ASX Release

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Sydney, NSW, 2000

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Westpac Banking Corporation – New Zealand Banking Group Disclosure Statement

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

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

Westpac Banking Corporation - New Zealand Banking Group

Disclosure Statement

For the six months ended 31 March 2020

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Contents

Glossary of terms

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

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

- **Overseas Bank** – refers to Westpac Banking Corporation;
- **Overseas Banking Group** – refers to the Overseas Bank and all other entities included in the Overseas Bank's group for the purposes of public reporting of the group financial statements in Australia;
- **NZ Branch** – refers to the New Zealand business (as defined in the Order) of the Overseas Bank;
- **Westpac New Zealand** – refers to Westpac New Zealand Limited; and
- **NZ Banking Group** – refers to the financial reporting group (as defined in the Order) of the Overseas Bank. Controlled entities of the NZ Banking Group are set out in Note 22 to the financial statements included in the Disclosure Statement for the year ended 30 September 2019.

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

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

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

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

(b) is not false or misleading.

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch, believe, after due enquiry, that, over the six months ended 31 March 2020:

(a) the Overseas Bank has complied with all conditions of registration that applied during that period, except as noted on page 38; and

(b) the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group, as defined in Westpac New Zealand's Disclosure Statement for the six months ended 31 March 2020.

The Disclosure Statement has been signed on behalf of all of the Directors by David Alexander McLean, Chief Executive, Westpac New Zealand, and by Simon James Power as Chief Executive Officer, NZ Branch.

David McLean

Simon Power

Dated this 25th day of May 2020

Income statement for the six months ended 31 March 2020

$ millions	Note	NZ 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	**1,886**	2,052
Other	2	**33**	45
Total interest income	2	**1,919**	2,097
Interest expense	2	**(941)**	(1,086)
Net interest income		**978**	1,011
Net fees and commissions income	3	**82**	102
Net wealth management and insurance income	3	**83**	96
Trading income	3	**72**	22
Other income	3	**16**	46
Net operating income before operating expenses and impairment charges		**1,231**	1,277
Operating expenses		**(551)**	(494)
Impairment (charges)/benefits	4	**(210)**	(14)
Profit before income tax		**470**	769
Income tax expense		**(135)**	(203)
Net profit attributable to the owners of the NZ Banking Group		**335**	566

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	NZ BANKING GROUP Six Months Ended 31 Mar 20 Unaudited	Six Months Ended 31 Mar 19 Unaudited
Net profit attributable to the owners of the NZ Banking Group	**335**	566
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	**44**	(70)
Transferred to income statement:		
Cash flow hedging instruments	**45**	21
Income tax on items taken to or transferred from equity:		
Investment securities	**5**	2
Cash flow hedging instruments	**(24)**	14
Items that will not be reclassified subsequently to profit or loss (net of tax)		
Remeasurement of defined benefit obligation	**(5)**	(8)
Other comprehensive income for the period (net of tax)	**45**	(47)
Total comprehensive income attributable to the owners of the NZ Banking Group	**380**	519

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

Balance sheet as at 31 March 2020

		NZ BANKING GROUP	
		31 Mar 20	30 Sep 19
$ millions	Note	**Unaudited**	Audited
Assets			
Cash and balances with central banks		**5,210**	2,002
Collateral paid		**363**	417
Trading securities and financial assets measured at fair value through income statement ('**FVIS**')		**6,587**	4,871
Derivative financial instruments		**8,806**	6,257
Investment securities		**3,778**	4,469
Loans	5	**87,425**	84,626
Other financial assets		**394**	400
Life insurance assets		**350**	335
Due from related entities		**6,263**	2,367
Property and equipment		**421**	137
Deferred tax assets		**184**	138
Intangible assets		**669**	685
Other assets		**75**	58
Total assets		**120,525**	106,762
Liabilities			
Collateral received		**1,331**	623
Deposits and other borrowings	7	**72,594**	65,606
Other financial liabilities		**3,074**	1,748
Derivative financial instruments		**7,677**	5,825
Due to related entities		**3,631**	2,892
Debt issues	8	**19,526**	17,846
Current tax liabilities		**25**	91
Provisions		**194**	150
Other liabilities		**426**	139
Loan capital		**3,356**	3,185
Total liabilities		**111,834**	98,105
Net assets		**8,691**	8,657
Head office account			
Branch capital		**1,300**	1,300
Retained profits		**1,050**	989
Total head office account		**2,350**	2,289
NZ Banking Group equity			
Share capital		**143**	143
Reserves		**(19)**	(69)
Retained profits		**6,217**	6,294
Total NZ Banking Group equity		**6,341**	6,368
Total equity attributable to the owners of the NZ Banking Group		**8,691**	8,657

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

	NZ BANKING GROUP							
	NZ BRANCH		OTHER MEMBERS OF THE NZ BANKING GROUP					
	Head Office Account			Reserves				
$ millions	Branch Capital	Retained Profits	Share Capital	Available-for-sale Securities Reserve	Investment Securities Reserve	Cash Flow Hedge Reserve	Retained Profits	Total Equity
As at 30 September 2018 (Audited)	1,300	869	143	9	-	(64)	6,126	8,383
Impact on adoption of new accounting standards	-	-	-	(9)	9	-	(24)	(24)
As at 1 October 2018 (Restated)	1,300	869	143	-	9	(64)	6,102	8,359
Six months ended 31 March 2019 (Unaudited)								
Net profit attributable to the owners of the NZ Banking Group	-	39	-	-	-	-	527	566
Net gains/(losses) from changes in fair value	-	-	-	-	(6)	(70)	-	(76)
Income tax effect	-	-	-	-	2	20	-	22
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	-	39	-	-	(4)	(35)	519	519
Transactions with owners:								
Dividends paid on ordinary shares	-	-	-	-	-	-	(437)	(437)
As at 31 March 2019 (Unaudited)	1,300	908	143	-	5	(99)	6,184	8,441
As at 30 September 2019 (Audited)	**1,300**	**989**	**143**	**-**	**4**	**(73)**	**6,294**	**8,657**
Six months ended 31 March 2020 (Unaudited)								
Net profit attributable to the owners of the NZ Banking Group	**-**	**61**	**-**	**-**	**-**	**-**	**274**	**335**
Net gains/(losses) from changes in fair value	**-**	**-**	**-**	**-**	**(20)**	**44**	**-**	**24**
Income tax effect	**-**	**-**	**-**	**-**	**5**	**(12)**	**-**	**(7)**
Transferred to income statement	**-**	**-**	**-**	**-**	**-**	**45**	**-**	**45**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**(12)**	**-**	**(12)**
Remeasurement of defined benefit obligations	**-**	**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Total comprehensive income for the six months ended 31 March 2020	**-**	**61**	**-**	**-**	**(15)**	**65**	**269**	**380**
Transactions with owners:								
Dividends paid on ordinary shares (refer to Note 9)	**-**	**-**	**-**	**-**	**-**	**-**	**(346)**	**(346)**
As at 31 March 2020 (Unaudited)	**1,300**	**1,050**	**143**	**-**	**(11)**	**(8)**	**6,217**	**8,691**

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

$ millions	NZ BANKING GROUP Six Months Ended 31 Mar 20 Unaudited	Six Months Ended 31 Mar 19 Unaudited
Cash flows from operating activities		
Interest received	**1,942**	2,091
Interest paid	**(1,043)**	(1,117)
Non-interest income received	**215**	224
Operating expenses paid	**(463)**	(464)
Income tax paid	**(264)**	(286)
Cash flows from operating activities before changes in operating assets and liabilities	**387**	448
Net (increase)/decrease in:		
Collateral paid	**54**	(333)
Trading securities and financial assets measured at FVIS	**(1,745)**	(141)
Loans	**(2,953)**	(1,618)
Other financial assets	**48**	1
Due from related entities	**(2,931)**	(125)
Other assets	**(8)**	(3)
Net increase/(decrease) in:		
Collateral received	**708**	(271)
Deposits and other borrowings	**6,988**	2,009
Other financial liabilities	**1,388**	220
Due to related entities	**(22)**	(2)
Other liabilities	**12**	5
Net movement in external and related entity derivative financial instruments	**196**	(186)
Net cash provided by/(used in) operating activities	**2,122**	4
Cash flows from investing activities		
Purchase of investment securities	**(65)**	(1,535)
Proceeds from investment securities	**714**	1,363
Net movement in life insurance assets	**(15)**	15
Proceeds from disposal of associates	**-**	48
Purchase of capitalised computer software	**(24)**	(21)
Purchase of property and equipment	**(4)**	(16)
Proceeds from disposal of property and equipment	**-**	3
Net cash provided by/(used in) investing activities	**606**	(143)
Cash flows from financing activities		
Net movement in due to related entities	**(47)**	(23)
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	**(346)**	(437)
Net cash provided by/(used in) financing activities	**512**	1,261
Net increase/(decrease) in cash and cash equivalents	**3,240**	1,122
Cash and cash equivalents at beginning of the period	**2,074**	1,529
Cash and cash equivalents at end of the period	**5,314**	2,651
Cash and cash equivalents at end of the period comprise:		
Cash on hand	**464**	290
Balances with central banks	**4,746**	1,950
Interbank lending classified as cash and cash equivalents[1]	**104**	411
Cash and cash equivalents at end of the period	**5,314**	2,651

[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 NZ Banking Group's economic environment, which is an indicator of impairment. As a result, an impairment test was performed which confirmed that the NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ Banking Group.

The NZ 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	NZ 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 NZ 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 NZ 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 NZ Banking Group on 1 October 2019. These amendments allow the NZ 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 NZ 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 NZ Banking Group's London Interbank Offered Rate (**'LIBOR'**) linked hedge relationships that mature after the LIBOR discontinuance date of 31 December 2021. The NZ 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 NZ Banking Group continues to monitor these developments and the expected impact.

The table below summarises the LIBOR exposures the NZ 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.

	NZ BANKING GROUP
	31 Mar 20
	Unaudited
$ millions	Notional hedged exposure
Benchmark	
USD LIBOR	2,076

Notes to the financial statements

Note 2 Net interest income

$ millions	NZ 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		
Cash and balances with central banks	**7**	12
Collateral paid	**2**	4
Investment securities	**58**	78
Loans	**1,802**	1,947
Due from related entities	**16**	11
Other interest income	**1**	-
Total interest income calculated using the effective interest rate method	**1,886**	2,052
Other		
Trading securities and financial assets measured at FVIS	**33**	42
Due from related entities	**-**	3
Total other	**33**	45
Total interest income	**1,919**	2,097
Interest expense		
Calculated using the effective interest rate method		
Collateral received	**3**	4
Deposits and other borrowings	**532**	664
Due to related entities	**16**	26
Debt issues	**135**	141
Loan capital	**71**	74
Other interest expense	**9**	3
Total interest expense calculated using the effective interest rate method	**766**	912
Other		
Deposits and other borrowings	**8**	11
Due to related entities	**-**	3
Debt issues	**24**	4
Other interest expense[1]	**143**	156
Total other	**175**	174
Total interest expense	**941**	1,086
Net interest income	**978**	1,011

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

Notes to the financial statements

Note 3 Non-interest income

$ millions	NZ BANKING GROUP 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	**75**	94
Other non-risk fee income	**11**	13
Fees and commissions income	**116**	132
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	**82**	102
Net wealth management and insurance income		
Wealth management income	**27**	27
Net life insurance income and change in policy liabilities	**56**	69
Net wealth management and insurance income	**83**	96
Trading income	**72**	22
Other income		
Net ineffectiveness on qualifying hedges	**15**	-
Other non-interest income	**1**	46
Total other income	**16**	46
Total non-interest income	**253**	266

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:

$ millions	NZ BANKING GROUP 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	**41**	**30**	**-**	**4**	**75**
Other non-risk fee income	**5**	**9**	**-**	**(3)**	**11**
Fees and commissions income	**66**	**47**	**-**	**3**	**116**
Fees and commissions expenses	**(34)**	**-**	**-**	**-**	**(34)**
Net fees and commissions income	**32**	**47**	**-**	**3**	**82**
Wealth management income	**-**	**-**	**19**	**8**	**27**
Six months ended 31 March 2019 (Unaudited) (restated)					
Fees and commissions income					
Facility fees	14	7	-	4	25
Transaction fees and commissions	59	36	-	(1)	94
Other non-risk fee income	6	12	-	(5)	13
Fees and commissions income	79	55	-	(2)	132
Fees and commissions expenses	(30)	-	-	-	(30)
Net fees and commissions income	49	55	-	(2)	102
Wealth management income	-	-	22	5	27

Notes to the financial statements

Note 4 Impairment charges/(benefits)

	NZ 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 NZ Banking Group. Refer to Note 6 for details on the impact of COVID-19 on the provision for ECL.

Note 5 Loans

	NZ BANKING GROUP	
$ millions	**31 Mar 20 Unaudited**	30 Sep 19 Audited
Residential mortgages	**53,411**	51,504
Other retail	**3,503**	3,753
Corporate	**30,858**	29,579
Other	**159**	111
Total gross loans	**87,931**	84,947
Provisions for ECL on loans (Note 6)	**(506)**	(321)
Total net loans	**87,425**	84,626

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 NZ Banking Group to secure the obligations of Westpac Securities NZ Limited ('WSNZL') under Westpac New Zealand's Global Covered Bond Programme ('CB Programme') (30 September 2019: $7,530 million). These pledged assets were not derecognised from the NZ 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.

	NZ 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)	97	261	80	68	506
Provision for ECL on credit commitments	18	28	-	-	46
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)

$ millions	Performing Stage 1 CAP	Performing Stage 2 CAP	Non-performing Stage 3 CAP	Non-performing Stage 3 IAP	Total
	NZ BANKING GROUP 30 Sep 19 Audited				
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	164	53	28	321
Provision for ECL on credit commitments	15	16	-	-	31
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)

	NZ BANKING GROUP				
	31 Mar 20				
	Unaudited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Total gross carrying amount as at 1 October 2019	**80,435**	**4,064**	**379**	**69**	**84,947**
Transfers:					
Transfers to Stage 1	**2,168**	**(2,121)**	**(47)**	**-**	**-**
Transfers to Stage 2	**(7,649)**	**7,732**	**(69)**	**(14)**	**-**
Transfers to Stage 3 CAP	**(43)**	**(225)**	**271**	**(3)**	**-**
Transfers to Stage 3 IAP	**-**	**(87)**	**(11)**	**98**	**-**
Net further lending/(repayment)	**(1,217)**	**44**	**(11)**	**(2)**	**(1,186)**
New financial assets originated	**11,083**	**-**	**-**	**-**	**11,083**
Financial assets derecognised during the period	**(6,542)**	**(280)**	**(66)**	**(3)**	**(6,891)**
Amounts written-off	**-**	**-**	**(21)**	**(1)**	**(22)**
Total gross carrying amount as at 31 March 2020	**78,235**	**9,127**	**425**	**144**	**87,931**
Provision for ECL as at 31 March 2020	**(97)**	**(261)**	**(80)**	**(68)**	**(506)**
Total net carrying amount as at 31 March 2020	**78,138**	**8,866**	**345**	**76**	**87,425**

	NZ BANKING GROUP				
	30 Sep 19				
	Audited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Total gross carrying amount as at 1 October 2018	76,946	3,775	383	80	81,184
Transfers:					
Transfers to Stage 1	4,205	(4,108)	(92)	(5)	-
Transfers to Stage 2	(5,058)	5,176	(115)	(3)	-
Transfers to Stage 3 CAP	(158)	(347)	519	(14)	-
Transfers to Stage 3 IAP	(6)	(2)	(40)	48	-
Net further lending/(repayment)	(2,475)	228	(76)	(24)	(2,347)
New financial assets originated	17,749	-	-	-	17,749
Financial assets derecognised during the year	(10,768)	(658)	(147)	(8)	(11,581)
Amounts written-off	-	-	(53)	(5)	(58)
Total gross carrying amount as at 30 September 2019	80,435	4,064	379	69	84,947
Provision for ECL as at 30 September 2019	(76)	(164)	(53)	(28)	(321)
Total net carrying amount as at 30 September 2019	80,359	3,900	326	41	84,626

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 NZ 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.

Note 6 Provisions for expected credit losses (continued)

	NZ 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 NZ 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 NZ 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 NZ 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 NZ 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).

	NZ 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 NZ 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

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.

Notes to the financial statements

Note 6 Provisions for expected credit losses (continued)

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 NZ 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 NZ 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 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.

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 NZ 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.

Notes to the financial statements

Note 7 Deposits and other borrowings

	NZ 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

	NZ 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 NZ Banking Group are set out in Note 22 to the financial statements included in the Disclosure Statement for the year ended 30 September 2019.

The NZ Banking Group entered into loan agreements with several entities within the Overseas Banking Group which amounted to $4,304 million as at 31 March 2020 (30 September 2019: $1,351 million).

On 26 March 2020, $315 million of dividends were declared and paid by the following entity:

- Westpac New Zealand Group Limited declared and paid a dividend of $315 million to Westpac Overseas Holdings No. 2 Pty Limited.

On 20 March 2020, $31 million of dividends were declared and paid by the following entities:

- Westpac Group Investment-NZ-Limited declared and paid a dividend of $2 million pro-rata to the shareholders, Westpac Overseas Holdings Pty Limited and Westpac Custodian Nominees Pty Limited;
- BT Financial Group (NZ) Limited declared and paid a dividend of $23 million to Westpac Equity Holdings Pty Limited; and
- Westpac Financial Services Group-NZ- Limited declared and paid a dividend of $6 million to Westpac Equity Holdings Pty Limited.

Notes to the financial statements

Note 10 Fair values of financial assets and financial liabilities

Fair Valuation Control Framework

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

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

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

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

Fair value hierarchy

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

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

Valuation techniques

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

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

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

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

Level 2 instruments

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

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

Instrument	Balance sheet category	Includes:	Valuation 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 and FX forward contracts – derivative financial instruments	Derived from market observable inputs or consensus pricing providers using industry standard models.
Asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities	Asset backed securities	Valued using an industry approach to value floating rate debt with prepayment features. The main inputs to the model are the trading margin and the weighted average life of the security. These inputs are sourced from a consensus data provider. If consensus prices are not available, these are classified as Level 3 instruments.
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities Other financial liabilities	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities, off-shore securities and corporate bonds Repurchase agreements and reverse repurchase agreements over non-asset backed debt securities	Valued using observable market prices which are sourced from independent pricing services, broker quotes or inter-dealer prices.
Deposits and other borrowings at fair value	Deposits and other borrowings	Certificates of deposit	Discounted cash flow using market rates offered for deposits of similar remaining maturities.
Debt issues at fair value	Debt issues	Commercial paper	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of the NZ Banking Group.
Life insurance assets	Life insurance assets	Local authority securities, investment grade corporate bonds, life insurance contract liabilities and units in unlisted unit trusts	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market inputs.

Notes to the financial statements

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

Level 3 instruments

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

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

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

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

	NZ BANKING GROUP							
	31 Mar 20 Unaudited				30 Sep 19 Audited			
$ millions	**Level 1**	**Level 2**	**Level 3[1]**	**Total**	Level 1	Level 2	Level 3[1]	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets measured at FVIS	**193**	**6,394**	**-**	**6,587**	29	4,842	-	4,871
Derivative financial instruments	**2**	**8,803**	**1**	**8,806**	-	6,256	1	6,257
Investment securities	**1,102**	**2,676**	**-**	**3,778**	1,049	3,420	-	4,469
Life insurance assets	**-**	**350**	**-**	**350**	-	335	-	335
Due from related entities	**5**	**1,942**	**-**	**1,947**	-	985	-	985
Total financial assets measured at fair value	**1,302**	**20,165**	**1**	**21,468**	1,078	15,838	1	16,917
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	**122**	**345**	**-**	**467**	180	27	-	207
Derivative financial instruments	**1**	**7,659**	**17**	**7,677**	-	5,807	18	5,825
Due to related entities	**3**	**2,150**	**-**	**2,153**	-	1,334	-	1,334
Debt issues at fair value	**-**	**3,052**	**-**	**3,052**	-	2,312	-	2,312
Total financial liabilities measured at fair value	**126**	**16,749**	**17**	**16,892**	180	10,622	18	10,820

[1] Balances within this category of the fair value hierarchy are not considered material to the total derivative financial instruments balances.

There were no material changes in fair values estimated using a valuation technique incorporating significant non-observable inputs that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the six months ended 31 March 2020 (30 September 2019: no material changes in fair value).

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).

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

Financial instruments not measured at fair value

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

	NZ 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	**5,210**	**5,210**	2,002	2,002
Collateral paid	**363**	**363**	417	417
Loans	**87,425**	**87,748**	84,626	84,880
Other financial assets	**394**	**394**	400	400
Due from related entities	**4,316**	**4,316**	1,382	1,382
Total financial assets not measured at fair value	**97,708**	**98,031**	88,827	89,081
Financial liabilities not measured at fair value				
Collateral received	**1,331**	**1,331**	623	623
Deposits and other borrowings	**69,051**	**69,121**	64,464	64,537
Other financial liabilities	**2,607**	**2,607**	1,541	1,541
Due to related entities	**1,478**	**1,481**	1,558	1,565
Debt issues[1]	**16,474**	**16,229**	15,534	15,701
Loan capital[1]	**3,356**	**2,848**	3,185	3,112
Total financial liabilities not measured at fair value	**94,297**	**93,617**	86,905	87,079

[1] The estimated fair value of debt issues and loan capital includes the impact of changes in the NZ 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

	NZ BANKING GROUP	
$ millions	**31 Mar 20 Unaudited**	30 Sep 19 Audited
Letters of credit and guarantees	**931**	964
Commitments to extend credit	**26,601**	25,881
Total undrawn credit commitments	**27,532**	26,845

Contingent assets

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

Contingent liabilities

The NZ Banking Group has contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the NZ 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 NZ 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 NZ 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 NZ Banking Group operates predominantly in the 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 NZ 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 Overseas Bank's capital allocation framework.

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

- Consumer Banking and Wealth provides financial services predominantly for individuals;
- Commercial, Corporate and Institutional Banking provides a broad range of financial services for commercial, corporate, property finance, agricultural, institutional and government customers, and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand; 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/aggregation of the results, assets and liabilities of the NZ Banking Group's controlled entities in the preparation of the aggregated financial statements of the NZ Banking Group; and
- results of certain business units excluded for management reporting purposes, but included within the aggregated financial statements of the NZ Banking Group for statutory financial reporting purposes.

Notes to the financial statements

Note 12 Segment reporting (continued)

	NZ BANKING GROUP				
$ millions	**Consumer Banking and Wealth**	**Commercial, Corporate and Institutional**	**Investments and Insurance**	**Reconciling Items**	**Total**
Six months ended 31 March 2020 (Unaudited)					
Net interest income	**506**	**474**	**-**	**(2)**	**978**
Non-interest income	**65**	**81**	**55**	**52**	**253**
Net operating income before operating expenses and impairment charges	**571**	**555**	**55**	**50**	**1,231**
Operating expenses	**(394)**	**(139)**	**(18)**	**-**	**(551)**
Impairment (charges)/benefits	**(101)**	**(109)**	**-**	**-**	**(210)**
Profit before income tax	**76**	**307**	**37**	**50**	**470**
Six months ended 31 March 2019 (Unaudited) (restated)					
Net interest income	528	466	-	17	1,011
Non-interest income	82	110	63	11	266
Net operating income before operating expenses and impairment charges	610	576	63	28	1,277
Operating expenses	(351)	(127)	(13)	(3)	(494)
Impairment (charges)/benefits	(20)	5	-	1	(14)
Profit before income tax	239	454	50	26	769
As at 31 March 2020 (Unaudited)					
Total gross loans	**47,315**	**40,436**	**-**	**180**	**87,931**
Total deposits and other borrowings	**36,453**	**32,598**	**-**	**3,543**	**72,594**
As at 30 September 2019 (Audited) (restated)					
Total gross loans	45,730	39,079	-	138	84,947
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 Westpac New Zealand) 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 (Overseas Incorporated Registered Banks) Order 2014 (as amended).

i. General information

Limits on material financial support by the Overseas Bank

On 19 November 2015, the Australian Prudential Regulation Authority (**'APRA'**) informed the Overseas 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 Overseas Bank's Level 1 Tier 1 capital, as part of an initiative to reduce Australian bank non-equity exposure to their respective New Zealand banking subsidiaries and branches.

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

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.

While the limit and associated conditions do not apply to the ELE's non-equity exposures to the NZ Branch (which is within the ELE), the limit and associated conditions do apply to the NZ Branch's non-equity exposures to the rest of the NZ Banking Group other than Westpac New Zealand Group Limited. As at 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 Overseas Bank.

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

Guarantee arrangements

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

Directors

The Directors of the Overseas Bank at the time this Disclosure Statement was signed were:
John McFarlane, MBA, MA – Chairman
Peter King, BEc, FCA –Managing Director & Chief Executive Officer
Nerida Caesar, BCom, MBA, GAICD
Alison Deans, BA, MBA, GAICD
Craig Dunn, BCom, FCA
Steven Harker BEc (Hons.), LLB
Peter Marriott, BEc (Hons.), FCA
Peter Nash, BCom, FCA, F Fin
Margaret Seale, BA, FAICD

Changes to Directorate

On 2 December 2019, Brian Hartzer stepped down as Managing Director and Chief Executive Officer (CEO) of the Overseas Bank with Chief Financial Officer (CFO), Peter King, taking over as acting CEO and Chief Operating Officer, Gary Thursby, appointed as acting CFO.
On 12 December 2019, Director of the Overseas Bank, Ewen Crouch, did not seek re-election at the Overseas Bank's Annual General Meeting.
On 23 January 2020, the Overseas Bank announced the appointment of John McFarlane to the Westpac Board as Non-Executive Director and Chairman-Elect, succeeding Lindsay Maxsted. Mr McFarlane commenced his role as a Non-Executive Director on 17 February 2020.
On 5 March 2020, the Overseas Bank confirmed Mr. Maxsted would retire from the board effective 31 March 2020. Following Mr. Maxsted's retirement, Mr. McFarlane became Chairman of the Overseas Bank's Board and the Board Nominations Committee effective 1 April 2020. The Overseas Bank also announced on 5 March 2020 that Yuen Mei Anita Fung would retire from the Westpac Board as a Non-Executive Director effective 31 March 2020.
On 2 April 2020, the Overseas Bank's Chairman, John McFarlane, announced the appointment of Peter King as CEO with immediate effect.

Chief Executive Officer, NZ Branch

Simon James Power QSO, BA, LLB, AMP (Harvard), CMInstD, INFINZ (Fellow)

Registered bank disclosures

Unaudited

i. General information (continued)

Responsible person

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

Auditor

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland, New Zealand

Credit ratings

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

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

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 the Overseas Bank) by one notch, to A+ (from AA-). Fitch has maintained the rating outlook for the major Australian banks 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 Australia's AAA/A-1+ ratings but revised the outlook on these ratings to "negative". As a result of the change in Australia's sovereign rating outlook, S&P Global Ratings affirmed the Overseas Bank's current issuer credit rating of AA- long term and A-1+ short term but the outlook has been revised 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 NZ 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 NZ 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 Westpac New Zealand) 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 Westpac New Zealand, such that aggregate RWA will increase to 90% of standardised RWA.

i. General information (continued)

Westpac New Zealand 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%, Westpac New Zealand 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 Overseas Bank

On 20 November 2019 the Overseas Bank received a statement of claim from AUSTRAC (the Australian money-laundering regulator) commencing civil proceedings in relation to alleged contraventions of the Overseas 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 Overseas 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 Overseas Bank.

The Overseas Bank has also been served with a shareholder class action in Australia relating to market disclosure issues connected to the Overseas 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 Overseas Bank's securities between 16 December 2013 and 19 November 2019.

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

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 sought from the applicants in those proceedings will be significant. The Overseas Bank is defending these class actions.

Business Finance Guarantee Scheme

On 13 April 2020 Westpac New Zealand 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 Westpac New Zealand 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 Westpac New Zealand on a loan it makes under the Scheme, after Westpac New Zealand has exhausted its recoveries procedures, with the other 20% carried by Westpac New Zealand.

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 Westpac New Zealand) 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 Westpac New Zealand) 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 six 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 Westpac New Zealand) from 75% to 50%.

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

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

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2019 and for the six months ended 31 March 2020, respectively, and can be accessed at the internet address www.westpac.com.au.

Registered bank disclosures

Unaudited

ii. Additional financial disclosures

Additional information on balance sheet

	NZ BANKING GROUP	
$ millions	31 Mar 20 Unaudited	30 Sep 19 Audited
Interest earning and discount bearing assets	**107,642**	97,740
Interest and discount bearing liabilities	**90,978**	83,028
Total amounts due from related entities	**6,263**	2,367
Total amounts due to related entities	**4,698**	4,013
Total liabilities of the NZ Branch, net of amounts due to related entities	**12,367**	9,098
Total retail deposits of the NZ Branch	**-**	-

Financial assets pledged as collateral

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

	NZ BANKING GROUP	
$ millions	31 Mar 20 Unaudited	30 Sep 19 Audited
Cash	**363**	417
Securities pledged under repurchase agreements:		
Trading securities and financial assets measured at FVIS	**126**	19
Residential mortgage-backed securities[1]	**238**	-
Total amount pledged to secure liabilities (excluding CB Programme)	**727**	436

[1] During the six months ended 31 March 2020, the NZ 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

	NZ BANKING GROUP
$ millions	**31 Mar 20**
On-balance sheet credit exposures consists of	
Cash and balances with central banks	5,210
Collateral paid	363
Trading securities and financial assets measured at FVIS	6,587
Derivative financial instruments	8,806
Investment securities	3,778
Loans	87,425
Other financial assets	394
Due from related entities	6,263
Total on-balance sheet credit exposures	**118,826**
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	508
Agriculture	8,970
Construction	584
Finance and insurance	15,383
Forestry and fishing	437
Government, administration and defence	11,303
Manufacturing	2,390
Mining	290
Property	8,101
Property services and business services	1,391
Services	2,234
Trade	2,457
Transport and storage	1,465
Utilities	2,315
Retail lending	55,162
Other	8
Subtotal	**112,998**
Provisions for ECL	(506)
Due from related entities	6,263
Other financial assets	71
Total on-balance sheet credit exposures	**118,826**
Off-balance sheet credit exposures consists of	
Credit risk-related instruments	27,532
Total off-balance sheet credit exposures	**27,532**
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	149
Agriculture	804
Construction	504
Finance and insurance	1,693
Forestry and fishing	346
Government, administration and defence	872
Manufacturing	1,740
Mining	56
Property	1,972
Property services and business services	705
Services	665
Trade	1,782
Transport and storage	947
Utilities	1,603
Retail lending	13,694
Total off-balance sheet credit exposures	**27,532**

Australia 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

	NZ BANKING GROUP
$ millions	31 Mar 20
Funding consists of	
Collateral received	1,331
Deposits and other borrowings	72,594
Other financial liabilities[1]	2,625
Due to related entities[2]	1,466
Debt issues[3]	19,526
Loan capital	3,356
Total funding	100,898
Analysis of funding by geographical area[3]	
New Zealand	72,820
Australia	3,866
United Kingdom	9,202
United States of America	6,565
Other	8,445
Total funding	100,898
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	522
Agriculture	1,550
Construction	2,147
Finance and insurance	44,025
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]	4,342
Subtotal	99,432
Due to related entities[2]	1,466
Total funding	100,898

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

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

ii. Additional financial disclosures (continued)

Additional information on interest rate sensitivity

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

	NZ BANKING GROUP						
	31 Mar 20						
$ millions	Up to 3 Months	Over 3 Months and Up to 6 Months	Over 6 Months and Up to 1 Year	Over 1 Year and Up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Financial assets							
Cash and balances with central banks	4,746	-	-	-	-	464	5,210
Collateral paid	363	-	-	-	-	-	363
Trading securities and financial assets measured at FVIS	4,941	694	331	67	554	-	6,587
Derivative financial instruments	-	-	-	-	-	8,806	8,806
Investment securities	1,180	33	180	689	1,696	-	3,778
Loans	45,549	6,847	14,754	15,836	4,797	(358)	87,425
Other financial assets	80	-	-	-	-	314	394
Life insurance assets	-	-	-	-	-	350	350
Due from related entities	4,304	-	-	1	-	1,958	6,263
Total financial assets	61,163	7,574	15,265	16,593	7,047	11,534	119,176
Non-financial assets							1,349
Total assets							120,525
Financial liabilities							
Collateral received	1,331	-	-	-	-	-	1,331
Deposits and other borrowings	45,623	10,245	5,065	1,277	606	9,778	72,594
Other financial liabilities	2,326	200	-	-	-	548	3,074
Derivative financial instruments	-	-	-	-	-	7,677	7,677
Due to related entities	1,423	-	-	-	-	2,208	3,631
Debt issues	7,721	1,905	515	2,061	7,324	-	19,526
Loan capital	1,067	-	-	-	2,289	-	3,356
Total financial liabilities	59,491	12,350	5,580	3,338	10,219	20,211	111,189
Non-financial liabilities							645
Total liabilities							111,834
On-balance sheet interest rate repricing	1,672	(4,776)	9,685	13,255	(3,172)		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	12,600	(4,675)	(13,955)	(819)	6,849		
Net interest rate repricing gap	14,272	(9,451)	(4,270)	12,436	3,677		

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

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

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

	NZ 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 Year and Up to 5 Years	Over 5 Years	Total
Financial liabilities							
Collateral received	-	1,331	-	-	-	-	1,331
Deposits and other borrowings	32,988	9,428	13,089	15,596	1,975	-	73,076
Other financial liabilities	2,287	189	71	250	-	-	2,797
Derivative financial instruments:							
Held for trading	7,098	-	-	-	-	-	7,098
Held for hedging purposes (net settled)	-	30	75	212	225	2	544
Held for hedging purposes (gross settled):							
Cash outflow	-	4	-	560	-	-	564
Cash inflow	-	-	-	(525)	-	-	(525)
Due to related entities:							
Non-derivative balances	1,184	-	2	297	-	-	1,483
Derivative financial instruments:							
Held for trading	2,123	-	-	-	-	-	2,123
Held for hedging purposes (gross settled):							
Cash outflow	-	-	2	327	-	-	329
Cash inflow	-	-	(2)	(297)	-	-	(299)
Debt issues	-	403	1,270	5,178	12,815	406	20,072
Loan capital	-	-	9	26	136	3,177	3,348
Total undiscounted financial liabilities	45,680	11,385	14,516	21,624	15,151	3,585	111,941
Total contingent liabilities and commitments							
Letters of credit and guarantees	931	-	-	-	-	-	931
Commitments to extend credit	26,601	-	-	-	-	-	26,601
Total undiscounted contingent liabilities and commitments	27,532	-	-	-	-	-	27,532

Unaudited

ii. Additional financial disclosures (continued)

Liquid assets

The table below shows the NZ 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 NZ Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the NZ Banking Group's present requirements.

	NZ BANKING GROUP
$ millions	**31 Mar 20**
Cash and balances with central banks	**5,210**
Interbank lending	**104**
Supranational securities	**1,198**
NZ Government securities	**3,758**
NZ public securities	**2,526**
NZ corporate securities	**2,123**
Residential mortgage-backed securities	**7,531**
Total liquid assets	**22,450**

Overseas Banking Group profitability and size

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the six months ended 31 March 2020.

Profitability	**31 Mar 20**
Net profit after tax for the six months ended 31 March 2020 (A$ millions)[1]	**1,191**
Net profit after tax for the 12 month period to 31 March 2020 as a percentage of average total assets	**0.5%**

Total assets and equity	**31 Mar 20**
Total assets (A$ millions)	**967,662**
Percentage change in total assets over the 12 months ended 31 March 2020	**8.6%**
Total equity (A$ millions)	**67,646**

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

Reconciliation of mortgage-related amounts

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

	NZ BANKING GROUP
$ millions	**31 Mar 20**
Residential mortgages - total gross loans (as disclosed in Note 5)	**53,411**
Reconciling items:	
Unamortised deferred fees and expenses	**(193)**
Fair value hedge adjustments	**(180)**
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**

[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

$ millions	NZ BANKING 31 Mar 20
Past due but not individually impaired assets	
Less than 30 days past due	**1,458**
At least 30 days but less than 60 days past due	**212**
At least 60 days but less than 90 days past due	**107**
At least 90 days past due	**195**
Total past due but not individually impaired assets	**1,972**

Movements in components of loss allowance and impacts of changes in gross financial assets on loss allowances

Refer to Note 6 for the movements in components of loss allowance and impacts of changes in gross financial assets on loss allowances.

Other asset quality information

	NZ BANKING
Undrawn commitments with individually impaired counterparties	**7**
Other assets under administration	**-**

Overseas Banking Group asset quality

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the six months ended 31 March 2020.

	31 Mar 20
Total individually impaired assets[1, 2] (A$ millions)	**2,154**
Total individually impaired assets expressed as a percentage of total assets	**0.2%**
Total individually assessed provision for ECL[3] (A$ millions)	**1,079**
Total individually assessed provision for ECL expressed as a percentage of total individually impaired assets	**50.1%**
Total collectively assessed provision for ECL[3] (A$ millions)	**5,182**

[1] Total individually impaired assets are before provision for ECL and net of interest held in suspense. Total individually impaired assets includes A$1,304 million of assets which are determined to be impaired, but which are not individually significant, and therefore have been grouped into pools of assets for the purpose of collectively calculating an impairment provision.

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

[3] Total individual provision for ECL and total collective provision for ECL both include A$473 million of provision for ECL that has been calculated collectively on groups of assets which have been determined to be impaired, but which are not individually significant.

iv. Credit and market risk exposures and capital adequacy

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 NZ Banking Group's valuation of the residential security at origination.

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

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

	NZ BANKING GROUP					
	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**

Market risk

Market risk notional capital charges

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

For each category of market risk, the NZ Banking Group's peak end-of-day aggregate capital charge is derived 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 BS2A.

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

	NZ BANKING GROUP	
	31 Mar 20	
$ millions	Implied risk-weighted exposure	Notional capital charge
End-of-period		
Interest rate risk	5,399	432
Foreign currency risk	18	1
Equity risk	-	-
Peak end-of-day		
Interest rate risk	6,345	508
Foreign currency risk	38	3
Equity risk	-	-

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

Overseas Bank and Overseas Banking Group capital adequacy

The table below represents the capital adequacy calculation for the Overseas Banking Group and Overseas Bank as at 31 March 2020 based on APRA's application of the Basel III capital adequacy framework.

%	31 Mar 20	31 Mar 19
Overseas Banking 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
Overseas 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 Overseas Banking Group are publicly available in the Overseas Banking Group's Pillar 3 report. This information is made available to users via the Overseas Bank's website (www.westpac.com.au).

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

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

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

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

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

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

v. Insurance business

The following table presents the aggregate amount of the NZ Banking Group's insurance business conducted through one of its controlled entities, Westpac Life-NZ- Limited, calculated in accordance with the Overseas Bank's (the registered bank) conditions of registration as at the reporting date.

	NZ BANKING GROUP
$ millions	**31 Mar 20**
Total assets of insurance business	**224**
As a percentage of total consolidated assets of the NZ Banking Group	**0.19%**

vi. Risk management policies

During the period, the NZ 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

On 19 March 2020, the Overseas Bank was not compliant with condition of registration 7, which requires that the liabilities of the NZ Branch, net of amounts due to related parties, (**NZ Liabilities**) do not exceed $15bn. Due to significant exchange rate and interest rate fluctuations resulting from the impact of the COVID-19 pandemic, liability under interest rate and cross currency swaps increased sharply, resulting in the NZ Liabilities increasing to $16.025bn on 19 March 2020. The NZ Liabilities fell back below $15bn the following day. The Overseas Bank continues to closely monitor its NZ Liabilities.

Westpac New Zealand conditions of registration

In February 2017 the Reserve Bank required Westpac New Zealand to obtain an independent review of its compliance with advanced internal rating-based aspects of the Reserve Bank's 'Capital Adequacy Framework (Internal Models Based Approach) (BS2B)' ('**BS2B**'). In June 2019, Westpac New Zealand presented the Reserve Bank with a submission providing an overview of its credit risk rating system and activities undertaken to address compliance issues and enhance risk management practices.

On 30 October 2019, the Reserve Bank informed Westpac New Zealand that it had accepted the submission and measures undertaken by Westpac New Zealand to achieve satisfactory compliance with BS2B, and that Westpac New Zealand 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 Westpac New Zealand 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.

Westpac New Zealand has disclosed non-compliance with BS2B (compliance with which is a condition of registration for Westpac New Zealand) in its disclosure statements since September 2016. In particular, Westpac New Zealand has disclosed that when calculating LVRs for less than one percent of its residential mortgages by loan value, Westpac New Zealand uses total committed exposure rather than exposure at default for capital adequacy purposes and for less than 5% of accounts by number, it uses an updated valuation of the security value and not the origination value. These limitations on Westpac New Zealand's LVR calculations are reflected in the LVR values disclosed by the NZ Banking Group in Note iv. of the Registered bank disclosures.

Westpac New Zealand has also disclosed non-compliance with its condition of registration 25 relating to the Reserve Bank's BS11: Outsourcing Policy in its disclosure statement for the six months ended 31 March 2020.

These matters have no impact on the compliance by the Overseas Bank with its conditions of registration.

Changes to conditions of registration

The Reserve Bank amended the Overseas Bank's conditions of registration with effect from 1 May 2020, to remove restrictions on the Overseas Bank's new residential mortgage lending at high loan-to-valuation ('LVR') ratios.

Independent auditor's review report

To the Directors of Westpac Banking Corporation

Report on the Disclosure Statement

We have reviewed pages 5 to 25 and pages 29 to 37 of the Disclosure Statement for the six months ended 31 March 2020 (the "Disclosure Statement") of Westpac Banking Corporation, which includes the financial statements of Westpac Banking Corporation – New Zealand Banking Group ("NZ Banking Group") required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 9, 12 and 14 of the Order. The NZ Banking Group comprises the New Zealand operations of Westpac Banking Corporation.

The financial statements on pages 5 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 vi of the registered bank disclosures.

Directors' responsibility for the Disclosure Statement

The Directors of Westpac Banking Corporation (the "Directors") are responsible, on behalf of Westpac Banking Corporation, for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 26 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 Westpac Banking Corporation, for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 12 and 14 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 credit and market risk exposures and capital adequacy): 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, 12 and 14 of the Order; and
- the supplementary information relating to credit and market risk exposures and capital adequacy: 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 9 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 NZ Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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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 NZ Banking Group. Our firm carries out other services for the NZ 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 NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ Banking Group. These matters have not impaired our independence as auditor of the NZ 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, 12 and 14 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 credit and market risk exposures and capital adequacy that is required to be disclosed under Schedule 9 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Who we report to

This report is made solely to the Directors, as a body. 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 Westpac Banking Corporation and the Directors, as a body, for our review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
25 May 2020

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