ASX Release

Level 18, 275 Kent Street
Sydney, NSW, 2000

25 MAY 2020

Westpac New Zealand Limited Disclosure Statement

Westpac Banking Corporation ("Westpac") today provides the attached Westpac New Zealand Limited Disclosure Statement for the six months ended 31 March 2020.

For further information:

David Lording
Group Head of Media Relations
0419 683 411

Andrew Bowden
Head of Investor Relations
T. (02) 8253 4008 (ext. 24008)
M. 0438 284 863

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

Westpac New Zealand Limited

Disclosure Statement

For the six months ended 31 March 2020

This page has been intentionally left blank

Contents

Glossary of terms

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

In this Disclosure Statement, reference is made to:

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

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.

Westpac New Zealand sustainability performance

Helping our people, customers and communities financially, to grow a better New Zealand

We are committed to creating shared value – for our customers, our shareholders, our people and our communities. We do this through our core business, which is focused on helping our customers grow their financial wellbeing, and more widely by using our financial and economic expertise to generate positive economic, social and environmental outcomes for our customers and New Zealand.

Our 2018- 2020 sustainability strategy focuses on:

- Growing New Zealanders' financial wellbeing
- Taking action on climate change
- Caring for people and communities.

Grow New Zealanders' financial wellbeing

Increased economic participation and inclusive prosperity is beneficial to all. We want all New Zealanders to be financially secure and independent, enabling them to reach their full potential. We aim to 1. Grow the financial capability of our communities and our people by integrating financial capability into everyday banking, and 2. Grow financial independence by helping New Zealanders participate in the economy and grow their wealth.

	2020 targets	Progress
1.	20,000 financial education workshop participants	17,623 participants
2.	Introduce a new product or service to tackle financial exclusion and poverty	2 initiatives in progress
3.	Provide $300m in lending to social and affordable housing[1]	$216m

Key highlights for the six months ended 31 March 2020 include:

- Launching a modern papakāinga shared equity housing development initiated on iwi land with Ngāti Koroki Kahukura.
- Hosting the Inclusive Growth Symposium with MasterCard attended by over 100 key stakeholders from the private, public and non-profit sector.

Take action on climate change

We want to lead New Zealand's transition to a resilient, low-emissions economy that continues to grow to the benefit of future generations.

	Targets	Progress
1.	Reduce our operational emissions by 30% by 2025 (2019 baseline)[2]	3%
2.	Convert 100% of our car fleet to electric vehicles or PHeV[3] by 2025	34%
3.	Provide $2 billion in lending to business customers for climate change solutions by 30 September 2020	$1.7b

We recognise climate change is a major threat to our environment, economy and wellbeing. However, it also presents opportunities for new products and services, technologies and jobs. We believe business and the financial sector has a major role to play.

Our strategy is to address climate change with urgency by reducing, disclosing and offsetting our own emissions, better understanding our exposure to climate risk and helping our customers manage their transition to a low carbon economy through innovative sustainable finance structures. We want to ensure capital flows to those parts of the economy where it is needed most to facilitate that transition efficiently and effectively.

Key highlights for the six months ended 31 March 2020 include:

- Becoming the first New Zealand bank to be Toitū carbonzero certified. To achieve this, we are actively reducing our greenhouse gas emissions, and offsetting the remainder by purchasing New Zealand native permanent forestry carbon credits. We have also committed to reducing our emissions by a further 30% by 2025.
- Announcing a new product for customers, 'Westpac WarmUp', which offers our new and existing home loan customers an interest-free loan of up to $10,000 to improve their homes' energy-efficiency by installing heat pumps, solar panels, ventilation, double glazing and insulation.
- Entering into a $50 million, four-year sustainability-linked loan facility with Contact Energy, the first such loan issued by Westpac NZ and one of the first of its kind in New Zealand.
- Progressing a scenario analysis to better understand the Bank's exposure to climate risk and sea level rise, taking guidance from the recommendations of the Taskforce for Climate-Related Financial Disclosure.
- Co-chairing the Sustainable Finance Forum, which published its Interim Report on how to make NZ's financial system more sustainable. To read the report, visit: www.theaotearoacircle.nz/sustainablefinance

Care for people and communities

We want to help create thriving New Zealand communities and a workforce and society where everyone feels valued.

	2020 targets	Progress
1.	Raise $3 million for Westpac Rescue Choppers	$2.79m
2.	50% Women in Leadership	50.9%

Key highlights for the six months ended 31 March 2020 include:

- Launching the Gender Pay Report, voluntarily disclosing our gender pay gap and announcing commitments towards closing it.
- Receiving the Gender Tick, for initiatives including a gender inclusive culture, parental leave, safe workplace, flexible work, equal pay and leadership representation.

Work has commenced to update our Sustainability Strategy beyond 2020 through initial consultation with key internal and external stakeholders. The overall objective is to raise Westpac NZ's overall sustainability ambitions and identify areas with the most effective impact. For more information on our approach to sustainability visit www.westpacsustainability.co.nz

We're all in this together – supporting our communities through COVID-19

We have all been impacted by COVID-19 in different ways. Westpac has donated an extra $1 million to support New Zealand's rescue helicopters, which are facing a serious fundraising shortfall due to the impacts of COVID-19, and we've been actively working with our charity partners to see how we can support them through this time. We know that lockdown increased stress and so we've partnered with Kiwibank to assist Sir John Kirwan to release his Mentemia mental health app free of charge for all New Zealanders. Unfortunately there has been a rise in the number of women and children needing help from domestic abuse charities across New Zealand. We have added an icon on the bottom of the Westpac New Zealand Limited website which opens a secure, untraceable, online chat with Women's Refuge.

[1] Does not include Kiwibuild or shared equity.
[2] Environmental year runs 1 July to 30 June. CO_2e results include all Westpac business units based in New Zealand. In 2019, we changed the way we measure and report carbon emissions, to align with the Greenhouse Gas Protocol (2004) and ISO 14064-1:2006 Specification as required by Toitū Envirocare, our carbonzero programme certifier, which also resulted in setting a new 2025 target.
[3] Plug in Hybrid electric Vehicles. In March 2020 we announced a revised target of 100% conversion by 2025, replacing the prior target of 30% by 2020 which was achieved in FY2019.

Directors' statement

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

(a) contains all the information that is required by the Order; and
(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that over the six months ended 31 March 2020:

(a) the Bank has complied with all conditions of registration that applied during that period, except as noted on page 49;
(b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
(c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement has been signed by all the Directors:

Janice Dawson

David McLean

Malcolm Bailey

Philippa Greenwood

Jonathan Mason

Mary Quin

Dated this 21st day of May 2020

Income statement for the six months ended 31 March 2020

$ millions	Note	THE BANKING GROUP Six Months Ended 31 Mar 20 Unaudited	Six Months Ended 31 Mar 19 Unaudited
Interest income:			
Calculated using the effective interest rate method	2	**1,860**	2,028
Other	2	**19**	15
Total interest income	2	**1,879**	2,043
Interest expense	2	**(923)**	(1,060)
Net interest income		**956**	983
Net fees and commissions income	3	**122**	143
Other income	3	**15**	45
Net operating income before operating expenses and impairment charges		**1,093**	1,171
Operating expenses		**(525)**	(468)
Impairment (charges)/benefits	4	**(210)**	(14)
Profit before income tax		**358**	689
Income tax expense		**(102)**	(180)
Net profit attributable to the owners of the Banking Group		**256**	509

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

Statement of comprehensive income for the six months ended 31 March 2020

$ millions	THE BANKING GROUP Six Months Ended 31 Mar 20 Unaudited	Six Months Ended 31 Mar 19 Unaudited
Net profit attributable to the owners of the Banking Group	**256**	509
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Gains/(losses) recognised in equity on:		
Investment securities	**(20)**	(6)
Cash flow hedging instruments	**39**	(82)
Transferred to income statement:		
Cash flow hedging instruments	**48**	21
Income tax on items taken to or transferred from equity:		
Investment securities	**5**	2
Cash flow hedging instruments	**(24)**	17
Items that will not be reclassified subsequently to profit or loss (net of tax)		
Remeasurement of defined benefit obligation	**(6)**	(8)
Other comprehensive income for the period (net of tax)	**42**	(56)
Total comprehensive income attributable to the owners of the Banking Group	**298**	453

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

Balance sheet as at 31 March 2020

		THE BANKING GROUP	
$ millions	Note	31 Mar 20 Unaudited	30 Sep 19 Audited
Assets			
Cash and balances with central banks		**5,096**	1,864
Collateral paid		**150**	168
Trading securities and financial assets measured at fair value through income statement ('**FVIS**')		**3,405**	1,661
Derivative financial instruments		**1,136**	616
Investment securities		**3,778**	4,469
Loans	5	**87,005**	84,160
Other financial assets		**175**	178
Due from related entities		**4,519**	2,571
Property and equipment		**421**	137
Deferred tax assets		**217**	174
Intangible assets		**621**	636
Other assets		**54**	42
Total assets		**106,577**	96,676
Liabilities			
Collateral received		**1,161**	473
Deposits and other borrowings	7	**72,594**	65,606
Other financial liabilities		**652**	455
Derivative financial instruments		**202**	257
Debt issues	8	**19,526**	17,846
Current tax liabilities		**13**	72
Provisions		**192**	144
Other liabilities		**388**	96
Total liabilities excluding related entities liabilities		**94,728**	84,949
Due to related entities		**1,903**	1,701
Loan capital		**2,556**	2,609
Total related entities liabilities		**4,459**	4,310
Total liabilities		**99,187**	89,259
Net assets		**7,390**	7,417
Shareholder's equity			
Share capital		**7,300**	7,300
Reserves		**(29)**	(77)
Retained profits		**119**	194
Total shareholder's equity		**7,390**	7,417

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

Statement of changes in equity for the six months ended 31 March 2020

	THE BANKING GROUP					
		Reserves				
$ millions	Share Capital	Available-for-sale Securities Reserve	Investment Securities Reserve	Cash Flow Hedge Reserve	Retained Profits	Total
As at 30 September 2018 (Audited)	5,100	9	-	(60)	2,229	7,278
Impact on adoption of new accounting standards	-	(9)	9	-	(24)	(24)
As at 1 October 2018 (Restated)	5,100	-	9	(60)	2,205	7,254
Six months ended 31 March 2019 (Unaudited)						
Net profit attributable to the owners of the Banking Group	-	-	-	-	509	509
Net gains/(losses) from changes in fair value	-	-	(6)	(82)	-	(88)
Income tax effect	-	-	2	23	-	25
Transferred to income statement	-	-	-	21	-	21
Income tax effect	-	-	-	(6)	-	(6)
Remeasurement of defined benefit obligations	-	-	-	-	(11)	(11)
Income tax effect	-	-	-	-	3	3
Total comprehensive income for the six months ended 31 March 2019	-	-	(4)	(44)	501	453
Transactions with owners:						
Ordinary share capital issued	1,500	-	-	-	-	1,500
Dividends paid on ordinary shares	-	-	-	-	(1,890)	(1,890)
As at 31 March 2019 (Unaudited)	6,600	-	5	(104)	816	7,317
As at 30 September 2019 (Audited)	**7,300**	**-**	**4**	**(81)**	**194**	**7,417**
Six months ended 31 March 2020 (Unaudited)						
Net profit attributable to the owners of the Banking Group	**-**	**-**	**-**	**-**	**256**	**256**
Net gains/(losses) from changes in fair value	**-**	**-**	**(20)**	**39**	**-**	**19**
Income tax effect	**-**	**-**	**5**	**(11)**	**-**	**(6)**
Transferred to income statement	**-**	**-**	**-**	**48**	**-**	**48**
Income tax effect	**-**	**-**	**-**	**(13)**	**-**	**(13)**
Remeasurement of defined benefit obligations	**-**	**-**	**-**	**-**	**(8)**	**(8)**
Income tax effect	**-**	**-**	**-**	**-**	**2**	**2**
Total comprehensive income for the six months ended 31 March 2020	**-**	**-**	**(15)**	**63**	**250**	**298**
Transactions with owners:						
Dividends paid on ordinary shares (refer to Note 9)	**-**	**-**	**-**	**-**	**(325)**	**(325)**
As at 31 March 2020 (Unaudited)	**7,300**	**-**	**(11)**	**(18)**	**119**	**7,390**

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

Statement of cash flows for the six months ended 31 March 2020

	THE BANKING GROUP	
$ millions	Six Months Ended 31 Mar 20 Unaudited	Six Months Ended 31 Mar 19 Unaudited
Cash flows from operating activities		
Interest received	**1,902**	2,039
Interest paid	**(996)**	(1,096)
Non-interest income received	**116**	166
Operating expenses paid	**(438)**	(439)
Income tax paid	**(220)**	(243)
Cash flows from operating activities before changes in operating assets and liabilities	**364**	427
Net (increase)/decrease in:		
Collateral paid	**18**	(224)
Trading securities and financial assets measured at FVIS	**(1,744)**	(114)
Loans	**(2,999)**	(1,692)
Other financial assets	**5**	(8)
Due from related entities	**(2,131)**	(74)
Other assets	**(5)**	(3)
Net increase/(decrease) in:		
Collateral received	**688**	(261)
Deposits and other borrowings	**6,988**	2,012
Other financial liabilities	**250**	(97)
Due to related entities	**491**	73
Other liabilities	**14**	4
Net movement in external and related entity derivative financial instruments	**114**	5
Net cash provided by/(used in) operating activities	**2,053**	48
Cash flows from investing activities		
Purchase of investment securities	**(65)**	(1,535)
Proceeds from investment securities	**714**	1,363
Proceeds from disposal of associates	**-**	48
Purchase of capitalised computer software	**(24)**	(21)
Purchase of property and equipment	**(4)**	(15)
Proceeds from disposal of property and equipment	**-**	3
Net cash provided by/(used in) investing activities	**621**	(157)
Cash flows from financing activities		
Issue of ordinary share capital	**-**	1,500
Net movement in due to related entities	**(22)**	(25)
Proceeds from debt issues	**3,029**	1,721
Repayments of debt issues	**(2,093)**	-
Payments for the principal portion of lease liabilities	**(31)**	-
Dividends paid to ordinary shareholders	**(325)**	(1,890)
Net cash provided by/(used in) financing activities	**558**	1,306
Net increase/(decrease) in cash and cash equivalents	**3,232**	1,197
Cash and cash equivalents at beginning of the period	**1,864**	1,353
Cash and cash equivalents at end of the period	**5,096**	2,550
Cash and cash equivalents at end of the period comprise:		
Cash on hand	**350**	210
Balances with central banks	**4,746**	1,950
Interbank lending classified as cash and cash equivalents[1]	**-**	390
Cash and cash equivalents at end of the period	**5,096**	2,550

[1] Interbank lending is included within other financial assets on the balance sheet.

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

Notes to the financial statements

Note 1 Statement of accounting policies

These condensed consolidated interim financial statements ('**financial statements**') have been prepared and presented in accordance with the Order and Generally Accepted Accounting Practice, as appropriate for for-profit entities, and the New Zealand equivalent to International Accounting Standard 34 *Interim Financial Reporting* and should be read in conjunction with the financial statements included in the Disclosure Statement for the year ended 30 September 2019. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ('**IASB**').

Financial statements preparation

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

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

Comparative information has been revised where appropriate to enhance comparability.

All policies have been applied on a basis consistent with that used in the financial year ended 30 September 2019, except as set out in the 'amendments to accounting standards effective this period' section below.

The areas of judgement, estimates and assumptions in these financial statements, including the key sources of estimation uncertainty, are consistent with those in the Disclosure Statement for the year ended 30 September 2019 except for as noted below:

Goodwill

As at 31 March 2020, the COVID-19 pandemic has led to significant changes with adverse effects to the Banking Group's economic environment, which is an indicator of impairment. As a result, an impairment test was performed which confirmed that the Banking Group continues to have considerable headroom when determining whether goodwill is recoverable, and no impairment should be recognised.

We have reassessed the base assumptions and revised them where we consider it necessary in order to provide a reasonable estimate of the value-in-use of the business units and the Banking Group in the current environment. We have revised the assumptions used at 30 September 2019 as reported in the Disclosure Statement from a zero growth rate beyond 2 year forecasts to a 2% growth rate beyond 3.5 year forecasts.

Given the uncertainty of a rapidly changing economic environment, market sentiment, and regulatory and industry responses, the forecasts are likely to change. This will continue to be reviewed and a further impairment test will be performed at year end.

Provisions for expected credit losses ('ECL')

Details on specific judgements in relation to the impact of COVID-19 on the calculation of provisions for ECL are included in Note 6.

Amendments to Accounting Standards effective this period

NZ IFRS 16 Leases

NZ IFRS 16 *Leases* ('**NZ IFRS 16**') was adopted by the Banking Group on 1 October 2019. NZ IFRS 16 requires all operating leases of greater than 12 months duration be presented on balance sheet by the lessee as a right-of-use ('**ROU**') asset and lease liability. There are no significant changes to lessor accounting.

The Banking Group adopted the standard using the simplified approach to transition with no restatement of comparative information and no effect on retained earnings.

The lease liabilities are measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 October 2019. On transition to the new standard, the lease liability recognised in other liabilities was $292 million. The associated ROU assets were measured at an amount equal to the lease liability. The ROU assets are recognised in property and equipment.

All leases on balance sheet give rise to a combination of interest expense on the lease liability and depreciation of the ROU asset. Interest expense is recognised in net interest income on an effective yield basis. Depreciation expense is recognised in operating expenses on a straight-line basis over the lease term.

Extension options are included in a number of lease contracts. The extension options are only included in the lease term if the lease is reasonably certain to be extended, which is assessed by the Banking Group at the lease commencement date. The assessment is reviewed if a significant event or significant change in circumstances occurs which affects this assessment and is within the control of the Banking Group.

The Banking Group used the incremental borrowing rate based on the remaining maturity of leases at the date of transition as the discount rate when determining present value. The weighted average incremental borrowing rate applied was 2.40%.

The table below shows the reconciliation of operating lease commitments disclosed as at 30 September 2019 to the lease liability recognised on 1 October 2019:

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

$ millions	THE BANKING GROUP
Operating lease commitments at 30 September 2019 (Audited)	**306**
Recognition exemption for short-term leases	**(2)**
Adjustment for extension options reasonably certain to be exercised	**21**
Undiscounted lease payments as at 30 September 2019	**325**
Effect of discounting (weighted average incremental borrowing rate of 2.40%)	**(33)**
Lease liability as at 1 October 2019 (Audited)	**292**

NZ IFRIC 23 Uncertainty over Income Tax Treatments

NZ IFRIC 23 *Uncertainty over Income Tax Treatments* ('**NZ IFRIC 23**') was adopted by the Banking Group on 1 October 2019. NZ IFRIC 23 clarifies the recognition and measurement criteria in NZ IAS 12 *Income Taxes* where there is uncertainty over income tax treatments, and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position.

Where it is not considered probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented.

NZ IFRIC 23 did not have a material impact on the Banking Group.

Interest Rate Benchmark Reform

Interest Rate Benchmark Reform - 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**') was early adopted, as permitted by the standard, by the Banking Group on 1 October 2019. These amendments allow the Banking Group to apply certain exceptions to the standard hedging requirements in respect of hedge relationships that are impacted by a market wide interest rate benchmark reform. Specifically the exceptions allow the Banking Group to:

- Assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform when determining whether a forecast transaction is highly probable;
- Assume that the interest rate benchmark of the hedged item/instrument is not altered for the life of the hedge when assessing whether a hedge is expected to continue to be highly effective;
- A hedge relationship impacted by uncertainty arising from benchmark interest rate reform is not required to pass the 80%-125% effectiveness test, however any actual ineffectiveness must be recorded in the income statement; and
- The determination of a designated component of an exposure in portfolio hedges is only required to be made the first time that component is designated, and not when the portfolio is de-designated and re-designated.

The exceptions allowed by the amendments are being applied to the Banking Group's London Interbank Offered Rate (**'LIBOR'**) linked hedge relationships that mature after the LIBOR discontinuance date of 31 December 2021. The Banking Group's LIBOR transition project has commenced focusing on identification of exposures and internal processes that will be affected by the changes.

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 alternative reference rates ('**ARRs**') on the same date. Where actual differences between those dates arise hedge ineffectiveness will be recorded in the income statement.

On 9 April 2020, the IASB issued an exposure draft for Interest Rate Benchmark Reform – Phase 2 which considers the issues that will affect financial reporting when an existing benchmark interest rate is replaced by an ARR. The Banking Group continues to monitor these developments and the expected impact.

The table below summarises the LIBOR exposures the Banking Group currently has in hedging relationships maturing after 31 December 2021 which will be impacted by the Interest Rate Benchmark Reform and the quantum of those risks. The extent of the risk exposure also reflects the notional amounts of related hedging instruments.

	THE BANKING GROUP
	31 Mar 20
	Unaudited
$ millions	Notional hedged exposure
Benchmark	
USD LIBOR	**100**

Notes to the financial statements

Note 2 Net interest income

	THE BANKING GROUP	
$ millions	**Six Months Ended 31 Mar 20 Unaudited**	Six Months Ended 31 Mar 19 Unaudited
Interest income		
Calculated using the effective interest rate method		
Cash and balances with central banks	**7**	12
Collateral paid	**1**	3
Investment securities	**58**	78
Loans	**1,793**	1,933
Due from related entities	**1**	2
Total interest income calculated using the effective interest rate method	**1,860**	2,028
Other		
Trading securities and financial assets measured at FVIS	**13**	14
Due from related entities	**6**	1
Total other	**19**	15
Total interest income	**1,879**	2,043

Interest expense		
Calculated using the effective interest rate method		
Collateral received	**2**	3
Deposits and other borrowings	**532**	660
Debt issues	**135**	141
Due to related entities	**11**	20
Loan capital	**59**	71
Other interest expense	**7**	2
Total interest expense calculated using the effective interest rate method	**746**	897
Other		
Deposits and other borrowings	**8**	11
Debt issues	**24**	4
Due to related entities	**-**	1
Other interest expense[1]	**145**	147
Total other	**177**	163
Total interest expense	**923**	1,060
Net interest income	**956**	983

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

Notes to the financial statements

Note 3 Non-interest income

	THE BANKING GROUP	
$ millions	**Six Months Ended 31 Mar 20 Unaudited**	Six Months Ended 31 Mar 19 Unaudited
Net fees and commissions income		
Facility fees	**30**	25
Transaction fees and commissions	**115**	136
Other non-risk fee income	**11**	12
Fees and commissions income	**156**	173
Credit card loyalty programs	**(19)**	(16)
Transaction fees and commissions related expenses	**(15)**	(14)
Fees and commissions expenses	**(34)**	(30)
Net fees and commissions income	**122**	143
Other income		
Net ineffectiveness on qualifying hedges	**14**	-
Other non-interest income	**1**	45
Total other income	**15**	45
Total non-interest income	**137**	188

Non-interest income in scope of NZ IFRS 15 *Revenue from Contracts with Customers* ('**NZ IFRS 15**') can be further disaggregated into the following operating segments and is consistent with the segment descriptions detailed in Note 12:

	THE BANKING GROUP				
$ millions	**Consumer Banking and Wealth**	**Commercial, Corporate and Institutional**	**Investments and Insurance**	**Reconciling Items**	**Total**
Six months ended 31 March 2020 (Unaudited)					
Fees and commissions income					
Facility fees	**20**	**8**	**-**	**2**	**30**
Transaction fees and commissions	**73**	**43**	**-**	**(1)**	**115**
Other non-risk fee income	**6**	**6**	**-**	**(1)**	**11**
Fees and commissions income	**99**	**57**	**-**	**-**	**156**
Fees and commissions expenses	**(34)**	**-**	**-**	**-**	**(34)**
Net fees and commissions income	**65**	**57**	**-**	**-**	**122**
Six months ended 31 March 2019 (Unaudited) (restated)					
Fees and commissions income					
Facility fees	14	7	-	4	25
Transaction fees and commissions	91	51	-	(6)	136
Other non-risk fee income	7	7	-	(2)	12
Fees and commissions income	112	65	-	(4)	173
Fees and commissions expenses	(30)	-	-	-	(30)
Net fees and commissions income	82	65	-	(4)	143

Notes to the financial statements

Note 4 Impairment charges/(benefits)

	THE BANKING GROUP	
$ millions	**Six Months Ended 31 Mar 20 Unaudited**	Six Months Ended 31 Mar 19 Unaudited
Provisions raised/(released):		
Performing	**133**	(8)
Non-performing	**68**	14
Bad debts written-off/(recovered) directly to the income statement	**9**	8
Impairment charges/(benefits)	**210**	14
of which relates to:		
Loans and credit commitments	**210**	14
Impairment charges/(benefits)	**210**	14

Impairment charges/(benefits) on all other financial assets are not material to the Banking Group. Refer to Note 6 for details on the impact of COVID-19 on the provision for ECL.

Note 5 Loans

	THE BANKING GROUP	
$ millions	**31 Mar 20 Unaudited**	30 Sep 19 Audited
Residential mortgages	**53,393**	51,487
Other retail	**3,503**	3,753
Corporate	**30,449**	29,124
Other	**159**	111
Total gross loans	**87,504**	84,475
Provisions for ECL on loans (Note 6)	**(499)**	(315)
Total net loans	**87,005**	84,160

As at 31 March 2020, $7,531 million of housing loans, accrued interest (representing accrued interest on the outstanding housing loans) and cash (representing collections of principal and interest from the underlying housing loans) were used by the Banking Group to secure the obligations of Westpac Securities NZ Limited ('WSNZL') under the Bank's Global Covered Bond Programme ('CB Programme') (30 September 2019: $7,530 million). These pledged assets were not derecognised from the Banking Group's balance sheet in accordance with the accounting policies outlined in Note 1 to the financial statements included in the Disclosure Statement for the year ended 30 September 2019. As at 31 March 2020, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $5,502 million (30 September 2019: $5,274 million).

Notes to the financial statements

Note 6 Provisions for expected credit losses

Loans and credit commitments

The reconciliation of the provision for ECL for loans and credit commitments as at 31 March 2020 below has been determined by an aggregation of monthly movements over the period. 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 other charges/(credits) to the income statement line represents the impact on the provision for ECL due to changes in credit quality during the period (including transfers between stages), changes due to forward looking economic scenarios, the COVID-19 overlay, and partial repayments and additional drawdowns on existing facilities over the period.
- Write-offs represent a reduction in the provision for ECL as a result of derecognition of exposures where there is no reasonable expectation of full recovery.

Movements in components of loss allowances

The following table shows the collectively assessed provisions ('**CAP**') and individually assessed provisions ('**IAP**') for loans and credit commitments.

	THE BANKING GROUP 31 Mar 20 Unaudited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Provision for ECL as at 1 October 2019	91	180	53	28	352
Due to changes in credit quality:					
Transfers to Stage 1	117	(110)	(7)	-	-
Transfers to Stage 2	(16)	33	(14)	(3)	-
Transfers to Stage 3 CAP	-	(22)	23	(1)	-
Transfers to Stage 3 IAP	-	(19)	(1)	20	-
Reversals of previously recognised impairment charges	-	-	-	(7)	(7)
New financial assets originated	9	-	-	-	9
Financial assets derecognised during the period	(7)	(14)	(9)	-	(30)
Changes in CAP due to amounts written off	-	-	(21)	-	(21)
Other charges/(credits) to the income statement	(79)	241	56	32	250
Total charges/(credits) to the income statement for ECL	24	109	27	41	201
Amounts written off from IAP	-	-	-	(1)	(1)
Total provision for ECL on loans and credit commitments as at 31 March 2020	115	289	80	68	552
Presented as:					
Provision for ECL on loans (refer to Note 5)	96	255	80	68	499
Provision for ECL on credit commitments	19	34	-	-	53
Total provision for ECL on loans and credit commitments as at 31 March 2020	115	289	80	68	552

Note 6 Provisions for expected credit losses (continued)

	THE BANKING GROUP				
	30 Sep 19 Audited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Provision for ECL as at 1 October 2018	103	203	53	36	395
Due to changes in credit quality:					
Transfers to Stage 1	261	(245)	(16)	-	-
Transfers to Stage 2	(16)	43	(26)	(1)	-
Transfers to Stage 3 CAP	-	(38)	42	(4)	-
Transfers to Stage 3 IAP	-	-	(8)	8	-
Reversals of previously recognised impairment charges	-	-	-	(15)	(15)
New financial assets originated	24	-	-	-	24
Financial assets derecognised during the year	(19)	(41)	(21)	-	(81)
Changes in CAP due to amounts written off	-	-	(53)	-	(53)
Other charges/(credits) to the income statement	(262)	258	82	9	87
Total charges/(credits) to the income statement for ECL	(12)	(23)	-	(3)	(38)
Amounts written off from IAP	-	-	-	(5)	(5)
Total provision for ECL on loans and credit commitments as at 30 September 2019	91	180	53	28	352
Presented as:					
Provision for ECL on loans (refer to Note 5)	76	158	53	28	315
Provision for ECL on credit commitments	15	22	-	-	37
Total provision for ECL on loans and credit commitments as at 30 September 2019	91	180	53	28	352

Impacts of changes in gross financial assets on loss allowances

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

It is important to note that as a result of the COVID-19 overlay (discussed in the 'COVID-19 overlay' section below), the gross carrying amount is impacted by $5.0 billion of loans ($3.7 billion relating to the business portfolio and $1.3 billion relating to the retail portfolio) transferred from stage 1 to stage 2 on the same basis as the overlays for determining a significant increase in credit risk ('**SICR**') were. As with determining the level of overlays to reflect the provision for ECL associated with a SICR, there is equally a degree of uncertainty with the amount of loans reflected in stage 2. In particular, while the provision for ECL as a proportion of gross carrying amount on stage 2 loans has decreased, these exposures referred to in determining the COVID-19 overlay are still performing, and while some may experience a credit deterioration we do not expect that all these exposures used to calculate the overlay will result in a loss. We expect that the treatment of these loans will continue to evolve as the situation unfolds and more data is available to accurately model and understand the credit risk/loss implications from the COVID-19 pandemic.

Note 6 Provisions for expected credit losses (continued)

$ millions	THE BANKING GROUP 31 Mar 20 Unaudited Performing Stage 1 CAP	Stage 2 CAP	Non-performing Stage 3 CAP	Stage 3 IAP	Total
Total gross carrying amount as at 1 October 2019	**80,055**	**3,972**	**379**	**69**	**84,475**
Transfers:					
Transfers to Stage 1	**2,167**	**(2,120)**	**(47)**	**-**	**-**
Transfers to Stage 2	**(7,646)**	**7,729**	**(69)**	**(14)**	**-**
Transfers to Stage 3 CAP	**(43)**	**(225)**	**271**	**(3)**	**-**
Transfers to Stage 3 IAP	**-**	**(76)**	**(11)**	**87**	**-**
Net further lending/(repayment)	**(1,176)**	**46**	**(11)**	**(1)**	**(1,142)**
New financial assets originated	**11,064**	**-**	**-**	**-**	**11,064**
Financial assets derecognised during the period	**(6,529)**	**(273)**	**(66)**	**(3)**	**(6,871)**
Amounts written-off	**-**	**-**	**(21)**	**(1)**	**(22)**
Total gross carrying amount as at 31 March 2020	**77,892**	**9,053**	**425**	**134**	**87,504**
Provision for ECL as at 31 March 2020	**(96)**	**(255)**	**(80)**	**(68)**	**(499)**
Total net carrying amount as at 31 March 2020	**77,796**	**8,798**	**345**	**66**	**87,005**

$ millions	THE BANKING GROUP 30 Sep 19 Audited Performing Stage 1 CAP	Stage 2 CAP	Non-performing Stage 3 CAP	Stage 3 IAP	Total
Total gross carrying amount as at 1 October 2018	76,532	3,707	383	80	80,702
Transfers:					
Transfers to Stage 1	4,202	(4,105)	(92)	(5)	-
Transfers to Stage 2	(5,005)	5,123	(115)	(3)	-
Transfers to Stage 3 CAP	(158)	(346)	518	(14)	-
Transfers to Stage 3 IAP	(6)	(2)	(40)	48	-
Net further lending/(repayment)	(2,456)	228	(75)	(24)	(2,327)
New financial assets originated	17,693	-	-	-	17,693
Financial assets derecognised during the year	(10,747)	(633)	(147)	(8)	(11,535)
Amounts written-off	-	-	(53)	(5)	(58)
Total gross carrying amount as at 30 September 2019	80,055	3,972	379	69	84,475
Provision for ECL as at 30 September 2019	(76)	(158)	(53)	(28)	(315)
Total net carrying amount as at 30 September 2019	79,979	3,814	326	41	84,160

Impact of COVID-19 on the provision for ECL for the six months ended 31 March 2020

COVID-19 has had a significant impact on global and domestic economies and, as such, many of the Banking Group's customers. The current and prospective rapid deterioration in the economy due to COVID-19 has resulted in a material increase in the provision for ECL.

The following table attributes the other charges/(credits) to the income statement of the movements in components of loss allowances for the period.

Notes to the financial statements

Note 6 Provisions for expected credit losses (continued)

	THE BANKING GROUP
	31 Mar 20
$ millions	Unaudited
Modelled provision for ECL using updated economic inputs / weightings	97
COVID-19 overlay	49
Impact of COVID-19 on the provision for ECL as at 31 March 2020	**146**
Other net movements	104
Total other charges/(credits) to the income statement for the six months ended 31 March 2020	**250**

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 Banking Group's view of the forward-looking distribution of potential loss outcomes. The increase 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 allowances" table. Of the $250 million total other charges/(credits) to the income statement, $97 million relates to updates made to the modelling inputs to address the COVID-19 impacts on the Banking Group's customers. "Other net movements" includes changes in modelling inputs and portfolio changes not related to COVID-19 including migration from stage 2 (performing) to stage 3 (non-performing).

The base case scenario uses current Banking Group economic forecasts and reflects the latest available macroeconomic view which shows a deterioration in the short-term, with a subsequent recovery. This view considers both the economic and societal impacts of COVID-19 as well as the government stimulus measures implemented to cushion the impacts. The Banking Group's economic forecast assumes the following:

- a short-term contraction with annual GDP growth to decline to -13.7% in June 2020 quarter, improving to a contraction of -3.5% in the December 2020 quarter, and a recovery to positive growth over 2021 (all figures based on growth over the same quarter of the previous year);
- a decline of 5% in residential property prices in the year to December 2020, with a further fall of 6% by the end of the March quarter in 2021. Prices are expected to be rising again later in 2021.

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 upside scenario represents a modest improvement to the base case.

The following sensitivity table shows the reported provision for ECL based on the probability weighted scenarios and what the provisions 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).

	THE BANKING GROUP
	31 Mar 20
$ millions	Unaudited
Reported probability-weighted ECL	552
100% base case ECL	424
100% downside ECL	748

The following table indicates the weightings applied by the Banking Group as at 31 March 2020 and 30 September 2019.

	31 Mar 20	30 Sep 19
Macroeconomic scenario weightings (%)	Unaudited	Audited
Upside	5	10
Base	55	62.5
Downside	40	27.5

Notes to the financial statements

Note 6 Provisions for expected credit losses (continued)

The increase in weighting to the downside scenario since 30 September 2019 reflects the significant risk regarding the economic assumptions used in the base case. In particular, the current base case economic forecast indicates a relatively short and sharp economic impact followed by a subsequent recovery. There is a risk that the economic impacts of COVID-19 could be deeper or more prolonged, leading to higher credit losses than those modelled under the base case.

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 in order to reflect these evolving relationships and risks.

COVID-19 overlay

While the impacts on the broad economy are included in the assumptions used in the economic scenarios and the weightings applied to these scenarios, these general economy wide impacts will not reflect the specific impact on individual customers. As the full impacts of the COVID-19 pandemic were yet to be felt at the balance date, the Banking Group is yet to see the anticipated increase in delinquencies, downgrades and defaults. As these expected future downgrades are not currently captured in the modelled outcome, the Banking Group has specifically considered the likely industry specific and retail customer impacts and raised a $49 million overlay in addition to the modelled provision.

The COVID-19 overlay reflects that the ECL model does not yet fully capture loans and credit commitments for which there has been a SICR as a result of COVID-19, as we have not yet observed any significant impact to customer credit ratings. We expect that the treatment of these loans and credit commitments will evolve as the situation unfolds and more data is available to model or understand the credit risk/loss implications from the COVID-19 pandemic and the mitigating impact of government stimulus packages. Over time we expect the overlay to reduce as the impact will be better reflected in the modelled outcome.

We note that while deferral of payments by customers in hardship arrangements is generally treated as an indication of a SICR, the deferral of payments under the current COVID-19 support packages for mortgages and business loans has not, in isolation, been treated as an indication of a SICR. These packages are available to customers who have had income losses as a result of COVID-19, who otherwise had up to date payment status prior to the onset of COVID-19, and have been designed to provide short-term cash flow support while the most significant COVID-19 restrictions are in place. As these are expected to be short-term in nature, there is an expectation that most customers making use of the arrangements will subsequently return to normal trading or employment arrangements. Accordingly, at this stage, we do not consider that customers making use of the packages have necessarily experienced a SICR as this assessment is based on changes in lifetime probability of default. This is consistent with the 'IFRS 9 and COVID-19' guidance issued by the IASB on 27 March 2020.

We will reassess this treatment as the situation evolves and the longer-term impacts of the COVID-19 pandemic become clearer. Beyond the specific COVID-19 support packages, it is likely that some customers will move into general hardship arrangements and will thus be treated as having experienced a SICR.

As an alternative to treating all customers who are making use of the COVID-19 support packages as having experienced a SICR, we have considered the likely impacts at a portfolio level and raised a provision for lifetime ECL for our business and retail segments where a SICR has likely occurred as described below.

Business lending (including institutional)

Industry segments have been rated as high, medium or low risk based on judgement as to the likely economic impact of COVID-19 on that industry. We have assessed that the most severely impacted customers are those in industries impacted by social distancing, travel, supply chain disruption and industries adjacent to these. The high impacted industries include transport, manufacturing, retail trade, entertainment and hospitality, travel, tourism, food and beverage. The most significant second order impacts are on commercial real estate and construction.

In determining which exposures in high and medium rated industries should be included in determining the ECL overlay, we have considered factors such as whether exposures are investment or non-investment risk grade, potential to raise capital or attract additional funding and capacity to take other measures to support their businesses. We considered the increase in provisions that would arise if we were to increase the modelled provisions for these customers to the expected lifetime ECL (stage 2) in significantly stressed macroeconomic conditions using current customer risk grades. For the medium rated industries, a similar comparison was performed to consider the increase in a 12-month ECL (stage 1) in moderately stressed macroeconomic conditions. We then applied judgement to estimate the necessary increase in provisions.

Based on this judgement, we have identified $9 billion of high rated business portfolio loans and credit commitments on which a lifetime ECL overlay has been determined. This has resulted in a $7 million overlay for high rated industries which is included in stage 2 provisions. A $16 million overlay for medium rated industries is included in stage 1 and stage 2 provisions.

The judgements and assumptions used in estimating the overlays will be reviewed and refined as the COVID-19 pandemic evolves. We expect the overlay to be reduced as we observe customer risk grade migration through the portfolio.

Notes to the financial statements

Note 6 Provisions for expected credit losses (continued)

Retail lending

The forecast structural increase in long-term unemployment rates is expected to result in longer term increases in stage 2 balances and losses. A portfolio level increase in the stage 2 population of 2.5% for New Zealand retail (representing the expected medium-term increase in unemployment) is used to derive this overlay. This approach assumes that the Banking Group's customer base is representative of the wider community. It reflects that, whilst individual customer impacts are not yet evident in customer credit performance, there has been a SICR for a proportion of the portfolio.

We have identified $1.5 billion of retail exposures on which a lifetime ECL overlay has been determined. This has resulted in a $26 million overlay which is included in stage 2 provisions.

Note 7 Deposits and other borrowings

	THE BANKING GROUP	
$ millions	**31 Mar 20 Unaudited**	30 Sep 19 Audited
Certificates of deposit	**3,543**	1,142
Non-interest bearing, repayable at call	**9,778**	6,871
Other interest bearing:		
At call	**26,505**	24,053
Term	**32,768**	33,540
Total deposits and other borrowings	**72,594**	65,606

Deposits and other borrowings have been recognised under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 10 for further details.

Note 8 Debt issues

	THE BANKING GROUP	
$ millions	**31 Mar 20 Unaudited**	30 Sep 19 Audited
Short-term debt		
Commercial paper	**3,052**	2,312
Total short-term debt	**3,052**	2,312
Long-term debt		
Non-domestic medium-term notes	**7,558**	7,343
Covered bonds	**5,490**	5,263
Domestic medium-term notes	**3,426**	2,928
Total long-term debt	**16,474**	15,534
Total debt issues	**19,526**	17,846

Debt issues have been recognised under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 10 for further details.

Note 9 Related entities

Controlled entities of the Bank are set out in Note 22 to the financial statements included in the Disclosure Statement for the year ended 30 September 2019.

The Banking Group entered into reverse repurchase agreements with the New Zealand Branch of the Ultimate Parent Bank which amounted to $2,264 million as at 31 March 2020 (30 September 2019: $872 million).

On 13 February 2020, the Bank declared and paid a dividend of $325 million to its immediate parent company, Westpac New Zealand Group Limited (**'WNZGL'**).

Notes to the financial statements

Note 10 Fair values of financial assets and financial liabilities

Fair Valuation Control Framework

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

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

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

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

Fair value hierarchy

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

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

Valuation techniques

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

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

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 technique
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities	New Zealand Government bonds	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.

Level 2 instruments

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

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

Note 10 Fair values of financial assets and financial liabilities (continued)

Instrument	Balance sheet category	Includes:	Valuation technique
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.
Foreign exchange products	Derivative financial instruments Due from related entities Due to related entities	FX swaps – derivative financial instruments	Derived from market observable inputs or consensus pricing providers using industry standard models.
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities Due from related entities Due to related entities Other financial liabilities	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities, off-shore securities and corporate bonds Repurchase agreements and reverse repurchase agreements over non-asset backed debt securities	Valued using observable market prices which are sourced from independent pricing services, broker quotes or inter-dealer prices.
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 Bank's implied credit worthiness.

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.

Note 10 Fair values of financial assets and financial liabilities (continued)

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

	THE BANKING GROUP							
	31 Mar 20 Unaudited				30 Sep 19 Audited			
$ millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets measured at FVIS	**-**	**3,405**	**-**	**3,405**	-	1,661	-	1,661
Derivative financial instruments	**-**	**1,136**	**-**	**1,136**	-	616	-	616
Investment securities	**1,102**	**2,676**	**-**	**3,778**	1,049	3,420	-	4,469
Due from related entities	**-**	**2,912**	**-**	**2,912**	-	1,703	-	1,703
Total financial assets measured at fair value	**1,102**	**10,129**	**-**	**11,231**	1,049	7,400	-	8,449
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings at fair value	**-**	**3,543**	**-**	**3,543**	-	1,142	-	1,142
Other financial liabilities	**-**	**200**	**-**	**200**	-	-	-	-
Derivative financial instruments	**-**	**202**	**-**	**202**	-	257	-	257
Debt issues at fair value	**-**	**3,052**	**-**	**3,052**	-	2,312	-	2,312
Due to related entities	**-**	**701**	**-**	**701**	-	820	-	820
Total financial liabilities measured at fair value	**-**	**7,698**	**-**	**7,698**	-	4,531	-	4,531

Analysis of movements between fair value hierarchy levels

During the period, there were no material transfers between levels of the fair value hierarchy (30 September 2019: no material transfers between levels).

Financial instruments not measured at fair value

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

	THE BANKING GROUP			
	31 Mar 20 Unaudited		30 Sep 19 Audited	
$ millions	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets not measured at fair value				
Cash and balances with central banks	**5,096**	**5,096**	1,864	1,864
Collateral paid	**150**	**150**	168	168
Loans	**87,005**	**87,327**	84,160	84,412
Other financial assets	**175**	**175**	178	178
Due from related entities	**1,607**	**1,607**	868	868
Total financial assets not measured at fair value	**94,033**	**94,355**	87,238	87,490
Financial liabilities not measured at fair value				
Collateral received	**1,161**	**1,161**	473	473
Deposits and other borrowings	**69,051**	**69,121**	64,464	64,538
Other financial liabilities	**452**	**452**	455	455
Debt issues[1]	**16,474**	**16,229**	15,534	15,701
Due to related entities	**1,202**	**1,202**	881	881
Loan capital[1]	**2,556**	**2,402**	2,609	2,703
Total financial liabilities not measured at fair value	**90,896**	**90,567**	84,416	84,751

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

A detailed description of how fair value is derived for financial instruments not measured at fair value is disclosed in Note 24 of the financial statements included in the Disclosure Statement for the year ended 30 September 2019.

Notes to the financial statements

Note 11 Credit related commitments, contingent assets and contingent liabilities

	THE BANKING GROUP	
	31 Mar 20	30 Sep 19
$ millions	**Unaudited**	Audited
Letters of credit and guarantees	**794**	828
Commitments to extend credit	**26,592**	25,858
Total undrawn credit commitments	**27,386**	26,686

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 Banking Group has contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision has been made in these financial statements where appropriate.

Compliance, regulation and remediation

The Banking Group is subject to continued regulatory action and internal reviews relating to matters pertaining to the provision of services to our customers. Contingent liabilities may exist in respect of actual or potential claims, compensation payments and/or refunds identified as part of these reviews. An assessment of the Banking Group's likely loss has been made on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated.

Note 12 Segment reporting

The Banking Group's segment reporting incorporates consumer banking and wealth, commercial, corporate and institutional banking, 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 Banking Group does not rely on any single major customer for its revenue base.

Segment comparative information for the six months ended 31 March 2019 has been restated to ensure consistent presentation with the current reporting period. This includes adjustments for changes in the segmentation classification for small business customers and changes to expense allocations and the Ultimate Parent Bank's capital allocation framework.

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

- Consumer Banking and Wealth provides financial services predominantly for individuals;
- Commercial, Corporate and Institutional Banking provides a broad range of financial services for commercial, corporate, property finance, agricultural, institutional and government customers; and
- Investments and Insurance provides funds management and insurance services.

Reconciling items primarily represent:

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

Notes to the financial statements

Note 12 Segment reporting (continued)

$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	Total
	THE BANKING GROUP				
Six months ended 31 March 2020 (Unaudited)					
Net interest income	**506**	**456**	**-**	**(6)**	**956**
Non-interest income	**65**	**57**	**55**	**(40)**	**137**
Net operating income before operating expenses and impairment charges	**571**	**513**	**55**	**(46)**	**1,093**
Operating expenses	**(394)**	**(128)**	**(18)**	**15**	**(525)**
Impairment (charges)/benefits	**(101)**	**(109)**	**-**	**-**	**(210)**
Profit before income tax	**76**	**276**	**37**	**(31)**	**358**
Six months ended 31 March 2019 (Unaudited) (restated)					
Net interest income	528	444	-	11	983
Non-interest income	82	65	63	(22)	188
Net operating income before operating expenses and impairment charges	610	509	63	(11)	1,171
Operating expenses	(351)	(114)	(13)	10	(468)
Impairment (charges)/benefits	(20)	5	-	1	(14)
Profit before income tax	239	400	50	-	689
As at 31 March 2020 (Unaudited)					
Total gross loans	**47,315**	**40,027**	**-**	**162**	**87,504**
Total deposits and other borrowings	**36,453**	**32,598**	**-**	**3,543**	**72,594**
As at 30 September 2019 (Audited)					
Total gross loans	45,730	38,624	-	121	84,475
Total deposits and other borrowings	35,125	29,340	-	1,141	65,606

Note 13 Subsequent events

On 2 April 2020, a decision was made by the Reserve Bank of New Zealand (‘**Reserve Bank**’) to freeze the distribution of dividends on ordinary shares by all locally incorporated banks in New Zealand (including the Bank) during the period of economic uncertainty caused by COVID-19.

Registered bank disclosures

Unaudited

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

i. General information

Limits on material financial support by the Ultimate Parent Bank

On 19 November 2015, the Australian Prudential Regulation Authority (**'APRA'**) informed the Ultimate Parent Bank that its Extended Licensed Entity (**'ELE'**) non-equity exposures to New Zealand banking subsidiaries is to transition to be below a limit of 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital, as part of an initiative to reduce Australian bank non-equity exposure to their respective New Zealand banking subsidiaries and branches.

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

APRA has allowed a period of five years commencing on 1 January 2016 to transition to be less than the 5% limit. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures. For the purposes of assessing this exposure, the 5% limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries. As at 31 March 2020, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit were below 5% of Level 1 Tier 1 capital of the Ultimate Parent Bank.

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

Guarantee arrangements

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

WNZGL does not guarantee any of the obligations of the Bank or any member of the Banking Group.

Changes in the Bank's Board of Directors

Christopher John David Moller ceased to be a director effective 1 December 2019. Peter Francis King ceased to be a director effective 9 December 2019. There have been no other changes in the composition of the Board of Directors of the Bank (the '**Board**') since 30 September 2019.

Auditor

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street
Auckland, New Zealand

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group, whether in New Zealand or otherwise, that may have a material adverse effect on the Bank or the Banking Group is included in Note 11 Credit related commitments, contingent assets and contingent liabilities.

Credit ratings

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

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

i. General information (continued)

On 7th April 2020, following an assessment of the economic impact of the COVID-19 pandemic on the Australian and New Zealand economies, Fitch Ratings (Fitch) have downgraded their long-term ratings for the major Australian banks (including for the Ultimate Parent Bank) by one notch, to A+ (from AA-). Fitch has maintained the rating outlook for the Ultimate Parent Bank as "negative", reflecting the major downside risk to Fitch's economic outlook in light of the evolving global situation.

On 8th April 2020, S&P Global Ratings affirmed the Bank's current issuer credit rating of AA- long term and A-1+ short term but revised the outlook to "negative", in line with its outlook for the Ultimate Parent Bank. The change in outlook follows S&P Global Ratings' decision to affirm Australia's AAA/A-1+ ratings but revise the outlook on these ratings to "negative".

Other material matters

Financial Services Conduct and Culture Review

Following the developments and findings of the Financial Services Conduct and Culture Review and the Australian Royal Commission, the Financial Markets (Conduct of Institutions) Amendment Bill was introduced to Parliament on 11 December 2019. The Bill introduces a conduct licensing regime for banks, insurers and non-bank deposit takers and their intermediaries in respect of their conduct in relation to retail customers. The regime will require licensed institutions to comply with a fair conduct principle to treat consumers fairly, and establish, implement and maintain an effective fair conduct programme. It will also require institutions to comply with regulations that regulate incentives (including a prohibition on volume and value sales targets). The Bill is currently before the Select Committee.

In addition to those matters identified above, the Banking Group remains subject to continued regulatory engagement in the nature of ongoing investigations and reviews which may result in further regulatory change or requirements for customer remediation. The Banking Group continues to identify and remediate conduct issues and risks as they arise.

Reserve Bank Capital Review

On 5 December 2019, the Reserve Bank announced changes to the capital adequacy framework in New Zealand. The new framework includes the following key components:

- Setting a Tier 1 capital requirement of 16% of risk weighted assets ('**RWA**') for systemically important banks (including the Bank) 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;
- Maintaining the existing Tier 2 capital requirement of 2% of RWA; and
- Recalibrating RWA for internal rating based banks, such as the Bank, such that aggregate RWA will increase to 90% of standardised RWA.

The Bank is already strongly capitalised with a Tier 1 capital ratio of 14.1% at 31 March 2020 based on the current Reserve Bank rules. On a pro forma basis, (including the new RWA and capital requirements) at 31 March 2020 and assuming a Tier 1 capital ratio of 16-17%, the Bank would require a further NZ$2.1-$2.7 billion of Tier 1 capital to meet the new requirements that are fully effective in 2028.

In response to the impacts of COVID-19, and to support credit availability, the Reserve Bank has delayed the start date of the new capital regime by 12 months to 1 July 2021 and the Reserve Bank will consider further delays in 2021 if it considers that market conditions warrant it. Banks will be given up to seven years to comply.

AUSTRAC proceedings issued against the Ultimate Parent Bank

On 20 November 2019 the Ultimate Parent Bank received a statement of claim from AUSTRAC (the Australian money-laundering regulator) commencing civil proceedings in relation to alleged contraventions of the Ultimate Parent Bank's obligations under Australia's Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth). The proceedings relate to the alleged failure to report a large number of international fund transfer instructions ('**IFTIs**'), alleged failings in relation to record keeping and the passing on of certain data required in IFTIs, failure to comply with correspondent banking obligations, AML/CTF Program failures and contraventions of the Ultimate Parent Bank's ongoing customer due diligence obligations. The matter is now before the Federal Court of Australia.

APRA and the Australian Securities and Investments Commission ('**ASIC**') have also separately commenced investigations into matters related to the AUSTRAC allegations, including possible breaches of the Banking Act 1959 (Cth) and APRA prudential standards by the Ultimate Parent Bank.

The Ultimate Parent Bank has also been served with a shareholder class action in Australia relating to market disclosure issues connected to the Ultimate Parent Bank's monitoring of financial crime over the relevant period and matters which are the subject of the recent AUSTRAC proceedings. The claim is brought on behalf of certain shareholders who acquired an interest in the Ultimate Parent Bank's securities between 16 December 2013 and 19 November 2019.

On 31 January 2020, a US class action was filed against the Ultimate Parent Bank and its current and former CEO by Rosen Law Firm on behalf of purchasers of the Ultimate Parent Bank's securities between 11 November 2015 and 19 November 2019.

Unaudited

i. General information (continued)

The two respective class actions largely overlap in terms of subject matter and claims do not identify the amount of any damages sought, however, given the time period in question in each of the relevant proceedings, and the nature of the claims it is likely that the damages from the applicants in those proceedings will be significant. The Ultimate Parent Bank is defending these class actions.

Business Finance Guarantee Scheme

On 13 April 2020 the Bank entered into a deed of indemnity with the New Zealand Government to implement the New Zealand Government's business finance guarantee scheme ('**Scheme**'). The terms of the Scheme are as follows:

- The Scheme permits banks to lend up to $500,000 to qualifying borrowers for a maximum of three years. Various conditions apply including a requirement for transparent interest rates and application of credit underwriting standards as modified to allow the Bank to give effect to the Scheme.
- Subject to compliance with the terms of the deed of indemnity, the New Zealand Government will pay 80% of any loss incurred by the Bank on a loan it makes under the Scheme, after the Bank has exhausted its recoveries procedures, with the other 20% carried by the Bank.

Freeze on NZ Bank Dividends

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 the Bank) during the period of economic uncertainty caused by COVID-19.

Reserve Bank steps to support liquidity and customer lending

On 16 March 2020 the Reserve Bank announced that it would provide term funding through a Term Auction Facility ('**TAF**') to give banks (including the Bank) the ability to access term funding, with collateralised loans out to a term of twelve months, in order to alleviate pressures in funding markets as a result of COVID-19. From 26 May 2020, for a period of 6 months, the Reserve Bank will make available a Term Lending Facility ('**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 2 April 2020, the Reserve Bank reduced the core funding ratio for banks (including the Bank) from 75% to 50%.

ii. Additional financial disclosures

Additional information on balance sheet

	THE BANKING GROUP	
$ millions	**31 Mar 20 Unaudited**	30 Sep 19 Audited
Interest earning and discount bearing assets	**103,284**	94,076
Interest and discount bearing liabilities	**87,611**	80,586
Total amounts due from related entities	**4,519**	2,571
Total amounts due to related entities	**4,459**	4,310

Financial assets pledged as collateral

The Banking Group is required to provide collateral to other financial institutions, as part of standard terms, to secure liabilities. In addition to assets supporting the CB Programme disclosed in Note 5, the carrying value of these financial assets pledged as collateral is:

	THE BANKING GROUP	
$ millions	**31 Mar 20 Unaudited**	30 Sep 19 Audited
Cash	**150**	168
Securities pledged under repurchase agreements:		
Trading securities and financial assets measured at FVIS[1]	**160**	9
Investment securities[1]	**-**	1
Residential mortgage-backed securities[2]	**238**	-
Total amount pledged to secure liabilities (excluding CB Programme)	**548**	178

[1] Securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank which is recorded within due to related entities on the balance sheet.

[2] During the six months ended 31 March 2020, the Banking Group has undertaken repurchase agreements with the Reserve Bank using residential mortgage-backed securities. The repurchase cash amount at 31 March 2020 is $200 million with underlying securities to the value of $238 million provided under the arrangement.

Registered bank disclosures

Unaudited

ii. Additional financial disclosures (continued)

Additional information on concentrations of credit risk

	THE BANKING GROUP
$ millions	**31 Mar 20**
On-balance sheet credit exposures consists of	
Cash and balances with central banks	**5,096**
Collateral paid	**150**
Trading securities and financial assets measured at FVIS	**3,405**
Derivative financial instruments	**1,136**
Investment securities	**3,778**
Loans	**87,005**
Other financial assets	**175**
Due from related entities	**4,519**
Total on-balance sheet credit exposures	**105,264**
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**508**
Agriculture	**8,884**
Construction	**572**
Finance and insurance	**7,577**
Forestry and fishing	**427**
Government, administration and defence	**9,006**
Manufacturing	**2,091**
Mining	**279**
Property	**7,996**
Property services and business services	**1,299**
Services	**2,173**
Trade	**2,044**
Transport and storage	**1,388**
Utilities	**1,809**
Retail lending	**55,139**
Subtotal	**101,192**
Provisions for ECL	**(499)**
Due from related entities	**4,519**
Other financial assets	**52**
Total on-balance sheet credit exposures	**105,264**
Off-balance sheet credit exposures consists of	
Credit risk-related instruments	**27,386**
Total off-balance sheet credit exposures	**27,386**
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**149**
Agriculture	**804**
Construction	**494**
Finance and insurance	**1,680**
Forestry and fishing	**344**
Government, administration and defence	**865**
Manufacturing	**1,724**
Mining	**56**
Property	**1,972**
Property services and business services	**704**
Services	**665**
Trade	**1,771**
Transport and storage	**936**
Utilities	**1,528**
Retail lending	**13,694**
Total off-balance sheet credit exposures	**27,386**

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

Registered bank disclosures

Unaudited

ii. Additional financial disclosures (continued)

Additional information on concentrations of funding

	THE BANKING GROUP
$ millions	**31 Mar 20**
Funding consists of	
Collateral received	**1,161**
Deposits and other borrowings	**72,594**
Other financial liabilities[1]	**300**
Debt issues[2]	**19,526**
Due to related entities[3]	**1,350**
Loan capital	**2,556**
Total funding	**97,487**
Analysis of funding by geographical area[2]	
New Zealand	**74,994**
Australia	**1,286**
United Kingdom	**8,878**
United States of America	**4,101**
Other	**8,228**
Total funding	**97,487**
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	**522**
Agriculture	**1,550**
Construction	**2,148**
Finance and insurance	**40,696**
Forestry and fishing	**217**
Government, administration and defence	**2,553**
Manufacturing	**2,226**
Mining	**70**
Property services and business services	**5,976**
Services	**4,393**
Trade	**1,771**
Transport and storage	**668**
Utilities	**697**
Households	**28,275**
Other[4]	**4,375**
Subtotal	**96,137**
Due to related entities[3]	**1,350**
Total funding	**97,487**

[1] Other financial liabilities, as presented above, are in respect of interbank placements.
[2] 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.
[3] Amounts due to related entities, as presented above, are in respect of deposits and borrowings and exclude amounts which relate to derivative financial instruments and other liabilities.
[4] Includes deposits from non-residents.

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

Registered bank disclosures

Unaudited

ii. Additional financial disclosures (continued)

Additional information on interest rate sensitivity

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 31 March 2020. The Banking Group uses this contractual repricing information as a base, which is then altered to take account of customer behaviour, to manage its interest rate risk.

	THE BANKING GROUP						
	31 Mar 20						
$ millions	Up to 3 Months	Over 3 Months Up to 6 Months	Over 6 Months 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	**4,746**	**-**	**-**	**-**	**-**	**350**	**5,096**
Collateral paid	**150**	**-**	**-**	**-**	**-**	**-**	**150**
Trading securities and financial assets measured at FVIS	**2,663**	**493**	**249**	**-**	**-**	**-**	**3,405**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**1,136**	**1,136**
Investment securities	**1,180**	**33**	**180**	**689**	**1,696**	**-**	**3,778**
Loans	**45,238**	**6,739**	**14,746**	**15,836**	**4,797**	**(351)**	**87,005**
Other financial assets	**-**	**-**	**-**	**-**	**-**	**175**	**175**
Due from related entities	**3,849**	**-**	**-**	**-**	**-**	**670**	**4,519**
Total financial assets	**57,826**	**7,265**	**15,175**	**16,525**	**6,493**	**1,980**	**105,264**
Non-financial assets							**1,313**
Total assets							**106,577**
Financial liabilities							
Collateral received	**1,161**	**-**	**-**	**-**	**-**	**-**	**1,161**
Deposits and other borrowings	**45,623**	**10,245**	**5,065**	**1,277**	**606**	**9,778**	**72,594**
Other financial liabilities	**2**	**200**	**-**	**-**	**-**	**450**	**652**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**202**	**202**
Debt issues	**7,721**	**1,905**	**515**	**2,061**	**7,324**	**-**	**19,526**
Due to related entities	**1,350**	**-**	**-**	**-**	**-**	**553**	**1,903**
Loan capital	**2,556**	**-**	**-**	**-**	**-**	**-**	**2,556**
Total financial liabilities	**58,413**	**12,350**	**5,580**	**3,338**	**7,930**	**10,983**	**98,594**
Non-financial liabilities							**593**
Total liabilities							**99,187**
On-balance sheet interest rate repricing gap	**(587)**	**(5,085)**	**9,595**	**13,187**	**(1,437)**		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	**12,575**	**(711)**	**(6,858)**	**(8,815)**	**3,809**		
Net interest rate repricing gap	**11,988**	**(5,796)**	**2,737**	**4,372**	**2,372**		

ii. Additional financial disclosures (continued)

Additional information on liquidity risk

Contractual maturity of financial liabilities

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

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

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

	THE BANKING GROUP						
	31 Mar 20						
$ 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	-	1,161	-	-	-	-	1,161
Deposits and other borrowings	32,988	9,428	13,089	15,596	1,975	-	73,076
Other financial liabilities	99	69	11	200	-	-	379
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	17	17	36	94	2	166
Held for hedging purposes (gross settled):							
Cash outflow	-	4	-	560	-	-	564
Cash inflow	-	-	-	(525)	-	-	(525)
Debt issues	-	403	1,270	5,178	12,815	406	20,072
Due to related entities:							
Non-derivative balances	1,053	161	95	-	53	-	1,362
Derivative financial instruments:							
Held for trading	46	-	-	-	-	-	46
Held for hedging purposes (net settled)	-	14	65	163	148	3	393
Held for hedging purposes (gross settled):							
Cash outflow	-	-	11	1,203	-	-	1,214
Cash inflow	-	-	(9)	(1,093)	-	-	(1,102)
Loan capital	-	-	9	26	136	2,601	2,772
Total undiscounted financial liabilities	34,186	11,257	14,558	21,344	15,221	3,012	99,578
Total contingent liabilities and commitments							
Letters of credit and guarantees	794	-	-	-	-	-	794
Commitments to extend credit	26,592	-	-	-	-	-	26,592
Total undiscounted contingent liabilities and commitments	27,386	-	-	-	-	-	27,386

ii. Additional financial disclosures (continued)

Liquid assets

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

	THE BANKING GROUP
$ millions	**31 Mar 20**
Cash and balances with central banks	**5,096**
Receivables due from the Ultimate Parent Bank	**540**
Supranational securities	**1,198**
NZ Government securities	**3,758**
NZ public securities	**2,526**
NZ corporate securities	**1,804**
Residential mortgage-backed securities	**7,531**
Total liquid assets	**22,453**

Reconciliation of mortgage-related amounts

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

	THE BANKING GROUP
$ millions	**31 Mar 20**
Residential mortgages - total gross loans (as disclosed in Note 5 and Section iii.)	**53,393**
Reconciling items:	
Unamortised deferred fees and expenses	**(193)**
Fair value hedge adjustments	**(162)**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**10,550**
Undrawn at default[1]	**(2,681)**
Residential mortgages by LVR (as disclosed in Additional mortgage information in Section iv.)	**60,907**
Accrued interest receivable	**63**
Partial write-offs	**3**
Residential mortgages - EAD (as disclosed in Credit risk exposures by asset class in Section iv.)	**60,973**

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

iii. Asset quality

Past due assets

	THE BANKING GROUP				
	31 Mar 20				
$ millions	**Residential Mortgages**	**Other Retail**	**Corporate**	**Other**	**Total**
Past due but not individually impaired assets					
Less than 30 days past due	**1,105**	**135**	**218**	**-**	**1,458**
At least 30 days but less than 60 days past due	**171**	**29**	**12**	**-**	**212**
At least 60 days but less than 90 days past due	**87**	**16**	**4**	**-**	**107**
At least 90 days past due	**132**	**33**	**30**	**-**	**195**
Total past due but not individually impaired assets	**1,495**	**213**	**264**	**-**	**1,972**

iii. Asset quality (continued)

Movements in components of loss allowance

Refer to Note 6 for movements in components for loss allowance on loans and credit commitment for total exposures. The provisions for ECL on loans and credit commitments can be further disaggregated into the following types of credit exposures:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 1 October 2019	**22**	**19**	**31**	**6**	**78**
Due to changes in credit quality:					
Transfers to Stage 1	9	(6)	(3)	-	-
Transfers to Stage 2	(1)	7	(6)	-	-
Transfers to Stage 3 CAP	-	(2)	3	(1)	-
Transfers to Stage 3 IAP	-	-	(1)	1	-
Reversals of previously recognised impairment charges	-	-	-	(3)	(3)
New financial assets originated	2	-	-	-	2
Financial assets derecognised during the period	(1)	(1)	(7)	-	(9)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	18	43	21	4	86
Total charges/(credits) to the income statement for ECL	**27**	**41**	**7**	**1**	**76**
Amounts written off from IAP	-	-	-	(1)	(1)
Total provision for ECL as at 31 March 2020	**49**	**60**	**38**	**6**	**153**
Other retail					
Provision for ECL as at 1 October 2019	**46**	**55**	**19**	**-**	**120**
Due to changes in credit quality:					
Transfers to Stage 1	105	(101)	(4)	-	-
Transfers to Stage 2	(5)	12	(7)	-	-
Transfers to Stage 3 CAP	-	(16)	16	-	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	-	-
New financial assets originated	4	-	-	-	4
Financial assets derecognised during the period	(4)	(10)	(2)	-	(16)
Changes in CAP due to amounts written off	-	-	(21)	-	(21)
Other charges/(credits) to the income statement	(103)	140	28	2	67
Total charges/(credits) to the income statement for ECL	**(3)**	**25**	**10**	**2**	**34**
Amounts written off from IAP	-	-	-	-	-
Total provision for ECL as at 31 March 2020	**43**	**80**	**29**	**2**	**154**
Corporate					
Provision for ECL as at 1 October 2019	**23**	**106**	**3**	**22**	**154**
Due to changes in credit quality:					
Transfers to Stage 1	3	(3)	-	-	-
Transfers to Stage 2	(10)	14	(1)	(3)	-
Transfers to Stage 3 CAP	-	(4)	4	-	-
Transfers to Stage 3 IAP	-	(19)	-	19	-
Reversals of previously recognised impairment charges	-	-	-	(4)	(4)
New financial assets originated	3	-	-	-	3
Financial assets derecognised during the period	(2)	(3)	-	-	(5)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	6	58	7	26	97
Total charges/(credits) to the income statement for ECL	**-**	**43**	**10**	**38**	**91**
Amounts written off from IAP	-	-	-	-	-
Total provision for ECL as at 31 March 2020	**23**	**149**	**13**	**60**	**245**

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

iii. Asset quality (continued)

Impacts of changes in gross financial assets on loss allowances

Refer to Note 6 for the impacts of changes in gross financial assets on the loss allowance for loans and credit commitments. The gross carrying amounts of loans can be further disaggregated into the following types of credit exposures:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	Total
$ millions	CAP	CAP	CAP	IAP	
Residential mortgages					
Total gross carrying amount as at 1 October 2019	49,736	1,449	285	17	51,487
Transfers:					
Transfers to Stage 1	842	(805)	(37)	-	-
Transfers to Stage 2	(2,434)	2,485	(50)	(1)	-
Transfers to Stage 3 CAP	(30)	(154)	187	(3)	-
Transfers to Stage 3 IAP	-	(1)	(9)	10	-
Net further lending/(repayment)	(928)	(32)	(6)	(1)	(967)
New financial assets originated	6,108	-	-	-	6,108
Financial assets derecognised during the period	(3,056)	(122)	(53)	(3)	(3,234)
Amounts written-off	-	-	-	(1)	(1)
Total gross carrying amount as at 31 March 2020	50,238	2,820	317	18	53,393
Provision for ECL as at 31 March 2020	(43)	(58)	(38)	(6)	(145)
Total net carrying amount as at 31 March 2020	50,195	2,762	279	12	53,248
Other retail					
Total gross carrying amount as at 1 October 2019	3,510	190	51	2	3,753
Transfers:					
Transfers to Stage 1	501	(492)	(9)	-	-
Transfers to Stage 2	(570)	580	(10)	-	-
Transfers to Stage 3 CAP	(10)	(54)	64	-	-
Transfers to Stage 3 IAP	-	-	(2)	2	-
Net further lending/(repayment)	(275)	29	-	1	(245)
New financial assets originated	400	-	-	-	400
Financial assets derecognised during the period	(339)	(32)	(13)	-	(384)
Amounts written-off	-	-	(21)	-	(21)
Total gross carrying amount as at 31 March 2020	3,217	221	60	5	3,503
Provision for ECL as at 31 March 2020	(34)	(71)	(29)	(2)	(136)
Total net carrying amount as at 31 March 2020	3,183	150	31	3	3,367
Corporate					
Total gross carrying amount as at 1 October 2019	26,698	2,333	43	50	29,124
Transfers:					
Transfers to Stage 1	824	(823)	(1)	-	-
Transfers to Stage 2	(4,615)	4,637	(9)	(13)	-
Transfers to Stage 3 CAP	(3)	(17)	20	-	-
Transfers to Stage 3 IAP	-	(75)	-	75	-
Net further lending/(repayment)	(25)	68	(5)	(1)	37
New financial assets originated	4,338	-	-	-	4,338
Financial assets derecognised during the period	(2,931)	(119)	-	-	(3,050)
Amounts written-off	-	-	-	-	-
Total gross carrying amount as at 31 March 2020	24,286	6,004	48	111	30,449
Provision for ECL as at 31 March 2020	(19)	(126)	(13)	(60)	(218)
Total net carrying amount as at 31 March 2020	24,267	5,878	35	51	30,231

The above gross carrying amount table does not include 'Other' credit exposures (refer to Note 5) on the basis that the provision for ECL is nil.

iii. Asset quality (continued)

Other asset quality information

	THE BANKING GROUP				
	31 Mar 20				
$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
Undrawn commitments with individually impaired counterparties	-	-	7	-	7
Other assets under administration	-	-	-	-	-

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios

The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the Reserve Bank Capital Adequacy Framework (Internal Models Based Approach) ('**BS2B**'), except for the matters of non-compliance with condition of registration 1B disclosed on page 49. The Bank considers its internal credit model methodologies result in the retention of an appropriate amount of capital to reflect its credit risk and any effect of the non-compliance with its condition of registration 1B on the information relating to capital adequacy is not considered by the Bank to be material.

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

The Banking Group's capital summary

	THE BANKING GROUP
$ millions	31 Mar 20
Tier 1 capital	
Common Equity Tier 1 capital	
Paid-up ordinary shares issued by the Bank plus related share premium	7,300
Retained earnings (net of appropriations)	119
Accumulated other comprehensive income and other disclosed reserves[1]	(29)
Less deductions from Common Equity Tier 1 capital	
Goodwill	(477)
Other intangible assets[2]	(158)
Cash flow hedge reserve	18
Deferred tax asset deduction	(217)
Expected loss excess over eligible allowance	(62)
Total Common Equity Tier 1 capital	**6,494**
Additional Tier 1 capital	
Additional Tier 1 capital instruments[3]	1,500
Total additional Tier 1 capital	**1,500**
Total Tier 1 capital	**7,994**
Tier 2 capital	
Tier 2 capital instruments[3]	1,067
Revaluation reserves	-
Eligible impairment allowance in excess of expected loss	-
Total Tier 2 capital	**1,067**
Total capital	**9,061**

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

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

[3] Classified as a liability and excludes capitalised transaction costs. Additional Tier 1 capital instruments and Tier 2 capital instruments are itemised on pages 37 and 38. Further details on convertibility for Additional Tier 1 and Tier 2 capital instruments are noted under the 'Conversion' section.

Registered bank disclosures

Unaudited

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Capital structure

Ordinary shares

In accordance with BS2B, ordinary share capital is classified as Common Equity Tier 1 capital.

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

Additional Tier 1 loan capital

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

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

[1] The AT1 notes were issued by the Bank and rank equally amongst themselves and are subordinated to the claims of depositors and senior or less subordinated creditors of the Bank.

Interest payable

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

Redemption

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

Conversion

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

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

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

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

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 [1]	8 September 2015	London Branch of the Ultimate Parent Bank	Australian 90 day bank bill rate + 2.87% p.a.	22 March 2026	22 March 2021 and every interest payment date thereafter

[1] The Tier 2 notes were issued by the Bank and rank equally amongst themselves and are subordinated to the claims of depositors and senior or less subordinated creditors of the Bank.

Interest payable

Interest payments on the Tier 2 notes are subject to the Bank being solvent at the time of, and immediately following the interest payment.

Early redemption

The Bank may elect to redeem all or some of the Tier 2 notes for their face value together with accrued interest (if any) on 22 March 2021 or 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, the Bank must convert such number of the Tier 2 notes into a variable number of ordinary shares issued by the Bank (calculated with reference to the net assets of the Bank and the total number of ordinary shares on issue 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 the Bank to convert or write off all or some of its 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.

Reserves

Investment securities reserve

This comprises the changes in the fair value of debt securities measured at FVOCI (except for interest income, impairment charges and foreign exchange 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.

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Credit risk subject to the Internal Rating Based ('IRB') approach

Credit risk exposures by asset class

The Banking Group's credit risk exposures by asset class as at 31 March 2020

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Residential mortgages						
Up to and including 0.10	-	-	-	-	-	-
Over 0.10 up to and including 0.50	0.47	24,883	15.03	12.19	3,214	257
Over 0.50 up to and including 1.0	0.70	22,248	21.49	23.26	5,485	439
Over 1.0 up to and including 2.5	1.52	12,371	22.48	42.89	5,624	450
Over 2.5 up to and including 10.0	3.95	1,134	27.20	98.78	1,187	95
Over 10.0 up to and including 99.99	-	-	-	-	-	-
Default	100.00	337	22.38	134.20	479	38
Total	1.38	60,973	19.17	24.74	15,989	1,279
Other retail						
Up to and including 0.10	0.05	771	46.65	6.87	56	4
Over 0.10 up to and including 0.50	0.19	863	54.75	21.37	194	16
Over 0.50 up to and including 1.0	0.54	306	56.16	42.16	137	11
Over 1.0 up to and including 2.5	1.88	812	71.29	88.65	763	61
Over 2.5 up to and including 10.0	5.61	606	72.02	108.01	694	55
Over 10.0 up to and including 99.99	21.27	142	79.40	162.72	246	20
Default	100.00	30	82.12	21.45	7	1
Total	3.20	3,530	61.10	56.05	2,097	168
Small business						
Up to and including 0.10	0.10	13	24.30	6.03	1	-
Over 0.10 up to and including 0.50	0.35	1,050	25.56	14.68	163	13
Over 0.50 up to and including 1.0	0.91	812	31.08	30.33	261	21
Over 1.0 up to and including 2.5	1.83	459	26.96	34.01	165	13
Over 2.5 up to and including 10.0	4.69	197	30.00	44.08	92	7
Over 10.0 up to and including 99.99	15.61	30	31.59	61.41	20	2
Default	100.00	39	33.95	302.73	125	10
Total	2.78	2,600	28.05	30.02	827	66

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Corporate/Business lending						
Up to and including 0.04	0.03	4,424	43.55	18.65	875	70
Over 0.04 up to and including 0.10	0.07	4,577	50.82	28.11	1,364	109
Over 0.10 up to and including 0.40	0.21	8,443	45.51	42.75	3,826	306
Over 0.40 up to and including 3.0	1.34	14,641	34.07	68.18	10,580	846
Over 3.0 up to and including 10.0	4.78	1,025	36.30	111.31	1,210	97
Over 10.0 up to and including 99.0	23.50	1,249	38.15	190.71	2,524	202
Default	100.00	187	56.97	326.16	646	52
Total	2.16	34,546	40.63	57.42	21,025	1,682
Sovereign						
Up to and including 0.04	0.01	7,352	8.34	1.32	103	8
Over 0.04 up to and including 0.10	-	-	-	-	-	-
Over 0.10 up to and including 0.40	-	-	-	-	-	-
Over 0.40 up to and including 3.0	-	-	-	-	-	-
Over 3.0 up to and including 10.0	-	-	-	-	-	-
Over 10.0 up to and including 99.0	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	0.01	7,352	8.34	1.32	103	8
Bank						
Up to and including 0.04	0.03	2,563	17.41	5.57	151	12
Over 0.04 up to and including 0.10	0.05	2,215	55.21	18.12	426	34
Over 0.10 up to and including 0.40	0.18	92	60.00	36.84	36	3
Over 0.40 up to and including 3.0	0.80	23	57.38	104.37	26	2
Over 3.0 up to and including 10.0	-	-	-	-	-	-
Over 10.0 up to and including 99.0	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	0.04	4,893	35.52	12.31	639	51
Total credit risk exposures subject to the internal ratings based approach		113,894			40,680	3,254

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

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

$ millions	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value	EAD	Value	EAD
Residential mortgages	10,550	7,869	-	-
Other retail	3,139	1,836	-	-
Small business	929	770	-	-
Corporate/Business lending	10,435	10,580	-	-
Sovereign	76	76	-	-
Bank	1,014	1,114	-	-
Total	26,143	22,245	-	-

Additional mortgage information

Residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2020

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

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

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

	THE BANKING GROUP					
	31 Mar 20					
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	22,820	12,769	13,474	2,752	1,223	53,038
Undrawn commitments and other off-balance sheet exposures	5,604	1,180	776	101	208	7,869
Value of exposures	28,424	13,949	14,250	2,853	1,431	60,907

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Specialised lending subject to the slotting approach

The Banking Group's specialised lending: Project and property finance credit risk exposures as at 31 March 2020

	Total Exposures After Credit Risk Mitigation $ millions	Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Supervisory slotting grade				
Strong	3,665	70.00	2,720	218
Good	3,230	90.00	3,082	247
Satisfactory	536	115.00	653	52
Weak	149	250.00	394	31
Default	29	-	-	-
Total on-balance sheet exposures	7,609	84.91	6,849	548
Undrawn commitments and other off-balance sheet exposures	1,332	84.88	1,198	96
Total specialised lending exposures (on and off-balance sheet)	8,941	84.90	8,047	644

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

Credit risk exposures subject to the standardised approach

The Banking Group's credit risk exposures subject to the standardised approach as at 31 March 2020

Calculation of on-balance sheet exposures

	Total Exposure After Credit Risk Mitigation $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Other assets[2]	4,412	29.91	1,399	112
Total on-balance sheet exposures	4,412		1,399	112

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

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

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Calculation of off-balance sheet exposures

	Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor %	Credit Equivalent Amount $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Market related contracts subject to the standardised approach						
Foreign exchange contracts	18,719	N/A	1,703	20.00	361	29
Interest rate contracts	33,289	N/A	121	20.00	26	2
Credit value adjustment	-	N/A	-	-	341	27
Total market related contracts subject to the standardised approach	52,008		1,824		728	58
Standardised subtotal (on and off-balance sheet)			6,236		2,127	170

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

Credit risk mitigation

The Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities (refer to Note 32.2.2 to the financial statements included in the Disclosure Statement for the year ended 30 September 2019 for further details). This includes the Banking Group establishing that it has direct, irrevocable and unconditional recourse to collateral and other credit enhancements through obtaining legally enforceable documentation.

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

Definitions of PD, LGD and EAD

- **Probability of default ('PD')**

  The PD is a through-the-cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year.
- **Loss given default ('LGD')**

  The LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn.
- **Exposure at default ('EAD')**

  EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default.

Equity risk

The Banking Group's equity exposures as at 31 March 2020

Equity	Total Exposure $ millions	Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	-	400	2	-

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

Unaudited

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Operational risk

Operational risk capital requirement

The following table sets out the Banking Group's implied risk-weighted exposures under the Advanced Measurement Approach ('**AMA**') methodology and the operational risk capital requirement.

	THE BANKING GROUP	
	31 Mar 20	
$ millions	Implied Risk-weighted Exposure	Total Operational Risk Capital Requirement
Advanced Measurement Approach		
Operational risk	**4,500**	**360**

Market risk

Market risk notional capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with BS2B and is calculated on a six monthly basis. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information.

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six months ended 31 March 2020 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with BS2B.

The following table provides a summary of the Banking Group's notional capital charges by risk type as at the reporting date and the peak end-of-day notional capital charges by risk type for the six months ended 31 March 2020:

	THE BANKING GROUP	
	31 Mar 20	
$ millions	Implied risk-weighted exposure	Aggregate capital charge
End-of-period		
Interest rate risk	**1,464**	**117**
Foreign currency risk	-	-
Equity risk	-	-
Peak end-of-day		
Interest rate risk	**2,040**	**163**
Foreign currency risk	-	-
Equity risk	-	-

Unaudited

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Total capital requirements

Banking Group Pillar 1 Total Capital Requirement

	THE BANKING GROUP		
	31 Mar 20		
$ millions	Total Exposure After Credit Risk Mitigation	Risk-weighted Exposure or Implied Risk-weighted Exposure	Total Capital Requirement
Credit risk			
Exposures subject to the internal ratings based approach	**113,894**	**40,680**	**3,254**
Equity exposures	**-**	**2**	**-**
Specialised lending subject to the slotting approach	**8,941**	**8,047**	**644**
Exposures subject to the standardised approach	**6,236**	**2,127**	**170**
Total credit risk (scaled)[1]	**129,071**	**50,856**	**4,068**
Operational risk	**N/A**	**4,500**	**360**
Market risk	**N/A**	**1,464**	**117**
Total	**129,071**	**56,820**	**4,545**

[1] The value of the scalar used in determining the credit risk weighted exposure is 1.06 as required by the conditions of registration.

Capital ratios

The table below is disclosed under the Reserve Bank's Basel III framework in accordance with Clause 15 of Schedule 11 to the Order and represents the capital adequacy calculation based on BS2B.

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

	THE BANKING GROUP			THE BANK	
%	Reserve Bank Minimum Ratios[1]	31 Mar 20	31 Mar 19[1]	31 Mar 20	31 Mar 19
Common Equity Tier 1 capital ratio	4.5	**11.4**	11.7	**10.6**	11.0
Tier 1 capital ratio	6.0	**14.1**	14.5	**13.1**	13.6
Total capital ratio	8.0	**15.9**	16.5	**14.8**	15.5
Buffer ratio	2.5	**6.9**	5.2	**N/A**	N/A

[1] Changes to the Bank's conditions of registration, effective from 31 December 2017, increased the minimum capital ratios by 2% compared to the minimum capital ratios as at 30 September 2017. The increased minimum capital ratios were to remain in place until the Bank had satisfied the Reserve Bank that all existing issues in relation to the matters of non-compliance had been resolved. Effective from 31 December 2019, the Reserve Bank amended the Bank's conditions of registration to remove the two percentage point overlay applying to its minimum capital requirements. Refer to the 'Non-compliance with conditions of registration' section on page 49 for further details.

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Capital for other material risks

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

The Banking Group's internal capital allocation for 'other material risks' is $264 million as at 31 March 2020 (31 March 2019: $243 million).

Ultimate Parent Bank Group Basel III capital adequacy ratios

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

%	31 Mar 20	31 Mar 19
Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations)[1, 2]		
Common Equity Tier 1 capital ratio	**10.8**	10.6
Additional Tier 1 capital ratio	**2.1**	2.2
Tier 1 capital ratio	**12.9**	12.8
Tier 2 capital ratio	**3.4**	1.8
Total regulatory capital ratio	**16.3**	14.6
Ultimate Parent Bank (Extended Licensed Entity)[1, 3]		
Common Equity Tier 1 capital ratio	**11.1**	10.7
Additional Tier 1 capital ratio	**2.2**	2.3
Tier 1 capital ratio	**13.3**	13.0
Tier 2 capital ratio	**3.4**	1.8
Total regulatory capital ratio	**16.7**	14.8

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

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

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

Under APRA's Prudential Standards, Australian authorised deposit-taking institutions ('**ADI**'), including the Ultimate Parent Bank Group and the Ultimate Parent Bank are required to maintain minimum ratios of capital to risk weighted assets, as determined by APRA. For the calculation of risk weighted assets, the Ultimate Parent Bank Group and the Ultimate Parent Bank are accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime. The Ultimate Parent Bank Group and the Ultimate Parent Bank use the Advanced Internal Ratings Based ('**Advanced IRB**') approach for credit risk, the 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 BCBS, except where APRA has exercised certain discretions.

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

The Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations), and the Ultimate Parent Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2020.

Unaudited

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Regulatory liquidity ratios

The Bank calculates liquidity ratios in accordance with the Reserve Bank document entitled 'Liquidity Policy' (BS 13) (**'BS 13'**). Ratios are calculated daily and are part of the Bank's management of liquidity risk (refer to Note 32.3 to the financial statements included in the Disclosure Statement for the year ended 30 September 2019 for further details). Quarterly average ratios are produced in line with the Reserve Bank rules and guidance.

	THE BANKING GOUP	
%	**31 Mar 20**	31 Dec 19
Average for the three months ended		
One-week mismatch ratio	**7.1**	6.4
One-month mismatch ratio	**9.9**	9.1
Core funding ratio	**82.2**	83.1

v. Concentration of credit exposures to individual counterparties

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

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

	THE BANKING GROUP	
	31 Mar 20	
% of Banking Group's Common Equity Tier 1 Capital	Bank Counterparties[1] Long-term credit rating A- or A3 and above	Non-bank Counterparties[2] Long-term credit rating A- or A3 and above
As at 31 March 2020[3]		
Exceeds 10% and not 15%	**3**	**1**
Exceeds 15% and not 20%	**-**	**2**
Exceeds 20% and not 25%	**-**	**-**
Exceeds 25% and not 30%	**-**	**-**
Peak end-of-day aggregate credit exposure for the six months ended 31 March 2020[3]		
Exceeds 10% and not 15%	**2**	**2**
Exceeds 15% and not 20%	**1**	**1**
Exceeds 20% and not 25%	**-**	**-**
Exceeds 25% and not 30%	**-**	**1**

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

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

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

The peak end-of-day aggregate credit exposure to each individual counterparty (which are not members of a group of closely related counterparties) or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant six-month period, and then dividing that amount by the Banking Group's Common Equity Tier 1 capital as at 31 March 2020.

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

Registered bank disclosures

Unaudited

vi. Insurance business

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

vii. Risk management policies

During the period, the Banking Group made changes to a number of policies within credit manuals to reflect the NZ Government's COVID-19 relief schemes, including mortgage payment deferrals and the Business Finance Guarantee.

Conditions of registration

Non-compliance with conditions of registration

In June 2019, in response to a review under section 95 of the Reserve Bank Act of the Bank's compliance with advanced internal rating based aspects of the Reserve Bank's 'Capital Adequacy Framework (Internal Models Based Approach)' ('BS2B'), the Bank presented the Reserve Bank with a submission providing an overview of its credit risk rating system and activities undertaken since FY17 to address compliance issues and enhance risk management practices.

On 30 October 2019, the Reserve Bank informed the Bank that it had accepted the submission and measures undertaken by the Bank to achieve satisfactory compliance with BS2B, and that the Bank would retain its accreditation to use internal models for credit risk in the calculation of its regulatory capital requirements.

With effect from 31 December 2019, the Reserve Bank removed the requirement imposed on the Bank since 31 December 2017 to maintain minimum regulatory capital ratios which were two percentage points higher than the ratios applying to other locally incorporated banks.

During the reporting period, the Bank was non-compliant with condition of registration 1B (which requires the Bank to comply with aspects of BS2B) in relation to the matters disclosed below.

- It operated versions of various capital models which were not approved by the Reserve Bank, in some cases since December 2008, and it failed to meet the Reserve Bank's requirements in relation to model documentation and associated model documentation policies. On 30 October 2019, the Reserve Bank confirmed its approval of all unapproved models, other than a PD model for a small number of corporate exposures. Work is underway to address this issue.
- The Model Compendium required under 1.3B of BS2B ('Compendium') was not accurate. Further to the Reserve Bank's determination, an updated Compendium has been submitted to the Reserve Bank for review and was subsequently approved on 24 January 2020.
- It is not fully compliant with paragraph 4.246 of BS2B in that, with the exception of wholesale property development and investment customers, non-retail risk grade credit policy overrides are not captured and monitored. A new system to capture relevant non-retail customer credit data has been built, is in use and will address this issue.
- It is not fully compliant with paragraph 4.248 of BS2B in that not all historical origination data for non-retail customers is maintained in a format that allows easy accessibility to key data used to derive the original risk rating. A new system to capture relevant non-retail customer credit data has been built, is in use and will address this issue.

During the reporting period, the Bank was also non-compliant with condition of registration 1B that was in effect prior to 1 January 2019 in relation to the matters below. These matters do not result in non-compliance with the current version of condition of registration 1B in effect from 1 January 2019.

- It was not fully compliant with paragraph 4.4 of BS2B in that a small number of Corporate asset class exposures were incorrectly classified as Retail SME asset class exposures. The amount is not assessed to be material.
- It was not fully compliant with paragraph 4.61A of BS2B in that, in respect of a small number of agricultural customers, it used the customer limit rather than the current balance for calculating loan-to-value ratio ('LVR'). This resulted in an understatement of Risk Weighted Assets ('RWA'). The amount is not assessed to be material.
- For less than one percent of its residential mortgages by loan value, its use of total committed exposure rather than EAD for calculating LVR for capital adequacy purposes does not meet the minimum LGD requirements of paragraph 4.150 A of BS2B. Additionally, for less than 5% of accounts by number, the security value utilised within the calculation of LVR is an updated valuation and not the origination value as required by that paragraph. These issues were addressed by the Mortgage LGD model approved by the Reserve Bank on 30 October 2019.
- It is not fully compliant with paragraphs 4.86-4.97 of BS2B in that for some exposures where the maturity measure is missing, the default maturity applied is not a conservative measure. The amount is not assessed to be material.

As disclosed in Note iv. of the Registered bank disclosures, the Bank considers its current internal credit model methodologies result in the retention of an appropriate amount of capital to reflect its credit risk. Any effect of the non-compliance with condition of registration 1B on the information relating to capital adequacy disclosed in Note iv. of the Registered bank disclosures was not considered by the Bank to be material.

The Bank identified the following non-compliances with condition of registration 25, which requires compliance with the Reserve Bank Outsourcing Policy ('BS11'):

- The Bank renewed three existing outsourcing arrangements (as defined in BS11) for licensing and support of software applications (and related dedicated hardware for one application) and did not have in place the required risk mitigants for the arrangements as required by BS11. The outsourcing arrangements have been amended to include the requisite risk mitigants.
- The Bank did not renew nine outsourcing arrangements (as defined in BS11) by the contract expiry dates, including for courier services, test resourcing and the licensing and/or support of various software applications, but it continued to receive services from the relevant vendors and make payment. Work is underway to renew the outsourcing arrangements which will include the required risk mitigants for the arrangements as required by BS11.
- The Bank's compendium of outsourcing arrangements did not include the upfront costs for sixteen outsourcing arrangements as is required to be included for each outsourcing arrangement by BS11. Work is underway to update the compendium to include such costs.

Conditions of registration

Changes to conditions of registration

The Reserve Bank amended the Bank's conditions of registration:

– with effect from 31 December 2019, the Reserve Bank amended the Bank's conditions of registration to remove the percentage point overlay applying to its minimum capital requirements following the resolution of matters of non-compliance with BS2B.

– with effect from 2 April 2020:

- to ban distributions and to restrict the extent to which distributions on Additional Tier 1 capital instruments are permitted;
- to reduce the minimum core funding ratio from 75% to 50%; and
- to extend the transition period for the Reserve Bank Outsourcing Policy ('BS11') by 12 months; and

– with effect from 1 May 2020, to remove restrictions on the Bank's new residential mortgage lending at high loan-to-valuation ('LVR') ratios.

Independent auditor's review report

To the shareholder of Westpac New Zealand Limited

Report on the Disclosure Statement

We have reviewed pages 6 to 25 and pages 28 to 48 of the Disclosure Statement for the six months ended 31 March 2020 (the "Disclosure Statement") of Westpac New Zealand Limited (the "Bank") and the entities it controlled at 31 March 2020 or from time to time during the period (the "Banking Group"), which includes the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order.

The financial statements on pages 6 to 25 comprise the balance sheet as at 31 March 2020, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months then ended, and the notes to the financial statements that include a statement of accounting policies and selected explanatory notes.

The supplementary information is included within notes 3, 5 and 6 of the financial statements and notes ii to vii of the registered bank disclosures.

Directors' responsibility for the Disclosure Statement

The Directors of the Bank (the "Directors") are responsible, on behalf of the Bank, for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and 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 responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Our responsibility

Our responsibility is to express the following conclusions on the financial statements and supplementary information presented by the Directors based on our review:

- the financial statements (excluding the supplementary information): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);
- the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and
- the supplementary information relating to capital adequacy and regulatory liquidity requirements: whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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

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

We are independent of the Banking Group. Our firm carries out other services for the Banking Group in the areas of other audit related services relating to the issuance of comfort letters and agreed upon procedures reports on debt issuance programmes. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group.

Conclusion

We have examined the financial statements and supplementary information and based on our review, nothing has come to our attention that causes us to believe that:

a) the financial statements (excluding the supplementary information) have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34;

b) the supplementary information that is required to be disclosed under Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and

c) the supplementary information relating to capital adequacy and regulatory liquidity requirements that is required to be disclosed under Schedule 11 of the Order, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

Who we report to

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Auckland

21 May 2020

This page has been intentionally left blank