Level 18, 275 Kent Street
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ASX Release

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Westpac New Zealand Limited Disclosure Statement

Westpac Banking Corporation ("Westpac") today provides the attached Westpac New Zealand Limited Disclosure Statement for the six months ended 31 March 2022.

For further information:

Hayden Cooper
Group Head of Media Relations
0402 393 619

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

WESTPAC NEW ZEALAND LIMITED

Disclosure Statement

For the six months ended 31 March 2022

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Contents

Glossary of terms

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

In this Disclosure Statement, reference is made to:

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

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

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

ANZSIC	Australia and New Zealand Standard Industrial Classification
AT1	Additional Tier 1 capital
BCBS	Basel Committee on Banking Supervision
BS13	Banking Standard 13 – Liquidity Policy
BPR	Banking Prudential Requirement
BS2A	Capital Adequacy Framework (Standardised Approach)
BS2B	Capital Adequacy Framework (Internal Models Based Approach)
CAP	Collectively assessed provisions
CB Programme	The Bank's Global Covered Bond Programme
EAD	Exposure at default
ECL	Expected credit losses
ELE	Extended Licensed Entity
Fidelity Life	Fidelity Life Assurance Company Limited
Financial statements	Condensed consolidated interim financial statements
FMA	Financial Markets Authority
FVIS	Fair value through income statement
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
IAP	Individually assessed provisions
IRB	Internal Rating Based
LGD	Loss given default
LVR	Loan-to-value ratio
PD	Probability of default
RBNZ Act	Reserve Bank of New Zealand Act 1989
Reserve Bank	Reserve Bank of New Zealand
RWA	Risk weighted assets
SPV	Special purpose vehicle
Westpac Life	Westpac Life-NZ- Limited (renamed Fidelity Insurance Limited on 28 February 2022)
WSNZL	Westpac Securities NZ Limited

Westpac New Zealand sustainability performance (Unaudited)

2025 Sustainability Strategy. He rau ringa manaaki. Many hands working together.

We are taking action to create a better future for the people who bank with us, work with us, invest in us or are part of our broader communities. We do this through our core business, and more widely by using our financial and economic expertise to generate positive economic, social and environmental outcomes for our customers and New Zealand.

In April 2021 we launched our 2025 Strategy: *He rau ringa manaaki* – Many hands working together. Our commitment is *Manaaki te ao, manaaki te tāngata, e tipu pūtea ora*. Care for the planet, care for people and grow financial wellbeing.

Sustainability Strategy results for the six months ended 31 March 2022

Manaaki te ao: Care for the planet.

We want to support Aotearoa's transition to a resilient, net zero economy for the benefit of all New Zealanders.

2025 targets*		HY22 Progress
1.	Reduce annual Scope 1, 2, and Scope 3 Mandatory operational emissions by 30% against a 2019 base year.[1] Offset remaining emissions to be carbon neutral.	51% (see Key climate risk metrics)
2.	Enable $10b in sustainable finance.[2]	$5.68b
3.	Manage our climate-related financial risks.	Refer to Climate Risk Update

Highlights for the six months ended 31 March 2022 include:

- Structuring over $1.7b of sustainable debt including:
  - Executing New Zealand's largest Sustainability-Linked Loan in the agricultural sector, an $85m facility, encouraging Pāmu's farmers to improve all aspects of farm sustainability.
  - Supporting Genesis Energy to be the first NZ borrower to have a Sustainability-Linked Loan and Green Bond aligned to the globally recognised *Climate Transition Finance Handbook*.
  - Positioning The Warehouse Group to be the first NZ borrower to have sustainable packaging and gender pay targets in its Sustainability-Linked Loan.
  - Supporting Christchurch City Holdings Limited to issue its $150m inaugural Sustainability Bond, which was the first sustainability bond offer to retail investors under an FMA exemption, paving the way for future sustainability bonds under this exemption.
- 48% of our fleet is now electric or plug-in hybrid vehicles.

Climate Risk Update

We released our second Climate Risk Report in November 2021. It is based on the TCFD recommendations. During the six months ended 31 March 2022, our effort has been focused on progressing a comprehensive assessment of climate-related risks and opportunities for the agricultural sector.

Key climate risk metrics

Our operational carbon emissions reductions of 51% for the six months ended 31 December 2021 annualised against a 2019 base year are largely due to COVID-19 border restrictions and domestic lockdowns reducing business travel and business operations.

The approximate proportion of our lending portfolio secured by properties exposed to heightened risks from sea-level rise (coastal flooding and erosion) was relatively stable and within the range of normal portfolio fluctuation.[3]

Industry segment	31 Mar 22	30 Sep 21
Residential mortgages	2.2%	2.3%
Commercial property lending	2.0%	2.2%
Agricultural lending	3.1%	3.4%

Lending to fossil fuel mining and production increased by 32% from financing a gas-fired back-up power generator. [4] At the same time climate change solution lending decreased marginally by 2%. While lending to green buildings[5] lifted, exposure to renewable energy generation dropped. [6]

Manaaki te tāngata: Care for people.

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

2025 targets*		HY22 Progress
4.	Set a cultural diversity in leadership target.[7]	Initiative in progress
5.	1% of annual pre-tax profits invested in communities.[8]	0.52% /$3.572m
6.	$700m in lending to healthy, affordable and social housing.[9]	$440m

Highlights for the six months ended 31 March 2022 include:

- Published our third gender pay analysis. Our overall gender pay gap in 2021 is 28.5% vs 29.1% in 2020. This figure compares the pay of the median male and median female at Westpac NZ, and includes base salary, bonuses, overtime, miscellaneous payments and superannuation.
- Helped first home buyers utilise the Kāinga Ora First Home Partner Scheme for the first time, a shared equity scheme designed to bring home ownership within reach for more New Zealanders.

E tipu pūtea ora: Grow financial wellbeing.

We want to enable all New Zealanders to be financially secure and independent.

2025 targets*		HY22 Progress
7.	25,000 people to participate in Westpac facilitated financial education workshops.	16,488
8.	Help 15,000 New Zealanders who are at risk of financial exploitation and exclusion.	3,112
9.	Source 25% of annual supplier spend from local businesses, including those owned by diverse and under-represented groups.	17%

Highlights for the six months ended 31 March 2022 include:

- Launched an online financial education workshop facilitator training for staff, supporting new facilitators to be able to help communities nationally. This will help us towards achieving target 7.
- Rolled out the New Start Initiative nationally, helping prisoners near release obtain a valid ID, debit card and online banking access, making it easier for them to reintegrate into the community.

*Annual targets are to be achieved by 30 September 2025. Other targets are to be achieved during the period 1 October 2020 to 30 September 2025, unless stated otherwise.

[1] Environmental Year runs 1 July to 30 June. CO_2e results include all Westpac business units based in New Zealand. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity. Scope 3 Mandatory covers the indirect emissions relevant to the day-to-day running of the business. These are sector specific, as defined by the Toitū net carbonzero programme.

[2] This is a cumulative target which comprises (a) $5b for lending to climate change solutions, $700m lending for healthy, affordable and social housing, and additional environmental, social, and sustainability-linked lending (building on FY20 exposure), and (b) facilitation of sustainable bonds (for customers and Westpac New Zealand Limited Treasury) by Westpac Banking Corporation (acting through its New Zealand Branch). All lending will meet the eligibility criteria set out in international sustainable finance principles. Our targets are a total commitment, measuring the cumulative flow of capital to support New Zealand becoming a net-zero emissions economy.

[3] Heightened risk is defined as annual exceedance probability of 10% or more, as well as general exposure to coastal erosion under NIWA's Coastal Sensitivity Index.

[4] As the borrowing entity's main activity is fossil fuel extractions, this lending falls under this classification.

[5] Green buildings are buildings which reduce environmental impacts and use resources efficiently through their design, construction or operation.

[6] Shows the change in total committed exposure at 31 March 2022, compared to 30 September 2021.

[7] Progress on this target has been delayed due to challenges in collecting sufficient employee data, with which to set appropriate targets in-line with best practice. Work to collect data is ongoing, with targets to be set within the next 12-24 months.

[8] Community investment is made up of: monetary contributions (charitable gifts, matched giving and community partnerships), time contributions, in-kind gifts and donations, and management costs. It excludes commercial sponsorships.

[9] This is a cumulative target (building on FY20 exposure) and includes Kiwibuild and shared equity (a form of shared home ownership, often between an individual and an organisation), as well as Westpac's Warm Up lending.

Directors' statement

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

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

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that over the six months ended 31 March 2022, except as noted on pages 28 and 51:

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

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

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

This Disclosure Statement has been signed by all the Directors:

Philippa Greenwood

Catherine McGrath

Rob Hamilton

David Havercroft

Sam Knowles

Jonathan Mason

Christine Parker

Mary Quin

Michael Rowland

Dated this 19th day of May 2022

Income statement for the six months ended 31 March 2022

$ millions	Note	THE BANKING GROUP Six Months Ended 31 Mar 22 Unaudited	Six Months Ended 31 Mar 21 Unaudited
Interest income:			
Calculated using the effective interest rate method	2	**1,600**	1,551
Other	2	**13**	5
Total interest income	2	**1,613**	1,556
Interest expense	2	**(526)**	(532)
Net interest income		**1,087**	1,024
Net fees and commissions income	3	**121**	121
Other income	3	**8**	6
Net operating income before operating expenses and impairment charges		**1,216**	1,151
Operating expenses	4	**(543)**	(527)
Impairment (charges)/benefits	5	**15**	99
Profit before income tax		**688**	723
Income tax expense		**(191)**	(200)
Net profit attributable to the owner of the Bank		**497**	523

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

Statement of comprehensive income for the six months ended 31 March 2022

$ millions	THE BANKING GROUP Six Months Ended 31 Mar 22 Unaudited	Six Months Ended 31 Mar 21 Unaudited
Net profit attributable to the owner of the Bank	**497**	523
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Gains/(losses) recognised in equity on:		
Investment securities	**(182)**	(103)
Cash flow hedging instruments	**276**	78
Transferred to income statement:		
Cash flow hedging instruments	**38**	39
Income tax on items taken to or transferred from equity:		
Investment securities	**51**	29
Cash flow hedging instruments	**(88)**	(33)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit obligation recognised in equity (net of tax)	**7**	13
Other comprehensive income for the period (net of tax)	**102**	23
Total comprehensive income attributable to the owner of the Bank	**599**	546

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

Balance sheet as at 31 March 2022

		THE BANKING GROUP	
		31 Mar 22	30 Sep 21
$ millions	Note	**Unaudited**	Audited
Assets			
Cash and balances with central bank		**11,478**	8,472
Collateral paid		**75**	185
Trading securities and financial assets measured at FVIS		**1,980**	2,280
Derivative financial instruments		**105**	221
Investment securities		**4,986**	4,680
Loans	6	**94,029**	92,632
Other financial assets		**202**	712
Current tax assets		**31**	-
Due from related entities		**3,247**	1,834
Property and equipment		**416**	410
Deferred tax assets		**104**	216
Intangible assets		**713**	673
Other assets		**56**	65
Total assets		**117,422**	112,380
Liabilities			
Collateral received		**9**	188
Deposits and other borrowings	8	**81,364**	79,367
Other financial liabilities		**2,346**	2,900
Derivative financial instruments		**160**	178
Debt issues	9	**19,508**	16,304
Current tax liabilities		**-**	43
Provisions		**217**	241
Other liabilities		**379**	381
Total liabilities excluding related entities liabilities		**103,983**	99,602
Due to related entities		**2,331**	1,836
Loan capital		**2,611**	2,579
Total related entities liabilities		**4,942**	4,415
Total liabilities		**108,925**	104,017
Net assets		**8,497**	8,363
Shareholder's equity			
Share capital		**7,300**	7,300
Reserves		**80**	(15)
Retained profits		**1,117**	1,078
Total shareholder's equity		**8,497**	8,363

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 2022

	THE BANKING GROUP				
		Reserves			
$ millions	Share Capital	Investment Securities Reserve	Cash Flow Hedge Reserve	Retained Profits	Total Shareholder's Equity
As at 30 September 2020 (Audited)	7,300	57	(82)	415	7,690
Impact from a change in accounting policy	-	-	-	(6)	(6)
Restated opening balance	7,300	57	(82)	409	7,684
Six months ended 31 March 2021 (Unaudited)					
Net profit attributable to the owner of the Bank	-	-	-	523	523
Net gains/(losses) from changes in fair value	-	(103)	78	-	(25)
Income tax effect	-	29	(22)	-	7
Transferred to income statement	-	-	39	-	39
Income tax effect	-	-	(11)	-	(11)
Remeasurement of defined benefit obligations	-	-	-	18	18
Income tax effect	-	-	-	(5)	(5)
Total comprehensive income for the six months ended 31 March 2021	-	(74)	84	536	546
As at 31 March 2021 (Unaudited)	7,300	(17)	2	945	8,230
As at 30 September 2021 (Audited)	**7,300**	**(60)**	**45**	**1,078**	**8,363**
Six months ended 31 March 2022 (Unaudited)					
Net profit attributable to the owner of the Bank	**-**	**-**	**-**	**497**	**497**
Net gains/(losses) from changes in fair value	**-**	**(182)**	**276**	**-**	**94**
Income tax effect	**-**	**51**	**(77)**	**-**	**(26)**
Transferred to income statement	**-**	**-**	**38**	**-**	**38**
Income tax effect	**-**	**-**	**(11)**	**-**	**(11)**
Remeasurement of defined benefit obligations	**-**	**-**	**-**	**9**	**9**
Income tax effect	**-**	**-**	**-**	**(2)**	**(2)**
Total comprehensive income for the six months ended 31 March 2022	**-**	**(131)**	**226**	**504**	**599**
Transactions with owner:					
Dividends paid on ordinary shares (refer to Note 10)	**-**	**-**	**-**	**(465)**	**(465)**
As at 31 March 2022 (Unaudited)	**7,300**	**(191)**	**271**	**1,117**	**8,497**

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 2022

$ millions	THE BANKING GROUP Six Months Ended 31 Mar 22 Unaudited	Six Months Ended 31 Mar 21 Unaudited
Cash flows from operating activities		
Interest received[1]	**1,627**	1,609
Interest paid	**(470)**	(634)
Non-interest income received	**111**	102
Operating expenses paid	**(485)**	(434)
Income tax paid	**(192)**	(218)
Cash flows from operating activities before changes in operating assets and liabilities	**591**	425
Net (increase)/decrease in:		
Collateral paid	**110**	(185)
Trading securities and financial assets measured at FVIS	**297**	202
Loans[1]	**(1,563)**	(2,623)
Other financial assets	**(4)**	(8)
Due from related entities	**(997)**	(448)
Other assets	**1**	5
Net increase/(decrease) in:		
Collateral received	**(179)**	(203)
Deposits and other borrowings	**1,997**	3,375
Other financial liabilities	**(566)**	1,096
Due to related entities	**(256)**	(313)
Other liabilities	**1**	45
Net movement in external and related entity derivative financial instruments[2]	**(29)**	(229)
Net cash provided by/(used in) operating activities	**(597)**	1,139
Cash flows from investing activities		
Purchase of investment securities	**(707)**	(271)
Proceeds from investment securities	**150**	175
Purchase of capitalised computer software	**(66)**	(40)
Purchase of property and equipment	**(10)**	(9)
Purchase of associates	**-**	(2)
Proceeds from other investing activities	**-**	7
Net cash provided by/(used in) investing activities	**(633)**	(140)
Cash flows from financing activities		
Net movement in due to related entities	**47**	112
Proceeds from debt issues[2]	**7,970**	3,078
Repayments of debt issues[2]	**(3,825)**	(2,368)
Payments for the principal portion of lease liabilities	**(32)**	(23)
Dividends paid to ordinary shareholder	**(465)**	-
Net cash provided by/(used in) financing activities	**3,695**	799
Net increase/(decrease) in cash and cash equivalents	**2,465**	1,798
Cash and cash equivalents at beginning of the period	**9,013**	4,360
Cash and cash equivalents at end of the period	**11,478**	6,158
Cash and cash equivalents at end of the period comprise:		
Cash on hand	**240**	271
Balances with central bank	**11,238**	5,855
Interbank lending classified as cash and cash equivalents	**-**	32
Cash and cash equivalents at end of the period	**11,478**	6,158

[1] Comparatives have been restated to correctly reflect the classification of amortisation of deferred acquisition costs as a non-cash movement within interest income and loans. The restatement resulted in a $33 million increase in loans and a corresponding increase in interest income received.

[2] Comparatives have been restated to correctly reflect the classification of cash and non-cash movements relating to certain matured deals and to reclassify the movement in related entities holding of debt issues. The restatement resulted in a $160 million decrease in net movement in external and related entity derivative financial instruments, a $69 million decrease in proceeds from debt issues and a $229 million decrease in repayments of debt issues.

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

Notes to the financial statements

Note 1 Financial statements preparation

These financial statements have been prepared 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*. These financial statements are also compliant with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board. These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements should be read in conjunction with the financial statements included in the Disclosure Statement for the year ended 30 September 2021.

Accounting policies

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 financial instruments) measured at FVIS or FVOCI. The going concern concept has been applied.

The financial statements were authorised for issue by the Board of Directors on 19 May 2022.

All amounts in this Disclosure Statement are presented in New Zealand dollars and have been rounded to the nearest million dollars unless otherwise stated.

Comparative information has been revised where appropriate to enhance comparability. Where there has been a material restatement of comparative information the nature of, and the reason for, the restatement is disclosed in these financial statements.

The accounting policies adopted in the preparation of these financial statements are consistent with the financial statements for the year ended 30 September 2021.

Critical accounting assumptions and estimates

In preparing these financial statements, the application of the Banking Group's accounting policies require judgement, assumptions and estimates.

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 2021. Details on specific judgements in relation to the calculation of provision for ECL including overlays are included in Note 7.

Amendments to Accounting Standards effective this period

No new accounting standards have been adopted by the Banking Group for the half year ended 31 March 2022. There have been no amendments to existing accounting standards that have a material impact on the Banking Group.

Notes to the financial statements

Note 2 Net interest income

$ millions	THE BANKING GROUP Six Months Ended 31 Mar 22 Unaudited	THE BANKING GROUP Six Months Ended 31 Mar 21 Unaudited
Interest income		
Calculated using the effective interest rate method		
Cash and balances with central bank	**34**	8
Investment securities	**39**	42
Loans	**1,527**	1,501
Total interest income calculated using the effective interest rate method	**1,600**	1,551
Other		
Trading securities and financial assets measured at FVIS	**12**	5
Due from related entities	**1**	-
Total other	**13**	5
Total interest income	**1,613**	1,556
Interest expense		
Calculated using the effective interest rate method		
Deposits and other borrowings	**240**	243
Debt issues	**73**	80
Due to related entities	**9**	8
Loan capital	**52**	48
Other interest expense	**12**	4
Total interest expense calculated using the effective interest rate method	**386**	383
Other		
Deposits and other borrowings	**17**	10
Debt issues	**6**	3
Due to related entities	**2**	1
Other interest expense[1]	**115**	135
Total other	**140**	149
Total interest expense	**526**	532
Net interest income	**1,087**	1,024

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

Note 3 Non-interest income

	THE BANKING GROUP	
$ millions	**Six Months Ended 31 Mar 22 Unaudited**	Six Months Ended 31 Mar 21 Unaudited
Net fees and commissions income		
Facility fees	**22**	30
Transaction fees and commissions	**124**	111
Other non-risk fee income	**7**	10
Fees and commissions income	**153**	151
Credit card loyalty programmes	**(18)**	(18)
Transaction fees and commissions related expenses	**(14)**	(12)
Fees and commissions expenses	**(32)**	(30)
Net fees and commissions income	**121**	121
Other income		
Net ineffectiveness on qualifying hedges	**8**	(4)
Other non-interest income	**-**	10
Total other income	**8**	6
Total non-interest income	**129**	127

Non-interest income in scope of NZ IFRS 15 *Revenue from Contracts with Customers* can be further disaggregated into the following operating segments and is consistent with the segment descriptions detailed in Note 13:

	THE BANKING GROUP				
$ millions	Consumer Banking and Wealth	Institutional and Business Banking	Investments and Insurance	Reconciling Items	Total
Six months ended 31 March 2022 (Unaudited)					
Fees and commissions income					
Facility fees	**13**	**8**	**-**	**1**	**22**
Transaction fees and commissions	**84**	**38**	**-**	**2**	**124**
Other non-risk fee income	**3**	**6**	**-**	**(2)**	**7**
Fees and commissions income	**100**	**52**	**-**	**1**	**153**
Fees and commissions expenses	**(31)**	**-**	**-**	**(1)**	**(32)**
Net fees and commissions income	**69**	**52**	**-**	**-**	**121**
Six months ended 31 March 2021 (Unaudited)					
Fees and commissions income					
Facility fees	19	8	-	3	30
Transaction fees and commissions	81	34	-	(4)	111
Other non-risk fee income	3	8	-	(1)	10
Fees and commissions income	103	50	-	(2)	151
Fees and commissions expenses	(29)	-	-	(1)	(30)
Net fees and commissions income	74	50	-	(3)	121

Notes to the financial statements

Note 4 Operating expenses

	THE BANKING GROUP	
$ millions	Six months Ended 31 Mar 22 Unaudited	Six months Ended 31 Mar 21 Unaudited
Staff expenses	**320**	259
Lease expense	**9**	13
Depreciation	**46**	50
Technology services and telecommunications	**60**	75
Purchased services	**38**	42
Software amortisation	**21**	29
Related entities - management fees	**3**	4
Other	**46**	55
Total operating expenses	**543**	527

Note 5 Impairment charges/(benefits)

	THE BANKING GROUP	
$ millions	Six Months Ended 31 Mar 22 Unaudited	Six Months Ended 31 Mar 21 Unaudited
Provisions raised/(released):		
Performing	**(19)**	(91)
Non-performing	**(1)**	(14)
Bad debts written-off/(recovered) directly to the income statement	**5**	6
Impairment charges/(benefits)	**(15)**	(99)
of which relates to:		
Loans and credit commitments	**(15)**	(99)
Impairment charges/(benefits)	**(15)**	(99)

Impairment charges/(benefits) on all other financial assets are not material to the Banking Group. Refer to Note 7 for details on the impact of COVID-19 on the provision for ECL.

Notes to the financial statements

Note 6 Loans

$ millions	THE BANKING GROUP 31 Mar 22 Unaudited	30 Sep 21 Audited
Residential mortgages	**62,209**	60,854
Other retail	**2,855**	2,976
Corporate	**29,215**	29,144
Other	**155**	129
Total gross loans	**94,434**	93,103
Provision for ECL on loans (refer to Note 7)	**(405)**	(471)
Total net loans	**94,029**	92,632

As at 31 March 2022, $5,907 million of residential mortgages, accrued interest (representing accrued interest on the outstanding residential mortgages) and cash (representing collections of principal and interest from the underlying residential mortgages) were used by the Banking Group to secure the obligations of WSNZL under the CB Programme (30 September 2021: $7,520 million). In addition, $2,513 million of residential mortgages, accrued interest and cash has been pledged as collateral as part of the repurchase agreements with the Reserve Bank, under the Funding for Lending Programme and Term Lending Facility (30 September 2021: $2,513 million). These pledged assets were not derecognised from the Banking Group's balance sheet in accordance with the accounting policies outlined in Note 1 to the financial statements included in the Disclosure Statement for the year ended 30 September 2021. As at 31 March 2022, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $3,990 million (30 September 2021: $4,347 million) and the cash value of the repurchase agreements with the Reserve Bank was $2,096 million (30 September 2021: $2,096 million).

Note 7 Provision for expected credit losses

Loans and credit commitments

Movements in components of loss allowance

The reconciliation of the provision for ECL for loans and credit commitments has been determined by an aggregation of monthly movements over the period. The key line items in the reconciliation represent the following:

- "Transfers between Stages" lines represent transfers between Stage 1, Stage 2 and Stage 3 prior to remeasurement of the provision for ECL.
- "New financial assets originated" line represents new accounts originated during the period.
- "Financial assets derecognised during the period" line represents loans derecognised due to final repayments during the period.
- "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 in portfolio overlays, changes due to forward-looking economic scenarios and partial repayments and additional draw-downs on existing facilities over the period.
- Amounts written off represent a reduction in the provision for ECL as a result of derecognition of exposures where there is no reasonable expectation of full recovery.

Notes to the financial statements

Note 7 Provision for expected credit losses (continued)

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

	THE BANKING GROUP				
	31 Mar 22 Unaudited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Provision for ECL on loans and credit commitments as at 30 September 2021	102	279	75	69	525
Due to changes in credit quality:					
Transfers to Stage 1	61	(54)	(7)	-	-
Transfers to Stage 2	(3)	26	(22)	(1)	-
Transfers to Stage 3 CAP	-	(16)	17	(1)	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	(5)	(5)
New financial assets originated	8	-	-	-	8
Financial assets derecognised during the period	(5)	(14)	(8)	-	(27)
Changes in CAP due to amounts written off	-	-	(12)	-	(12)
Other charges/(credits) to the income statement	(68)	46	34	4	16
Total charges/(credits) to the income statement for ECL	(7)	(12)	2	(3)	(20)
Amounts written off from IAP	-	-	-	(45)	(45)
Total provision for ECL on loans and credit commitments as at 31 March 2022	95	267	77	21	460
Presented as:					
Provision for ECL on loans (refer to Note 6)	78	230	76	21	405
Provision for ECL on credit commitments[1]	17	37	1	-	55
Total provision for ECL on loans and credit commitments as at 31 March 2022	95	267	77	21	460

[1] Includes provision for ECL on related entity credit commitments of $3 million classified as Due to Related Entities in the Balance Sheet.

Note 7 Provision for expected credit losses (continued)

	THE BANKING GROUP				
	30 Sep 21 Audited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Provision for ECL on loans and credit commitments as at 30 September 2020	116	360	107	74	657
Due to changes in credit quality:					
Transfers to Stage 1	133	(113)	(20)	-	-
Transfers to Stage 2	(12)	88	(76)	-	-
Transfers to Stage 3 CAP	-	(31)	33	(2)	-
Transfers to Stage 3 IAP	-	(1)	(1)	2	-
Reversals of previously recognised impairment charges	-	-	-	(33)	(33)
New financial assets originated	16	-	-	-	16
Financial assets derecognised during the year	(12)	(42)	(23)	-	(77)
Changes in CAP due to amounts written off	-	-	(34)	-	(34)
Other charges/(credits) to the income statement	(139)	18	89	64	32
Total charges/(credits) to the income statement for ECL	(14)	(81)	(32)	31	(96)
Amounts written off from IAP	-	-	-	(36)	(36)
Total provision for ECL on loans and credit commitments as at 30 September 2021	102	279	75	69	525
Presented as:					
Provision for ECL on loans (refer to Note 6)	84	244	74	69	471
Provision for ECL on credit commitments	18	35	1	-	54
Total provision for ECL on loans and credit commitments as at 30 September 2021	102	279	75	69	525

Note 7 Provision for expected credit losses (continued)

The following table provides further details of the provision for ECL by types of exposure and stage:

	THE BANKING GROUP									
	31 Mar 22 Unaudited					30 Sep 21 Audited				
	Performing		Non-performing			Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3		Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total	CAP	CAP	CAP	IAP	Total
Provision for ECL on loans and credit commitments										
Residential mortgages	**42**	**53**	**44**	**9**	**148**	46	70	46	8	170
Other retail	**22**	**63**	**19**	**-**	**104**	21	62	23	1	107
Corporate	**31**	**151**	**14**	**12**	**208**	35	147	6	60	248
Total provision for ECL on loans and credit commitments	**95**	**267**	**77**	**21**	**460**	102	279	75	69	525

Impact of overlays on the provision for ECL

The following table attributes the provision for ECL between modelled ECL and portfolio overlays.

Portfolio overlays are used to capture risk of increased uncertainty relating to forward-looking economic conditions, or areas of potential risk and uncertainty in the portfolio, that are not captured in the underlying modelled ECL.

	THE BANKING GROUP	
$ millions	31 Mar 22 Unaudited	30 Sep 21 Audited
Modelled provision for ECL	**376**	448
Portfolio Overlays	**84**	77
Total provision for ECL	**460**	525

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

Notes to the financial statements

Note 7 Provision for expected credit losses (continued)

Modelled provision for ECL

The modelled provision for ECL is a probability weighted estimate based on three scenarios which together represent the Banking Group's view of the forward-looking distribution of potential loss outcomes. The changes in provisions as a result of changes in modelled ECL are reflected through the "Other charges/(credits) to the income statement" line in the "Movements in components of loss allowance" table. Portfolio overlays are used to capture potential risk and uncertainty in the portfolio, that are not captured in the underlying modelled ECL.

The base case scenario uses Westpac Economics' forecasts as at 31 March 2022. Those forecasts allow for a recovery in activity as restrictions related to COVID-19 are eased. The forecasts also allow for a rise in the Official Cash Rate and related easing in demand over time, including in the housing market.

The Banking Group's forecasts assume the following:

Key macroeconomic assumptions for base case scenario	31 Mar 22 Unaudited	30 Sep 21 Audited
Annual GDP	Forecast growth of 5.5% over the next 12 months.	Forecasted growth of 10.9% over the next 12 months.
Residential property prices	Forecast growth to fall to 0.4% by the end of financial year 2022 and contraction of 5.2% by the end of financial year 2023.	Forecasted growth to peak at 26% during the financial year and then fall to 1.6% at September 2022.
Cash rate	Increase of 150 bps expected over the next 12 months.	Increase of 100 bps expected over the next 12 months.
Unemployment rate	Forecast to further decrease to 3% during the financial year 2022.	Forecast to peak at 4.2% in December 2021 then ease to 3.5% by September 2022.

The downside scenario is a more severe scenario with ECL higher than the base case scenario. The more severe loss outcome for the downside is generated under a recession scenario in which the combination of negative GDP growth, declines in residential property prices and an increase in the unemployment rate simultaneously impact ECL across all portfolios from the reporting date. The assumptions in this scenario and relativities to the base case scenario will be monitored having regard to the emerging economic conditions and updated where necessary. The upside scenario represents a modest improvement to the base case.

The decline in provision for loans and credit commitments in the period ending 31 March 2022 was primarily due to a more positive forward-looking economic forecast, improved portfolio performance including a decline in some higher risk exposures and a partial write-off of a single named exposure.

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

	THE BANKING GROUP	
$ millions	**31 Mar 22 Unaudited**	30 Sep 21 Audited
Reported probability-weighted ECL	**460**	525
100% base case ECL	**346**	412
100% downside ECL	**615**	700

Notes to the financial statements

Note 7 Provision for expected credit losses (continued)

If 1% of the Stage 1 gross exposure from loans and credit commitments (calculated on a 12 month ECL) was reflected in Stage 2 (calculated on a lifetime ECL) the provision for ECL would increase by $58 million (30 September 2021: $57 million) based on applying the average provision coverage ratios by stage to the movement in the gross exposure by stage.

The following table indicates the weightings applied by the Banking Group as at 31 March 2022 and 30 September 2021.

	THE BANKING GROUP	
	31 Mar 22	30 Sep 21
Economic scenario weightings (%)	**Unaudited**	Audited
Upside	**5**	5
Base	**50**	55
Downside	**45**	40

The increase in weighting to the downside reflects an elevated level of uncertainty in potential credit losses driven by new geopolitical and economic headwinds, supply chain disruptions, capacity constraints and rising inflation.

Portfolio Overlays

Portfolio overlays are used to address areas of risk, including significant uncertainty that are not captured in the underlying modelled ECL. Determination of portfolio overlays requires expert judgement and is thoroughly documented and subject to comprehensive internal governance and oversight. Overlays are reassessed and if the risk is judged to have dissipated or is subsequently captured in the underlying modelled ECL the overlay will be released or remeasured.

The Banking Group's total overlays at 31 March 2022 were $84 million (30 September 2021: $77 million), of which $81 million (30 September 2021: $74 million) relates to COVID-19 impacts; and $3 million (30 September 2021: $3 million) relates to overlays for other risks.

COVID-19 overlays

Business lending (including institutional)

An overlay was retained at 31 March 2022 to reflect the risk that some businesses may have been protected from default or stress because of COVID-19 related support packages and government stimulus and the continued likelihood that those losses have still been suppressed. This overlay was included in stage 1 and stage 2. As at 31 March 2022, the COVID-19 overlay for business lending (including institutional) is $28 million for the Banking Group (30 September 2021: $28 million).

Retail lending

An overlay was retained at 31 March 2022 to reflect the ongoing risk associated with customers who received retail deferral packages. It has been resized at 31 March 2022 due to the uncertainty around the impact of recent COVID-19 restrictions and unemployment risk, increasing the likelihood for temporarily suppressing losses. In addition, a further overlay was retained at 31 March 2022 to reflect the flow-on impact to the retail portfolio from the delayed business losses and unemployment risk. The quantum of this overlay remains unchanged from 30 September 2021. These two retail overlays are included in stage 1 and stage 2. As at 31 March 2022, the COVID-19 overlays for retail lending are $53 million for the Banking Group (30 September 2021: $46 million).

Notes to the financial statements

Note 7 Provision for expected credit losses (continued)

Impact of changes in credit exposures on the provision for ECL

- Stage 1 credit exposures had a net increase of $2.4 billion (30 September 2021: increased by $3.8 billion) for the Banking Group, primarily driven by increases in residential mortgages and corporate portfolios, due to new lending in this financial year and movement in exposures from stage 2 to stage 1 from improved portfolio performance. The increase is partially offset by derecognitions and repayments. Stage 1 ECL has decreased mainly due to a more positive macro-economic outlook as at 31 March 2022 compared to 30 September 2021.
- Stage 2 credit exposures decreased by $1.1 billion (30 September 2021: increased by $810 million) for the Banking Group, mainly driven by an improved portfolio performance and derecognitions. Stage 2 ECL has decreased mainly due to improved portfolio performance and a more positive macro-economic outlook as at 31 March 2022 compared to 30 September 2021.
- Stage 3 credit exposures had a net decrease of $7 million (30 September 2021: decreased by $92 million) for the Banking Group driven by reductions in 90 days past due exposures in residential mortgages and other retail, and write-offs from the corporate portfolio. This decrease is partially offset by an increase in high-risk exposures from the corporate portfolio. Stage 3 ECL has decreased in line with the decrease in stage 3 exposures.

Refer to Note iii. Asset quality of the Registered bank disclosures for further details.

Note 8 Deposits and other borrowings

	THE BANKING GROUP	
$ millions	**31 Mar 22 Unaudited**	30 Sep 21 Audited
Certificates of deposit	**2,994**	3,450
Non-interest bearing, repayable at call	**15,822**	14,737
Other interest bearing:		
At call	**32,479**	32,849
Term	**30,069**	28,331
Total deposits and other borrowings	**81,364**	79,367

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 11 for further details.

Note 9 Debt issues

	THE BANKING GROUP	
$ millions	**31 Mar 22 Unaudited**	30 Sep 21 Audited
Short-term debt		
Commercial paper	**4,554**	2,979
Total short-term debt	**4,554**	2,979
Long-term debt		
Non-domestic medium-term notes	**7,148**	5,570
Covered bonds	**3,983**	4,347
Domestic medium-term notes	**3,823**	3,408
Total long-term debt	**14,954**	13,325
Total debt issues	**19,508**	16,304

Debt issues have been recognised under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 11 for further details.

Note 10 Related entities

Controlled entities of the Bank are set out in Note 22 to the financial statements included in the Disclosure Statement for the year ended 30 September 2021.

On 21 February 2022, the Bank declared and paid a dividend of $465 million to its immediate parent company, Westpac New Zealand Group Limited.

On 28 February 2022, the sale of Westpac Life (renamed Fidelity Insurance Limited on 28 February 2022) to Fidelity Life was completed, at which point Westpac Life ceased to be a subsidiary of the Ultimate Parent Bank and a related entity of the Banking Group.

Note 11 Fair values of financial assets and financial liabilities

Fair Valuation Control Framework

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

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

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

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

Fair value hierarchy

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

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

Valuation techniques

The Banking Group applies market accepted valuation techniques in determining the fair valuation of over-the-counter derivatives. This includes credit valuation 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
Debt instruments	Trading securities and financial assets measured at FVIS Investment securities	New Zealand Government bonds	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.

Level 2 instruments

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

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

Notes to the financial statements

Note 11 Fair values of financial assets and financial liabilities (continued)

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

Level 3 instruments

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

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

As at 31 March 2022, the Banking Group has no financial instruments valued under this category (30 September 2021: nil).

Notes to the financial statements

Note 11 Fair values of financial assets and financial liabilities (continued)

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

	THE BANKING GROUP							
	31 Mar 22 Unaudited				30 Sep 21 Audited			
$ millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets measured at FVIS	**75**	**1,905**	**-**	**1,980**	636	1,644	-	2,280
Derivative financial instruments	**-**	**105**	**-**	**105**	-	221	-	221
Investment securities	**2,041**	**2,945**	**-**	**4,986**	2,152	2,528	-	4,680
Due from related entities	**-**	**1,266**	**-**	**1,266**	-	899	-	899
Total financial assets measured at fair value	**2,116**	**6,221**	**-**	**8,337**	2,788	5,292	-	8,080
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings[1]	**-**	**2,994**	**-**	**2,994**	-	3,450	-	3,450
Other financial liabilities[1]	**-**	**20**	**-**	**20**	-	580	-	580
Derivative financial instruments	**-**	**160**	**-**	**160**	-	178	-	178
Debt issues	**-**	**4,554**	**-**	**4,554**	-	2,979	-	2,979
Due to related entities	**-**	**1,542**	**-**	**1,542**	-	1,080	-	1,080
Total financial liabilities measured at fair value	**-**	**9,270**	**-**	**9,270**	-	8,267	-	8,267

[1] There are no differences between the fair values disclosed and the contractual outstanding amount payable at maturity for these financial liabilities measured at fair value on a recurring basis.

Analysis of movements between fair value hierarchy levels

During the period, there were no material transfers between levels of the fair value hierarchy (30 September 2021: no material transfers between levels).

Financial instruments not measured at fair value

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

	THE BANKING GROUP			
	31 Mar 22 Unaudited		30 Sep 21 Audited	
$ millions	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets not measured at fair value				
Cash and balances with central bank	**11,478**	**11,478**	8,472	8,472
Collateral paid	**75**	**75**	185	185
Loans	**94,029**	**93,075**	92,632	92,485
Other financial assets	**202**	**202**	712	712
Due from related entities	**1,981**	**1,981**	935	935
Total financial assets not measured at fair value	**107,765**	**106,811**	102,936	102,789
Financial liabilities not measured at fair value				
Collateral received	**9**	**9**	188	188
Deposits and other borrowings	**78,370**	**78,376**	75,917	75,948
Other financial liabilities	**2,326**	**2,326**	2,320	2,320
Debt issues[1]	**14,954**	**14,806**	13,325	13,423
Due to related entities	**789**	**789**	756	756
Loan capital[1]	**2,611**	**2,637**	2,579	2,744
Total financial liabilities not measured at fair value	**99,059**	**98,943**	95,085	95,379

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

A detailed description of how fair value is derived for financial instruments not measured at fair value is disclosed in Note 24 of the financial statements included in the Disclosure Statement for the year ended 30 September 2021.

Notes to the financial statements

Note 12 Credit related commitments, contingent assets and contingent liabilities

	THE BANKING GROUP	
$ millions	31 Mar 22 Unaudited	30 Sep 21 Audited
Letters of credit and guarantees	**827**	835
Commitments to extend credit	**27,972**	28,136
Total undrawn credit commitments	**28,799**	28,971

Contingent assets

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

Contingent liabilities

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

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

Note 13 Segment reporting

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

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

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

On 28 February 2022, the sale of Westpac Life to Fidelity Life was completed. As such, from 1 March 2022, the Investments and Insurance segment no longer provides insurance services.

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

- Consumer Banking and Wealth provides financial services predominantly for individuals;
- Institutional and Business Banking provides a broad range of financial services for commercial, corporate, property finance, agricultural, institutional and government customers; and
- Investments and Insurance provided funds management and insurance services until 28 February 2022. From 1 March 2022, it only provides funds management services.

Reconciling items primarily represent:

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

Notes to the financial statements

Note 13 Segment reporting (continued)

	THE BANKING GROUP				
$ millions	**Consumer Banking and Wealth**	**Institutional and Business Banking**	**Investments and Insurance**	**Reconciling Items**	**Total**
Six months ended 31 March 2022 (Unaudited)					
Net interest income	**559**	**537**	**-**	**(9)**	**1,087**
Non-interest income	**69**	**52**	**43**	**(35)**	**129**
Net operating income before operating expenses and impairment charges	**628**	**589**	**43**	**(44)**	**1,216**
Operating expenses	**(317)**	**(204)**	**(27)**	**5**	**(543)**
Impairment (charges)/benefits	**5**	**5**	**-**	**5**	**15**
Profit before income tax	**316**	**390**	**16**	**(34)**	**688**
Six months ended 31 March 2021 (Unaudited)					
Net interest income	559	485	1	(21)	1,024
Non-interest income	74	50	52	(49)	127
Net operating income before operating expenses and impairment charges	633	535	53	(70)	1,151
Operating expenses	(333)	(179)	(17)	2	(527)
Impairment (charges)/benefits	40	59	-	-	99
Profit before income tax	340	415	36	(68)	723
As at 31 March 2022 (Unaudited)					
Total gross loans	**56,044**	**38,635**	**-**	**(245)**	**94,434**
Total deposits and other borrowings	**42,651**	**35,717**	**-**	**2,996**	**81,364**
As at 30 September 2021 (Audited)					
Total gross loans	54,374	38,809	-	(80)	93,103
Total deposits and other borrowings	40,371	35,546	-	3,450	79,367

Registered bank disclosures

Unaudited

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

i. General information

Guarantee arrangements

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

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

Changes in the Bank's Board of Directors

There have been changes in the composition of the Board of Directors of the Bank since 30 September 2021. Jan Dawson, an independent Non-executive Director and Chair of the Board of the Bank, retired from the Board on 1 October 2021. Pip Greenwood, an existing independent Non-executive Director was appointed Chair of the Board of the Bank effective 1 October 2021. Simon Power, an Executive Director of the Bank, retired from the Board on 15 November 2021. Catherine McGrath was appointed as an Executive Director of the Bank on 15 November 2021. Mary Quin, an independent Non-executive Director, will retire from the Board on 20 May 2022.

Auditor

PricewaterhouseCoopers

PwC Tower, Level 27

15 Customs Street West

Auckland, New Zealand

Pending proceedings or arbitration

There are no pending legal proceedings or arbitration concerning any member of the Banking Group that are expected to have a material adverse effect on the Bank or the Banking Group.

Credit ratings

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

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

Registered bank disclosures

Unaudited

i. General information (continued)

Other material matters

Reports required under section 95 of the RBNZ Act

On 23 March 2021, the Reserve Bank issued two notices to the Bank under section 95 of the RBNZ Act requiring the Bank to supply two external reviews to the Reserve Bank (the 'Risk Governance Review' and the 'Liquidity Review').

The Risk Governance Review related to the effectiveness of the Bank's risk governance, with a focus on the role played by the Bank Board. This review was undertaken by Oliver Wyman Limited and completed in November 2021. The review identified deficiencies in the Bank's risk governance practices and operations which impacted the Bank Board's effectiveness in governing risk. These deficiencies are likely to have contributed to issues of non-compliance with some of the Bank's Conditions of Registration, and technology resiliency issues. The Bank has a programme of work underway to address the issues raised, which is being overseen by the Bank's Board. The Bank has engaged Oliver Wyman Limited to provide independent assurance that the Bank's remediation has been delivered to an appropriate standard.

The Liquidity Review related to the effectiveness of the Bank's actions to improve liquidity risk management and the associated risk culture. This followed previously identified breaches of the Reserve Bank's Liquidity Policy (BS13) and non-compliances with Condition of Registration 14 identified through the Reserve Bank's liquidity thematic review (which the Reserve Bank subsequently concluded constituted non-compliance with condition of registration 14 in a material respect, when considered collectively). This review was undertaken by Deloitte Touche Tohmatsu (Deloitte) and completed in May 2022. The review: found that the Bank had improved its liquidity control environment; did not identify any material control gaps or issues; and made some recommendations for improvement, which will be implemented as part of the Bank's continuous improvement activity. The review also found that the Bank had made improvements to its associated risk culture.

From 31 March 2021, the Reserve Bank amended the Bank's conditions of registration, requiring the Bank to discount the value of its liquid assets by approximately 14% which at 31 March 2022 was $3.1 billion. This overlay will apply until the Reserve Bank is satisfied that:

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

Commitments to regulators

Separate to the section 95 reviews, the Bank has also committed to:

- the Reserve Bank and FMA to address its technology issues, and has engaged Deloitte to monitor progress; and
- review the programme delivery plan for compliance with the Reserve Bank's Outsourcing Policy.

While work has been underway to address these areas for some time, more work is required to meet the Bank's expectations and those of the regulators.

Deposit Takers Bill

A Deposit Takers Bill is expected to be introduced to the House of Parliament in 2022 that will create a single regulatory regime for banks and non-bank deposit takers and introduce a depositor compensation scheme to protect up to $100,000 per eligible depositor, per institution, if a payout event is triggered. Consultation on an exposure draft of the legislation closed on 21 February 2022. Initial implementation of the depositor compensation scheme is expected in early 2024.

ii. Additional financial disclosures

Additional information on balance sheet

	THE BANKING GROUP	
$ millions	**31 Mar 22 Unaudited**	30 Sep 21 Audited
Interest earning and discount bearing assets	**115,225**	110,398
Interest and discount bearing liabilities	**91,603**	87,974
Total amounts due from related entities	**3,247**	1,834
Total amounts due to related entities	**4,942**	4,415

ii. Additional financial disclosures (continued)

Financial assets pledged as collateral

The Banking Group is required to provide collateral to other financial institutions, as part of standard terms, to secure liabilities. In addition to assets supporting the CB Programme disclosed in Note 6, the carrying value of these financial assets pledged as collateral is:

	THE BANKING GROUP	
	31 Mar 22	30 Sep 21
$ millions	Unaudited	Audited
Cash	**75**	185
Securities pledged under repurchase agreements:		
Trading securities and financial assets measured at FVIS[1]	**10**	-
Investment securities[2]	**684**	1,496
Residential mortgage-backed securities[3]	**2,513**	2,513
Total amount pledged to secure liabilities (excluding CB Programme)	**3,282**	4,194

[1] As at 31 March 2022, $10 million of trading securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank, which is recorded within due to related entities on the balance sheet (30 September 2021: nil).

[2] As at 31 March 2022, $664 million of investment securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank, which is recorded within due to related entities on the balance sheet (30 September 2021: $916 million) and $20 million of investment securities were pledged to third parties which is recorded within other financial liabilities on the balance sheet (30 September 2021: $580 million).

[3] As at 31 March 2022, the Banking Group has undertaken repurchase agreements with the Reserve Bank, under the Funding for Lending Programme and Term Lending Facility, using residential mortgage-backed securities. For the Funding for Lending Programme, the repurchase cash amount at 31 March 2022 is $2,000 million (30 September 2021: $2,000 million), which is recorded in other financial liabilities on the balance sheet, with underlying securities to the value of $2,398 million provided under the arrangement (30 September 2021: $2,398 million). For the Term Lending Facility, the repurchase cash amount at 31 March 2022 is $96 million (30 September 2021: $96 million), which is recorded within other financial liabilities on the balance sheet, with underlying securities to the value of $115 million provided under the arrangement (30 September 2021: $115 million).

Additional information on concentrations of credit risk

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

	THE BANKING GROUP
$ millions	31 Mar 22
Financial assets	
Cash and balances with central bank	**11,478**
Collateral paid	**75**
Trading securities and financial assets measured at FVIS	**1,980**
Derivative financial instruments	**105**
Investment securities	**4,986**
Loans	**94,029**
Other financial assets	**202**
Due from related entities	**3,247**
Total financial assets	**116,102**
Undrawn credit commitments	
Letters of credit and guarantees	**827**
Commitments to extend credit	**27,972**
Total undrawn credit commitments	**28,799**
Total maximum credit risk exposure	**144,901**

Registered bank disclosures

Unaudited

ii. Additional financial disclosures (continued)

	THE BANKING GROUP
$ millions	**31 Mar 22**
On-balance sheet credit exposures	
Analysis of on-balance sheet credit exposures by geographical areas	
New Zealand	**113,964**
Overseas	**2,543**
Subtotal	**116,507**
Provision for ECL on loans	**(405)**
Total on-balance sheet credit exposures	**116,102**
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**446**
Agriculture	**9,359**
Construction	**540**
Finance and insurance	**5,834**
Forestry and fishing	**493**
Government, administration and defence	**16,076**
Manufacturing	**1,647**
Mining	**278**
Property	**7,560**
Property services and business services	**1,167**
Services	**1,693**
Trade	**1,691**
Transport and storage	**1,321**
Utilities	**1,563**
Retail lending	**63,504**
Subtotal	**113,172**
Provision for ECL	**(405)**
Due from related entities	**3,247**
Other financial assets	**88**
Total on-balance sheet credit exposures	**116,102**
Off-balance sheet credit exposures consists of	
Credit risk-related instruments	**28,799**
Total off-balance sheet credit exposures	**28,799**
Analysis of off-balance sheet credit exposures by geographical areas	
New Zealand	**28,262**
Overseas	**537**
Total off-balance sheet credit exposures	**28,799**
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**102**
Agriculture	**786**
Construction	**551**
Finance and insurance	**1,730**
Forestry and fishing	**191**
Government, administration and defence	**743**
Manufacturing	**1,729**
Mining	**70**
Property	**1,799**
Property services and business services	**786**
Services	**1,290**
Trade	**1,844**
Transport and storage	**822**
Utilities	**1,727**
Retail lending	**14,629**
Total off-balance sheet credit exposures	**28,799**

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

Registered bank disclosures

Unaudited

ii. Additional financial disclosures (continued)

Additional information on concentrations of funding

	THE BANKING GROUP
$ millions	**31 Mar 22**
Funding consists of	
Collateral received	9
Deposits and other borrowings	81,364
Other financial liabilities[1]	2,123
Debt issues[2]	19,508
Due to related entities[3]	1,438
Loan capital	2,611
Total funding	**107,053**
Analysis of funding by geographical area[2]	
New Zealand	86,777
Australia	728
United Kingdom	9,851
United States of America	4,872
China	2,374
Other	2,451
Total funding	**107,053**
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	535
Agriculture	1,972
Construction	2,517
Finance and insurance	38,779
Forestry and fishing	206
Government, administration and defence	3,415
Manufacturing	2,367
Mining	61
Property services and business services	8,297
Services	5,947
Trade	2,170
Transport and storage	526
Utilities	843
Households	33,920
Other[4]	4,060
Subtotal	**105,615**
Due to related entities[3]	1,438
Total funding	**107,053**

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

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

ii. Additional financial disclosures (continued)

Additional information on interest rate sensitivity

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 31 March 2022. The Banking Group uses this contractual repricing information as a base, which is then altered to take account of customer behaviour, to manage its interest rate risk.

	THE BANKING GROUP						
	31 Mar 22						
$ 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 bank	11,238	-	-	-	-	240	11,478
Collateral paid	75	-	-	-	-	-	75
Trading securities and financial assets measured at FVIS	1,827	153	-	-	-	-	1,980
Derivative financial instruments	-	-	-	-	-	105	105
Investment securities	77	86	35	864	3,924	-	4,986
Loans	45,523	7,693	14,042	15,461	11,823	(513)	94,029
Other financial assets	-	-	-	-	-	202	202
Due from related entities	2,404	-	-	-	-	843	3,247
Total financial assets	61,144	7,932	14,077	16,325	15,747	877	116,102
Non-financial assets							1,320
Total assets							117,422
Financial liabilities							
Collateral received	9	-	-	-	-	-	9
Deposits and other borrowings	47,321	8,669	8,128	896	528	15,822	81,364
Other financial liabilities	2,020	96	-	-	-	230	2,346
Derivative financial instruments	-	-	-	-	-	160	160
Debt issues	3,890	1,777	2,168	1,384	10,668	(379)	19,508
Due to related entities	1,438	-	-	-	-	893	2,331
Loan capital	2,611	-	-	-	-	-	2,611
Total financial liabilities	57,289	10,542	10,296	2,280	11,196	16,726	108,329
Non-financial liabilities							596
Total liabilities							108,925
On-balance sheet interest rate repricing gap	3,855	(2,610)	3,781	14,045	4,551		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	14,899	(2,762)	(3,252)	(9,746)	861		
Net interest rate repricing gap	18,754	(5,372)	529	4,299	5,412		

ii. Additional financial disclosures (continued)

Additional information on liquidity risk

Contractual maturity of financial liabilities

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

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

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

	THE BANKING GROUP						
	31 Mar 22						
$ millions	On Demand	Up to 1 Month	Over 1 Month and Up to 3 Months	Over 3 Months and Up to 1 Year	Over 1 and Up to 5 Years	Over 5 Years	Total
Financial liabilities							
Collateral received	-	9	-	-	-	-	9
Deposits and other borrowings	46,423	6,501	10,312	17,017	1,480	-	81,733
Other financial liabilities	27	82	-	96	2,142	-	2,347
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	3	2	2	3	-	10
Held for hedging purposes (gross settled):							
Cash outflow	-	4	9	62	1,868	395	2,338
Cash inflow	-	-	(2)	(9)	(1,633)	(346)	(1,990)
Debt issues	-	1,774	1,841	4,320	9,592	3,010	20,537
Due to related entities:							
Non-derivative balances	680	679	43	1	62	-	1,465
Derivative financial instruments:							
Held for trading	67	-	-	-	-	-	67
Held for hedging purposes (net settled)	-	7	30	24	147	-	208
Held for hedging purposes (gross settled):							
Cash outflow	-	6	26	168	4,091	2,883	7,174
Cash inflow	-	-	-	(38)	(3,287)	(2,665)	(5,990)
Loan capital	-	-	9	27	1,227	1,500	2,763
Total undiscounted financial liabilities	47,197	9,065	12,270	21,670	15,692	4,777	110,671
Total contingent liabilities and commitments							
Letters of credit and guarantees	827	-	-	-	-	-	827
Commitments to extend credit	27,972	-	-	-	-	-	27,972
Total undiscounted contingent liabilities and commitments	28,799	-	-	-	-	-	28,799

ii. Additional financial disclosures (continued)

Liquid assets

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

	THE BANKING GROUP
$ millions	**31 Mar 22**
Cash and balances with central bank	**11,478**
Receivables due from the Ultimate Parent Bank	**1,495**
Supranational securities	**1,201**
NZ Government securities	**1,773**
NZ public securities	**2,303**
NZ corporate securities	**1,443**
Residential mortgage-backed securities	**7,342**
Total liquid assets	**27,035**

Reconciliation of mortgage-related amounts

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

	THE BANKING GROUP
$ millions	**31 Mar 22**
Residential mortgages - total gross loans (as disclosed in Note 6 and Section iii.)	**62,209**
Reconciling items:	
Unamortised deferred fees and expenses	**(267)**
Fair value hedge adjustments	**205**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**11,677**
Undrawn at default[1]	**(3,098)**
Residential mortgages by LVR (as disclosed in Additional mortgage information in Section iv.)	**70,726**
Accrued interest receivable	**54**
Partial write-offs	**4**
Residential mortgages - EAD (as disclosed in Credit risk exposures by asset class in Section iv.)	**70,784**

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

iii. Asset quality

Past due assets

	THE BANKING GROUP				
	31 Mar 22				
$ millions	**Residential Mortgages**	**Other Retail**	**Corporate**	**Other**	**Total**
Past due but not individually impaired assets					
Less than 30 days past due	**703**	**83**	**240**	**-**	**1,026**
At least 30 days but less than 60 days past due	**95**	**13**	**130**	**-**	**238**
At least 60 days but less than 90 days past due	**60**	**6**	**6**	**-**	**72**
At least 90 days past due	**172**	**24**	**75**	**-**	**271**
Total past due but not individually impaired assets	**1,030**	**126**	**451**	**-**	**1,607**

iii. Asset quality (continued)

Movements in components of loss allowance

Refer to Note 7 for movements in the components for loss allowance on loans and credit commitment for total exposure. The provision for ECL on loans and credit commitments can be further disaggregated into the following types of credit exposures:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 30 September 2021	46	70	46	8	170
Due to changes in credit quality:					
Transfers to Stage 1	16	(13)	(3)	-	-
Transfers to Stage 2	-	14	(14)	-	-
Transfers to Stage 3 CAP	-	(2)	2	-	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	-	-
New financial assets originated	2	-	-	-	2
Financial assets derecognised during the period	(1)	(2)	(6)	-	(9)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(21)	(14)	19	2	(14)
Total charges/(credits) to the income statement for ECL	(4)	(17)	(2)	2	(21)
Amounts written off from IAP	-	-	-	(1)	(1)
Total provision for ECL on loans and credit commitments as at 31 March 2022	42	53	44	9	148
Other retail					
Provision for ECL as at 30 September 2021	21	62	23	1	107
Due to changes in credit quality:					
Transfers to Stage 1	41	(37)	(4)	-	-
Transfers to Stage 2	(2)	8	(6)	-	-
Transfers to Stage 3 CAP	-	(8)	8	-	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	-	-
New financial assets originated	2	-	-	-	2
Financial assets derecognised during the period	(2)	(7)	(2)	-	(11)
Changes in CAP due to amounts written off	-	-	(12)	-	(12)
Other charges/(credits) to the income statement	(38)	45	12	(1)	18
Total charges/(credits) to the income statement for ECL	1	1	(4)	(1)	(3)
Amounts written off from IAP	-	-	-	-	-
Total provision for ECL on loans and credit commitments as at 31 March 2022	22	63	19	-	104
Corporate					
Provision for ECL as at 30 September 2021	35	147	6	60	248
Due to changes in credit quality:					
Transfers to Stage 1	4	(4)	-	-	-
Transfers to Stage 2	(1)	4	(2)	(1)	-
Transfers to Stage 3 CAP	-	(6)	7	(1)	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	(5)	(5)
New financial assets originated	4	-	-	-	4
Financial assets derecognised during the period	(2)	(5)	-	-	(7)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(9)	15	3	3	12
Total charges/(credits) to the income statement for ECL	(4)	4	8	(4)	4
Amounts written off from IAP	-	-	-	(44)	(44)
Total provision for ECL on loans and credit commitments as at 31 March 2022	31	151	14	12	208

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

iii. Asset quality (continued)

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

Refer to Note 7 for the impacts of changes in gross financial assets on loss allowances. The following table further explains how changes in gross carrying amounts of loans during the period have contributed to changes in the provision for ECL on loans.

	THE BANKING GROUP				
	31 Mar 22 Unaudited				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	**CAP**	**CAP**	**CAP**	**IAP**	**Total**
Total gross carrying amount as at 30 September 2021	84,661	7,833	500	109	93,103
Transfers:					
Transfers to Stage 1	1,899	(1,864)	(35)	-	-
Transfers to Stage 2	(1,166)	1,276	(107)	(3)	-
Transfers to Stage 3 CAP	(63)	(197)	269	(9)	-
Transfers to Stage 3 IAP	(1)	-	(3)	4	-
Net further lending/(repayment)	(2,052)	(34)	(10)	4	(2,092)
New financial assets originated	10,544	-	-	-	10,544
Financial assets derecognised during the period	(6,744)	(260)	(58)	(2)	(7,064)
Amounts written-off	-	-	(12)	(45)	(57)
Total gross carrying amount as at 31 March 2022	87,078	6,754	544	58	94,434
Provision for ECL as at 31 March 2022	(78)	(230)	(76)	(21)	(405)
Total net carrying amount as at 31 March 2022	87,000	6,524	468	37	94,029

iii. Asset quality (continued)

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

The gross carrying amounts of loans can be further disaggregated into the following types of credit exposures:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	Total
$ millions	CAP	CAP	CAP	IAP	
Residential mortgages					
Total gross carrying amount as at 30 September 2021	56,573	3,878	382	21	60,854
Transfers:					
Transfers to Stage 1	985	(955)	(30)	-	-
Transfers to Stage 2	(474)	557	(83)	-	-
Transfers to Stage 3 CAP	(34)	(112)	151	(5)	-
Transfers to Stage 3 IAP	(1)	-	(2)	3	-
Net further lending/(repayment)	(1,830)	(37)	(4)	-	(1,871)
New financial assets originated	6,813	-	-	-	6,813
Financial assets derecognised during the period	(3,425)	(116)	(44)	(1)	(3,586)
Amounts written-off	-	-	-	(1)	(1)
Total gross carrying amount as at 31 March 2022	58,607	3,215	370	17	62,209
Provision for ECL as at 31 March 2022	(37)	(52)	(44)	(9)	(142)
Total net carrying amount as at 31 March 2022	58,570	3,163	326	8	62,067
Other retail					
Total gross carrying amount as at 30 September 2021	2,519	392	64	1	2,976
Transfers:					
Transfers to Stage 1	290	(285)	(5)	-	-
Transfers to Stage 2	(294)	303	(9)	-	-
Transfers to Stage 3 CAP	(7)	(27)	34	-	-
Transfers to Stage 3 IAP	-	-	(1)	1	-
Net further lending/(repayment)	(114)	28	(4)	-	(90)
New financial assets originated	213	-	-	-	213
Financial assets derecognised during the period	(198)	(24)	(10)	-	(232)
Amounts written-off	-	-	(12)	-	(12)
Total gross carrying amount as at 31 March 2022	2,409	387	57	2	2,855
Provision for ECL as at 31 March 2022	(16)	(54)	(18)	-	(88)
Total net carrying amount as at 31 March 2022	2,393	333	39	2	2,767
Corporate					
Total gross carrying amount as at 30 September 2021	25,440	3,563	54	87	29,144
Transfers:					
Transfers to Stage 1	624	(624)	-	-	-
Transfers to Stage 2	(398)	416	(15)	(3)	-
Transfers to Stage 3 CAP	(22)	(58)	84	(4)	-
Transfers to Stage 3 IAP	-	-	-	-	-
Net further lending/(repayment)	75	(25)	(2)	4	52
New financial assets originated	3,202	-	-	-	3,202
Financial assets derecognised during the period	(3,014)	(120)	(4)	(1)	(3,139)
Amounts written-off	-	-	-	(44)	(44)
Total gross carrying amount as at 31 March 2022	25,907	3,152	117	39	29,215
Provision for ECL as at 31 March 2022	(25)	(124)	(14)	(12)	(175)
Total net carrying amount as at 31 March 2022	25,882	3,028	103	27	29,040

The above gross carrying amount table does not include 'Other' credit exposures (refer to Note 6) on the basis that the provision for ECL is nil.

iii. Asset quality (continued)

Other asset quality information

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

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

With effect from 1 October 2021, the Banking Group's conditions of registration were amended to reflect new Reserve Bank BPRs, which replaced the previous Reserve Bank document BS2B. The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the Reserve Bank BPRs, except for the matters of non-compliance with condition of registration 1B disclosed on page 51. Refer to page 46 for further details.

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

The Banking Group's capital summary

	THE BANKING GROUP
$ millions	31 Mar 22
Tier 1 capital	
Common Equity Tier 1 capital	
Paid-up ordinary shares issued by the Bank plus related share premium	7,300
Retained earnings (net of appropriations)	1,117
Accumulated other comprehensive income and other disclosed reserves[1]	80
Less deductions from Common Equity Tier 1 capital	
Goodwill	(477)
Other intangible assets[2]	(247)
Cash flow hedge reserve	(271)
Deferred tax asset deduction	(104)
Expected loss excess over eligible allowance	(21)
Total Common Equity Tier 1 capital	7,377
Additional Tier 1 capital	
Additional Tier 1 capital instruments[3]	1,313
Total additional Tier 1 capital	1,313
Total Tier 1 capital	8,690
Tier 2 capital	
Tier 2 capital instruments[3]	783
Revaluation reserves	-
Eligible impairment allowance in excess of expected loss	-
Total Tier 2 capital	783
Total capital	9,473

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

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

[3] Classified as a liability under Generally Accepted Accounting Practice and excludes capitalised transaction costs. Additional Tier 1 capital instruments and Tier 2 capital instruments are itemised on pages 39 and 40. Further details on convertibility for Additional Tier 1 and Tier 2 capital instruments are noted under the 'Conversion' section.

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

Capital structure

Ordinary shares

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

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

Additional Tier 1 loan capital (AT1)

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

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

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

In accordance with the Reserve Bank BPRs, the Bank's Additional Tier 1 instrument is subject to a transitional phase-out from 1 January 2022. In line with the transitional phase-out schedule contained in BPR110, 87.5% of the total nominal value of the Bank's Additional Tier 1 instrument will be recognised as regulatory capital between 1 January 2022 and 31 December 2022.

Interest payable

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

Redemption

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

Conversion

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

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

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

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

Tier 2 loan capital

A summary of the key terms and features of the Tier 2 notes is provided below.

$	Issue date	Counterparty	Interest rate	Maturity Date	Optional redemption date
AU$1,040 million notes [1]	8 September 2015	London Branch of the Ultimate Parent Bank	Australian 90 day bank bill rate + 2.87% p.a.	22 March 2026	22 June 2022 and every quarterly interest payment date thereafter

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

In accordance with the Reserve Bank BPRs, the Bank's Tier 2 instrument is subject to a transitional phase-out from 1 January 2022. In line with the transitional phase-out schedule contained in BPR110, 87.5% of the total nominal value of the Bank's Tier 2 instrument will be recognised as regulatory capital between 1 January 2022 and 31 December 2022. Additionally, the Bank's Tier 2 instrument is subject to a straight-line amortisation at a rate of 20% per annum commencing 22 March 2022 as the instrument is within four years of its maturity date of 22 March 2026.

Interest payable

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

Early redemption

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

Conversion

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

Reserves

Investment securities reserve

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

Cash flow hedge reserve

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

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

Credit risk subject to the IRB approach

Credit risk exposures by asset class

From 1 January 2022, BPR130 requires IRB Banks to apply Standardised RWA treatment to Sovereign and Bank Exposure Classes (which includes Sovereigns and Central Banks, Multilateral Development Banks, Public Sector Entities and Banks). From this date the only exposures that can be given IRB RWA treatment are those subject to an RBNZ approved credit risk model in the Corporate and Retail (excluding Reverse Mortgage Loans for which the Banking Group has no exposure) Exposure classes.

The Banking Group's credit risk exposures by asset class as at 31 March 2022

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Residential mortgages						
Up to and including 0.10	-	-	-	-	-	-
Over 0.10 up to and including 0.50	0.47	33,072	14.52	11.83	4,147	332
Over 0.50 up to and including 1.0	0.70	25,794	21.12	22.86	6,251	500
Over 1.0 up to and including 2.5	1.52	10,847	22.16	42.34	4,869	390
Over 2.5 up to and including 10.0	3.73	681	26.04	90.18	651	52
Over 10.0 up to and including 99.99	-	-	-	-	-	-
Default	100.00	390	20.60	118.45	490	39
Total	1.29	70,784	18.24	21.87	16,408	1,313
Other retail						
Up to and including 0.10	0.05	779	46.35	6.83	56	5
Over 0.10 up to and including 0.50	0.19	846	54.38	21.08	189	15
Over 0.50 up to and including 1.0	0.54	268	55.51	41.67	118	9
Over 1.0 up to and including 2.5	1.82	545	68.37	83.35	482	39
Over 2.5 up to and including 10.0	5.44	368	69.56	103.88	406	32
Over 10.0 up to and including 99.99	19.64	74	78.67	160.72	126	10
Default	100.00	21	82.62	65.36	14	1
Total	2.36	2,901	57.70	45.25	1,391	111
Small business						
Up to and including 0.10	0.10	22	23.69	5.88	1	-
Over 0.10 up to and including 0.50	0.34	1,112	25.35	14.07	167	14
Over 0.50 up to and including 1.0	0.91	670	31.23	30.48	216	17
Over 1.0 up to and including 2.5	1.83	328	27.91	35.20	122	10
Over 2.5 up to and including 10.0	4.55	143	29.84	43.79	66	5
Over 10.0 up to and including 99.99	14.94	16	30.93	58.97	10	1
Default	100.00	44	29.26	281.54	131	10
Total	2.94	2,335	27.77	28.83	713	57
Corporate/Business lending						
Up to and including 0.04	0.03	4,856	45.20	19.74	1,016	81
Over 0.04 up to and including 0.10	0.07	4,004	49.54	28.76	1,221	98
Over 0.10 up to and including 0.40	0.22	9,052	42.90	41.56	3,988	319
Over 0.40 up to and including 3.0	1.17	15,261	32.22	61.01	9,870	789
Over 3.0 up to and including 10.0	4.78	390	32.96	98.37	406	33
Over 10.0 up to and including 99.0	24.55	847	38.29	191.80	1,723	138
Default	100.00	188	49.81	131.11	261	21
Total	1.78	34,598	39.09	50.40	18,485	1,479
Total credit risk exposures subject to the IRB approach		110,618			36,997	2,960

[1] A scalar of 1.06 currently applies to the RWA calculation of these amounts.

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

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

	Undrawn Commitments and Other Off-Balance Sheet Contingent Liabilities		Counterparty Credit Risk on Derivatives and Securities Financing Transactions	
$ millions	Value	EAD	Value	EAD
Residential mortgages	11,677	8,579	-	-
Other retail	2,952	1,663	-	-
Small business	862	710	-	-
Corporate/Business Lending	10,913	10,913	4,866	62
Total	**26,404**	**21,865**	**4,866**	**62**

Additional mortgage information

Residential mortgages by LVR as at 31 March 2022

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

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

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

	THE BANKING GROUP					
	31 Mar 22					
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	30,101	14,464	13,257	3,047	1,278	62,147
Undrawn commitments and other off-balance sheet exposures	6,516	1,122	679	104	158	8,579
Value of exposures	**36,617**	**15,586**	**13,936**	**3,151**	**1,436**	**70,726**

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

Specialised lending subject to the slotting approach

The Banking Group's specialised lending: Project and property finance credit risk exposures as at 31 March 2022

On-balance sheet exposures subject to the slotting approach	Total Exposures After Credit Risk Mitigation $ millions	Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Supervisory slotting grade				
Strong	5,010	70.00	3,717	297
Good	1,653	90.00	1,578	126
Satisfactory	95	115.00	115	9
Weak	135	250.00	358	29
Default	27	-	-	-
Total on-balance sheet exposures subject to the slotting approach	6,920	78.63	5,768	461

[1] A scalar of 1.06 currently applies to the RWA calculation of these amounts.

Off-balance sheet exposures subject to the slotting approach	EAD $ millions	Average Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Undrawn commitments and other off-balance sheet exposures	1,415	77.15	1,157	93
Total specialised lending exposures subject to the slotting approach	8,335	78.38	6,925	554

[1] A scalar of 1.06 currently applies to the RWA calculation of these amounts.

Credit risk exposures subject to the standardised approach

The Banking Group's credit risk exposures subject to the standardised approach as at 31 March 2022

From 1 January 2022, BPR130 requires IRB Banks to apply Standardised RWA treatment to Sovereign and Bank Exposure Classes (which includes Sovereigns and Central Banks, Multilateral Development Banks, Public Sector Entities and Banks). The following table includes exposures where this has been applied.

Calculation of on-balance sheet exposures

	Total Exposure After Credit Risk Mitigation $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Sovereigns and central banks	13,687	-	-	-
Multilateral development banks and other international organisations	858	-	-	-
Public sector entities	1,715	20.00	363	29
Banks	1,501	44.90	715	57
Past due assets	-	-	-	-
Other assets[2]	3,124	35.89	1,189	95
Total on-balance sheet exposures	20,885		2,267	181

[1] A scalar of 1.06 currently applies to the RWA calculation of these amounts.

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

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

Calculation of off-balance sheet exposures

	Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor %	Credit Equivalent Amount $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Total off balance sheet exposures subject to the standardised approach	982	37.68	370	26.97	105	9
Counterparty credit risk for counterparties subject to the standardised approach						
Foreign exchange contracts	17,839	N/A	435	20.00	92	7
Interest rate contracts	54,866	N/A	94	20.00	20	2
Other	-	N/A	-	-	264	21
Total counterparty credit risk for counterparties subject to the standardised approach	72,705		529		376	30
Standardised subtotal (on and off-balance sheet)			21,784		2,748	220

[1] A scalar of 1.06 currently applies to the RWA calculation of these amounts.

Credit risk mitigation

The Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities (refer to Note 31.2.2 to the financial statements included in the Disclosure Statement for the year ended 30 September 2021 for further details). This includes the Banking Group establishing that it has direct, irrevocable and unconditional recourse to collateral and other credit enhancements through obtaining legally enforceable documentation.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to LGD. Due to system limitations, the value of the guarantee is not always separately recorded, and therefore, neither this value nor a close alternative is available for disclosure, under Clause 7 of Schedule 11 to the Order. The Banking Group does not apply any credit risk mitigation from credit derivatives as at 31 March 2022.

Definitions of PD, LGD and EAD

- **Probability of default**

  The PD is a through-the-cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year.

- **Loss given default**

  The LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn.

- **Exposure at default**

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

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

Equity risk

The Banking Group's equity exposures as at 31 March 2022

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

[1] A scalar of 1.06 currently applies to the RWA calculation of these amounts.

Application of Standardised Floor to Total Credit Risk RWA

Between 1 January 2022 and 30 September 2022, BPR130 requires IRB Banks to calculate total credit risk RWA as the sum of:

- The greater of:
  - 1.06 x total RWA subject to the IRB RWA treatment (as shown in the table in the section Credit risk subject to the IRB approach on page 41); and
  - 0.85 x total Standardised Equivalent RWA for each credit risk exposure subject to the IRB RWA treatment (commonly referred to as the standardised floor); and
- 1.06 x total RWA subject to the Standardised RWA treatment.

The following table shows the output from these calculations, and the resulting total credit risk RWA used in the calculation of the Bank and the Banking Group's total capital requirements and capital ratios as at 31 March 2022.

	THE BANKING GROUP			
	31 Mar 22			
	RWA for modelled exposures			
$ millions	RWA calculated using models[2]	RWA recalculated using standardised approach	RWA for standardised exposures[1,3]	Total credit risk RWA
Total IRB and supervisory slotting exposure[1]	43,922	64,113		
Standardised floor		54,496		
RWA with floor applied		54,496	2,762	57,258

[1] A scalar of 1.06 currently applies to the RWA calculation of these amounts.

[2] This amount includes $36,997 million for IRB classes and $6,925 million for supervisory slotting exposures.

[3] This amount includes $2,748 million for exposures subject to the standardised approach and $14 million for equity exposures.

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

Operational risk

Operational risk capital requirement

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

	THE BANKING GROUP	
	31 Mar 22	
$ millions	Implied Risk-weighted Exposure	Total Operational Risk Capital Requirement
Advanced Measurement Approach		
Operational risk	**5,551**	**444**

During the reporting period, the Bank was not fully compliant with operational risk capital model governance and scenario financial estimate requirements set out in Part B of BPR151 (previously BS2B). Remediation activity is ongoing which includes the Bank's transition to the Reserve Bank's standardised approach for operational risk capital (BPR150). A capital overlay for operational risk implemented during the previous reporting period, remains. This previous capital overlay has been adjusted from $29 million to $30 million to reflect minor changes in FX spot rates.

Market risk

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

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six months ended 31 March 2022 of the aggregate capital charge for that category of market risk derived in accordance with BPR140.

The following table provides a summary of the Banking Group's 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 2022:

	THE BANKING GROUP	
	31 Mar 22	
$ millions	Implied risk-weighted exposure	Aggregate capital charge
End-of-period		
Interest rate risk	**2,504**	**200**
Foreign currency risk	**-**	**-**
Equity risk	**-**	**-**
Peak end-of-day		
Interest rate risk	**5,204**	**416**
Foreign currency risk	**-**	**-**
Equity risk	**-**	**-**

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

Total capital requirements

Banking Group Pillar 1 Total Capital Requirement

	THE BANKING GROUP		
	31 Mar 22		
$ millions	Total Exposure After Credit Risk Mitigation[1]	Risk-weighted Exposure or Implied Risk-weighted Exposure	Total Capital Requirement
Total credit risk and equity risk	128,355	57,258	4,581
Operational risk	N/A	5,551	444
Market risk	N/A	2,504	200
Total	128,355	65,313	5,225

[1] This amount includes $98,997 million for exposures subject to IRB approach and $7,571 million for exposures subject to the slotting approach, being the equivalent exposure under the standardised approach of $110,618 million EAD for credit risk exposures subject to IRB approach and $8,335 million EAD for specialised lending subject to slotting approach.

Capital ratios

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

Due to changes in BPRs effective from 1 January 2022, the ratios for the Banking Group at 31 March 2022 are not comparable to 31 March 2021. As at 1 January 2022, the RWA of counterparties in the Bank and Sovereign asset classes are calculated under a standardised approach and the modelled exposures for IRB banks have had a floor of 85% of the requirement under a standardised approach applied. In addition, existing capital instruments that have conversion features are no longer fully eligible as capital with 87.5% of the total nominal value of affected instruments recognised as regulatory capital between 1 January 2022 and 31 December 2022. As at 31 March 2022, only 80% of the total nominal value of the Bank's Tier 2 instrument is being recognised as regulatory capital because the instrument is within four years of its maturity date and the amount of the instrument that may be recognised in capital ratio calculations during the final four years to maturity must be amortised on a straight-line basis at a rate of 20% per annum.

For the purposes of calculating the capital adequacy ratios for the Bank on a solo basis, a subsidiary that is not a securitisation SPV must be consolidated with the Bank if it is a wholly-owned and wholly-funded subsidiary of the Banking Group. In this context, wholly-funded by the Bank means there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue or trade creditors, where aggregate exposure to trade creditors does not exceed the greater of 5% of the subsidiary's shareholder's equity and 1% of the subsidiary's total assets. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank or is ultimately owned by the Bank through a chain of ownership where each entity is 100% owned by its parent. An SPV must be consolidated with the Bank if it is required to be consolidated with the Banking Group under the New Zealand Generally Accepted Accounting Practice and is a covered bond SPV, or an internal RMBS SPV, that is, an SPV that is set up to securitise residential mortgage loans originated by the Bank and is funded exclusively by the Bank. As at 31 March 2022, the Bank's two SPVs have been consolidated in accordance with the Reserve Bank's new Prudential Requirements for the purposes of calculating solo capital. The Bank's ratios at 31 March 2022 are not comparable to 31 March 2021, as the calculation requirements at 31 March 2021 did not include the consolidation of the Bank's two SPVs.

	THE BANKING GROUP			THE BANK	
%	Reserve Bank Minimum Ratios	31 Mar 22	31 Mar 21	31 Mar 22	31 Mar 21
Common Equity Tier 1 capital ratio	4.5	**11.3**	13.4	**11.2**	12.5
Tier 1 capital ratio	6.0	**13.3**	16.2	**13.2**	15.0
Total capital ratio	8.0	**14.5**	18.2	**14.4**	17.0
Prudential capital buffer ratio	2.5	**6.5**	8.9	**N/A**	N/A

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

Capital for other material risks

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

The Banking Group's internal capital allocation for 'other material risks' is $335 million as at 31 March 2022 (31 March 2021: $289 million).

Ultimate Parent Bank Group Basel III capital adequacy ratios

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

%	31 Mar 22	31 Mar 21
Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations)[1, 2]		
Common Equity Tier 1 capital ratio	**11.3**	12.3
Additional Tier 1 capital ratio	**2.1**	2.2
Tier 1 capital ratio	**13.4**	14.5
Tier 2 capital ratio	**4.3**	3.9
Total regulatory capital ratio	**17.7**	18.4
Ultimate Parent Bank (Extended Licensed Entity)[1, 3]		
Common Equity Tier 1 capital ratio	**11.2**	12.6
Additional Tier 1 capital ratio	**2.2**	2.2
Tier 1 capital ratio	**13.4**	14.8
Tier 2 capital ratio	**4.7**	4.0
Total regulatory capital ratio	**18.1**	18.8

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

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

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

Under APRA's Prudential Standards, Australian Authorised Deposit-taking Institutions, including the Ultimate Parent Bank Group and the Ultimate Parent Bank are required to maintain minimum ratios of capital to risk weighted assets, as determined by APRA, which are at least equal to that specified under the Basel III capital framework. For the calculation of risk weighted assets, the Ultimate Parent Bank Group and the Ultimate Parent Bank are accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime. The Ultimate Parent Bank Group and the Ultimate Parent Bank use the Advanced Internal Ratings Based approach for credit risk, the Standardised Measurement Approach for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital.

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

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

The Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations), and the Ultimate Parent Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2022.

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

Regulatory liquidity ratios

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

	THE BANKING GOUP	
%	**31 Mar 22**	31 Dec 21
Average for the three months ended		
One-week mismatch ratio	**7.4**	5.2
One-month mismatch ratio	**6.5**	4.5
Core funding ratio	**84.2**	82.4

Since February 2021, the Bank has identified matters of non-compliance with BS13. Refer to the Conditions of Registration section on page 51 for further details. The Bank continues to work through the remediation of these matters, with some fully remediated. Matters of non-compliance identified include two matters reported in the Disclosure Statement for the year ended 30 September 2021, being a coding error in the BS13 liquidity model which impacted the aggregation of customer deposits and the treatment of lending due to be drawn down where the draw down date and the principal amount are certain, and one new matter regarding the treatment of cash inflows for loans considered delinquent. For these three matters, the Bank has adjusted the one-week and one-month mismatch ratios in the table above for the impacts of non-compliance on the affected periods. The impact of these adjustments reduced the one-week mismatch ratio by 0.6% and one-month mismatch ratio by 0.7% for the quarter ended 31 December 2021, and the one-week and one-month mismatch ratios by 0.3% for the quarter ended 31 March 2022.

Further, with effect from 31 March 2021, the Reserve Bank amended the Bank's conditions of registration to apply an overlay to the Bank's mismatch ratios which will remain in place until the Reserve Bank is satisfied that its concerns regarding liquidity risk controls have been resolved and sufficient progress has been made to address the risk culture issues. The overlay is specified by the Reserve Bank as a requirement to discount the value of the Bank's liquid assets by approximately 14% which at 31 March 2022 was $3.1 billion. Refer to Other material matters on page 28 for further detail.

Registered bank disclosures

Unaudited

v. Concentration of credit exposures to individual counterparties

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

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

	THE BANKING GROUP	
	31 Mar 22	
% of Banking Group's Common Equity Tier 1 Capital	Bank Counterparties[1] Long-term credit rating A- or A3 and above	Non-bank Counterparties[2] Long-term credit rating A- or A3 and above
As at 31 March 2022[3]		
Exceeds 10% and not 15%	-	-
Exceeds 15% and not 20%	-	2
Peak end-of-day aggregate credit exposure for the six months ended 31 March 2022[3]		
Exceeds 10% and not 15%	-	-
Exceeds 15% and not 20%	1	2

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

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

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

The peak end-of-day aggregate credit exposure to each individual counterparty (which are not members of a group of closely related counterparties) or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant six-month period, and then dividing that amount by the Banking Group's Common Equity Tier 1 capital as at 31 March 2022.

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

vi. Insurance business

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

vii. Risk management policies

Refer to Registered bank disclosures viii. Risk management policies and Note 31. Financial risk included in the Banking Group Disclosure Statement for the year ended 30 September 2021 for further details on the Banking Group's risk management policies.

Conditions of registration

Material non-compliance with conditions of registration

CoR14 non-compliance

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

Whilst undertaking remediation activity, the Bank identified two further instances of non-compliance with the Reserve Bank's Liquidity Policy (BS13) which individually are not considered material. However, when considered collectively, and in conjunction with the findings from the Reserve Bank Liquidity review, there remains material non-compliance with condition of registration 14 by the Bank. The non-compliance relates to a historical methodology error which impacted the treatment of lending due to be drawn down where the draw down date and principal amount are certain; and a historical coding error regarding the treatment of cash inflows for loans considered delinquent.

Refer to Regulatory Liquidity Ratios on page 49 with reference to the adjustment to the one-week and one-month mismatch ratios.

BS2B non-compliance

During the reporting period, the Bank was non-compliant with condition of registration 1B. The Bank is not fully compliant with operational risk capital model governance and scenario financial estimate requirements set out in Part B of BPR151 (previously BS2B).

Remediation activity includes the Bank's transition to the Reserve Bank's standardised approach for operational risk capital (BPR150). Refer to Operational Risk on page 46 with reference to the operational risk capital overlay applied by the Bank in respect of these matters.

Material non-compliance with CoR22

Out-of-support software and hardware applications

The Bank allowed outsourcing arrangements for the adequate support of three key software or hardware environments to lapse. Specifically:

- For a period of one year and four months, it did not have in place an outsourcing arrangement to ensure adequate support services were available for software used to comply with the Bank's anti-money laundering and tax transaction monitoring obligations.
- For periods ranging from two and a half to four and a half years, it did not have in place outsourcing arrangements to ensure adequate support services were available for three instances of software used to automate key business processes for the Bank.
- For a period of two and a half years in relation to certain hardware and a period ranging from three and a half to six and a half years for operating system software, it did not have in place an outsourcing arrangement to ensure adequate support services were available for certain payment systems operated by the Bank, which support some of the Bank's payment processing services.

The relevant software and hardware environments ensure high availability of key frontline applications for its retail and business customers. The failure to renew the above outsourcing arrangements for the support of these software and hardware environments was non-compliant with the Reserve Bank's Outsourcing Policy (BS11) and therefore with the Bank's condition of registration 22.

Despite not having adequate support contracts in place, the Bank either continued to receive support or could have acquired support on a non-contractual basis. The Bank also had internal teams in place to provide support in the event of issues arising with the software and hardware.

However, if a critical problem had arisen with the software without the required support contracts in place, then this could have increased the risk that the Bank may not have been able to restore the relevant services within the Bank's recovery time objectives. This would, in turn, impact the Bank's ability to provide certain services to business and retail customers who are using these services or business applications.

Once the non-compliances came to the Bank's attention, internal investigations took place, and the incidents were reported to the Reserve Bank.

The Bank has now entered into a new support agreement for the software application that is the subject of one non-compliance listed above and remediation work is underway in respect of the remaining non-compliances.

Changes to conditions of registration

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

- With effect from 1 October 2021, all capital ratios have been required to be calculated in accordance with BPR100 and the capital definitions in BPR110. Transitional AT1 and Transitional Tier 2 instruments have been required to be included in measures of AT1 capital, Tier 1 capital, Tier 2 capital, and total capital.
- With effect from 1 October 2021, a new set of dividend restrictions have applied during banks' transition to higher capital ratios. Further percentage limits have applied to payment of dividends of between 50% - 0% of the bank's earnings where a bank's prudential capital buffer is less than 2.5%.
- With effect from 1 October 2021, where a bank fails to maintain the full prudential capital buffer, the bank in question will be subject to a supervisory response from the Reserve Bank. However, a failure by a bank to maintain the full prudential capital buffer will not be deemed to be a breach of that bank's conditions of registration.
- With effect from 1 October 2021, references to BS2A and BS2B were replaced with the relevant new Banking Prudential Requirements references (BPR001, BPR131 and BPR133).
- With effect from 1 November 2021, LVR restrictions for owner-occupiers were restricted to a maximum of 10% of new lending at LVRs above 80%.
- With effect from 1 January 2022, the timing in the conditions of registration wording for the LVR restrictions was clarified.
- With effect from 1 January 2022, the minimum requirement for the core funding ratio was increased from 50% to 75%.

Independent auditor's review report

To the shareholder of Westpac New Zealand Limited

Report on the Disclosure Statement

Our conclusions

We have reviewed pages 7 to 26 and pages 28 (excluding note i of the registered bank disclosures) to 50 of the Disclosure Statement for the six months ended 31 March 2022 (the "Disclosure Statement") of Westpac New Zealand Limited (the "Bank") and its controlled entities (the "Banking Group"), which includes the condensed consolidated interim financial statements (the "financial statements") required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order.

The financial statements on pages 7 to 26 comprise the balance sheet as at 31 March 2022, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended on that date, and significant accounting policies and other explanatory information.

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

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 the accompanying:

a) financial statements of the Banking Group (excluding the supplementary information) have not been prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34);

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

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

Basis for conclusions

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial statements and supplementary information* section of our report.

We are independent of the Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Banking Group in the areas of other audit-related services, which relate to agreed upon procedures over the issue of comfort letters and debt issuance programmes. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and these relationships has not impaired our independence.

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Emphasis of Matter
We draw attention to note iv of the registered bank disclosures on page 49 of the Disclosure Statement, in which the Bank has disclosed matters of non-compliance with the Liquidity Policy (BS13).

The matters of non-compliance were due to a coding error in the BS13 liquidity model which impacted the aggregation of customer deposits, the treatment of cash outflows from lending due to be drawn down where the draw-down date and the principal amount are certain and the treatment of cash inflows for loans considered to be delinquent. The one-week and one-month mismatch ratios as disclosed in the regulatory liquidity ratios have been adjusted to reflect the impact of these matters of non-compliance. In addition, with effect from 31 March 2021, the Bank's conditions of registration were amended to apply an overlay to the mismatch ratios, discounting the value of the Bank's liquid assets, until such time as the Reserve Bank is satisfied its concerns regarding liquidity risk controls have been resolved.

Our conclusion on the supplementary information relating to capital adequacy and regulatory liquidity requirements is not modified in respect of these matters.

Other Matters
We draw attention to other matters included in the Disclosure Statement as follows:

- the Bank is required to supply two external reviews to the Reserve Bank under section 95 of the Reserve Bank of New Zealand Act 1989, as referred to in note i of the registered bank disclosures on page 28; and
- the Bank has identified material matters of non-compliance with aspects of its conditions of registration, as referred to within conditions of registration on page 51.

Directors' responsibilities for the Disclosure Statement
The Directors of the Bank (the "Directors") are responsible on behalf of the Bank for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order, and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Auditor's responsibilities for the review of the financial statements and supplementary information
Our responsibility is to express the following conclusions on the financial statements and supplementary information based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the:

- financial statements (excluding the supplementary information), taken as a whole, have not been prepared in all material respects, in accordance with IAS 34 and NZ IAS 34;
- supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements), taken as a whole, does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and
- supplementary information relating to capital adequacy and regulatory liquidity requirements, taken as a whole, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of financial statements and supplementary information in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform 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 and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on the financial statements and the supplementary information.

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

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

For and on behalf of:

Chartered Accountants Auckland
19 May 2022