the capital adequacy calculation for the Overseas Banking Group and Overseas Bank as at 30 September 2021 based on APRA's application of the Basel III capital adequacy framework.

%	**30 Sep 21 Unaudited**	30 Sep 20 Unaudited
Overseas Banking Group (excluding entities specifically excluded by APRA regulations)[4, 5]		
Common Equity Tier 1 capital ratio	**12.3**	11.1
Additional Tier 1 capital ratio	**2.3**	2.1
Tier 1 capital ratio	**14.6**	13.2
Tier 2 capital ratio	**4.2**	3.1
Total regulatory capital ratio	**18.9**	16.4
Overseas Bank (Extended Licensed Entity)[4, 6]		
Common Equity Tier 1 capital ratio	**12.6**	11.4
Additional Tier 1 capital ratio	**2.3**	2.1
Tier 1 capital ratio	**14.9**	13.5
Tier 2 capital ratio	**4.3**	3.2
Total regulatory capital ratio	**19.2**	16.7

[1] Noting that APRA may apply higher CET1 requirements for an individual ADI.

[2] If an ADI's CET1 ratio falls below the Total CET1 Requirement (at least 8%), they face restrictions on the distribution of earnings, such as dividends, distribution payments on AT1 capital instruments and discretionary staff bonuses.

[3] The Overseas Bank and the Overseas Banking Group is required to hold minimum capital as determined by APRA, which is at least equal to that specified under the Basel III capital framework.

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

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

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

Notes to the financial statements

Note 31 Financial risk

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

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

Principal risks	Note name	Note number
Overview	Risk management frameworks	31.1
Credit risk	Credit risk ratings system	31.2.1
The risk of financial loss where a customer or counterparty fails to meet their financial obligations.	Credit risk mitigation, collateral and other credit enhancements	31.2.2
	Credit risk concentrations	31.2.3
	Credit quality of financial assets	31.2.4
	Non-performing loans and credit commitments	31.2.5
	Collateral held	31.2.6
Funding and liquidity risk	Liquidity modelling	31.3.1
The risk that the NZ Banking Group cannot meet its payment obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.	Sources of funding	31.3.2
	Assets pledged as collateral	31.3.3
	Contractual maturity of financial liabilities	31.3.4
	Expected maturity	31.3.5
Market risk	Value-at-Risk ('**VaR**')	31.4.1
The risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices.	Traded market risk	31.4.2
	Non-traded market risk	31.4.3
Benchmark interest rate exposure	Interest rate benchmark reform	31.5

Note 31.1 Risk management frameworks

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

The Board has delegated to the Overseas Bank's Board Risk and Compliance Committee ('**Group BRCC**') responsibility to:

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

Notes to the financial statements

Note 31 Financial risk (continued)

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

Risk	Risk management framework and controls
Credit risk	– The Overseas Bank's Credit Risk Management Framework describes the principles, methodologies, systems, roles and responsibilities, reports and key controls for managing credit risk. Within the Credit Risk Management Framework, the NZ Banking Group has its own credit approval limits approved by Westpac New Zealand's Board as delegated by the Overseas Banking Group's Chief Risk Officer. – The Group BRCC and the WBC NZ Banking Group Executive Risk Committee ('**ERC**') monitor the risk profile, performance and management of the NZ Banking Group's credit portfolio and the development and review of key credit risk policies on at least a quarterly basis; other management reviews occur monthly or more frequently. – The NZ Banking Group's Credit Risk Rating System Policy describes the credit risk rating system philosophy, design, key features, IT systems and uses of rating outcomes. – All models materially impacting the risk rating process are periodically reviewed in accordance with the NZ Banking Group's model risk policies. – An annual review is performed of the Credit Risk Rating System for approval by the Westpac New Zealand Board Risk and Compliance Committee ('**WNZL BRCC**') and ERC. – Specific credit risk estimates (including PD, LGD and EAD) are overseen, reviewed annually and supported by the Overseas Bank's Credit Risk Estimates Committee (a subcommittee of the Group BRCC). – In determining the provision for ECL, the forward-looking economic inputs and the probability weightings of the forward-looking scenarios as well as any adjustments made to the modelled outcomes are subject to the approval of the NZ Banking Group's Chief Financial Officer and Chief Risk Officer with oversight from the Board of Directors (and its Committees). – Policies for delegating credit approval authorities and formal limits for the extension of credit are established throughout the NZ Banking Group. These include those for the approval and management of all credit risk arising from other banks and related entities. – Credit policies are established throughout the NZ Banking Group including 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 Related Entity Risk Management Framework and supporting policies govern credit exposures to related entities to minimise the spread of credit risk between Overseas Banking Group entities and to comply with prudential requirements prescribed by APRA.
Funding and liquidity risk	– Funding and liquidity risk is measured and managed in accordance with the policies and processes defined in the Board-approved Liquidity Risk Management Framework which is part of the Overseas Banking Group's Board-approved Risk Management Strategy. – Responsibility for managing the NZ Banking Group's liquidity and funding positions in accordance with the Liquidity Risk Management Framework is delegated to Treasury, both under the oversight of the Overseas Banking Group's Asset and Liability Committee ('**Group ALCO**') as regards APRA APS 210 obligations and under Westpac New Zealand's Asset and Liability Committee ('**WNZL ALCO**') as regards Reserve Bank's BS13 prudential standard. Group BRCC oversees Group ALCO with regard to APRA APS 210 obligations and WNZL BRCC oversees WNZL ALCO's reporting and monitoring of BS13 liquidity measures. – Treasury undertakes an annual funding review that outlines the NZ 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. This review is subsequently submitted to WNZL BRCC for approval. – The Overseas Banking Group monitors the composition and stability of its funding so that it remains within its funding risk appetite. This includes compliance with both the Liquidity Coverage Ratio ('**LCR**') and Net Stable Funding Ratio ('**NSFR**'). – Treasury also maintains a contingent funding plan that outlines the steps that should be taken by the NZ Banking Group in the event of an emerging 'funding crisis'. The plan is aligned with the Overseas Banking Group's broader Liquidity Crisis Management Policy and is submitted annually to WNZL BRCC for approval. – Daily liquidity risk reports are reviewed by Treasury and the Financial Markets and Treasury Risk teams. Liquidity reports are presented to Group ALCO monthly and to the Group BRCC quarterly, as well as WNZL ALCO and WNZL BRCC on a similar schedule.

Note 31 Financial risk (continued)

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

Note 31 Financial risk (continued)

31.2 Credit risk

31.2.1 Credit risk ratings system

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

Transaction-managed customers

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

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

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

Program-managed portfolio

The program-managed portfolio generally includes retail products including mortgages, personal lending (including credit cards) as well as certain Small and Medium-sized Enterprises ('**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	
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
Weak/default/non-performing	All facilities with PM Risk Grade equal to 0	Stage 3

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

31.2.2 Credit risk mitigation, collateral and other credit enhancements

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

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

Notes to the financial statements

Note 31 Financial risk (continued)

Collateral

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

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

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

Management of risk mitigation

The NZ Banking Group mitigates credit risk through controls covering:

Collateral and valuation management	The Overseas Bank manages collateral under collateralisation agreements centrally for all branches of the Overseas Bank and Westpac New Zealand. The estimated realisable value of collateral held in support of loans is based on a combination of: • formal valuations currently held for such collateral; and • management's assessment of the estimated realisable value of all collateral held. This analysis also takes into consideration any other relevant knowledge available to management at the time. Updated valuations are obtained when appropriate. The NZ Banking Group revalues collateral related to financial markets positions on a daily basis and has formal processes in place to promptly call for collateral top-ups, if required. These processes include margining for non-centrally cleared customer derivatives where required under APRA's Prudential Standard CPS226. The collateralisation arrangements are documented via the Credit Support Annex of the International Swaps and Derivatives Association ('**ISDA**') dealing agreements and Global Master Repurchase Agreements for repurchase transactions.
Other credit enhancements	The NZ Banking Group only recognises guarantees, standby letters of credit, or credit derivative protection from the following entities (provided they are not related to the entity with which the NZ Banking Group has a credit exposure): • 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-.
Offsetting	Creditworthy customers domiciled in New Zealand may enter into formal agreements with the NZ Banking Group, permitting the NZ Banking Group to set-off gross credit and debit balances in their nominated accounts. Cross-border set-offs are not permitted. Close-out netting is undertaken with counterparties with whom the NZ Banking Group has entered into a legally enforceable master netting agreement for their off-balance sheet financial market transactions in the event of default. Further details of offsetting are provided in Note 25.
Central clearing	The NZ Banking Group increasingly executes derivative transactions through central clearing counterparties. Central clearing counterparties mitigate risk through stringent membership requirements, the collection of margin against all trades placed, the default fund, and an explicitly defined order of priority of payments in the event of default.

Note 31 Financial risk (continued)

31.2.3 Credit risk concentrations

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

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

Individual customers or groups of related customers

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

Specific industries

Exposures to businesses, governments and other financial institutions are classified into a number of industry clusters based on related Australian and New Zealand Standard Industrial Classification ('**ANZSIC**') codes and are monitored against the NZ Banking Group's industry risk appetite limits.

Individual countries

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

Maximum exposure to credit risk

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Financial assets		
Cash and balances with central banks	**8,604**	4,488
Collateral paid	**207**	397
Trading securities and financial assets measured at FVIS	**4,535**	4,224
Derivative financial instruments	**3,852**	5,660
Investment securities	**4,680**	5,021
Loans	**93,025**	88,354
Other financial assets	**1,388**	555
Due from related entities	**1,739**	2,713
Total financial assets	**118,030**	111,412
Undrawn credit commitments		
Letters of credit and guarantees	**948**	968
Commitments to extend credit	**28,140**	27,897
Total undrawn credit commitments	**29,088**	28,865
Total maximum credit risk exposure	**147,118**	140,277

Note 31 Financial risk (continued)

Concentration of credit exposures

	NZ BANKING GROUP	
$ millions	**2021**	2020
On-balance sheet credit exposures		
Analysis of on-balance sheet credit exposures by geographical areas		
New Zealand	**111,607**	103,949
Overseas	**6,899**	8,070
Subtotal[1]	**118,506**	112,019
Provision for ECL on loans	**(476)**	(607)
Total on-balance sheet credit exposures	**118,030**	111,412
Analysis of on-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**464**	480
Agriculture	**9,387**	9,379
Construction	**499**	604
Finance and insurance	**9,987**	9,541
Forestry and fishing	**488**	513
Government, administration and defence	**15,431**	12,629
Manufacturing	**1,768**	1,947
Mining	**215**	226
Property	**7,878**	8,072
Property services and business services	**1,202**	1,170
Services	**1,766**	2,283
Trade	**2,137**	2,121
Transport and storage	**1,298**	1,321
Utilities	**1,999**	2,130
Retail lending	**62,161**	56,790
Other	**1**	1
Subtotal	**116,681**	109,207
Provision for ECL on loans	**(476)**	(607)
Due from related entities	**1,739**	2,713
Other financial assets	**86**	99
Total on-balance sheet credit exposures	**118,030**	111,412

[1] Comparatives have been restated to correctly reflect gross credit exposures. The restatement for 2020 comparatives results in a $614 million increase in New Zealand credit exposures from $103,335 million to $103,949 million and $7 million decrease in overseas credit exposures from $8,077 million to $8,070 million.

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

Note 31 Financial risk (continued)

$ millions	NZ BANKING GROUP 2021	2020
Off-balance sheet credit exposures		
Off-balance sheet credit exposures consists of		
Credit risk-related instruments	**29,088**	28,865
Total off-balance sheet credit exposures	**29,088**	28,865
Analysis of off-balance sheet credit exposures by geographical areas		
New Zealand	**28,547**	28,267
Overseas	**541**	598
Total off-balance sheet credit exposures	**29,088**	28,865
Analysis of off-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**95**	104
Agriculture	**694**	837
Construction	**578**	554
Finance and insurance	**2,082**	1,926
Forestry and fishing	**221**	235
Government, administration and defence	**769**	905
Manufacturing	**1,712**	1,932
Mining	**57**	111
Property	**1,621**	1,215
Property services and business services	**709**	930
Services	**1,143**	861
Trade	**1,872**	2,086
Transport and storage	**985**	955
Utilities	**1,883**	1,987
Retail lending	**14,667**	14,227
Total off-balance sheet credit exposures	**29,088**	28,865

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

Notes to the financial statements

Note 31 Financial risk (continued)

31.2.4 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 31.2.1) and expectations of future economic conditions under multiple scenarios:

	NZ BANKING GROUP							
	2021				2020			
$ millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total[1]**	Stage 1	Stage 2	Stage 3	Total[1]
Loans - Residential Mortgages								
Strong	**50,544**	**-**	**-**	**50,544**	42,916	-	-	42,916
Good/satisfactory	**6,002**	**3,353**	**-**	**9,355**	7,713	3,578	-	11,291
Weak	**22**	**525**	**403**	**950**	49	501	473	1,023
Total Loans - Residential Mortgages	**56,568**	**3,878**	**403**	**60,849**	50,678	4,079	473	55,230
Loans - Other retail								
Strong	**1,141**	**-**	**-**	**1,141**	1,206	-	-	1,206
Good/satisfactory	**1,363**	**226**	**-**	**1,589**	1,646	203	-	1,849
Weak	**15**	**166**	**65**	**246**	18	152	74	244
Total Loans - Other retail	**2,519**	**392**	**65**	**2,976**	2,870	355	74	3,299
Loans - Corporate								
Strong	**10,757**	**-**	**-**	**10,757**	11,613	-	-	11,613
Good/satisfactory	**15,047**	**1,316**	**-**	**16,363**	15,919	993	-	16,912
Weak	**-**	**2,285**	**142**	**2,427**	-	1,652	163	1,815
Total Loans - Corporate	**25,804**	**3,601**	**142**	**29,547**	27,532	2,645	163	30,340
Loans - Other								
Strong	**129**	**-**	**-**	**129**	92	-	-	92
Good/satisfactory	**-**	**-**	**-**	**-**	-	-	-	-
Weak	**-**	**-**	**-**	**-**	-	-	-	-
Total Loans - Other	**129**	**-**	**-**	**129**	92	-	-	92
Investment Securities								
Strong	**4,680**	**-**	**-**	**4,680**	5,021	-	-	5,021
Good/satisfactory	**-**	**-**	**-**	**-**	-	-	-	-
Weak	**-**	**-**	**-**	**-**	-	-	-	-
Total Investment Securities	**4,680**	**-**	**-**	**4,680**	5,021	-	-	5,021
All other financial assets								
Strong	**10,787**	**-**	**-**	**10,787**	6,927	-	-	6,927
Good/satisfactory	**28**	**5**	**-**	**33**	37	6	-	43
Weak	**-**	**3**	**1**	**4**	-	3	1	4
Total all other financial assets	**10,815**	**8**	**1**	**10,824**	6,964	9	1	6,974
Undrawn credit commitments								
Strong	**22,639**	**1**	**-**	**22,640**	21,900	-	-	21,900
Good/Satisfactory	**4,766**	**1,525**	**-**	**6,291**	6,482	281	-	6,763
Weak	**7**	**127**	**23**	**157**	12	146	44	202
Total undrawn credit commitments	**27,412**	**1,653**	**23**	**29,088**	28,394	427	44	28,865
Total strong	**100,677**	**1**	**-**	**100,678**	89,675	-	-	89,675
Total good/satisfactory	**27,206**	**6,425**	**-**	**33,631**	31,797	5,061	-	36,858
Total weak	**44**	**3,106**	**634**	**3,784**	79	2,454	755	3,288
Total on and off balance sheet	**127,927**	**9,532**	**634**	**138,093**	121,551	7,515	755	129,821

[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 31.2.6.

Note 31 Financial risk (continued)

31.2.5 Non-performing loans and credit commitments

The loans and credit commitments balance in stage 3 (non-performing) is represented by those loans and credit commitments which are in default. A default occurs when the NZ Banking Group considers that the customer is unlikely to repay its credit obligations in full, irrespective of recourse by the NZ Banking Group to actions such as realising security, or the customer is more than 90 days past due on any material credit obligation.

The determination of the provision for ECL is one of the NZ Banking Group's critical accounting assumptions and estimates. Details of this and the NZ Banking Group's accounting policy for the provision for ECL are discussed in Notes 6 and 12 along with the total provision for ECL on loans and credit commitments and the total for those loans and credit commitments that are considered non-performing (i.e. stage 3).

31.2.6 Collateral held

Loans

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

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

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

	NZ BANKING GROUP									
	2021					2020				
%	Residential Mortgages[1]	Other Retail	Corporate	Other	Total	Residential Mortgages[1]	Other Retail	Corporate	Other	Total
Performing Loans										
Fully secured	**100**	**49**	**68**	**37**	**88**	100	44	63	44	85
Partially secured	**-**	**3**	**15**	**1**	**5**	-	4	19	1	7
Unsecured	**-**	**48**	**17**	**62**	**7**	-	52	18	55	8
Total	**100**	**100**	**100**	**100**	**100**	100	100	100	100	100
Non-performing loans										
Fully secured	**94**	**51**	**27**	**-**	**74**	96	39	13	-	70
Partially secured	**6**	**6**	**14**	**-**	**8**	4	7	13	-	7
Unsecured	**-**	**43**	**59**	**-**	**18**	-	54	74	-	23
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 Section iv 'Additional mortgage information' of the Registered bank disclosures for loan-to-value ratio ('**LVR**') analysis of residential mortgages.

Details of the carrying value and associated provision for ECL are disclosed in Note 11, Section iii. of the Registered bank disclosures and Note 12 respectively. The credit quality of loans is disclosed in Note 31.2.4.

Collateral held against financial assets other than loans

	NZ BANKING GROUP	
$ millions	2021	2020
Cash, primarily for derivatives	**320**	508
Securities under reverse repurchase agreements[1]	**692**	547
Total other collateral held	**1,012**	1,055

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

Note 31 Financial risk (continued)

31.3 Funding and liquidity risk

31.3.1 Liquidity modelling

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

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

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

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

31.3.2 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;
- 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 ('**TLF**') and Funding for Lending Programme ('**FLP**')

From 26 May 2020 until 29 October 2020, the Reserve Bank made available a TLF, to offer loans for a fixed term of three years at the rate of the Official Cash Rate, with access to the funds linked to banks' lending under the Scheme. On 20 August 2020, the Reserve Bank announced it would extend the availability of the TLF to 1 February 2021 with terms of five years. In December 2020, the Reserve Bank announced that it would extend the window for the TLF to 28 July 2021. During the year ended 30 September 2021, Westpac New Zealand drew down $96 million under the TLF.

On 11 November 2020, the Reserve Bank announced that additional stimulus would be provided through a 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 total resident loans and advances to New Zealand households, private non-financial businesses, and non-profit institutions serving households (eligible loans). 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 commenced on 7 December 2020 and runs until 6 June 2022 for the initial allocations, and until 6 December 2022 for the additional allocations. The FLP term sheet is available on the Reserve Bank's website. During the year ended 30 September 2021, Westpac New Zealand has drawn down $2,000 million under the FLP.

Note 31 Financial risk (continued)

Liquid assets

The NZ Banking Group holds a portfolio of high-quality liquid assets as a buffer against unforeseen funding requirements. 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 both the requirements of the balance sheet and market conditions.

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Cash and balances with central banks	**8,604**	4,488
Interbank lending	**541**	55
Supranational securities	**873**	1,020
NZ Government securities	**1,942**	3,856
NZ public securities	**2,383**	2,563
NZ corporate securities	**1,386**	1,060
Residential mortgage-backed securities	**8,603**	11,081
Total liquid assets	**24,332**	24,123

Notes to the financial statements

Note 31 Financial risk (continued)

Concentration of funding

	NZ BANKING GROUP	
$ millions	**2021**	2020
Funding consists of		
Collateral received	**320**	508
Deposits and other borrowings	**79,367**	73,970
Other financial liabilities[1]	**3,985**	1,543
Due to related entities[2]	**1,209**	1,518
Debt issues[3]	**16,304**	15,799
Loan capital	**2,988**	3,220
Total funding	**104,173**	96,558
Analysis of funding by geographical areas[3]		
New Zealand	**82,208**	74,122
Australia	**2,141**	2,664
United Kingdom	**9,191**	8,014
United States of America	**5,396**	5,770
China	**1,756**	3,248
Other	**3,481**	2,740
Total funding	**104,173**	96,558
Analysis of funding by industry sector		
Accommodation, cafes and restaurants	**503**	493
Agriculture	**1,740**	1,579
Construction	**2,438**	2,212
Finance and insurance	**39,489**	35,291
Forestry and fishing	**226**	192
Government, administration and defence	**3,085**	3,303
Manufacturing	**2,078**	2,083
Mining	**69**	82
Property services and business services	**8,151**	6,865
Services	**4,802**	4,729
Trade	**2,009**	2,062
Transport and storage	**458**	787
Utilities	**776**	754
Households	**31,912**	30,256
Other[4]	**5,228**	4,352
Subtotal	**102,964**	95,040
Due to related entities[2]	**1,209**	1,518
Total funding	**104,173**	96,558

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

[2] Amounts due to related entities, as presented above, are in respect of deposits and borrowings and exclude amounts which relate to derivative financial instruments and other financial 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.

Notes to the financial statements

Note 31 Financial risk (continued)

31.3.3 Assets pledged as collateral

The NZ Banking Group is required to provide collateral (predominantly to other financial institutions), as part of standard terms, to secure liabilities. In addition to assets supporting Westpac New Zealand's CB Programme disclosed in Note 28, the carrying value of these financial assets pledged as collateral is:

	NZ BANKING GROUP	
$ millions	**2021**	2020
Cash	**207**	397
Securities pledged under repurchase agreements:		
Investment securities	**580**	-
Trading securities and financial assets measured at FVIS	**338**	33
Residential mortgage-backed securities[1]	**2,513**	-
Total amount pledged to secure liabilities (excluding CB Programme)	**3,638**	430

[1] During the year ended 30 September 2021, 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 2021 is $2,000 million, which is recorded within other financial liabilities on the balance sheet, with underlying securities to the value of $2,398 million provided under the arrangement. For the Term Lending Facility, the repurchase cash amount at 30 September 2021 is $96 million, which is recorded within other financial liabilities on the balance sheet, with underlying securities to the value of $115 million provided under the arrangement.

31.3.4 Contractual maturity of financial liabilities

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

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

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

Notes to the financial statements

Note 31 Financial risk (continued)

	NZ BANKING GROUP						
	2021						
$ 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	-	320	-	-	-	-	320
Deposits and other borrowings	46,151	6,515	10,957	14,512	1,470	-	79,605
Other financial liabilities	2,087	537	-	96	2,079	-	4,799
Derivative financial instruments:							
Held for trading	2,287	-	-	-	-	-	2,287
Held for hedging purposes (net settled)	-	19	28	44	97	-	188
Held for hedging purposes (gross settled):							
Cash outflow	-	7	13	1,414	2,090	2,797	6,321
Cash inflow	-	-	(2)	(1,255)	(1,705)	(2,700)	(5,662)
Due to related entities:							
Non-derivative balances	1,226	-	-	-	-	-	1,226
Derivative financial instruments:							
Held for trading	1,162	-	-	-	-	-	1,162
Held for hedging purposes (gross settled):							
Cash outflow	-	-	1,119	-	-	-	1,119
Cash inflow	-	-	(1,096)	-	-	-	(1,096)
Debt issues	-	709	724	5,600	6,570	3,068	16,671
Loan capital	-	-	6	18	1,174	1,816	3,014
Liabilities held for sale	2	-	-	-	-	-	2
Total undiscounted financial liabilities	52,915	8,107	11,749	20,429	11,775	4,981	109,956
Total contingent liabilities and commitments							
Letters of credit and guarantees	948	-	-	-	-	-	948
Commitments to extend credit	28,140	-	-	-	-	-	28,140
Total undiscounted contingent liabilities and commitments	29,088	-	-	-	-	-	29,088

Notes to the financial statements

Note 31 Financial risk (continued)

	NZ BANKING GROUP						
	2020						
$ 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	-	508	-	-	-	-	508
Deposits and other borrowings	38,558	6,446	11,193	16,091	2,098	-	74,386
Other financial liabilities	1,102	658	6	-	-	-	1,766
Derivative financial instruments:							
Held for trading	4,708	-	-	-	-	-	4,708
Held for hedging purposes (net settled)	-	37	75	198	252	4	566
Held for hedging purposes (gross settled):							
Cash outflow	-	3	9	1,919	1,349	-	3,280
Cash inflow	-	-	(6)	(1,824)	(1,312)	-	(3,142)
Due to related entities:							
Non-derivative balances	1,232	-	2	308	-	-	1,542
Derivative financial instruments:							
Held for trading	954	-	-	-	-	-	954
Held for hedging purposes (gross settled):							
Cash outflow	-	-	12	1,504	-	-	1,516
Cash inflow	-	-	(10)	(1,440)	-	-	(1,450)
Debt issues	-	166	25	6,565	8,950	395	16,101
Loan capital	-	-	8	24	130	3,035	3,197
Total undiscounted financial liabilities	46,554	7,818	11,314	23,345	11,467	3,434	103,932
Total contingent liabilities and commitments							
Letters of credit and guarantees	968	-	-	-	-	-	968
Commitments to extend credit	27,897	-	-	-	-	-	27,897
Total undiscounted contingent liabilities and commitments	28,865	-	-	-	-	-	28,865

Note 31 Financial risk (continued)

31.3.5 Expected maturity

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

	NZ BANKING GROUP					
	2021			2020		
$ 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	**8,604**	**-**	**8,604**	4,488	-	4,488
Collateral paid	**207**	**-**	**207**	397	-	397
Trading securities and financial assets measured at FVIS	**4,372**	**163**	**4,535**	3,814	410	4,224
Derivative financial instruments	**3,029**	**823**	**3,852**	4,405	1,255	5,660
Investment securities	**317**	**4,363**	**4,680**	694	4,327	5,021
Loans	**13,991**	**79,034**	**93,025**	12,571	75,783	88,354
Life insurance assets	**-**	**-**	**-**	214	161	375
Due from related entities	**1,700**	**39**	**1,739**	2,648	65	2,713
Assets held for sale	**382**	**-**	**382**	-	-	-
All other assets	**1,665**	**1,159**	**2,824**	819	1,145	1,964
Total assets	**34,267**	**85,581**	**119,848**	30,050	83,146	113,196
Liabilities						
Collateral received	**320**	**-**	**320**	508	-	508
Deposits and other borrowings	**77,939**	**1,428**	**79,367**	71,947	2,023	73,970
Derivative financial instruments	**2,145**	**475**	**2,620**	4,503	914	5,417
Due to related entities	**2,383**	**27**	**2,410**	2,491	69	2,560
Debt issues	**6,905**	**9,399**	**16,304**	6,592	9,207	15,799
Loan capital	**-**	**2,988**	**2,988**	1,123	2,097	3,220
Liabilities held for sale	**99**	**-**	**99**	-	-	-
All other liabilities	**3,043**	**2,493**	**5,536**	2,306	371	2,677
Total liabilities	**92,834**	**16,810**	**109,644**	89,470	14,681	104,151

31.4 Market risk

31.4.1 Value-at-Risk

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

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

VaR seeks to take account of all material market variables that may cause a change in the value of the portfolio, including interest rates, foreign exchange rates, price changes, volatility and the correlations between these variables. Daily monitoring of current exposure and limit utilisation is conducted independently by the Market Risk unit which monitors market risk exposures against VaR and structural concentration limits. These are supplemented by escalation triggers for material profits or losses and stress testing of risks beyond the 99% confidence level.

The key parameters of VaR are:

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

Note 31 Financial risk (continued)

31.4.2 Traded market risk

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

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

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

	NZ BANKING GROUP							
	2021				2020			
$ millions	**As at**	**Maximum Exposure**	**Minimum Exposure**	**Average Exposure**	As at	Maximum Exposure	Minimum Exposure	Average Exposure
Interest rate risk	**2.4**	**8.1**	**1.1**	**2.9**	4.2	9.3	1.0	3.6
FX risk	**0.3**	**1.7**	**0.2**	**0.4**	0.3	1.5	0.1	0.4
Price risk	**0.1**	**1.8**	**-**	**0.6**	1.0	2.8	0.1	0.8
Volatility risk	**-**	**-**	**-**	**-**	-	-	-	-
Net market risk	**2.5**	**9.8**	**1.1**	**3.3**	4.7	11.8	1.0	4.4

31.4.3 Non-traded market risk

Non-traded market risk includes Interest Rate Risk in the Banking Book ('**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.

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

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

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

Net interest income-at-Risk ('NaR')

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

	NZ BANKING GROUP							
	2021				2020			
% (increase)/ decrease in NII	**As at**	**Maximum Exposure**	**Minimum Exposure**	**Average Exposure**	As at	Maximum Exposure	Minimum Exposure	Average Exposure
NaR	**5.00**	**11.95**	**0.88**	**5.27**	1.28	8.20	0.98	3.76

Value at Risk – IRRBB[1]

The table below depicts VaR for IRRBB:

	NZ BANKING GROUP							
	2021				2020			
$ millions	**As at**	**Maximum Exposure**	**Minimum Exposure**	**Average Exposure**	As at	Maximum Exposure	Minimum Exposure	Average Exposure
Interest rate risk	**1.1**	**3.8**	**0.2**	**1.1**	0.5	1.3	0.1	0.5

[1] IRRBB VaR includes interest rate risk, credit spread risk on liquid assets and other basis risks used for internal management purposes.

Note 31 Financial risk (continued)

Risk mitigation

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

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

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

Foreign currency exposures

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Receivable/(payable)		
Australian dollar	**14**	3
Euro	**-**	4
British pound	**-**	(1)
US dollar	**18**	16
Japanese yen	**-**	-
Others	**-**	4

31.5 Interest Rate Benchmark Reform

Overview

Interbank Offered Rates ('**IBORs**') are interest rate benchmarks which are referenced in many financial instruments across various currencies and tenors. In recent years financial regulators have reviewed the use of IBORs and recommended either a reform of the benchmark rate to reference market observable transactions (e.g. EURIBOR) or a transition of certain IBORs to more observable, risk-free ARRs.

On 5 March 2021, the UK regulator the Financial Conduct Authority ('**FCA**') confirmed the transition date for LIBORs to ARR. The transition dates can be summarised as follows:

- a cessation date of 31 December 2021 for most LIBORs;
- a cessation date of 30 June 2023 for certain settings of USD LIBOR (i.e. overnight and 12-months) and for synthetic benchmarks which use USD LIBOR in their calculation process including SGD SOR;
- a non-representative date of 31 December 2021 for both GBP LIBOR and JPY LIBOR for the 1-month, 3-month and 6-month settings; and
- a non-representative date of 30 June 2023 for USD LIBOR 1-month, 3-month and 6-month settings.

Risks

These IBOR reforms result in various risks to the NZ Banking Group including:

- Operational risk: relating to any adverse impacts from the implementation of the IBOR reform on the business, compliance, customers and technology;
- Market risk: including adverse impacts to the NZ Banking Group and its customers if the markets are disrupted by the IBOR reform; and
- Accounting risk: A key assumption made when performing hedge accounting at the reporting date is that both the hedged item and instrument will be amended from existing LIBOR linked floating rates to new ARRs on the same date. Where actual differences between those dates arise, hedge ineffectiveness will be recorded in the income statement. Also, as current IBOR becomes less observable due to the transition to ARR, consideration will need to be given to the appropriate fair valuation hierarchy level used to classify impacted financial instruments.

The NZ Banking Group does not expect material changes to its business-as-usual risk management frameworks and controls due to IBOR. The NZ Banking Group has a working group in place to manage any transition related risks resulting from IBOR to ARR which is discussed further below.

Notes to the financial statements

Note 31 Financial risk (continued)

Governance

The NZ Banking Group forms part of the Ultimate Parent Bank's enterprise-wide IBOR Transition Program to manage the impacts of IBOR reform. The scope of the program is to address the impact of the transition from IBORs to ARRs including business, compliance, customer and technology impacts. The Governance structure of the program is well established to include a Steering Committee that includes senior executives from Finance, Legal, Technology, Compliance, Risk and all impacted business units.

Significant activities underway include development of ARR product variations, changes required for implementing the ISDA Protocol, customer outreach including management of conduct risk in customer transition and technology changes required to ensure the NZ Banking Group's systems can transact, value and perform the necessary accounting (including hedging) requirements once contracts transition from LIBOR to ARR.

These activities focus on two broad areas including:

- Developing new alternative risk-free rate products; and
- Amending existing LIBOR products to reference alternative risk-free rates.

The NZ Banking Group is actively engaging with customers and counterparties to transition or include appropriate fallback provisions. Fallback provisions refer to contractual provisions that lay out the process through which a replacement rate can be identified if a benchmark rate is not available.

Financial instruments impacted by IBOR reform post transition date

Derivatives

The table below summarises the NZ Banking Group's derivative financial instrument exposures currently maturing after the relevant IBOR transition dates noted above that are yet to transition to ARR. While these exposures reference benchmark rates impacted by the IBOR reform as at 30 September 2021, a majority have bi-lateral adherence from our counterparties to the fallback clauses issued by the ISDA in the ISDA 2020 IBOR Fallbacks Protocol which provides a standardised process to identify the appropriate alternative reference rate at the relevant benchmark transition date.

	NZ BANKING GROUP					
	2021					2020
	Trading		Hedging			Hedging
$ millions	**Asset Carrying amount**	**Liability Carrying amount**	**Asset Carrying amount**	**Liability Carrying amount**	**Notional amount**	Notional amount
Benchmark						
USD LIBOR[1]	**575**	**361**	**87**	**-**	**1,816**	1,896
GBP LIBOR	**19**	**-**	**-**	**-**	**-**	-
Total impacted by IBOR reform post transition date[2]	**594**	**361**	**87**	**-**	**1,816**	1,896

[1] The NZ Banking Group's primary exposure to USD LIBOR is to settings with a transition date of 30 June 2023. The NZ Banking Group has no material exposures to USD LIBOR that have a 31 December 2021 transition date (i.e. 1-week and 2-month settings).

[2] Included in the table above are cross currency swaps with a total carrying amount of $17 million derivative assets that have exposure to IBOR reform on both the currencies referenced in the swap arrangement. The carrying amount has been included in the table based on the currency of the receive leg of the swap and is primarily comprised of USD/GBP LIBOR swaps with a carrying value of $13 million derivative asset. Another currency pair has a carrying value of $4 million derivative asset.

For hedging derivatives, the extent of the risk exposure also reflects the notional amounts of related hedging instruments.

Notes to the financial statements

Note 31 Financial risk (continued)

Non-derivatives

The table below summarises the NZ Banking Group's non-derivative financial instrument exposures currently maturing after the relevant IBOR transition dates noted above that are yet to transition to ARR. The NZ Banking Group is engaging with our customers and counterparties to transition or include appropriate fallback provisions. Due to the nature of these contracts, these fallback provisions will be determined bilaterally with the customer or counterparty rather than the standardised basis provided by the ISDA protocols applicable to our derivative contracts.

	NZ BANKING GROUP		
	2021		
	Financial assets	Financial liabilities	Undrawn credit commitments[1]
$ millions	Carrying amount	Carrying amount	Notional contractual amount
Benchmark			
USD LIBOR[2]	**392**	**114**	**2**
GBP LIBOR	**13**	**-**	**1**
EUR LIBOR	**19**	**-**	**1**
Total impacted by IBOR reform post transition date	**424**	**114**	**4**

[1] Where a multi-currency facility has been partially drawn down and references a benchmark rate impacted by the IBOR reform the undrawn balance has been included in the table above for undrawn credit commitments impacted by IBOR reform based on the currency of the drawn portion. These balances do not include balances for multi-currency facilities which are yet to be drawn down and where it is not known whether a customer will choose to drawn down funds linked to an IBOR benchmark.

[2] The NZ Banking Group's primary exposure to USD LIBOR is to settings with a transition date of 30 June 2023. The NZ Banking Group has no material exposures to USD LIBOR that have a 31 December 2021 transition date (i.e. 1-week and 2-month settings).

Notes to the financial statements

Note 32 Notes to the statement of cash flows

Accounting policy

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

Cash and cash equivalents

	NZ BANKING GROUP	
$ millions	**2021**	2020
Cash and cash equivalents comprise:		
Cash and balances with central banks:		
Cash on hand	**304**	321
Balances with central banks	**8,300**	4,167
Interbank lending classified as cash and cash equivalents[1]	**541**	55
Cash and cash equivalents at end of the year	**9,145**	4,543

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

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Net profit attributable to the owner of the NZ Banking Group	**1,057**	681
Adjustments:		
Impairment charges/(benefits) on loans	**(84)**	320
Computer software amortisation costs	**61**	66
Depreciation	**95**	99
(Gain)/loss from hedging ineffectiveness	**4**	(10)
Movement in accrued interest receivable	**21**	23
Movement in accrued interest payable	**(116)**	(156)
Movement in current and deferred tax	**33**	(128)
Gain on disposal of associate	**(9)**	-
Share-based payments	**4**	5
Other non-cash items[1]	**188**	(352)
Cash flows from operating activities before changes in operating assets and liabilities	**1,254**	548
Movement in collateral paid	**190**	20
Movement in trading securities and financial assets measured at FVIS	**(186)**	450
Movement in loans[1]	**(4,875)**	(4,002)
Movement in other financial assets	**42**	10
Movement in due from related entities	**910**	(148)
Movement in other assets	**5**	(7)
Movement in collateral received	**(188)**	(115)
Movement in deposits and other borrowings	**5,397**	8,364
Movement in other financial liabilities	**2,443**	308
Movement in due to related entities	**33**	(15)
Movement in other liabilities	**38**	1
Net movement in external and related entity derivative financial instruments[2]	**(1,148)**	61
Net cash provided by/(used in) operating activities	**3,915**	5,475

[1] Comparatives have been restated to correctly reflect the classification of amortisation of deferred acquisition costs as a non-cash movement within interest income and loans. The restatement for 2020 comparatives results in a $56 million increase in Other non-cash items from ($408) million to ($352) million and corresponding increase in Movement from loans from ($3,946) million to ($4,002) million.

[2] Comparatives have been restated to correctly reflect the classification of cash and non-cash movements relating to certain matured deals. The restatement for 2020 comparatives results in a $73 million decrease in Net movement in external and related entity derivative financial instruments from $134 million to $61 million.

Notes to the financial statements

Note 33 Assets and liabilities held for sale

Accounting policy

Non-current assets or disposal groups are classified as held for sale if they will be recovered primarily through sale rather than through continuing use and a sale is considered highly probable. Non-current assets or disposal groups held for sale are measured at the lower of their existing carrying amount and fair value less costs to sell, except for liabilities and certain assets such as deferred tax assets, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement and continue to be recognised at their existing carrying value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

On 6 July 2021, the Overseas Banking Group announced that it had entered into an agreement to sell Westpac Life to Fidelity Life Assurance Company Limited. Under the terms of the transaction, Westpac New Zealand will enter into a 15-year agreement with Westpac Life for the distribution and underwriting of life insurance products to Westpac New Zealand's customers.

The sale price of $400 million is expected to result in a post-tax gain on sale. The transaction also includes ongoing payments to Westpac New Zealand Limited in accordance with the distribution agreement.

Completion of the transaction is subject to regulatory approval and is expected to occur by the end of the first half of 2022, at which time the gain will be recognised in non-interest income.

Balance sheet presentation

Details of the assets and liabilities held for sale are as follows (no amounts were presented as held for sale in prior comparative periods):

	NZ BANKING GROUP
$ millions	**2021**
Assets held for sale	
Life insurance assets	**370**
Other assets	**12**
Total assets held for sale	**382**
Liabilities held for sale	
Deferred tax liabilities	**38**
Current tax liabilities	**15**
Provisions	**1**
Other liabilities	**43**
Other financial liabilities	**2**
Total liabilities held for sale	**99**

Registered bank disclosures

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

i. General information (Unaudited)

Overseas Bank

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

Limits on material financial support by the Overseas Bank

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

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

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

While the limit and associated conditions do not apply to the ELE's non-equity exposures to the NZ Branch (which is within the ELE), the limit and associated conditions do apply to the NZ Branch's non-equity exposures to the rest of the NZ Banking Group other than Westpac New Zealand Group Limited. As at 30 September 2021, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit were below 5% of Level 1 Tier 1 capital of the Overseas Bank.

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

Ranking of local creditors in liquidation

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

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

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

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

Section 13A(3) of the Australian Banking Act affects all unsecured liabilities of the NZ Branch, which, as at 30 September 2021, amounted to $10,828 million (30 September 2020: $12,559 million).

Section 13A(4) of the Australian Banking Act also provides that it is an offence for an ADI not to hold assets (other than goodwill and any assets or other amount excluded by the prudential standards) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the year ended 30 September 2021, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

Registered bank disclosures

i. General information (Unaudited) (continued)

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

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

Guarantee arrangements

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

Directorate

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

Name: John McFarlane, MA, MBA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Unibail-Rodamco-Westfield SE and Old Oak Holdings Ltd.
Name: Peter King, BEc, FCA **Non-executive:** No **Country of Residence:** Australia **Primary Occupation:** Managing Director & Chief Executive Officer **Secondary Occupations:** Director **Board Audit Committee Member:** No **Independent Director:** No	**External Directorships:** Director of Australian Banking Association Incorporated, Institute of International Finance and The Financial Markets Foundation for Children.
Name: Nerida Caesar, BCom, MBA, GAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Chairman of Workplace Giving Australia Limited and Director of CreditorWatch and Spark Investment Holdco Pty Ltd.
Name: Nora Scheinkestel, LLB (Hons), PhD, FAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Telstra Corporation Limited, AusNet Services Limited and Brambles Limited.
Name: Craig Dunn, BCom, FCA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Chairman of The Australian Ballet. Director of Telstra Corporation Limited, Lion Pty Limited and Lion Global Craft Beverages Pty Limited.

Registered bank disclosures

i. General information (Unaudited) (continued)

Directorate (continued)

Name: Peter Marriott, BEc (Hons.), FCA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of Austraclear Limited, ASX Limited, ASX Settlement Corporation Limited and ASX Clearing Corporation Limited.
Name: Peter Nash, BCom, FCA, F Fin **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes, Chairman **Independent Director:** Yes	**External Directorships:** Chairman of Johns Lyng Group Limited. Director of ASX Limited, Mirvac Group, Golf Victoria Limited and General Sir John Monash Foundation.
Name: Margaret Seale, BA, FAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Scentre Group Limited.
Name: Christopher Lynch, BCom. MBA. FCPA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of Business for Millennium Development Ltd.
Name: Michael Hawker AM, BSc, FAICD, SF Fin, FAIM, FIoD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Washington H. Soul Pattinson and Company Limited and BUPA Global Board UK. Deputy Chairman of BUPA ANZ Group and a Non-Executive Director of the Museum of Contemporary Art Australia.
Name: Audette Exel AO, BA, LLB (Hons) **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Chair of Adara Development Australia, Adara Development USA, Adara Development Bermuda, Adara Development UK and Adara Development Uganda. CEO and Director of Adara Advisors Pty Limited and Adara Partners (Australia) Pty Limited.

i. General information (Unaudited) (continued)

Changes to Directorate

On 1 December 2020, Michael (Mike) Hawker AM was appointed as a Non-executive Director of the Overseas Bank. Alison Deans, a Non-executive Director of the Overseas Bank, retired from the Board at the conclusion of the 2020 Annual General Meeting, held on 11 December 2020. On 1 March 2021, Nora Scheinkestel was appointed as a Non-executive Director of the Overseas Bank. On 1 September 2021, Audette Exel AO was appointed as a Non-executive Director of the Overseas Bank. On 26 October 2021, Steven Harker retired as a Non-executive Director of the Overseas Bank.

Chief Executive Officer, NZ Branch

Name: Andrew John Bashford, BCom, LLB
Country of Residence: New Zealand
Primary Occupation: Acting Chief Executive Officer, NZ Branch
Secondary Occupations: Head of Institutional Relationships, Institutional & Business Banking, Westpac New Zealand; Director
External Directorships: Director of The Institute of Finance Professionals New Zealand Incorporated

Responsible person

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

Name: Catherine Anne McGrath, LLB, BCom
Country of Residence: New Zealand
Primary Occupation: Chief Executive, Westpac New Zealand
Secondary Occupations: Director

Address for communications

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

Board Audit Committee

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

Conflicts of interest policy

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

i. give notice to the Board of any direct or indirect interest in any contract, proposed contract or other matter with the Overseas Bank as soon as practicable after the relevant facts have come to that Director's knowledge. Alternatively, a Director may give to the Board a general notice to the effect that the Director is to be regarded as interested in any present or prospective contract or other matter between the Overseas Bank and a person or persons specified in that notice; and
ii. in relation to any matter that is to be considered at a Directors' meeting in which that Director has a material personal interest, not vote on the matter nor be present while the matter is being considered at the meeting (unless the remaining Directors have previously resolved to the contrary).

Transactions with directors

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

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

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 NZ Banking Group or the Overseas Banking Group is expected to have a material adverse effect on the Overseas Bank or the NZ Banking Group.

i. General information (Unaudited) (continued)

Credit ratings

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

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

On 7 June 2021, S&P revised the outlook on the Overseas Bank's long-term issuer credit rating to stable from negative while affirming it at AA-. On 8 April 2020, S&P affirmed the Overseas Bank's long-term issuer credit rating of AA- and revised the outlook to negative from stable mirroring the rating action on the Australian sovereign rating. Prior to this rating action, the Overseas Bank's long-term issuer credit rating of AA- had a stable outlook since 9 July 2019.

On 12 April 2021, Fitch affirmed the Overseas Bank's long-term issuer default rating ('**IDR**') at A+ and revised its outlook to stable from negative, in line with its outlook for all the major Australian banks. Prior, on 7 April 2020, Fitch had downgraded the long-term IDR for the major Australian banks (including the Overseas Bank) by one notch to A+ from AA- while maintaining a negative outlook. Before being downgraded, the Overseas Bank's long-term IDR of AA- had a negative outlook since 17 July 2019.

The Overseas Bank's rating assigned by Moody's has remained unchanged during the two years immediately preceding the signing date.

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 Ratings, Moody's and S&P Global Ratings.

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

The Overseas Bank's current position is indicated in bold.

i. General information (Unaudited) (continued)

Historical summary of financial statements

	NZ BANKING GROUP				
$ millions	**2021**	2020	2019	2018	2017
Income statement					
Interest income	**3,041**	3,596	4,119	4,067	3,981
Interest expense	**(983)**	(1,703)	(2,121)	(2,155)	(2,193)
Net interest income	**2,058**	1,893	1,998	1,912	1,788
Non-interest income	**492**	460	562	573	625
Net operating income before operating expenses and impairment charges	**2,550**	2,353	2,560	2,485	2,413
Operating expenses	**(1,160)**	(1,082)	(1,018)	(940)	(1,006)
Impairment (charges)/benefits	**84**	(320)	10	3	76
Profit before income tax	**1,474**	951	1,552	1,548	1,483
Income tax expense	**(417)**	(270)	(423)	(431)	(424)
Net profit for the year	**1,057**	681	1,129	1,117	1,059
Net profit for the year attributable to:					
Head office account and owner of the NZ Banking Group	**1,057**	681	1,129	1,117	1,059
Dividends paid on ordinary share capital	**(265)**	(346)	(807)	(572)	(316)
Balance sheet					
Total assets	**119,848**	113,196	106,762	96,656	95,666
Total individually impaired assets	**109**	137	69	145	173
Total liabilities	**109,644**	104,151	98,105	88,273	87,835
Total head office account	**2,487**	2,378	2,289	2,169	2,040
Total equity	**10,204**	9,045	8,657	8,383	7,831

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

Other material matters

Reports required under section 95 of the Reserve Bank of New Zealand Act 1989 ('RBNZ Act')

On 23 March 2021, the Reserve Bank issued two notices to Westpac New Zealand under section 95 of the RBNZ Act requiring Westpac New Zealand to supply two external reviews to the Reserve Bank.

The first review, being undertaken by Deloitte Touche Tohmatsu ('**Deloitte**'), relates to the effectiveness of Westpac New Zealand's actions to improve liquidity risk management and the associated risk culture, following previously identified breaches of the Reserve Bank's Liquidity Policy (BS13) and non-compliance identified through the Reserve Bank's liquidity thematic review. Deloitte's final report is due to the Reserve Bank by 29 April 2022.

From 31 March 2021, the Reserve Bank amended Westpac New Zealand's conditions of registration, requiring Westpac New Zealand to discount the value of its liquid assets by approximately 14% which at 30 September 2021 was NZ$2.5 billion. This overlay will apply until the Reserve Bank is satisfied that:

- the Reserve Bank's concerns regarding liquidity risk controls have been resolved; and
- sufficient progress has been made to address risk culture issues in Westpac New Zealand's Treasury and Market and Liquidity Risk functions.

The second review relates to the effectiveness of Westpac New Zealand's risk governance, with a focus on the role played by the Board. This review was undertaken by Oliver Wyman Limited and completed in November 2021. The review identified deficiencies in Westpac New Zealand's risk governance practices and operations which have impacted the Board's effectiveness in governing risk. These deficiencies are likely to have contributed to issues of non-compliance with some of Westpac New Zealand's Conditions of Registration, and technology resiliency issues. Westpac New Zealand has accepted the findings of the review, and is committed to implementing the recommendations identified. Westpac New Zealand has a programme of work underway to address the issues raised, which is being overseen by Westpac New Zealand's directors. The review has highlighted the need to make other improvements to Westpac New Zealand's risk management practices, which will also be addressed through the programme of work that is underway.

Separate to the section 95 reviews, Westpac New Zealand has also committed to the Reserve Bank and FMA to address its technology issues, and to engage Deloitte to monitor progress. While work has been underway to address these areas for some time, more work is required to meet Westpac New Zealand's expectations and those of the regulators.

i. General information (Unaudited) (continued)

Overseas Bank review of New Zealand business

Following a review of the Westpac New Zealand business this year, the Overseas Bank determined that a demerger was not in the best interests of its shareholders and that it would retain its one hundred per cent ownership interest in that business.

The review identified opportunities to improve service for customers and value across the Westpac New Zealand business, which will be progressed with the Westpac New Zealand Board and management team.

Overseas Bank and APRA enforceable undertaking on risk governance remediation

Following an extensive supervision program by APRA, in December 2020, the Overseas Bank confirmed that it had entered into an enforceable undertaking ('**EU**') with APRA on risk governance remediation.

The key terms of the EU include:

- Integrated Plan: Developing a remediation plan which describes all major remediation activities related to risk governance, sets a clear timeline for implementation, and specifies who is accountable for delivery. The Overseas Bank's Customer Outcomes and Risk Excellence ('**CORE**') Program is delivering the Integrated Plan and supporting the strengthening of the Overseas Bank's risk governance, accountability and culture.
- Governance and independent oversight: Providing sufficient funding and resources to implement the Integrated Plan and establishing appropriate governance arrangements. Independent assurance over implementation of the Integrated Plan is also required.
- Regular reporting: An Independent Reviewer to provide regular updates to APRA on the Overseas Bank's compliance with the EU and Integrated Plan. Promontory was subsequently appointed as the Independent Reviewer.
- Clarity on accountability: Incorporating accountability for the delivery of the Integrated Plan into relevant Banking Executive Accountability Regime statements and remuneration scorecards, which has occurred.

Overseas Bank risk management

The Overseas Bank is continuing to upgrade its end-to-end management of risk. A range of significant shortcomings and areas for improvement in the Overseas Bank's risk governance have been highlighted in recent reviews, including embedding of its risk management framework, policies and systems, regulatory reporting, data quality and management, product governance and its risk capabilities. The Overseas Banking Group has a number of risks currently considered outside of risk appetite or that do not meet the expectations of regulators.

The Overseas Bank's Customer Outcomes and Risk Excellence program is designed to deliver improvements in many of these areas, including embedding a more proactive risk culture, embedding the three lines of defence model to establish clearer risk management accountabilities, improving the control environment, and improving risk awareness, capability and capacity through organisation-wide training and uplift of risk resources in the business.

Other areas of improvement are being addressed through significant investment in risk management expertise in areas such as operational risk, compliance and conduct, financial crime, stress testing, modelling, regulatory reporting and data quality and management.

APRA action against the Overseas Bank for breaches of liquidity requirements

On 1 December 2020, APRA announced that it was taking action for breaches by the Overseas Bank of APRA's prudential standards on liquidity. A program of work is underway to address APRA's requirements, including the commencement of APRA mandated reviews and remediation of shortcomings identified as part of these reviews. From 1 January 2021, APRA has required the Overseas Banking Group to increase the value of its net cash outflows by 10% for the purpose of calculating liquidity coverage ratio (LCR). The impact of this overlay on the Group LCR as at 30 September 2021 was 13 percentage points. This overlay will be in place until the shortcomings have been rectified.

ASIC's civil proceedings against the Overseas Bank relating to interest rate hedging activity

On 5 May 2021, ASIC filed civil proceedings against the Overseas Bank alleging that it had engaged in insider trading and unconscionable conduct and failed to comply with its Australian Financial Services Licence obligations. The allegations relate to interest rate hedging activity during the Overseas Bank's involvement in the 2016 Ausgrid privatisation transaction. The Overseas Bank has filed its Response to ASIC's Concise Statement.

Australian Transaction Reports and Analysis Centre ('AUSTRAC') related class action against the Overseas Bank

The Overseas Bank is defending a class action proceeding which was commenced in December 2019 in the Federal Court of Australia on behalf of certain investors who acquired an interest in the Overseas Bank securities between 16 December 2013 and 19 November 2019. The proceeding involves allegations relating to market disclosure issues connected to the Overseas Bank's monitoring of financial crime over the relevant period, and matters which were the subject of the AUSTRAC civil proceedings as previously disclosed. The damages sought are unspecified. However, given the time period in question and the nature of the claims, it is likely any alleged damages will be significant.

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 Westpac New Zealand). The new framework includes the following components:

- Increasing total capital requirements from 10.5% of risk weighted assets ('**RWA**') to 18% for systemically important banks (including Westpac New Zealand) and 16% for all other banks;
- Setting a Tier 1 capital requirement of 16% of RWA for systemically important banks and 14% for all other banks;
- Additional Tier 1 capital ('**AT1**') can comprise no more than 2.5% of the 16% Tier 1 capital requirement;
- Eligible Tier 1 capital will comprise common equity and redeemable perpetual preference shares. Existing AT1 instruments will be phased out over a seven-year period;

Registered bank disclosures

i. General information (Unaudited) (continued)

- Maintaining the existing Tier 2 capital limit of 2% of RWA; and
- Recalibrating RWA for internal rating based banks, such as Westpac New Zealand, such that aggregate RWA will increase to approximately 90% of standardised RWA.

Given current market conditions, the Reserve Bank has delayed the start date of increases in the required level of bank capital until 1 July 2022, but the new definitions of eligible capital came into effect on 1 October 2021. Banks will be given up to seven years to comply with the new capital requirements.

The new processes for issuing Tier 2 instruments set out in the Reserve Bank's final Banking Prudential Requirements documents applied to Westpac New Zealand with effect from 1 July 2021 pursuant to a change to Westpac New Zealand's conditions of registration. Several further changes to Westpac New Zealand's Conditions of Registration applied with effect from 1 October 2021.

The Overseas Bank is not required to comply with the New Zealand capital adequacy framework.

Business Financing Guarantee Scheme

On 13 April 2020, Westpac New Zealand entered into a deed of indemnity with the New Zealand Government to implement the business finance guarantee scheme ('**Scheme**') under which the New Zealand Government agreed to pay 80% of any loss incurred by Westpac New Zealand on a loan it makes under the Scheme. The Scheme concluded on 30 June 2021 with no new loans available under it.

The Overseas Bank did not participate in the Scheme.

Dividend restrictions on New Zealand banks

On 2 April 2020, a decision was made by the Reserve Bank to freeze the distribution of dividends on ordinary shares by all locally incorporated banks in New Zealand (including Westpac New Zealand) during the period of economic uncertainty caused by COVID-19. Non-payment of dividends from Westpac New Zealand only affects the Overseas Bank's Level 1 CET1 capital ratio.

With effect from 29 April 2021, the dividend restrictions placed on locally incorporated banks at the height of the COVID-19 pandemic were eased to allow banks to pay up to a maximum of 50% of their earnings as dividends to shareholders. The 50% dividend restriction will remain in place until 1 July 2022.

Review of the Reserve Bank of New Zealand Act 1989

A review of the Reserve Bank of New Zealand Act 1989 was announced in 2017. In April 2021, Cabinet made the decision to adopt the final measures resulting from this review, including the introduction of a deposit insurance scheme. New legislation is expected to be introduced in 2022 that will create a single regulatory regime for banks and non-bank deposit takers, and introduce a deposit insurance scheme to protect up to $100,000 per depositor, per institution in the event of a failure. The deposit insurance scheme is expected to take effect in 2023.

Appointment of Westpac New Zealand Chief Executive Officer ('CEO')

On 24 September 2021, the Overseas Bank announced the appointment of Catherine McGrath as CEO of Westpac New Zealand, subject to regulatory approvals, following the retirement of David McLean. Simon Power had been acting CEO since the end of June 2021 and continued to do so until Catherine McGrath commenced as CEO on 15 November 2021.

APRA phasing out reliance on Committed Liquidity Facility

On 10 September 2021, APRA announced it expects ADIs to reduce their Committed Liquidity Facility ('**CLF**') usage to zero by 31 December 2022, and that no ADI should rely on the CLF to meet its minimum 100% LCR requirement from the beginning of 2022. The Overseas Bank's current CLF allocation is $37 billion. The Overseas Bank expects to reduce its allocation in line with APRA's announcement, and to meet its liquidity requirements by increasing its holdings of High Quality Liquid Assets. This is also expected to increase the capital required for Interest Rate Risk in the Banking Book to be held by the Group.

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

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

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2021 and for the six months ended 31 March 2021, respectively, and can be accessed at the internet address www.westpac.com.au.

ii. Additional financial disclosures

Additional information on balance sheet

	NZ BANKING GROUP	
$ millions	**2021**	2020
Interest earning and discount bearing assets	**112,258**	104,034
Interest and discount bearing liabilities	**89,291**	84,775
Total liabilities of the NZ Branch, net of amounts due to related entities	**6,441**	9,020
Total retail deposits of the NZ Branch	**-**	-

Additional information on concentrations of credit risk

Refer to Note 31.2.3 Credit risk concentrations 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 their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process, which is conducted in accordance with the NZ Banking Group's policy guidelines.

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 30 September 2021. The NZ Banking Group uses this contractual repricing information as a base, which is then altered to take account of customer behaviour, to manage its interest rate risk.

	NZ BANKING GROUP						
	2021						
$ 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	**8,301**	**-**	**-**	**-**	**-**	**303**	**8,604**
Collateral paid	**207**	**-**	**-**	**-**	**-**	**-**	**207**
Trading securities and financial assets measured at FVIS	**2,897**	**847**	**87**	**12**	**691**	**1**	**4,535**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**3,852**	**3,852**
Investment securities	**-**	**152**	**165**	**585**	**3,778**	**-**	**4,680**
Loans	**46,887**	**9,398**	**18,004**	**10,456**	**8,670**	**(390)**	**93,025**
Other financial assets	**541**	**-**	**-**	**-**	**-**	**847**	**1,388**
Due from related entities	**580**	**-**	**-**	**-**	**-**	**1,159**	**1,739**
Total financial assets	**59,413**	**10,397**	**18,256**	**11,053**	**13,139**	**5,772**	**118,030**
Non-financial assets							**1,818**
Total assets							**119,848**
Financial liabilities							
Collateral received	**320**	**-**	**-**	**-**	**-**	**-**	**320**
Deposits and other borrowings	**48,805**	**10,082**	**4,316**	**977**	**450**	**14,737**	**79,367**
Other financial liabilities	**3,880**	**-**	**96**	**-**	**-**	**874**	**4,850**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**2,620**	**2,620**
Due to related entities	**1,128**	**-**	**-**	**-**	**-**	**1,282**	**2,410**
Debt issues	**3,442**	**654**	**3,076**	**780**	**8,297**	**55**	**16,304**
Loan capital	**1,088**	**-**	**-**	**-**	**1,900**	**-**	**2,988**
Total financial liabilities	**58,663**	**10,736**	**7,488**	**1,757**	**10,647**	**19,568**	**108,859**
Non-financial liabilities							**785**
Total liabilities							**109,644**
On-balance sheet interest rate repricing gap	**750**	**(339)**	**10,768**	**9,296**	**2,492**		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	**15,526**	**(6,551)**	**(6,358)**	**(5,594)**	**2,977**		
Net interest rate repricing gap	**16,276**	**(6,890)**	**4,410**	**3,702**	**5,469**		

Registered bank disclosures

ii. Additional financial disclosures (continued)

Additional information on liquidity risk

Refer to Note 31.3.4 Contractual maturity of financial liabilities which shows the maturity analyses of financial liabilities.

Overseas Banking Group profitability and size

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2021.

Profitability	30 Sep 21
Net profit after tax for the year ended 30 September 2021 (A$ millions)[1]	5,463
Net profit after tax for the year ended 30 September 2021 as a percentage of average total assets	0.6%

Total assets and equity	30 Sep 21
Total assets (A$ millions)	935,877
Percentage change in total assets over the year ended 30 September 2021	2.6%
Total equity (A$ millions)	72,092

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

Reconciliation of mortgage-related amounts

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

	NZ BANKING GROUP
$ millions	**30 Sep 21**
Residential mortgages - total gross loans (as disclosed in Note 11 and Note 31.2.4)	**60,849**
Reconciling items:	
Unamortised deferred fees and expenses	(250)
Fair value hedge adjustments	57
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	11,607
Undrawn at default[1]	(2,969)
Residential mortgages by LVR (as disclosed in Additional mortgage information in Section iv.)	**69,294**

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

iii. Asset quality

Past due assets

	NZ BANKING GROUP	
$ millions	**30 Sep 21**	30 Sep 20
Past due but not individually impaired assets		
Less than 30 days past due	**966**	3,142
At least 30 days but less than 60 days past due	**192**	328
At least 60 days but less than 90 days past due	**118**	73
At least 90 days past due	**242**	343
Total past due but not individually impaired assets	**1,518**	3,886

Movements in components of loss allowance

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

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

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

	NZ BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Total gross carrying amount as at 30 September 2020	**81,172**	**7,079**	**573**	**137**	**88,961**
Transfers:					
Transfers to Stage 1	**4,771**	**(4,642)**	**(128)**	**(1)**	**-**
Transfers to Stage 2	**(6,633)**	**6,985**	**(351)**	**(1)**	**-**
Transfers to Stage 3 CAP	**(149)**	**(481)**	**640**	**(10)**	**-**
Transfers to Stage 3 IAP	**(43)**	**(9)**	**(16)**	**68**	**-**
Net further lending/(repayment)	**(4,139)**	**(106)**	**(29)**	**(1)**	**(4,275)**
New financial assets originated	**23,391**	**-**	**-**	**-**	**23,391**
Financial assets derecognised during the year	**(13,350)**	**(955)**	**(154)**	**(47)**	**(14,506)**
Amounts written-off	**-**	**-**	**(34)**	**(36)**	**(70)**
Total gross carrying amount as at 30 September 2021	**85,020**	**7,871**	**501**	**109**	**93,501**
Provision for ECL as at 30 September 2021	**(85)**	**(248)**	**(74)**	**(69)**	**(476)**
Total net carrying amount as at 30 September 2021	**84,935**	**7,623**	**427**	**40**	**93,025**

iii. Asset quality (continued)

	NZ BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Total gross carrying amount as at 30 September 2019	80,435	4,064	379	69	84,947
Transfers:					
Transfers to Stage 1	7,406	(7,273)	(132)	(1)	-
Transfers to Stage 2	(11,305)	11,765	(446)	(14)	-
Transfers to Stage 3 CAP	(101)	(864)	971	(6)	-
Transfers to Stage 3 IAP	(1)	(75)	(32)	108	-
Net further lending/(repayment)	(3,994)	117	(10)	(6)	(3,893)
New financial assets originated	20,715	-	-	-	20,715
Financial assets derecognised during the year	(11,983)	(655)	(124)	(8)	(12,770)
Amounts written-off	-	-	(33)	(5)	(38)
Total gross carrying amount as at 30 September 2020	81,172	7,079	573	137	88,961
Provision for ECL as at 30 September 2020	(96)	(331)	(107)	(73)	(607)
Total net carrying amount as at 30 September 2020	81,076	6,748	466	64	88,354

Other asset quality information

	NZ BANKING GROUP	
$ millions	**30 Sep 21**	30 Sep 20
Undrawn commitments with individually impaired counterparties	**7**	5
Other assets under administration	**-**	-

Overseas Banking Group asset quality

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2021.

	2021
Total impaired exposures[1] (A$ millions)	**2,142**
Total impaired exposures expressed as a percentage of total assets	**0.2%**
Total provisions for ECL on impaired exposures[2] (A$ millions)	**1,166**
Total provisions for ECL on impaired exposures expressed as a percentage of total impaired exposures	**54.4%**
Total collectively assessed provision for ECL[2] (A$ millions)	**4,175**

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

[2] Total provisions for ECL on impaired assets and total collectively assessed provision for ECL both include A$334 million of provision for ECL that has been calculated collectively on groups of assets which have been determined to be impaired, but which are not individually significant.

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

Additional mortgage information

Residential mortgages by loan-to-value ratio ('LVR') as at 30 September 2021

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

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

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

	NZ BANKING GROUP					
	2021					
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	**28,083**	**14,409**	**13,797**	**3,082**	**1,285**	**60,656**
Undrawn commitments and other off-balance sheet exposures	**6,364**	**1,194**	**790**	**117**	**173**	**8,638**
Value of exposures	**34,447**	**15,603**	**14,587**	**3,199**	**1,458**	**69,294**

Market risk

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Standardised Approach) ('**BS2A**') and is calculated on a six-monthly basis. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information.

For each category of market risk, the NZ Banking Group's peak end-of-day aggregate capital charge is derived in accordance with the scalar approach as defined in the BS6 Market Risk Guidance Notes. Under this approach, the end-of-period capital charge, as derived under BS2A, is scaled by the ratio of peak capital charge to end-of-period capital charge using the internal value-at-risk method.

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at the reporting date and the peak end-of-day notional capital charges by risk type for the six months ended 30 September 2021.

	NZ BANKING GROUP	
	2021	
$ millions	**Implied Risk-weighted Exposure**	**Notional Capital Charge**
End-of-period		
Interest rate risk	**8,380**	**670**
Foreign currency risk	**35**	**3**
Equity risk	**-**	**-**
Peak end-of-day		
Interest rate risk	**10,694**	**856**
Foreign currency risk	**131**	**10**
Equity risk	**-**	**-**

Overseas Bank and Overseas Banking Group capital ratios

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

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

Insurance business

Westpac Life's primary insurance activities are the development, underwriting and management of products under life insurance legislation which provide insurance cover against the risks of death, disability, redundancy and bankruptcy. Westpac Life also manages insurance agency arrangements whereby general insurance and life insurance products are made available to NZ Banking Group customers. The insurance business of Westpac Life comprises less than one percent of the total assets of the NZ Banking Group. Refer to Note 33 for further details.

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Total assets of insurance business[1]	**271**	238
As a percentage of total consolidated assets of the NZ Banking Group	**0.23%**	0.21%

[1] Total assets of insurance business excludes policy liabilities in an asset position.

Non-consolidated insurance and non-financial activities

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

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

Securitisation

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

Funds management and other fiduciary activities

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

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

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

	NZ BANKING GROUP	
$ millions	**2021**	2020
Private and priority	**-**	633
Retirement plans	**9,365**	8,210
Retail unit trusts	**1,998**	2,366
Wholesale client portfolios	**812**	759
Term PIE	**1,486**	1,944
Cash PIE	**743**	711
Notice Saver PIE	**519**	623
Total funds under management	**14,923**	15,246

Other than funds under management disclosed above, there are no funds held in trust, funds under custodial arrangements or other funds held or managed subject to fiduciary responsibilities by any member of the NZ Banking Group (30 September 2020: nil).

Registered bank disclosures

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

Marketing and distribution of insurance products

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

Arrangements to ensure no adverse impacts arising from the above activities

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

vi. Risk management policies

Information about risk

Risk management framework

The NZ Banking Group regards the management of risk to be a fundamental management activity performed at all levels of its business. The NZ Banking Group's risk management framework is designed to achieve our vision. This includes a sound risk culture and sets out minimum standards for risk management across all risk types ('**Risk Management Framework**'). The Risk Management Framework is the totality of systems, structures, policies, processes and people who control or mitigate internal and external sources of material risks.

The NZ Banking Group adopts a 'Three Lines of Defence' approach to risk management to ensure holistic end-to-end management of risk, where all employees play an active role in identifying and managing risk and operating within the NZ Banking Group's desired risk profile.

The 1st Line of Defence – Risk identification, risk management and self-assessment

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

The 2nd Line of Defence – Establishment of risk management frameworks, controls and policies and risk management oversight

The 2nd Line of Defence comprises separate risk and compliance and conduct advisory, control, assurance and monitoring functions, which establish frameworks, controls, policies, limits and standards for the management, monitoring and reporting of risk. The 2nd Line of Defence may approve risks outside the business' risk appetite and also evaluate and provide assurance over the effectiveness of 1st Line controls, monitoring, compliance and assess progress towards mitigating risks. 2nd Line of Defence provide insight to 1st Line, assisting in developing, maintaining and enhancing the business' approach to risk management.

The 3rd Line of Defence – Independent assurance

The audit function independently evaluates the adequacy and effectiveness of the NZ Banking Group's overall risk management framework and controls.

The NZ Banking Group has risk and management information systems for the measurement, assessment, management, monitoring and reporting of risks across the Three Lines of Defence. These provide the Board, Board Committees and senior management with regular, accurate and timely information on the NZ Banking Group's risk profile.

Risk management frameworks

Further to the Directors' and Chief Executive Officer, NZ Branch's Statement on page 5:

- the Overseas Bank and Westpac New Zealand together had systems in place to monitor and control adequately the material risks of the following relevant members of the NZ Banking Group:
  - BTNZ;
  - BTFGNZL;
  - WFSGNZL;
  - Westpac Life;
  - WNNZL;
  - WSNNZL;
  - WGINZL;
  - WHNZL;
  - WCNZL; and
  - WNZGL;
- the Overseas Bank and Westpac New Zealand together had systems in place to monitor and control adequately the material risks of the NZ Branch; and

vi. Risk management policies (continued)

- the remaining relevant members of the NZ Banking Group are not considered to have material risks.

The NZ Banking Group has an ERC which meets quarterly, and which oversees the management of enterprise risks across the NZ Branch and New Zealand incorporated entities within the Overseas Banking Group of companies (excluding Westpac New Zealand and its subsidiaries which are overseen by the Westpac New Zealand Executive Risk Committee ('**WNZL RISKCO**')). Enterprise risks include, but are not limited to, credit risk, compliance and conduct risk, operational risk, funding and liquidity risk, market risk, strategic risk, reputation and sustainability risk, risk culture, financial crime and cyber risk.

Westpac Life and BTNZ maintain separate Risk Management Frameworks. Both documents are approved by the respective Board of each entity and are closely aligned to the Overseas Banking Group and Westpac New Zealand's Risk Management Framework whilst reflecting each entity's specific regulatory and operating environment.

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

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

Financial risks

Refer to Note 31 Financial risk management for a discussion of the financial risks faced by the NZ Banking Group.

Other key material risks

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The definition is aligned to the Basel Committee on Banking Supervision definition and includes legal and regulatory risk but excludes strategic and reputation risk.

Operational risk represent a category or risks that have the ability to negatively impact the achievement of business objectives. Types of impacts that can arise from risk events occurring include a negative outcome for the NZ Banking Group's financial performance, poor customer outcomes and reputational damage.

The NZ Banking Group applies the Overseas Bank's Operational Risk Management Framework ('**ORMF**') which outlines the business requirements for managing operational risk with respect to governance, risk and control assessments, incident management, and reporting and monitoring. The ORMF is approved by the Group BRCC and supports various regulatory requirements imposed on the Overseas Bank by the Australian Prudential Regulatory Authority. Westpac New Zealand has its own ORMF that is closely aligned with that of the Overseas Bank and is approved by the WNZL BRCC.

Compliance and conduct risk

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

Compliance and conduct risk management is a cornerstone of the way the NZ Banking Group conducts business as it ensures the protection of the NZ Banking Group and its stakeholders. Effective compliance risk management enables the NZ Banking Group to identify emerging issues and, where necessary, put in place preventative measures.

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

Other risk classes

Other risk classes include:

- Financial Crime: the risk that the NZ Banking Group fails to prevent financial crime and comply with applicable global financial crime regulatory obligations;
- Cyber Risk: the risk that the NZ Banking Group or its third parties' data or technology are inappropriately accessed, manipulated or damaged from cybersecurity threats or vulnerabilities;
- Strategic risk: the risk that the NZ Banking Group makes inappropriate strategic choices, does not implement its strategies successfully, or does not respond effectively to changes in the operating environment;
- Reputation and Sustainability risk: the risk that an action, inaction, transaction, investment or event will reduce trust in the NZ Banking Group's integrity and competence by clients, counterparties, investors, regulators, employees or the public. Sustainability risk is the risk of loss or negative impact resulting from failure to recognise or address environmental, social or governance issues; and

vi. Risk management policies (continued)

- Risk culture: the risk that the NZ Banking Group's risk culture does not promote and reinforce behavioural expectations or structures to identify, understand, discuss and act on risks. This leads to ineffective risk management, poor risk awareness, risk-taking outside of risk appetite that is tolerated and a culture where key learnings are not integrated into the NZ Banking Group wide and customer outcomes, impending continuous improvement.

Reviews of the NZ Banking Group's risk management systems

The Overseas Banking Group's Group Audit ('**Group Audit**') Credit Portfolio Review function has a rolling programme of credit and model risk reviews throughout the financial year. New Zealand Audit ('**NZ Audit**')., with support from Group Audit, also periodically reviews the NZ Banking Group's Operational, Compliance and Conduct, Market, Funding and Liquidity Risk Frameworks. The rolling and periodic reviews follow the audit methodology which aims at achieving a review of the very high-risk areas annually and the high-risk areas bi-annually, medium risk areas every three years and low risk areas every four years.

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

Various external reviews of the NZ Banking Group's risk management system have been conducted during the year ended 30 September 2021 as part of ongoing compliance with regulatory requirements.

Internal audit function of the NZ Banking Group

The NZ Banking Group has an internal audit function, NZ Audit. The NZ Audit function comprises a New Zealand based Audit team, supported by Group Audit functions. NZ Audit reports on a quarterly basis, or more often as deemed appropriate, to the NZ Banking Group Board Audit Committee ('**WNZL BAC**'), to agree the budget and the annual audit plan and to report its findings. In addition, the WNZL BAC has private sessions with the Head of NZ Audit. Furthermore, the Head of NZ Audit reports to the Chair of the WNZL BAC, and for administrative purposes to the Westpac New Zealand Chief Financial Officer, a member of the NZ Banking Group Executive Team.

As independent functions, NZ Audit and Group Audit have no direct authority over the activities of management. They have unlimited access to all of the NZ Banking Group's activities, records, property and employees. The scope of responsibility of NZ Audit covers systems of management control across all business activities and support functions at all levels of management within the NZ Banking Group. The level of risk across all material risk classes determines the scope and frequency of individual audits. The audit methodology aims at achieving a review of the very high risk areas annually and the high risk areas bi-annually, medium risk areas every 3 years and low risk areas every 4 years.

As set out in its Charter, the WNZL BAC assists the Board in fulfilling its responsibilities in relation to:

- overseeing the integrity of the financial statements and financial reporting systems of the NZ Banking Group and its related bodies corporate;
- overseeing the external audit engagement, including the external auditor's qualifications, performance, independence and fees;
- oversight of the performance of the internal audit function;
- overseeing the integrity of NZ Banking Group's corporate reporting, including the financial reporting and compliance with prudential regulatory reporting and professional accounting requirements; and
- reviewing, discussing with management and the external auditor, and assessing any significant financial reporting issues and judgements made in connection with the preparation of the financial reports and the processes used to monitor and comply with laws and regulations over financial information, reporting and disclosure.

Access to the Overseas Bank disclosures

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

Conditions of registration

Conditions of registration

The registration of Westpac Banking Corporation ("the registered bank") in New Zealand is subject to the following conditions, which applied from 1 March 2021:

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration,:

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

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

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

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

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

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

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

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

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

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

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

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

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

9. That, for a loan-to-valuation measurement period ending on or before 30 September 2021, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

10. That, for a loan-to-valuation measurement period ending on or after 31 October 2021, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, 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.

11. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% 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.

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

Conditions of registration

In these conditions of registration,:

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

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

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

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

In conditions of registration 9 to 12,:

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019, and where the version of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) referred to in BS19 for the purpose of defining these terms is that dated November 2015.

"loan-to-valuation measurement period" means—

(a) the six calendar month period ending on the last day of August 2021; and

(b) thereafter a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of September 2021.

Changes to conditions of registration

The Reserve Bank has amended the Overseas Bank's conditions of registration since the reporting date for the previous disclosure statement:

- With effect from 1 May 2021, LVR restrictions for owner-occupiers remained at a maximum of 20% of new lending at LVRs above 80% (after exemptions) and LVR restrictions for investors were further tightened to a maximum of 5% of new lending at LVRs above 60% (after exemptions).

The Reserve Bank also notified the Overseas Bank of changes to its conditions of registration from 1 October 2021 which took effect after the reporting period:

- References to BS2A were replaced with the relevant new Banking Prudential Requirements references (BPR001 and BPR131).
- With effect from 1 November 2021, LVR restrictions for owner-occupiers were restricted to a maximum of 10% of new lending at LVRs above 80%.

Independent auditor's report

To the Directors of Westpac Banking Corporation

This report is for the New Zealand Banking Group (the "NZ Banking Group"), comprising the aggregation of the New Zealand operations of Westpac Banking Corporation.

This report includes our:

- audit opinion on the consolidated financial statements ("financial statements") prepared in accordance with Clause 25 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS");
- audit opinion on the supplementary information prepared in accordance with Schedules 4, 7, 11 and 13 of the Order;
- audit opinion on other legal and regulatory requirements in accordance with Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order; and
- review conclusion on the supplementary information relating to credit and market risk exposures and capital adequacy prepared in accordance with Schedule 9 of the Order.

Report on the audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

We have audited the NZ Banking Group's financial statements required by Clause 25 of the Order and the supplementary information required by Schedules 4, 7, 11 and 13 of the Order which comprises:

- the balance sheet as at 30 September 2021;
- 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;
- the notes to the financial statements, which include significant accounting policies and other explanatory information; and
- the supplementary information required by Schedules 4, 7, 11 and 13 of the Order.

Our opinion

In our opinion:

- the NZ Banking Group's financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order and included within notes ii to vi of the registered bank disclosures):
  - i. comply with generally accepted accounting practice in New Zealand;
  - ii. comply with NZ IFRS and IFRS; and
  - iii. give a true and fair view of the financial position of the NZ Banking Group as at 30 September 2021 and its financial performance and cash flows for the year then ended.

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- the supplementary information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order and included within notes ii, iii, v and vi of the registered bank disclosures:
  i. has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;
  ii. is in accordance with the books and records of the NZ Banking Group; and
  iii. fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

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 supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)* section of our report.

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

Independence

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

Our firm carries out other services for the NZ Banking Group in the areas of other audit-related services, which relate to assurance procedures over solvency returns and agreed upon procedures over the issue of comfort letters, regulatory liquidity returns, debt issuance programmes, solvency projections, net tangible asset return and historical financial information in relation to the proposed demerger of Westpac New Zealand Limited and the entities it controlled. We have also provided audit and assurance services in respect of funds managed by the NZ Banking Group. In addition, certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ Banking Group. The provision of these other services and these relationships has not impaired our independence as auditor of the NZ Banking Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements 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 \$525 million as at 30 September 2021. 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	Our audit procedures included testing the effectiveness of controls relating to the NZ Banking Group's ECL estimation process, which included controls over the data, model, assumptions and governance used in determining the provision for ECL on loans and credit commitments, as well as IT general controls related to the relevant IT systems. In addition to controls testing, our other significant audit procedures included, among others: • consideration of the appropriateness of, and any changes in methodology inherent in the models for SICR and MES against the requirements of NZ IFRS 9;

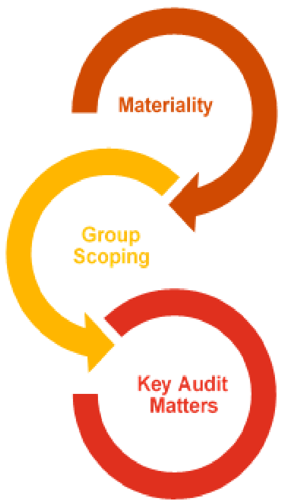
Description of the key audit matter	How our audit addressed the key audit matter
significant increase in credit risk (SICR) has occurred, in estimating forward looking macroeconomic scenarios (MES), applying a probability weighting to different scenarios, and identifying and calculating adjustments to 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. The economic uncertainty due to COVID-19 has also impacted certain judgements made by the NZ Banking Group, specifically relating to forward-looking assumptions applied to the probability of default of individual customers and the associated macroeconomic scenarios that are applied. In addition, with the increased uncertainties in the economic environment and limitations of historical data used to calibrate the models to the current stressed economic environment, overlays are required to address areas of potential risk not captured in the underlying ECL model. The NZ Banking Group has applied additional judgements outside of their models to estimate ECL. For loans that meet specific risk based criteria, ECL is individually assessed by the NZ Banking Group. 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: (i) 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; (ii) there was significant judgement and effort in evaluating audit evidence related to the identification and calculation of overlay adjustments to the ECL due to the impacts of current conditions and forecasts of future economic conditions; (iii) the nature and extent of audit testing related to critical data elements used in the model; (iv) the audit effort involved the use of professionals with specialised skill and knowledge; and (v) the nature and extent of audit testing related to IT general controls for the relevant IT systems used in determining the provision for ECL on loans and credit commitments.	● 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, including 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 the assumptions, economic variables and data applied in determining MES; ● challenging and assessing the appropriateness of COVID-19 overlay adjustments, including where applicable, using challenger overlay approaches to provide evidence that the overlays recorded are reasonable; ● assessing the completeness of overlay adjustments by considering factors including model performance, data quality, impacts of COVID-19 and other relevant risks; ● testing the completeness and accuracy of critical data elements used to calculate the overlays; ● observing the review, challenge and approval by an internal governance committee of MES, probability weightings and overlay adjustments used in the ECL model and assessing the reasonableness of decisions; ● substantive testing on a sample basis of the input of critical data elements into source systems, and the flow and transformation of those critical data elements from source systems to the ECL model; ● for a sample of loans not identified as impaired, considering the borrower's latest financial information provided to the NZ Banking Group (in particular, consideration of the impact of COVID-19) 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 individually assessed loans identified as impaired, considering the borrower's latest financial information, value of security held as collateral, multiple weighted scenario outcomes and independent expert advice (where applicable) provided to the NZ Banking Group to test the basis of measuring individually assessed provisions; and ● considering the impacts of events occurring subsequent to balance date on the ECL for loans and credit commitments. We also assessed the appropriateness of the NZ Banking Group's disclosures in the financial statements against the requirements of NZ IFRS.

Description of the key audit matter	How our audit addressed the key audit matter
IT systems and controls The NZ Banking Group is heavily dependent on complex, interdependent IT systems for the capture, processing, storage and extraction of significant volumes of transactions which is critical to the recording of financial information and the preparation of financial statements of the NZ Banking Group. Accordingly, we considered this to be a key audit matter. In common with all other major banks, access management controls are important to ensure both access and changes made to systems and data are appropriate. The NZ Banking Group's controls over IT systems include: ● user access to applications, process, data and IT operations; ● program development and changes; and ● governance over privileged user accounts.	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. 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. This involved assessing, where relevant to the audit: ● User access: how users are on-boarded, reviewed and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each IT application and supporting infrastructure; ● Change management: how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT applications. We also assessed the appropriateness of users with access to make changes to IT applications across the NZ Banking Group; ● IT operations: how controls over operations are used to ensure that any issues are managed appropriately; and ● User accounts: how controls are designed to enforce segregation of duties and govern the use of privileged accounts to ensure that data is only changed through authorised means. 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.
Provision for customer remediation As disclosed in Note 20 of the financial statements, the provision for customer remediation totalled $76 million as at 30 September 2021. The provision relates to matters pertaining to the provision of services to customers identified as a result of regulatory action and internal reviews, including instances of actual and potential non-compliance with consumer credit legislation.	Our audit procedures included: ● Obtaining an understanding of the NZ Banking Group's processes for identifying and assessing the impact of the NZ Banking Group's customer remediation obligations; ● Reviewing the minutes of the NZ Banking Group's main governance meetings and attending the Westpac New Zealand Limited Board Audit Committee and Board Risk and Compliance

Description of the key audit matter	How our audit addressed the key audit matter
The principal considerations for our determination that the provision for customer remediation is a key audit matter are due to significant judgements made by the NZ Banking Group in determining: • the probability of future uncertain outcomes based on available information; • the estimate of applicable customer refunds; • the number of customers impacted; and • the project costs associated with the remediation program, investigations and reviews. Disclosures are also made in Note 26 of the financial statements of contingent liabilities arising from 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 the potential liability cannot be reliably determined.	Committee meetings; • Reviewing correspondence with relevant regulatory bodies and the NZ Banking Group's independent legal advisor; • Discussing with management the remediation plans and considering the feasibility and intent to carry out such courses of action; • Evaluating and challenging the appropriateness of the methodologies applied, the assumptions and data used to develop the provision. This included the consideration of the results from testing performed by management on a sample basis; • Validating the mathematical accuracy of the models used by management to develop the provision; • Performing sensitivity analysis to assess the impact of reasonable changes to the key assumptions and judgements on the provision; • Assessing whether changes from the prior year to the method, assumptions, or data for developing the provision were appropriate, including taking into consideration developments occurring subsequent to balance date; and • Assessing management's conclusions on whether or not the criteria for recognising a provision had been met for each matter identified based on available information. We also evaluated the reasonableness of the related disclosures made in Notes 20 and 26 of the financial statements against the requirements of NZ IFRS.

Our audit approach

Overview



The overall NZ Banking Group materiality is $70.5 million, which represents approximately 5% of a weighted average profit before income tax for the years ended 30 September 2019, 30 September 2020 and 30 September 2021.

We chose profit before income tax because, in our view, it is the benchmark against which the performance of the NZ Banking Group is most commonly measured by users, and is a generally accepted benchmark. We chose to use a weighted average of the last three years because, in our view, it provides a more stable measure of the NZ Banking Group's performance.

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

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

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. 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 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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall NZ Banking Group materiality for the financial statements 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 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 as a whole, taking into account the structure of the NZ Banking Group, the accounting processes and controls, and the industry in which the NZ Banking Group operates. Certain operational processes which are critical to financial reporting for the NZ Banking Group are undertaken outside of New Zealand. We worked with a PwC network firm engaged in the Westpac Banking Corporation group audit to understand certain processes that supported material balances, classes of transactions and disclosures within the NZ Banking Group's financial statements. 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 Matter

We draw attention to note i of the registered bank disclosures on page 92 which reports that Westpac New Zealand Limited is required to supply two external reviews to the Reserve Bank under section 95 of the Reserve Bank of New Zealand Act 1989.

Information other than the financial statements, supplementary information and auditor's report

The Directors of Westpac Banking Corporation (the "Directors") are responsible, on behalf of Westpac Banking Corporation, for the other information included in the Disclosure Statement. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 5, 87 to 94, 104 and 105.

Our opinion on the financial statements and supplementary information does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and 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 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 financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

The Directors are responsible, on behalf of Westpac Banking Corporation, for the preparation of the financial statements in accordance with Clause 25 of the Order, NZ IFRS and IFRS and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures) disclosed in accordance with Clause 25 and Schedules 4, 7, 11 and 13 of the Order, 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements 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.

Report on other legal and regulatory requirements (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures) for the year ended 30 September 2021:

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

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

Report on the review of the supplementary information relating to credit and market risk exposures and capital adequacy

We have examined the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in note iv of the registered bank disclosures for the year ended 30 September 2021.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

This conclusion is to be read in the context of what we say in the remainder of this report.

Basis for our conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities under this standard are further described in the *Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy* section of our report.

Responsibilities of the Directors for the supplementary information relating to credit and market risk exposures and capital adequacy

The Directors are responsible, on behalf of Westpac Banking Corporation, for the preparation and fair presentation of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to credit and market risk exposures and capital adequacy that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to credit and market risk exposures and capital adequacy, disclosed in note iv of the registered bank disclosures, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs (NZ) and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures.

Who we report to

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

2 December 2021

Auckland