ASX Release

Level 18, 275 Kent Street
Sydney, NSW, 2000

2 December 2022

Westpac Banking Corporation – New Zealand Banking Group Disclosure Statement

Westpac Banking Corporation ("Westpac") today provides the attached Westpac New Zealand Banking Group Disclosure Statement for the year ended 30 September 2022.

For further information:

Hayden Cooper
Group Head of Media Relations
0402 393 619

Andrew Bowden
General Manager, Investor Relations
0438 284 863

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

WESTPAC BANKING CORPORATION – NEW ZEALAND BANKING GROUP

Disclosure Statement

For the year ended 30 September 2022

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Contents

Glossary of terms

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

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

- **Overseas Bank** – refers to Westpac Banking Corporation;
- **Overseas Banking Group** – refers to the Overseas Bank and all other entities included in the Overseas Bank's group for the purposes of public reporting of the group financial statements in Australia;
- **NZ Branch** – refers to the New Zealand business (as defined in the Order) of the Overseas Bank;
- **Westpac New Zealand** – refers to Westpac New Zealand Limited; and
- **NZ Banking Group** – refers to the financial reporting group (as defined in the Order) of the Overseas Bank. Controlled entities of the NZ Banking Group as at 30 September 2022 are set out in Note 22 Related entities.

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

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

ADI	Authorised deposit-taking institution
ALCO	Asset and Liability Committee
ALM	Asset and liability risk management
ANZSIC	Australian and New Zealand Standard Industrial Classification
APRA	Australian Prudential Regulation Authority
AT1	Additional Tier 1 capital
BAC	Board Audit Committee
BKBM	Bank bill benchmark rate
Board	Board of Directors
BPR	Banking Prudential Requirement
BPS Act	Banking (Prudential Supervision) Act 1998 (formerly the Reserve Bank of New Zealand Act 1989)
BRCC	Board Risk and Compliance Committee
BS13	Reserve Bank document 'Liquidity Policy'
CAP	Collectively assessed provisions
CCCFA	Credit Contracts and Consumer Finance Act 2003
CGU	Cash generating unit
CRG	Customer Risk Grade
EAD	Exposure at default
ECL	Expected credit losses
ELE	Extended Licensed Entity
ERC	Executive risk committee
FCA	Financial Conduct Authority
FCS	Financial Claims Scheme
Fidelity Life	Fidelity Life Assurance Company Limited
Financial statements	Consolidated financial statements
FM	Financial Markets
FMA	Financial Markets Authority
Fitch	Fitch Ratings
FVHA	Fair value hedge accounting
FVIS	Fair value through income statement
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
Group Audit	Overseas Banking Group's Group Audit
Group BRiskC	Overseas Bank's Board Risk Committee
GST	Goods and services tax
IAP	Individually assessed provisions
IBOR	Interbank Offered Rates
IRB	Internal Rating Based
IRRBB	Interest rate risk in the Banking Book
LGD	Loss given default
LVR	Loan-to-value ratio
MARCO	Market Risk Committee
Moody's	Moody's Investor Service
NaR	Net interest income at risk
NII	Net interest income
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
OCI	Other comprehensive income
PD	Probability of default
PIE	Portfolio Investment Entities
RISKCO	Executive risk committee
RWA	Risk weighted assets
Reserve Bank	Reserve Bank of New Zealand
RMBS	Residential mortgage-backed securities
S&P	S&P Global Ratings
SME	Small and Medium-sized Enterprises
SPPI	Solely payments of principal and interest
Tier 2 notes	Tier 2 loan capital
VaR	Value-at-risk
Westpac Life	Westpac Life-NZ- Limited (renamed Fidelity Insurance Limited on 28 February 2022)

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

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

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

(b) is not false or misleading.

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, over the year ended 30 September 2022:

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

(b) except as noted on page 94 in the first paragraph under the sub-heading 'Overseas Bank risk management', the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group, as defined in Westpac New Zealand's Disclosure Statement for the year ended 30 September 2022. Refer to section vi. Risk Management Policies – Risk management frameworks on page 102 of this Disclosure Statement for further detail regarding the entities which had systems in place to monitor and control the material risks of relevant members of the NZ Banking Group.

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

Catherine McGrath

Christopher Leuschke

Dated this 1st day of December 2022

Income statement for the year ended 30 September 2022

		NZ BANKING GROUP	
$ millions	Note	**2022**	2021
Interest income:			
Calculated using the effective interest method	2	**3,742**	3,012
Other	2	**82**	29
Total interest income	2	**3,824**	3,041
Interest expense	2	**(1,486)**	(983)
Net interest income		**2,338**	2,058
Net fees and commissions income	3	**206**	158
Net wealth management and insurance income	3	**63**	126
Trading income	3	**183**	203
Other income	3	**132**	5
Net operating income before operating expenses and impairment charges		**2,922**	2,550
Operating expenses	4	**(1,186)**	(1,160)
Impairment (charges)/benefits	6	**27**	84
Profit before income tax		**1,763**	1,474
Income tax expense	7	**(465)**	(417)
Net profit attributable to the owner of the NZ Banking Group		**1,298**	1,057

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

Statement of comprehensive income for the year ended 30 September 2022

	NZ BANKING GROUP	
$ millions	**2022**	2021
Net profit attributable to the owner of the NZ Banking Group	**1,298**	1,057
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Gains/(losses) recognised in equity on:		
Investment securities	**(313)**	(162)
Cash flow hedging instruments	**488**	128
Transferred to income statement:		
Cash flow hedging instruments	**12**	56
Income tax on items taken to or transferred from equity:		
Investment securities	**88**	45
Cash flow hedging instruments	**(140)**	(52)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit obligation recognised in equity (net of tax)	**6**	13
Net other comprehensive income for the year (net of tax)	**141**	28
Total comprehensive income attributable to the owner of the NZ Banking Group	**1,439**	1,085

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

Balance sheet as at 30 September 2022

$ millions	Note	NZ BANKING GROUP 2022	2021
Assets			
Cash and balances with central banks	32	**11,162**	8,604
Collateral paid		**87**	207
Trading securities and financial assets measured at FVIS	9	**3,501**	4,535
Derivative financial instruments	23	**9,383**	3,852
Investment securities	10	**5,623**	4,680
Loans	11	**97,392**	93,025
Other financial assets	14	**644**	1,388
Due from related entities	22	**6,609**	1,739
Property and equipment		**402**	410
Deferred tax assets	15	**68**	226
Intangible assets	16	**834**	721
Other assets		**75**	79
Assets held for sale	33	**-**	382
Total assets		**135,780**	119,848
Liabilities			
Collateral received		**724**	320
Deposits and other borrowings	17	**80,848**	79,367
Other financial liabilities	18	**5,607**	4,850
Derivative financial instruments	23	**6,777**	2,620
Due to related entities	22	**8,292**	2,410
Debt issues	19	**19,933**	16,304
Current tax liabilities		**86**	61
Provisions	20	**257**	243
Other liabilities		**376**	382
Loan capital	21	**2,576**	2,988
Liabilities held for sale	33	**-**	99
Total liabilities		**125,476**	109,644
Net assets		**10,304**	10,204
Head office account			
Branch capital		**1,300**	1,300
Retained profits		**1,324**	1,187
Total head office account		**2,624**	2,487
NZ Banking Group equity			
Share capital		**6,045**	488
Reserves		**138**	3
Retained profits		**1,497**	7,226
Total NZ Banking Group equity		**7,680**	7,717
Total equity attributable to the owner of the NZ Banking Group		**10,304**	10,204

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

Signed on behalf of the Board of Directors.

Director

1 December 2022

Director

1 December 2022

Statement of changes in equity for the year ended 30 September 2022

	NZ BANKING GROUP						
	NZ BRANCH		OTHER MEMBERS OF THE NZ BANKING GROUP				
	Head Office Account			Reserves			
$ millions	Branch Capital	Retained Profits	Share Capital	Investment Securities Reserve	Cash Flow Hedge Reserve	Retained Profits	Total Equity
As at 30 September 2020	1,300	1,078	143	57	(69)	6,536	9,045
Impact from a change in accounting policy	-	-	-	-	-	(6)	(6)
Restated opening balance	1,300	1,078	143	57	(69)	6,530	9,039
Year ended 30 September 2021							
Net profit attributable to the owner of the NZ Banking Group	-	109	-	-	-	948	1,057
Net gains/(losses) from changes in fair value	-	-	-	(162)	128	-	(34)
Income tax effect	-	-	-	45	(36)	-	9
Transferred to income statement	-	-	-	-	56	-	56
Income tax effect	-	-	-	-	(16)	-	(16)
Remeasurement of defined benefit obligations	-	-	-	-	-	18	18
Income tax effect	-	-	-	-	-	(5)	(5)
Total comprehensive income for the year ended 30 September 2021	-	109	-	(117)	132	961	1,085
Transactions with owner:							
Ordinary share capital issued	-	-	345	-	-	-	345
Dividends paid on ordinary shares	-	-	-	-	-	(265)	(265)
As at 30 September 2021	1,300	1,187	488	(60)	63	7,226	10,204
Year ended 30 September 2022							
Net profit attributable to the owner of the NZ Banking Group	**-**	**137**	**-**	**-**	**-**	**1,161**	**1,298**
Net gains/(losses) from changes in fair value	**-**	**-**	**-**	**(313)**	**488**	**-**	**175**
Income tax effect	**-**	**-**	**-**	**88**	**(137)**	**-**	**(49)**
Transferred to income statement	**-**	**-**	**-**	**-**	**12**	**-**	**12**
Income tax effect	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
Remeasurement of defined benefit obligations	**-**	**-**	**-**	**-**	**-**	**8**	**8**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**
Total comprehensive income for the year ended 30 September 2022	**-**	**137**	**-**	**(225)**	**360**	**1,167**	**1,439**
Transactions with owner:							
Ordinary share capital issued (refer to Note 22)	**-**	**-**	**5,616**	**-**	**-**	**-**	**5,616**
Ordinary share capital buy-back (refer to Note 22)	**-**	**-**	**(59)**	**-**	**-**	**-**	**(59)**
Dividends paid on ordinary shares (refer to Note 22)	**-**	**-**	**-**	**-**	**-**	**(6,896)**	**(6,896)**
As at 30 September 2022	**1,300**	**1,324**	**6,045**	**(285)**	**423**	**1,497**	**10,304**

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

Statement of cash flows for the year ended 30 September 2022

		NZ BANKING GROUP	
$ millions	Note	**2022**	2021
Cash flows from operating activities			
Interest received		**3,830**	3,199
Interest paid		**(1,289)**	(1,130)
Non-interest income received[1]		**291**	281
Operating expenses paid		**(1,051)**	(983)
Income tax paid		**(352)**	(384)
Cash flows from operating activities before changes in operating assets and liabilities		**1,429**	983
Net (increase)/decrease in:			
Collateral paid		**120**	190
Trading securities and financial assets measured at FVIS		**1,046**	(186)
Loans		**(4,731)**	(4,875)
Other financial assets		**2**	42
Due from related entities		**(1,941)**	910
Other assets		**(1)**	5
Net increase/(decrease) in:			
Collateral received		**404**	(188)
Deposits and other borrowings		**1,475**	5,397
Other financial liabilities		**953**	2,443
Due to related entities		**(71)**	33
Other liabilities		**14**	38
Net movement in external and related entity derivative financial instruments[1]		**2,563**	(877)
Net cash provided by/(used in) operating activities	32	**1,262**	3,915
Cash flows from investing activities			
Purchase of investment securities		**(1,668)**	(648)
Proceeds from investment securities		**310**	673
Proceeds from disposal of controlled entities		**417**	-
Net movement in life insurance assets		**60**	(3)
Purchase of capitalised computer software		**(172)**	(103)
Purchase of property and equipment		**(27)**	(26)
Purchase of associates		**-**	(2)
Proceeds from other investing activities		**-**	9
Net cash provided by/(used in) investing activities		**(1,080)**	(100)
Cash flows from financing activities			
Issue of ordinary share capital		**-**	345
Payment for share buy-back		**(59)**	-
Net movement in due to related entities		**618**	(351)
Proceeds from debt issues	19	**13,602**	9,476
Repayments of debt issues	19	**(10,297)**	(8,369)
Issue of loan capital (net of issue costs)	21	**590**	-
Redemption of loan capital	21	**(1,178)**	-
Payments for the principal portion of lease liabilities		**(62)**	(49)
Dividends paid to ordinary shareholders	22	**(1,280)**	(265)
Net cash provided by/(used in) financing activities		**1,934**	787
Net increase/(decrease) in cash and cash equivalents		**2,116**	4,602
Cash and cash equivalents at the beginning of the year		**9,145**	4,543
Cash and cash equivalents at the end of the year	32	**11,261**	9,145

[1] Comparatives have been restated to correctly reflect cash flows of ($271) million in non-interest income received relating to realised gains and losses on FX trading derivatives which were previously presented in Net movement in external and related entity derivative financial instruments.

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

Notes to the financial statements

Note 1 Financial statements preparation

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

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

The financial statements are for the NZ Banking Group.

These financial statements were authorised for issue by the Overseas Bank's Board of Directors on 1 December 2022. The Board has the power to amend and reissue the financial statements.

The principal accounting policies are set out below and in the relevant notes to the financial statements. These accounting policies provide details of the accounting treatments adopted for complex balances and where accounting standards provide policy choices. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

(i) Basis of accounting

These financial statements are general purpose financial statements prepared in accordance with:

- the requirements of the Financial Markets Conduct Act 2013; and
- the requirements of the Order.

These financial statements comply with Generally Accepted Accounting Practice, applicable NZ IFRS and other authoritative pronouncements of the External Reporting Board, as appropriate for for-profit entities. These financial statements also comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

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

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and financial liabilities (including derivative instruments) measured at FVIS or in OCI.

(iii) Comparative revisions

Comparative information has been revised where appropriate to conform to changes in presentation in the current year and to enhance comparability. Where there has been a material restatement of comparative information the nature of, and the reason for, the restatement is disclosed in the relevant note.

(iv) Standards adopted during the year ended 30 September 2022

No new accounting standards have been adopted by the NZ Banking Group for the year ended 30 September 2022. There have been no amendments to existing accounting standards that have a material impact on the NZ Banking Group.

(v) Business combinations

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

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

Notes to the financial statements

Note 1 Financial statements preparation (continued)

(vi) Foreign currency translation

Functional and presentational currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. FX gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in OCI for qualifying cash flow hedges.

(vii) Head office account, share capital and reserves

Head office account - Branch capital

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

Ordinary shares

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

Investment securities reserve

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

Cash flow hedge reserve

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

b. Basis of aggregation

The NZ Banking Group as at 30 September 2022 has been aggregated by combining the sum of the capital and reserves of the NZ Branch, and the consolidated capital and reserves of Westpac New Zealand Group Limited, BT Financial Group (NZ) Limited, Westpac Financial Services Group-NZ-Limited, Westpac Group Investment-NZ-Limited, and their subsidiaries (including structured entities). For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

Subsidiaries are entities over which the members of the NZ Banking Group have control as they are exposed to, or have rights to, variable returns from the entities, and can affect those returns through their power over the entities. All transactions between entities within the NZ Banking Group are eliminated. Subsidiaries are fully consolidated from the date on which control commences and are de-consolidated from the date that control ceases.

c. Financial assets and financial liabilities

(i) Recognition

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

Financial liabilities are recognised when an obligation arises.

(ii) Derecognition

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

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

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

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

(iii) Classification and measurement

Financial assets are grouped into the following classes: cash and balances with central banks, collateral paid, trading securities and financial assets measured at FVIS, derivative financial instruments, investment securities, loans, other financial assets and due from related entities.

Note 1 Financial statements preparation (continued)

Financial assets

Financial assets are classified based on a) the business model within which the assets are managed, and b) whether the contractual cash flows of the instrument represent SPPI.

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

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

Debt instruments

If the debt instruments have contractual cash flows which represent SPPI on the principal balance outstanding they are classified at:

- amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect these cash flows; or
- FVOCI if they are held within a business model whose objective is achieved both through collecting these cash flows or selling the financial asset; or
- FVIS if they are held within a business model whose objective is achieved through selling the financial asset.

Debt instruments are measured at FVIS where the contractual cash flows do not represent SPPI on the principal balance outstanding or where it is designated at FVIS to eliminate or reduce an accounting mismatch.

Debt instruments at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. They are presented net of provision for ECL determined using the ECL model. Refer to Notes 6 and 12 for further details.

Debt instruments at FVOCI are measured at fair value with unrealised gains and losses recognised in OCI except for interest income, impairment charges and FX gains and losses, which are recognised in the income statement. Impairment on debt instruments at FVOCI is determined using the ECL model and is recognised in the income statement with a corresponding amount in OCI. There is no reduction of the carrying value of the debt security which remains at fair value.

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

Debt instruments at FVIS are measured at fair value with subsequent changes in fair value recognised in the income statement.

Financial liabilities

Financial liabilities are grouped into the following classes: collateral received, deposits and other borrowings, other financial liabilities, derivative financial instruments, due to related entities, debt issues and loan capital.

Financial liabilities are measured at amortised cost if they are not held for trading or designated at FVIS, otherwise they are measured at FVIS.

Financial assets and financial liabilities measured at FVIS are recognised initially at fair value. All other financial assets and financial liabilities are recognised initially at fair value plus or minus directly attributable transaction costs respectively.

Further details of the accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

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

d. Critical accounting assumptions and estimates

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

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

Notes to the financial statements

Note 1 Financial statements preparation (continued)

Impact of COVID-19

The NZ Banking Group has considered the impact of the COVID-19 pandemic on the assumptions and estimates impacting the financial statements for the year ended 30 September 2022. The key areas requiring judgement include:

- ECL (including portfolio overlays, as discussed in Note 12); and
- recoverable amount assessments of goodwill.

As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, the actual outcomes may differ significantly which may impact accounting estimates included in these financial statements.

e. Future developments in accounting standards

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

Notes to the financial statements

Note 2 Net interest income

Accounting policy

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

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

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

		NZ BANKING GROUP	
$ millions	Note	**2022**	2021
Interest income			
Calculated using the effective interest method			
Cash and balances with central banks		**162**	16
Collateral paid		**1**	-
Investment securities		**92**	79
Loans		**3,470**	2,916
Due from related entities	22	**17**	-
Other interest income		**-**	1
Total interest income calculated using the effective interest method		**3,742**	3,012
Other			
Trading securities and financial assets measured at FVIS		**82**	29
Total other		**82**	29
Total interest income		**3,824**	3,041
Interest expense			
Calculated using the effective interest method			
Collateral received		**4**	-
Deposits and other borrowings		**771**	426
Due to related entities	22	**32**	18
Debt issues		**167**	145
Loan capital		**137**	122
Other interest expense		**44**	6
Total interest expense calculated using the effective interest method		**1,155**	717
Other			
Deposits and other borrowings		**58**	20
Debt issues		**39**	7
Other interest expense[1]		**234**	239
Total other		**331**	266
Total interest expense		**1,486**	983
Net interest income		**2,338**	2,058

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

Notes to the financial statements

Note 3 Non-interest income

Accounting policy

Non-interest income includes net fees and commissions income, net wealth management and insurance income, trading income and other income.

Net fees and commissions income

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

Fees and commissions income

Fees and commissions income is recognised when the performance obligation is satisfied by transferring the promised good or service to the customer. Fees and commissions income includes facility fees, transaction fees and commissions and other non-risk fee income. Commissions income also includes commissions received for the distribution of general and life insurance products.

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

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

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

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

Fees and commissions expenses

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

Net wealth management income

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

Net insurance income and change in policy liabilities

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

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

Life insurance contract claims were recognised as an expense when the liability was established.

Trading income

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

Notes to the financial statements

Note 3 Non-interest income (continued)

$ millions	NZ BANKING GROUP 2022	2021
Net fees and commissions income		
Facility fees	**43**	54
Transaction fees and commissions	**207**	140
Other non-risk fee income	**22**	21
Fees and commissions income	**272**	215
Credit card loyalty programmes	**(35)**	(32)
Transaction fees and commissions related expenses	**(31)**	(25)
Fees and commissions expenses	**(66)**	(57)
Net fees and commissions income	**206**	158
Net wealth management and insurance income		
Net wealth management income	**37**	53
Net insurance income and change in policy liabilities[1]	**26**	73
Net wealth management and insurance income	**63**	126
Trading income	**183**	203
Other income		
Net ineffectiveness on qualifying hedges	**3**	(4)
Other non-interest income	**3**	9
Net gain on disposal of controlled entity[1]	**126**	-
Total other income	**132**	5
Total non-interest income	**584**	492

[1] On 28 February 2022, the sale of Westpac Life (renamed Fidelity Insurance Limited on 28 February 2022) to Fidelity Life was completed. As such, from 1 March 2022, the NZ Banking Group does not conduct any insurance business. Refer to Note 33 for details.

Deferred income in relation to the credit card loyalty programmes for the NZ Banking Group was $31 million as at 30 September 2022 (30 September 2021: $31 million). This will be recognised as fees and commissions income as the credit card reward points are redeemed.

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

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

	NZ BANKING GROUP					
$ millions	Consumer Banking and Wealth	Institutional and Business Banking	Financial Markets, International Trade and Payments	Investments and Insurance	Reconciling Items	Total
Year ended 30 September 2022						
Fees and commissions income						
Facility fees	**24**	**14**	**2**	**-**	**3**	**43**
Transaction fees and commissions	**150**	**52**	**(4)**	**-**	**9**	**207**
Other non-risk fee income	**4**	**12**	**14**	**-**	**(8)**	**22**
Fees and commissions income	**178**	**78**	**12**	**-**	**4**	**272**
Fees and commissions expenses	**(66)**	**-**	**-**	**-**	**-**	**(66)**
Net fees and commissions income	**112**	**78**	**12**	**-**	**4**	**206**
Wealth management income	**10**	**-**	**-**	**27**	**-**	**37**
Year ended 30 September 2021						
Fees and commissions income						
Facility fees	26	16	1	-	11	54
Transaction fees and commissions	100	45	-	-	(5)	140
Other non-risk fee income	9	14	11	-	(13)	21
Fees and commissions income	135	75	12	-	(7)	215
Fees and commissions expenses	(57)	-	-	-	-	(57)
Net fees and commissions income	78	75	12	-	(7)	158
Wealth management income	15	-	-	38	-	53

Notes to the financial statements

Note 4 Operating expenses

		NZ BANKING GROUP	
$ millions	Note	**2022**	2021
Staff expenses		**658**	566
Lease expense		**20**	27
Depreciation		**88**	95
Technology services and telecommunications		**155**	175
Purchased services		**96**	112
Software amortisation costs		**47**	61
Related entities - management fees	22	**10**	10
Other		**112**	114
Total operating expenses		**1,186**	1,160

Comparative information disclosed within certain operating expenses categories above has been restated as a result of review undertaken during the year. The restatements relate to:

- Certain expenses being reclassified due to change in scope of the technology services and telecommunications and purchased services categories, and no longer separating out consultant costs from these two categories. As a result, comparative information for technology services and telecommunications increased by $71 million, purchased services decreased by $20 million, other decreased by $14 million and consultant costs decreased by $37 million.
- Revising the presentation of capitalised staff expenses associated with internally generated software between staff expenses and technology services and telecommunications categories. As a result, comparative information for staff expenses decreased by $34 million and technology services and telecommunications increased by the corresponding amount.

Note 5 Auditor's remuneration

	NZ BANKING GROUP	
$'000s	**2022**	2021
Audit and audit related services		
Audit and review of financial statements[1]	**3,587**	3,290
Other audit related services[2,3]	**926**	382
Total remuneration for audit and other audit related services	**4,513**	3,672
Other services	**-**	-
Total remuneration for non-audit services	**-**	-
Total remuneration for audit, other audit related services and non-audit services	**4,513**	3,672

[1] Fees for the annual audit of the financial statements, the review or other procedures performed on the interim financial statements and Sarbanes-Oxley reporting undertaken in the role of auditor.

[2] Assurance or agreed upon procedures over the issue of comfort letters and debt issuance programmes. The amount for the year ended 30 September 2021 also includes assurance or agreed upon procedures over regulatory liquidity returns and historical financial information in relation to the proposed demerger of Westpac New Zealand.

[3] As at 30 September 2022, $414,366 out of other audit related services was paid to PwC Australia for the issue of comfort letters and work on Westpac New Zealand's debt issuance programme (30 September 2021: $53,872).

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

The external auditor also provides audit and non-audit assurance services to non-consolidated entities, including non-consolidated trusts and non-consolidated superannuation funds or pension funds of which a member of the NZ Banking Group is manager or responsible entity. During the year ended 30 September 2022, the fees in respect of these services were $452,897 (30 September 2021: $475,271).

Notes to the financial statements

Note 6 Impairment charges/(benefits)

Accounting policy

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

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

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

Uncollectable loans

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

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

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Provisions raised/(released):		
Performing	**(38)**	(95)
Non-performing	**1**	(1)
Bad debts written-off/(recovered) directly to the income statement	**10**	12
Impairment charges/(benefits)	**(27)**	(84)
of which relates to:		
Loans and credit commitments	**(27)**	(84)
Impairment charges/(benefits)	**(27)**	(84)

Impairment charges/(benefits) on all other financial assets are not material to the NZ Banking Group.

Notes to the financial statements

Note 7 Income tax expense

Accounting policy

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

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

Goods and services tax

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

Critical accounting assumptions and estimates

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Income tax expense		
Current tax:		
Current year	**454**	419
Prior year adjustments	**(5)**	(2)
Deferred tax (refer to Note 15):		
Current year	**11**	(1)
Prior year adjustments	**5**	1
Total income tax expense	**465**	417
Profit before income tax	**1,763**	1,474
Tax calculated at tax rate of 28%	**494**	413
Other non-assessable items	**(34)**	(2)
Expenses not deductible for tax purposes	**5**	7
Prior year adjustments	**-**	(1)
Total income tax expense	**465**	417

The effective tax rate for the year ended 30 September 2022 was 26.4% (30 September 2021: 28.3%).

Note 8 Imputation credit account

	NZ BANKING GROUP	
$ millions	**2022**	2021
Imputation credits available for use in subsequent reporting periods	**1,047**	1,254

Note 9 Trading securities and financial assets measured at FVIS

Accounting policy

Trading securities

Trading securities include actively traded debt (government and other) and those acquired for sale in the near term and are held at fair value.

Reverse repurchase agreements

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

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Government and semi-government securities	**1,524**	2,512
Other debt securities	**1,804**	1,326
Reverse repurchase agreements	**173**	697
Total trading securities and financial assets measured at FVIS	**3,501**	4,535

Note 10 Investment securities

Accounting policy

Investment securities include debt securities (government and other) that are measured at FVOCI. These instruments are classified based on the criteria disclosed under the heading "Financial assets and financial liabilities" in Note 1.

Debt securities measured at FVOCI

Include debt instruments that have contractual cash flows which represent SPPI on the principal balance outstanding and they are held within a business model whose objective is achieved both through collecting these cash flows or selling the financial asset.

These securities are measured at fair value with gains and losses recognised in OCI except for interest income, impairment charges and FX gains and losses and fair value hedge adjustments which are recognised in the income statement.

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

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Government and semi-government securities	**3,656**	3,526
Other debt securities	**1,967**	1,154
Total investment securities	**5,623**	4,680

Notes to the financial statements

Note 11 Loans

Accounting policy

Loans are financial assets initially recognised at fair value plus directly attributable transaction costs and fees.

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

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

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Residential mortgages	**63,827**	60,849
Other retail	**2,829**	2,976
Corporate	**31,015**	29,547
Other	**121**	129
Total gross loans	**97,792**	93,501
Provision for ECL on loans (refer to Note 12)	**(400)**	(476)
Total net loans	**97,392**	93,025

Notes to the financial statements

Note 12 Provision for expected credit losses

Accounting policy

Note 6 provides details of impairment charges/(benefits).

Impairment applies to all financial assets at amortised cost, investment securities and credit commitments.

The ECL is recognised as follows:

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

Measurement

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

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

- PD: the probability that a counterparty will default;
- LGD: the loss that is expected to arise in the event of a default; and
- EAD: the estimated outstanding amount of credit exposure at the time of the default.

Model stages

The three stages are as follows:

Stage 1: 12 months ECL - performing

For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months ECL is recognised.

Stage 2: Lifetime ECL – performing

For financial assets where there has been a significant increase in credit risk since origination but where the asset is still performing a provision for lifetime ECL is recognised. The indicators of a significant increase in credit risk are described on the following page.

Stage 3: Lifetime ECL – non-performing

Financial assets in Stage 3 are those that are in default. A default occurs when:

- The NZ Banking Group considers that the customer is unable to repay its credit obligations in full, irrespective of recourse by the NZ Banking Group to action such as realising security. Indicators include a breach of contract with the NZ Banking Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on an individual basis; or
- The customer is more than 90 days past due on any material credit obligation.

A provision for lifetime ECL is recognised on these financial assets.

Collective and individual assessment

Financial assets that are in Stages 1 and 2 are assessed on a collective basis. This means that they are grouped in pools of similar assets with similar credit risk characteristics including the type of product and CRG. Financial assets in Stage 3 are assessed on an individual basis and calculated collectively for those below a specified threshold.

Expected life

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

Movement between stages

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

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

Accounting policy (continued)

Critical accounting assumptions and estimates

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

Significant increase in credit risk

Determining when a financial asset has experienced a significant increase in credit risk since origination is a critical accounting judgement which is based on the change in the PD since origination. In determining whether a change in PD represents a significant increase in risk, relative changes in PD and absolute PD thresholds are both considered based on the portfolio of the exposure.

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

Forward-looking macroeconomic information

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

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

- Base case scenario

  This scenario utilises the internal Westpac Economics' forecasts used for strategic decision making and forecasting.

- Upside scenario

  This scenario represents a modest improvement on the base case scenario.

- Downside scenario

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

The three macroeconomic scenarios are probability weighted and together represent the NZ Banking Group's view of the forward looking distribution of potential loss outcomes. The weighting applied to each of the three macroeconomic scenarios takes into account historical frequency, current trends, and forward-looking conditions.

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

Overlays

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

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

Note 12 Provision for expected credit losses (continued)

Loans and credit commitments

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

	NZ BANKING GROUP									
	2022					2021				
	Performing		Non-performing			Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3		Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total	CAP	CAP	CAP	IAP	Total
Provision for ECL on loans										
Residential mortgages	**40**	**87**	**43**	**9**	**179**	41	69	46	8	164
Other retail	**12**	**36**	**13**	**1**	**62**	16	53	22	1	92
Corporate	**35**	**94**	**13**	**17**	**159**	28	126	6	60	220
Total provision for ECL on loans (refer to Note 11)	**87**	**217**	**69**	**27**	**400**	85	248	74	69	476
Provision for ECL on credit commitments										
Residential mortgages	**6**	**4**	**-**	**-**	**10**	5	1	-	-	6
Other retail	**5**	**7**	**-**	**-**	**12**	5	9	1	-	15
Corporate	**5**	**12**	**-**	**-**	**17**	7	21	-	-	28
Total provision for ECL on credit commitments (refer to Note 20)	**16**	**23**	**-**	**-**	**39**	17	31	1	-	49
Total provision for ECL on loans and credit commitments	**103**	**240**	**69**	**27**	**439**	102	279	75	69	525
Gross loans	**85,810**	**11,439**	**483**	**60**	**97,792**	85,020	7,871	501	109	93,501
Credit commitments	**26,783**	**2,120**	**25**	**1**	**28,929**	27,412	1,653	17	6	29,088
Gross loans and credit commitments	**112,593**	**13,559**	**508**	**61**	**126,721**	112,432	9,524	518	115	122,589
Coverage ratio on loans (%)	**0.10**	**1.90**	**14.29**	**45.00**	**0.41**	0.10	3.15	14.77	63.30	0.51
Coverage ratio on loans and credit commitments (%)	**0.09**	**1.77**	**13.58**	**44.26**	**0.35**	0.09	2.93	14.48	60.00	0.43

Movements in components of loss allowance

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

- "Transfers between stages" lines represent transfers between Stage 1, Stage 2 and Stage 3 prior to remeasurement of the provision for ECL.
- "New financial assets originated" line represents new accounts originated during the year.
- "Financial assets derecognised during the period" line represents loans derecognised due to final repayments during the year.
- "Other charges/(credits) to the income statement" line represents the impact on the provision for ECL due to changes in credit quality during the year (including transfers between stages), changes in portfolio overlays, changes due to forward-looking economic scenarios and partial repayments and additional drawdowns on existing facilities over the year.
- Amounts written off represent a reduction in the provision for ECL as a result of derecognition of exposures where there is no reasonable expectation of full recovery.

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

	NZ BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	**CAP**	**CAP**	**CAP**	**IAP**	**Total**
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	**141**	**(122)**	**(19)**	**-**	**-**
Transfers to Stage 2	**(12)**	**52**	**(39)**	**(1)**	**-**
Transfers to Stage 3 CAP	**-**	**(24)**	**26**	**(2)**	**-**
Transfers to Stage 3 IAP	**-**	**(7)**	**(6)**	**13**	**-**
Reversals of previously recognised impairment charges	**-**	**-**	**-**	**(6)**	**(6)**
New financial assets originated	**16**	**-**	**-**	**-**	**16**
Financial assets derecognised during the year	**(11)**	**(27)**	**(19)**	**-**	**(57)**
Changes in CAP due to amounts written off	**-**	**-**	**(23)**	**-**	**(23)**
Other charges/(credits) to the income statement	**(133)**	**89**	**74**	**3**	**33**
Total charges/(credits) to the income statement for ECL	**1**	**(39)**	**(6)**	**7**	**(37)**
Amounts written off from IAP	**-**	**-**	**-**	**(49)**	**(49)**
Total provision for ECL on loans and credit commitments as at 30 September 2022	**103**	**240**	**69**	**27**	**439**

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

Note 12 Provision for expected credit losses (continued)

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

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

	NZ BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 30 September 2021	**46**	**70**	**46**	**8**	**170**
Due to changes in credit quality:					
Transfers to Stage 1	43	(36)	(7)	-	-
Transfers to Stage 2	(2)	28	(26)	-	-
Transfers to Stage 3 CAP	-	(3)	3	-	-
Transfers to Stage 3 IAP	-	-	(5)	5	-
Reversals of previously recognised impairment charges	-	-	-	(1)	(1)
New financial assets originated	5	-	-	-	5
Financial assets derecognised during the year	(2)	(3)	(12)	-	(17)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(44)	35	44	-	35
Total charges/(credits) to the income statement for ECL	**-**	**21**	**(3)**	**4**	**22**
Amounts written off from IAP	-	-	-	(3)	(3)
Total provision for ECL on loans and credit commitments as at 30 September 2022	**46**	**91**	**43**	**9**	**189**
Other retail					
Provision for ECL as at 30 September 2021	**21**	**62**	**23**	**1**	**107**
Due to changes in credit quality:					
Transfers to Stage 1	84	(76)	(8)	-	-
Transfers to Stage 2	(6)	16	(10)	-	-
Transfers to Stage 3 CAP	-	(14)	14	-	-
Transfers to Stage 3 IAP	-	-	-	-	-
Reversals of previously recognised impairment charges	-	-	-	-	-
New financial assets originated	4	-	-	-	4
Financial assets derecognised during the year	(4)	(13)	(3)	-	(20)
Changes in CAP due to amounts written off	-	-	(23)	-	(23)
Other charges/(credits) to the income statement	(82)	68	20	1	7
Total charges/(credits) to the income statement for ECL	**(4)**	**(19)**	**(10)**	**1**	**(32)**
Amounts written off from IAP	-	-	-	(1)	(1)
Total provision for ECL on loans and credit commitments as at 30 September 2022	**17**	**43**	**13**	**1**	**74**
Corporate					
Provision for ECL as at 30 September 2021	**35**	**147**	**6**	**60**	**248**
Due to changes in credit quality:					
Transfers to Stage 1	14	(10)	(4)	-	-
Transfers to Stage 2	(4)	8	(3)	(1)	-
Transfers to Stage 3 CAP	-	(7)	9	(2)	-
Transfers to Stage 3 IAP	-	(7)	(1)	8	-
Reversals of previously recognised impairment charges	-	-	-	(5)	(5)
New financial assets originated	7	-	-	-	7
Financial assets derecognised during the year	(5)	(11)	(4)	-	(20)
Changes in CAP due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	(7)	(14)	10	2	(9)
Total charges/(credits) to the income statement for ECL	**5**	**(41)**	**7**	**2**	**(27)**
Amounts written off from IAP	-	-	-	(45)	(45)
Total provision for ECL on loans and credit commitments as at 30 September 2022	**40**	**106**	**13**	**17**	**176**

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

Notes to the financial statements

Note 12 Provision for expected credit losses (continued)

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

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

Note 12 Provision for expected credit losses (continued)

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.

	NZ BANKING GROUP	
$ millions	**2022**	2021
Modelled provision for ECL	**313**	448
Portfolio overlays	**126**	77
Total provision for ECL	**439**	525

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

Modelled provision for ECL

The modelled provision for ECL is a probability weighted estimate based on three scenarios which together represent the NZ Banking Group's view of the forward-looking distribution of potential loss outcomes. The changes in provisions as a result of changes in modelled ECL are reflected through the "Other charges/(credits) to the income statement" line in the "Movements in components of loss allowance" table. 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, which includes increasing interest rates and reducing residential property prices due to the current high inflation environment. The forecasts also allow for a deterioration in GDP growth over FY23, driven by the impact on consumer spending from higher interest rates and declining house prices.

The NZ Banking Group's forecast assumes the following:

Key macroeconomic assumptions for base case scenario	30 September 2022[1]	30 September 2021
Annual GDP	Forecasted to fall to 1.88% over the next 12 months.	Forecasted growth of 10.9% over the next 12 months.
Residential property prices	Forecasted to have a peak annual decrease of 10% during the next 12 months, with an annual decrease of 6.7% at September 2023.	Forecasted growth to peak at 26% during the financial year and then fall to 1.6% at September 2022.
Cash rate	Increase of 100 bps expected over the next 12 months.	Increase of 100 bps expected over the next 12 months.
Unemployment rate	Forecast to increase to 3.7% by September 2023.	Forecasted to peak at 4.2% in December 2021 then ease to 3.5% by September 2022.

[1] The NZ Banking Group has used the forecast released on 22 August 2022. Any changes in inputs from updated forecasts reflecting assumptions as at 30 September 2022 do not have a material impact on the provision for ECL.

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

The following sensitivity table shows the reported provision for ECL 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 CRGs, held constant).

	NZ BANKING GROUP	
$ millions	**2022**	2021
Reported probability-weighted ECL	**439**	525
100% base case ECL	**330**	412
100% downside ECL	**578**	700

Note 12 Provision for expected credit losses (continued)

If 1% of the stage 1 gross exposure from loans and credit commitments (calculated on a 12-month ECL) was reflected in stage 2 (calculated on a lifetime ECL) the provision for ECL would increase by $23 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 NZ Banking Group as at 30 September 2022 and 30 September 2021.

	NZ BANKING GROUP	
Macroeconomic scenario weightings (%)	**2022**	2021
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 uncertainties that are not captured in the underlying modelled ECL. Determination of portfolio overlays requires expert judgement and is thoroughly documented and subject to comprehensive internal governance and oversight. Overlays are continually reassessed and if the risk is judged to have changed (increased or decreased), or is subsequently captured in the modelled ECL, the overlay will be released or remeasured.

Portfolio overlays were increased by $49 million due to additional uncertainty arising from the current geopolitical and economic environment.

The total portfolio overlays as at 30 September 2022 were $126 million (30 September 2021: $77 million) for the NZ Banking Group and primarily comprise:

- $52 million on the residential mortgages and other retail portfolios reflecting the expected lagged impact of increasing interest rates (30 September 2021: nil)
- $40 million on the residential mortgages portfolio reflecting a worsening downside scenario (this impact is distinct from the increasing interest rate overlay above) not factored into the modelled downside outcome (30 September 2021: nil)
- $30 million on the corporate portfolio reflecting the continued expected delay in stress and observed losses (30 September 2021: nil)
- $4 million (30 September 2021: $3 million) reflecting other related risks.

Overlays at 30 September 2021 relating to COVID-19 of $74 million have been released on the basis that any delayed losses would have emerged as conditions have normalised, except to the extent reflected in the new overlays recognised above.

Note 12 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 $0.8 billion (30 September 2021: increased by $3.8 billion), primarily driven by increases in the residential mortgages and corporate portfolios, due to new lending in this financial year. The increase from portfolio growth is partially offset by derecognitions, repayments and additional exposures transferred to Stage 2 to account for the increase in downside scenario severity and overlays. Stage 1 ECL has increased in line with the increase in Stage 1 exposures, along with improvements due to portfolio movements offset by an increase in overlays.
- Stage 2 credit exposures increased by $3.6 billion (30 September 2021: increased by $0.8 billion), mainly driven by increases from the residential mortgages and corporate portfolios due to additional exposures transferred to Stage 2 to account for the increase in downside scenario severity and overlays, partially offset by improved portfolio performance from the other retail and corporate portfolios. Stage 2 ECL has decreased, driven by the reduction in overlays and improvements from portfolio movements.
- Stage 3 credit exposures had a net decrease of $0.1 billion (30 September 2021: decreased by $0.1 billion), driven by reductions in 90 days past due exposures mainly from the residential mortgages portfolio, offset by the increases from the other retail and corporate portfolios, coupled with releases due to write-offs across all portfolios. Stage 3 ECL has decreased in line with the decrease in Stage 3 exposures.

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

Write-offs still under enforcement activity

The amount of current year write-offs which remain subject to enforcement activity was $18 million (30 September 2021: $24 million).

Notes to the financial statements

Note 13 Credit risk management

Index	Note name	Note number
Credit risk	Credit risk management framework	13.1
The risk of financial loss where a customer or counterparty fails to meet their financial obligations to the NZ Banking Group.	Credit risk ratings system	13.2
	Credit risk concentrations and maximum exposure to credit risk	13.3
	Credit quality of financial assets	13.4
	Credit risk mitigation, collateral and other credit enhancements	13.5

13.1 Credit risk management framework

Please refer to Note 31.1 for details of the NZ Banking Group's overall risk management framework.

- The Overseas Bank's Credit Risk Management Framework describes the principles, methodologies, systems, roles and responsibilities, reports and key controls for managing credit risk. Within the Credit Risk Management Framework, the NZ Banking Group has its own credit approval limits approved by Westpac New Zealand's Board as delegated by the Overseas Banking Group's Chief Risk Officer.
- The Group BRiskC and the NZ Banking Group ERC monitor the risk profile, performance and management of the NZ Banking Group's credit portfolio and the development and review of key credit risk policies on at least a quarterly basis; other management reviews occur monthly or more frequently.
- The NZ Banking Group's Credit Risk Rating System Policy describes the credit risk rating system philosophy, design, key features, IT systems and uses of rating outcomes.
- All models materially impacting the risk rating process are periodically reviewed in accordance with the NZ Banking Group's model risk policies.
- An annual review is performed of the Credit Risk Rating System for approval by the Westpac New Zealand BRCC and ERC.
- Specific credit risk estimates (including PD, LGD and EAD) are overseen, reviewed annually and supported by the Overseas Bank's Credit Risk Estimates Committee (a subcommittee of the Group BRiskC).
- In determining the provision for ECL, the forward-looking economic inputs and the probability weightings of the forward-looking scenarios as well as any adjustments made to the modelled outcomes are subject to the approval of the NZ Banking Group's Chief Financial Officer and Chief Risk Officer with oversight from the Westpac New Zealand Board (and its Committees).
- Policies for delegating credit approval authorities and formal limits for the extension of credit are established throughout the NZ Banking Group. These include policies for the approval and management of credit risk arising from other banks and related entities.
- Credit policies are established throughout the NZ Banking Group. They include policies governing the origination, evaluation, approval, documentation, settlement and ongoing management of credit risks.
- Sector policies guide credit extension where industry-specific guidelines are considered necessary (e.g. acceptable financial ratios or permitted collateral).
- The Related Entity Risk Management Policy and supporting policies govern credit exposures to related entities to minimise the spread of credit risk between Overseas Banking Group entities and to comply with prudential requirements prescribed by APRA.
- Climate change related credit risks are considered in line with the Overseas Banking Group's Climate Change Position Statement. Climate change risks are managed in line with the NZ Banking Group's risk framework which is supported by the Overseas Banking Group's Sustainability Risk Management Framework, Westpac New Zealand's Environmental, Social and Governance (ESG) Credit Risk Policy and Board Risk Appetite Statements. Where appropriate, these are applied at the portfolio, customer, and transaction level.
- The Credit Risk Committee oversees work to identify and manage the potential impact on credit exposures from climate change-related transition and physical risks across the NZ Banking Group.
- Westpac New Zealand's ESG Credit Risk Policy details the overall approach to managing ESG risks in the credit risk process for applicable transactions.

Note 13 Credit risk management (continued)

13.2 Credit risk ratings system

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

Transaction-managed customers

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

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

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

Program-managed portfolio

The program-managed portfolio generally includes retail products including mortgages, personal lending (including credit cards) as well as certain SME lending. These customers are grouped into pools of similar risk. Pools are created by analysing similar risk characteristics that have historically predicted that an account is likely to go into default. Customers grouped according to these predictive characteristics are assigned a PD and LGD relative to their pool. The credit quality of these pools is based on a combination of behavioural factors, delinquency trends, PD estimates and loan to valuation ratio (housing loans only).

	Program-managed	
Financial Statement Disclosure	**Advanced PM Model[1]**	**Simplified PM Approach[2]**
Strong	Stage 1 facilities with PM Risk Grade between 13 and 10	-
Good/satisfactory	Stage 1 facilities with PM Risk Grade between 9 and 6	Stage 1
	Stage 2 facilities with PM Risk Grade between 13 and 6	Stage 2 and 0 - 29 days past due
Weak	All facilities with PM Risk Grade between 5 and 1	Stage 2 and 30 or more days past due
Weak/default/non-performing	All facilities with PM Risk Grade equal to 0	Stage 3

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

13.3 Credit concentrations and maximum exposure to credit risk

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

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

Individual customers or groups of related customers

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

Specific industries

Exposures to businesses, governments and other financial institutions are classified into a number of industry clusters based on related ANZSIC codes and are monitored against the NZ Banking Group's industry risk appetite limits.

Note 13 Credit risk management (continued)

Individual countries

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

Maximum exposure to credit risk

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Financial assets		
Cash and balances with central banks	**11,162**	8,604
Collateral paid	**87**	207
Trading securities and financial assets measured at FVIS	**3,501**	4,535
Derivative financial instruments	**9,383**	3,852
Investment securities	**5,623**	4,680
Loans	**97,392**	93,025
Other financial assets	**644**	1,388
Due from related entities	**6,609**	1,739
Total financial assets	**134,401**	118,030
Undrawn credit commitments		
Letters of credit and guarantees	**1,025**	948
Commitments to extend credit	**27,904**	28,140
Total undrawn credit commitments	**28,929**	29,088
Total maximum credit risk exposure	**163,330**	147,118

Note 13 Credit risk management (continued)

Concentration of credit exposures

	NZ BANKING GROUP	
$ millions	**2022**	2021
On-balance sheet credit exposures		
Analysis of on-balance sheet credit exposures by geographical areas		
New Zealand	**119,076**	111,607
Overseas	**15,725**	6,899
Subtotal	**134,801**	118,506
Provision for ECL on loans	**(400)**	(476)
Total on-balance sheet credit exposures	**134,401**	118,030
Analysis of on-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**395**	464
Agriculture	**9,267**	9,387
Construction	**500**	499
Finance and insurance	**13,969**	9,987
Forestry and fishing	**515**	488
Government, administration and defence	**17,257**	15,431
Manufacturing	**3,731**	1,768
Mining	**227**	215
Property	**8,214**	7,878
Property services and business services	**1,296**	1,202
Services	**1,410**	1,766
Trade	**2,729**	2,137
Transport and storage	**1,193**	1,298
Utilities	**2,213**	1,999
Retail lending	**65,162**	62,161
Other	**-**	1
Subtotal	**128,078**	116,681
Provision for ECL on loans	**(400)**	(476)
Due from related entities	**6,609**	1,739
Other financial assets	**114**	86
Total on-balance sheet credit exposures	**134,401**	118,030

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

Notes to the financial statements

Note 13 Credit risk management (continued)

	NZ BANKING GROUP	
$ millions	**2022**	2021
Off-balance sheet credit exposures consists of		
Credit risk-related instruments	**28,929**	29,088
Total off-balance sheet credit exposures	**28,929**	29,088
Analysis of off-balance sheet credit exposures by geographical areas		
New Zealand	**28,421**	28,547
Overseas	**508**	541
Total off-balance sheet credit exposures	**28,929**	29,088
Analysis of off-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**126**	95
Agriculture	**626**	694
Construction	**509**	578
Finance and insurance	**1,880**	2,082
Forestry and fishing	**170**	221
Government, administration and defence	**966**	769
Manufacturing	**1,422**	1,712
Mining	**106**	57
Property	**1,648**	1,621
Property services and business services	**785**	709
Services	**1,285**	1,143
Trade	**1,717**	1,872
Transport and storage	**790**	985
Utilities	**1,838**	1,883
Retail lending	**15,061**	14,667
Total off-balance sheet credit exposures	**28,929**	29,088

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

Note 13 Credit risk management (continued)

13.4 Credit quality of financial assets

The following table shows the credit quality of gross credit risk exposures measured at amortised cost or at FVOCI to which the impairment requirements of NZ IFRS 9 apply. The credit quality is determined by reference to the credit risk ratings system (refer to Note 13.2) and expectations of future economic conditions under multiple scenarios:

	NZ BANKING GROUP							
	2022				2021			
$ millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total[1]**	Stage 1	Stage 2	Stage 3	Total[1]
Loans - Residential Mortgages								
Strong	**55,768**	**-**	**-**	**55,768**	50,544	-	-	50,544
Good/satisfactory	**1,527**	**6,000**	**-**	**7,527**	6,002	3,353	-	9,355
Weak	**-**	**172**	**360**	**532**	22	525	403	950
Total Loans - Residential Mortgages	**57,295**	**6,172**	**360**	**63,827**	56,568	3,878	403	60,849
Loans - Other retail								
Strong	**1,124**	**-**	**-**	**1,124**	1,141	-	-	1,141
Good/satisfactory	**937**	**573**	**-**	**1,510**	1,363	226	-	1,589
Weak	**2**	**135**	**58**	**195**	15	166	65	246
Total Loans - Other retail	**2,063**	**708**	**58**	**2,829**	2,519	392	65	2,976
Loans - Corporate								
Strong	**12,953**	**-**	**-**	**12,953**	10,757	-	-	10,757
Good/satisfactory	**13,378**	**3,613**	**-**	**16,991**	15,047	1,316	-	16,363
Weak	**-**	**946**	**125**	**1,071**	-	2,285	142	2,427
Total Loans - Corporate	**26,331**	**4,559**	**125**	**31,015**	25,804	3,601	142	29,547
Loans - Other								
Strong	**121**	**-**	**-**	**121**	129	-	-	129
Good/satisfactory	**-**	**-**	**-**	**-**	-	-	-	-
Weak	**-**	**-**	**-**	**-**	-	-	-	-
Total Loans - Other	**121**	**-**	**-**	**121**	129	-	-	129
Investment Securities								
Strong	**5,623**	**-**	**-**	**5,623**	4,680	-	-	4,680
Good/satisfactory	**-**	**-**	**-**	**-**	-	-	-	-
Weak	**-**	**-**	**-**	**-**	-	-	-	-
Total Investment Securities	**5,623**	**-**	**-**	**5,623**	4,680	-	-	4,680
All other financial assets								
Strong	**14,409**	**-**	**-**	**14,409**	10,787	-	-	10,787
Good/satisfactory	**27**	**17**	**-**	**44**	28	5	-	33
Weak	**-**	**2**	**1**	**3**	-	3	1	4
Total all other financial assets	**14,436**	**19**	**1**	**14,456**	10,815	8	1	10,824
Undrawn credit commitments								
Strong	**22,561**	**6**	**-**	**22,567**	22,639	1	-	22,640
Good/Satisfactory	**4,211**	**1,979**	**-**	**6,190**	4,766	1,525	-	6,291
Weak	**11**	**135**	**26**	**172**	7	127	23	157
Total undrawn credit commitments	**26,783**	**2,120**	**26**	**28,929**	27,412	1,653	23	29,088
Total strong	**112,559**	**6**	**-**	**112,565**	100,677	1	-	100,678
Total good/satisfactory	**20,080**	**12,182**	**-**	**32,262**	27,206	6,425	-	33,631
Total weak	**13**	**1,390**	**570**	**1,973**	44	3,106	634	3,784
Total on and off balance sheet	**132,652**	**13,578**	**570**	**146,800**	127,927	9,532	634	138,093

[1] This credit quality disclosure differs to that of credit risk concentration as it relates only to financial assets measured at amortised costs or at FVOCI and therefore excludes trading securities and financial assets measured at FVIS, and derivative financial instruments.

Details of collateral held in support of these balances are provided in Note 13.5.

Notes to the financial statements

Note 13 Credit risk management (continued)

13.5 Credit risk mitigation, collateral and other credit enhancements

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

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

Collateral

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

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

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

Management of risk mitigation

The NZ Banking Group mitigates credit risk through controls covering:

Collateral and valuation management	The Overseas Bank manages collateral under collateralisation agreements centrally for all branches of the Overseas Bank and Westpac New Zealand. The estimated realisable value of collateral held in support of loans is based on a combination of: • formal valuations currently held for such collateral; and • management's assessment of the estimated realisable value of all collateral held. This analysis also takes into consideration any other relevant knowledge available to management at the time. Updated valuations are obtained when appropriate. The NZ Banking Group revalues collateral related to financial markets positions on a daily basis and has formal processes in place to promptly call for collateral top-ups, if required. These processes include margining for non-centrally cleared customer derivatives where required under APRA's Prudential Standard CPS226. The collateralisation arrangements are documented via the Credit Support Annex of the International Swaps and Derivatives Association dealing agreements and Global Master Repurchase Agreements for repurchase transactions.
Other credit enhancements	The NZ Banking Group only recognises guarantees, standby letters of credit, or credit derivative protection from entities meeting minimum eligibility requirements (provided they are not related to the entity with which the NZ Banking Group has a credit exposure) including but not limited to: • Sovereign; • Australia and New Zealand public sector; • Authorised deposit-taking institutions and overseas banks with a minimum risk grade equivalent of A3 / A-; and • Other entities with a minimum risk grade equivalent of A3 / A-. Credit Portfolio Management manages the NZ Banking Group's corporate, sovereign and bank credit portfolios through monitoring the exposure and any offsetting hedge positions. Credit Portfolio Management purchases credit protection from entities that meet minimum eligibility requirements.

Notes to the financial statements

Note 13 Credit risk management (continued)

Offsetting	Creditworthy customers domiciled in New Zealand may enter into formal agreements with the NZ Banking Group, permitting the NZ Banking Group to set-off gross credit and debit balances in their nominated accounts. Cross-border set-offs are not permitted. Close-out netting is undertaken with counterparties with whom the NZ Banking Group has entered into a legally enforceable master netting agreement for their off-balance sheet financial market transactions in the event of default. Further details of offsetting are provided in Note 25.
Central clearing	The NZ Banking Group increasingly executes derivative transactions through central clearing counterparties. Central clearing counterparties mitigate risk through stringent membership requirements, the collection of margin against all trades placed, the default fund, and an explicitly defined order of priority of payments in the event of default.

Collateral held against loans

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

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

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

	NZ BANKING GROUP									
	2022					2021				
%	Residential Mortgages[1]	Other Retail	Corporate	Other	Total	Residential Mortgages[1]	Other Retail	Corporate	Other	Total
Performing Loans										
Fully secured	**100**	**48**	**70**	**53**	**89**	100	49	68	37	88
Partially secured	**-**	**2**	**11**	**3**	**4**	-	3	15	1	5
Unsecured	**-**	**50**	**19**	**44**	**7**	-	48	17	62	7
Total	**100**	**100**	**100**	**100**	**100**	100	100	100	100	100
Non-performing loans										
Fully secured	**94**	**66**	**33**	**-**	**77**	94	51	27	-	74
Partially secured	**6**	**1**	**37**	**-**	**13**	6	6	14	-	8
Unsecured	**-**	**33**	**30**	**-**	**10**	-	43	59	-	18
Total	**100**	**100**	**100**	**-**	**100**	100	100	100	-	100

[1] For the purposes of collateral classifications, residential mortgages are classified as fully secured, unless they are non-performing in which case they may be classified as partially secured. Refer to Section iv 'Additional mortgage information' of the Registered bank disclosures for LVR analysis of residential mortgages.

Details of the carrying value and associated provision for ECL are disclosed in Note 11, Section iii. Asset quality of the Registered bank disclosures and Note 12 respectively. The credit quality of loans is disclosed in Note 13.4.

Collateral held against financial assets other than loans

	NZ BANKING GROUP	
$ millions	**2022**	2021
Cash, primarily for derivatives	**724**	320
Securities under reverse repurchase agreements[1]	**171**	692
Total other collateral held	**895**	1,012

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

Note 14 Other financial assets

	NZ BANKING GROUP	
$ millions	**2022**	2021
Accrued interest receivable	**168**	98
Trade debtors	**2**	4
Securities sold not delivered	**263**	663
Interbank lending	**99**	541
Other	**112**	82
Total other financial assets	**644**	1,388

Note 15 Deferred tax assets

Accounting policy

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

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

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

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

Deferred tax is not recognised for the following temporary differences:

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

Critical accounting assumptions and estimates

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Deferred tax assets/(liabilities) comprise the following temporary differences:		
Provision for ECL on loans	**112**	133
Provision for ECL on credit commitments	**11**	14
Cash flow hedges	**(164)**	(24)
Provision for employee entitlements	**21**	23
Compliance, regulation and remediation provisions	**18**	21
Software, property and equipment	**(43)**	(48)
Lease liabilities	**78**	81
Net insurance policy assets	**-**	-
Financial instruments	**28**	17
Other temporary differences	**7**	9
Net deferred tax assets	**68**	226
The deferred tax (charge)/credit in income tax expense comprises the following temporary differences:		
Provision for ECL on loans	**(21)**	(37)
Provision for ECL on credit commitments	**(3)**	-
Compliance, regulation and remediation provisions	**(3)**	9
Software, property and equipment	**5**	5
Lease liabilities	**(3)**	2
Net insurance policy assets	**-**	9
Financial instruments	**11**	4
Other temporary differences	**(2)**	8
Total deferred tax (charge)/credit in income tax expense	**(16)**	-
Deferred tax balances reclassified to assets held for sale		
Net insurance policy assets	**-**	38
Total deferred tax balances reclassified to assets held for sale	**-**	38
The deferred tax (charge)/credit in OCI comprises the following temporary differences:		
Cash flow hedges	**(140)**	(52)
Provision for employee entitlements	**(2)**	(5)
Total deferred tax (charge)/credit in OCI	**(142)**	(57)
The deferred tax adjustment to opening retained earnings comprises the following temporary differences:		
Software, property and equipment	**-**	3
Total deferred tax adjustment to opening retained earnings	**-**	3

Notes to the financial statements

Note 16 Intangible assets

Accounting policy

Indefinite life intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost, generally being the excess of:

i. the consideration paid; over

ii. the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Subsequently, goodwill is not amortised but rather tested for impairment. Impairment is tested at least annually or whenever there is an indication of impairment. An impairment charge is recognised when a CGU's carrying value exceeds its recoverable amount. Recoverable amount means the higher of the CGU's fair value less costs to sell and its value-in-use.

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

Finite life intangible assets

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

Intangible	Useful life	Depreciation method
Goodwill	Indefinite	Not applicable
Computer software	3 to 5 years	Straight-line or diminishing balance method (using the Sum of the Years Digits)

Critical accounting assumptions and estimates

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

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Goodwill	**525**	525
Computer software	**309**	196
Total intangible assets	**834**	721

Goodwill has been allocated to the following CGUs:

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

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

Impairment testing and results

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

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

Note 16 Intangible assets (continued)

Significant assumptions used in recoverable amount calculations

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

	Discount rate		Cash flows	
	Equity rate / adjusted pre-tax equity rate		Forecast period / terminal growth rate	
	2022	2021	**2022**	2021
Consumer Banking and Wealth	**10.5% / 13.8%**	9.0% / 12.2%	**3 years / 2%**	3 years / 2%
BT New Zealand	**10.5% / 13.8%**	9.0% / 12.2%	**3 years / 2%**	3 years / 2%

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

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

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

Note 17 Deposits and other borrowings

Accounting policy

Deposits and other borrowings are initially recognised at fair value and subsequently either measured at amortised cost using the effective interest method or at fair value.

Deposits and other borrowings are designated at fair value if they are managed on a fair value basis, reduce or eliminate an accounting mismatch, or contain an embedded derivative.

Where they are measured at fair value, any changes in fair value (except those due to changes in credit risk) are recognised as non-interest income. The change in the fair value that is due to changes in credit risk is recognised in OCI except where it would create an accounting mismatch, in which case it is also recognised in the income statement.

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Certificates of deposit	**2,939**	3,450
Non-interest bearing, repayable at call	**14,391**	14,737
Other interest bearing:		
At call	**31,245**	32,849
Term	**32,273**	28,331
Total deposits and other borrowings	**80,848**	79,367
Deposits at fair value	**2,939**	3,450
Deposits at amortised cost	**77,909**	75,917
Total deposits and other borrowings	**80,848**	79,367

Note 18 Other financial liabilities

Accounting policy

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

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

Repurchase agreements

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

The cash consideration received is recognised as a liability (repurchase agreements). Repurchase agreements are designated at fair value when they are managed as part of a trading portfolio, otherwise they are measured on an amortised cost basis.

Where a repurchase agreement is designated at fair value, subsequent to initial recognition, these liabilities are measured at fair value with changes in fair value (except credit risk) recognised through the income statement as they arise. The change in fair value that is attributable to credit risk is recognised in OCI except where it would create an accounting mismatch, in which case it is also recognised through the income statement.

	NZ BANKING GROUP	
$ millions	**2022**	2021
Accrued interest payable	**303**	130
Securities purchased not delivered	**267**	622
Trade creditors and other accrued expenses	**79**	93
Interbank placements	**28**	9
Securities sold short	**640**	962
Repurchase agreements[1]	**4,277**	3,014
Other	**13**	20
Total other financial liabilities	**5,607**	4,850
Other financial liabilities at fair value	**950**	1,880
Other financial liabilities at amortised cost	**4,657**	2,970
Total other financial liabilities	**5,607**	4,850

[1] Repurchase agreements include those under the Funding for Lending Programme and Term Lending Facility. Refer to Note 31.2.2 for further details.

Notes to the financial statements

Note 19 Debt issues

Accounting policy

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

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

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

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

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

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Short-term debt		
Commercial paper	**5,490**	2,979
Total short-term debt	**5,490**	2,979
Long-term debt		
Non-domestic medium-term notes	**7,515**	5,570
Covered bonds	**3,563**	4,347
Domestic medium-term notes	**3,365**	3,408
Total long-term debt	**14,443**	13,325
Total debt issues	**19,933**	16,304
Debt issues at fair value	**5,490**	2,979
Debt issues at amortised cost	**14,443**	13,325
Total debt issues	**19,933**	16,304

	NZ BANKING GROUP	
$ millions	**2022**	2021
Movement reconciliation		
Balance at beginning of the year	**16,304**	15,799
Issuances	**13,602**	9,476
Maturities, repayments, buy-backs and reductions	**(10,297)**	(8,369)
Total cash movements	**3,305**	1,107
FX translation impact	**1,394**	(538)
Fair value adjustments	**(10)**	-
Fair value hedge accounting adjustments	**(1,106)**	(74)
Other[1]	**46**	10
Total non-cash movements	**324**	(602)
Balance at end of the year	**19,933**	16,304

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

Notes to the financial statements

Note 20 Provisions

Accounting policy

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is likely to be necessary to settle the obligation and can be reliably estimated.

Employee benefits – annual leave and other employee benefits

The provision for annual leave and other employee benefits (including long service leave, wages and salaries, inclusive of non-monetary benefits, and any associated on-costs (e.g. payroll tax)) is calculated based on expected payments.

Provision for ECL on credit commitments

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

Compliance, regulation and remediation provisions

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

Critical accounting assumptions and estimates

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

	NZ BANKING GROUP						
$ millions	**Annual leave and other employee benefits**	**Provision for ECL on credit commitments (refer to Note 12)**	**Compliance, regulation and remediation provisions**	**Lease restoration obligations**	**Restructuring provisions**	**Other**	**Total**
Balance as at 30 September 2021	**86**	**49**	**76**	**30**	**-**	**2**	**243**
Additions	**47**	**-**	**27**	**3**	**23**	**-**	**100**
Utilisation	**(30)**	**-**	**(16)**	**-**	**(6)**	**-**	**(52)**
Reversal of unutilised provisions	**(1)**	**(10)**	**(22)**	**-**	**-**	**(1)**	**(34)**
Balance as at 30 September 2022	**102**	**39**	**65**	**33**	**17**	**1**	**257**

Compliance, regulation and remediation provisions

The compliance, regulation and remediation provisions relate to matters pertaining to the provision of services to our customers identified as a result of regulatory action and internal reviews, including the NZ Banking Group's review of processes for some products relating to the requirements of the CCCFA.

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

A number of different estimates and judgements have been applied in measuring the provision at 30 September 2022, including the number of impacted customers, the refund per customer and the additional costs to run the remediation program. It is possible that the actual outcome for these matters may differ from the assumptions used in estimating the provision. Remediation processes may change over time as further facts emerge and such changes could result in a change to the final exposure.

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

Restructuring provisions

The NZ Banking Group carries restructuring provisions for changes in its business, primarily for separation and redundancy costs. The additions and utilisations in the current year primarily relate to restructuring provisions arising from the sale of Westpac Life on 28 February 2022. Refer to Note 33 for further details.

Notes to the financial statements

Note 21 Loan capital

Accounting policy

Loan capital are debt instruments which qualify for inclusion as regulatory capital under either the Reserve Bank BPRs or, in relation to the Overseas Bank, the APRA Prudential Standards. Loan capital is initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Interest expense incurred is recognised in net interest income.

	NZ BANKING GROUP	
$ millions	**2022**	2021
Additional Tier 1 loan capital - USD AT1 securities	**1,986**	1,900
Tier 2 loan capital - Subordinated notes	**590**	-
Tier 2 loan capital - Convertible subordinated notes	**-**	1,088
Total loan capital	**2,576**	2,988

	NZ BANKING GROUP	
$ millions	**2022**	2021
Movement reconciliation		
Balance at beginning of the year	**2,988**	3,220
Issuances[1]	**590**	-
Maturities, repayments, buy-backs and reductions	**(1,178)**	-
Total cash movements	**(588)**	-
FX translation impact	**460**	(115)
Fair value hedge accounting adjustments	**(284)**	(119)
Other (amortisation of bond issue costs, etc)	**-**	2
Total non-cash movements	**176**	(232)
Balance at end of the year	**2,576**	2,988

[1] Consists of $600 million in loan capital issuances and is net of $8 million in issuance costs and $2 million in loan capital held by related entities.

Additional Tier 1 loan capital

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

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

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

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

Interest payable

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

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

Redemption

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

Note 21 Loan capital (continued)

Conversion

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

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

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

Tier 2 loan capital

On 16 September 2022, Westpac New Zealand issued $600m of subordinated notes. On 22 September 2022, Westpac New Zealand redeemed its existing convertible subordinated notes.

Subordinated notes

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

$	Issue date	Interest rate	Maturity date	Optional redemption date
NZ$600 million notes[1]	16 September 2022	Fixed at 6.19% until 16 September 2027. Resets on 16 September 2027 to a floating rate: New Zealand 90 day Bank Bill Rate + 2.10% p.a.	16 September 2032	16 September 2027 and every quarterly interest payment date thereafter

[1] The subordinated notes were issued by Westpac New Zealand.

Interest payable

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

Early redemption

Westpac New Zealand may elect to redeem all or some of the subordinated notes for their face value together with accrued interest (if any) on 16 September 2027 or any interest payment date thereafter, subject to the Reserve Bank's prior written approval. Early redemption of all of the subordinated notes for certain tax or regulatory reasons is permitted on an interest payment date subject to the Reserve Bank's prior written approval.

Convertible subordinated notes

A summary of the key terms and features of the convertible subordinated 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 Overseas Bank	Australian 90 day bank bill rate + 2.87% p.a.	22 March 2026	Redeemed on 22 September 2022

[1] The convertible subordinated notes were issued by Westpac New Zealand.

Interest payable

Quarterly interest payments on the convertible subordinated notes were subject to Westpac New Zealand being solvent at the time of, and immediately following the interest payment.

Early redemption

Westpac New Zealand redeemed all of the convertible subordinated notes for their face value together with accrued interest on 22 September 2022.

Notes to the financial statements

Note 22 Related entities

Related entities

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

NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of the Overseas Banking Group including the NZ Branch and the following controlled entities as at 30 September 2022 whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business:

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

[1] Red Bird Ventures Limited holds 29.6% diluted (31.87% undiluted) equity in Akahu Technologies Limited, an associate, which is not a controlled entity.

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

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

[4] Westpac Term PIE Fund, Westpac Cash PIE Fund and Westpac Notice Saver PIE Fund (collectively referred to as the '**PIE Funds**') were established as unit trusts. The PIE Funds PIEs, where BTNZ is the manager and issuer. The manager has appointed Westpac New Zealand to perform all customer management and account administration for the PIE Funds. Westpac New Zealand is the PIE Funds' registrar and administration manager. Westpac New Zealand does not hold any units in the PIE Funds, however is considered to control them, and as such the PIE Funds are consolidated in the financial statements of the NZ Banking Group.

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 controlled entity. The transaction resulted in a gain on sale of $126 million. Refer to Note 33 for more details.

On 16 June 2022, WNZGL issued 5,616,000,000 ordinary shares to its immediate parent company, Westpac Overseas Holdings No.2 Pty Limited, for $1 per share which was settled through dividends declared of equivalent value on the same day.

On 28 June 2022, WFSGNZL acquired 59,140,734 ordinary shares from its sole shareholder, Westpac Equity Holdings Pty Limited, for $1 per share.

Other than disclosed above, there have been no changes in the ownership percentages since 30 September 2021.

Notes to the financial statements

Note 22 Related entities (continued)

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

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

Nature of transactions

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

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

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

Transactions with related entities

		NZ BANKING GROUP	
$ millions	**Note**	**2022**	2021
Overseas Bank			
Interest income	2	**17**	-
Interest expense:			
Loan capital[1]		**37**	33
Other[2]	2	**32**	18
Operating expenses - management fees	4	**10**	10
Funding repaid		**-**	29
Other controlled entities of the Overseas Bank			
WGINZL dividend paid to Westpac Overseas Holdings Pty Limited[3]		**82**	-
WFSGNZL dividend paid to Westpac Equity Holdings Pty Limited ('**WEHPL**')[4]		**400**	-
BTFGNZL dividend paid to WEHPL[5]		**35**	-
WNZGL dividend paid to Westpac Overseas Holdings No. 2 Pty Limited ('**WOHN2PL**')[6]		**6,379**	265

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

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

[3] On 23 March 2022, WGINZL declared and paid dividend of $82 million to Westpac Overseas Holdings Pty Limited.

[4] On 22 March 2022, WFSGNZL declared and paid a dividend of $400 million to WEHPL, predominantly reflecting the distribution proceeds from the sale of Westpac Life.

[5] On 23 March 2022, BTFGNZL declared and paid a dividend of $35.4 million to WEHPL.

[6] On 22 February 2022, 16 June 2022 and 22 August 2022, WNZGL declared and paid a dividend of $455 million, $5,616 million (which was settled through the issuance of an equivalent value of ordinary shares on the same day) and $308 million to WOHN2PL.

Due from and to related entities

	NZ BANKING GROUP	
$ millions	**2022**	2021
Due from related entities		
Overseas Bank	**6,609**	1,739
Total due from related entities	**6,609**	1,739
Due from related entities at fair value[1]	**4,045**	1,115
Due from related entities at amortised cost	**2,564**	624
Total due from related entities	**6,609**	1,739
Due to related entities		
Overseas Bank	**8,291**	2,410
Other controlled entities of the Overseas Banking Group	**1**	-
Total due to related entities	**8,292**	2,410
Due to related entities at fair value[2]	**6,516**	1,184
Due to related entities at amortised cost	**1,776**	1,226
Total due to related entities	**8,292**	2,410

[1] Consists of derivative financial instruments of $4,044 million (30 September 2021: $1,115 million) (refer to Note 23) and trading securities of $1 million (30 September 2021: nil).

[2] Consists of derivative financial instruments of $6,516 million (30 September 2021: $1,184 million) (refer to Note 23).

Note 22 Related entities (continued)

Key management personnel compensation

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

	NZ BANKING GROUP	
$'000s	**2022**	2021
Salaries and other short-term benefits	**9,936**	9,224
Post-employment benefits	**696**	626
Termination benefits	**684**	1,087
Share-based payments	**1,766**	3,333
Total key management personnel compensation	**13,082**	14,270
Loans to key management personnel	**7,675**	10,370
Deposits from key management personnel	**8,415**	19,276
Interest income on amounts due from key management personnel	**111**	281
Interest expense on amounts due to key management personnel	**56**	56

[1] Equity-settled remuneration is based on the amortisation over the performance and vesting period (normally two to four years). It is calculated using the fair value at the grant date of hurdled and unhurdled share rights granted during the four years ending 30 September 2022.

Where the Directors of the Overseas Bank have received remuneration from the NZ Banking Group, the amounts are included above. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2022 Annual Financial Report.

Loans and deposits with key management personnel

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

As at 30 September 2022, no amounts have been written off and no individual provision has been recognised in respect of loans given to key management personnel and their related parties (30 September 2021: nil). These loans have been included within the loan portfolio when determining collectively assessed provisions.

Other key management personnel transactions

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

Note 23 Derivative financial instruments

Accounting policy

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

The NZ Banking Group uses derivative financial instruments for meeting customers' needs; our ALM activities, and undertaking market making and positioning activities.

Trading derivatives

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

Hedging derivatives

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

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

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

Notes to the financial statements

Note 23 Derivative financial instruments (continued)

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

	NZ BANKING GROUP					
	2022					
	Trading		Hedging		Total derivatives carrying value	
$ millions	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate contracts						
Swap agreements	13,157	(13,026)	1,303	(567)	14,460	(13,593)
Total interest rate contracts	13,157	(13,026)	1,303	(567)	14,460	(13,593)
FX contracts						
Spot and forward contracts	5,072	(4,829)	-	-	5,072	(4,829)
Cross currency swap agreements (principal and interest)	3,836	(4,508)	386	(690)	4,222	(5,198)
Total FX contracts	8,908	(9,337)	386	(690)	9,294	(10,027)
Total of gross derivatives	22,065	(22,363)	1,689	(1,257)	23,754	(23,620)
Impact of netting arrangements	(10,327)	10,327	-	-	(10,327)	10,327
Total of net derivatives	11,738	(12,036)	1,689	(1,257)	13,427	(13,293)
Consisting of:						
Derivatives held with external counterparties	7,694	(5,520)	1,689	(1,257)	9,383	(6,777)
Derivatives held with related parties	4,044	(6,516)	-	-	4,044	(6,516)

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

Note 23 Derivative financial instruments (continued)

Hedge accounting

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

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

Fair value hedges

Interest rate risk

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

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

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

Cash flow hedges

Interest rate risk

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

FX risk

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

Economic hedges

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

Interest Rate Benchmark Reform

The NZ Banking Group's hedging relationships include hedged items and hedging instruments that are impacted by IBOR reform. Refer to Note 31.4 for further details of the NZ Banking Group's exposure to IBOR reform.

Note 23 Derivative financial instruments (continued)

Hedging instruments

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

			NZ BANKING GROUP					
			2022					
			Notional amounts				Carrying value	
$ millions	Hedging instrument	Hedged risk	Within 1 year	Over 1 year to 5 years	Over 5 years	Total	Assets	Liabilities
One-to-one hedge relationships								
Fair value hedges	Interest rate swap	Interest rate risk	**347**	**3,190**	**-**	**3,537**	**39**	**(208)**
	Cross currency swap	Interest rate risk	**269**	**9,890**	**1,911**	**12,070**	**(196)**	**(876)**
Cash flow hedges	Cross currency swap	FX risk	**269**	**9,890**	**1,911**	**12,070**	**583**	**186**
Total one-to-one hedge relationships			**885**	**22,970**	**3,822**	**27,677**	**426**	**(898)**
Macro hedge relationships								
Portfolio fair value hedges	Interest rate swap	Interest rate risk	**N/A**	**N/A**	**N/A**	**22,365**	**339**	**(12)**
Macro cash flow hedges	Interest rate swap	Interest rate risk	**N/A**	**N/A**	**N/A**	**24,548**	**924**	**(347)**
Total macro hedge relationships			**N/A**	**N/A**	**N/A**	**46,913**	**1,263**	**(359)**
Total of gross hedging derivatives			**N/A**	**N/A**	**N/A**	**74,590**	**1,689**	**(1,257)**
Impact of netting arrangements			**N/A**	**N/A**	**N/A**	**N/A**	**-**	**-**
Total of net hedging derivatives			**N/A**	**N/A**	**N/A**	**N/A**	**1,689**	**(1,257)**

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

Note 23 Derivative financial instruments (continued)

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

NZ BANKING GROUP					
			Currency /	Weighted average rate	
$ millions	Hedging instrument	Hedged risk	Currency pair	2022	2021
Cash flow hedges	Cross currency swap	FX risk	CHF:NZD	**0.6730**	0.6730
			EUR:NZD	**0.5965**	0.6086
			NZD:AUD	**-**	1.0665
			HKD:NZD	**5.1114**	4.9670
			USD:NZD	**0.6949**	0.7057

Impact of hedge accounting on the balance sheet and reserves

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

NZ BANKING GROUP				
	2022		2021	
$ millions	Carrying amount of hedged item	Accumulated FVHA adjustment included in carrying amount	Carrying amount of hedged item	Accumulated FVHA adjustment included in carrying amount
Interest rate risk				
Investment securities	**1,325**	**(57)**	1,728	17
Loans	**21,979**	**(385)**	26,539	(57)
Debt issues	**(12,960)**	**1,241**	(10,431)	(149)

There were no accumulated FVHA adjustments (30 September 2021: nil) included in the above carrying amounts relating to hedged items that have ceased to be adjusted for hedging gains and losses.

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

NZ BANKING GROUP						
	2022			2021		
$ millions	Interest rate risk	FX risk	Total	Interest rate risk	FX risk	Total
Cash flow hedge reserve						
Balance at beginning of the year	**160**	**(72)**	**88**	(9)	(87)	(96)
Net gains/(losses) from changes in fair value	**441**	**47**	**488**	158	(30)	128
Transferred to net interest income	**(13)**	**25**	**12**	11	45	56
Balance at end of year	**588**	**-**	**588**	160	(72)	88

There were no balances remaining in the cash flow hedge reserve (30 September 2021: nil) relating to hedge relationships for which hedge accounting is no longer applied.

Note 23 Derivative financial instruments (continued)

Hedge effectiveness

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

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

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

			NZ BANKING GROUP		
			2022		
$ millions	**Hedging instrument**	**Hedged risk**	**Change in fair value of hedging instrument used for calculating ineffectiveness**	**Change in value of the hedged item used for calculating ineffectiveness**	**Hedge ineffectiveness recognised in non-interest income**
Fair value hedges	Interest rate swap	Interest rate risk	**109**	**(118)**	**(9)**
	Cross currency swap	Interest rate risk	**(1,103)**	**1,104**	**1**
Cash flow hedges	Interest rate swap	Interest rate risk	**440**	**(429)**	**11**
	Cross currency swap	FX risk	**72**	**(72)**	**-**
Total			**(482)**	**485**	**3**

			NZ BANKING GROUP		
			2021		
$ millions	Hedging instrument	Hedged risk	Change in fair value of hedging instrument used for calculating ineffectiveness	Change in value of the hedged item used for calculating ineffectiveness	Hedge ineffectiveness recognised in non-interest income
Fair value hedges	Interest rate swap	Interest rate risk	176	(178)	(2)
	Cross currency swap	Interest rate risk	(71)	70	(1)
Cash flow hedges	Interest rate swap	Interest rate risk	167	(169)	(2)
	Cross currency swap	FX risk	15	(15)	-
Total			287	(292)	(5)

Note 24 Fair values of financial assets and financial liabilities

Accounting policy

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

On initial recognition, the transaction price generally represents the fair value of the financial instrument unless there is observable information from an active market to the contrary. Where unobservable information is used, the difference between the transaction price and the fair value (day one profit or loss) is recognised in the income statement over the life of the instrument when the inputs become observable.

Critical accounting assumptions and estimates

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

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

product type;

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

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

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

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

These adjustments incorporate bid/offer spreads, Credit Valuation Adjustment and Funding Valuation Adjustment.

Fair Valuation Control Framework

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

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

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

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

Fair value hierarchy

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

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

Valuation techniques

The NZ Banking Group applies market accepted valuation techniques in determining the fair valuation of over-the-counter 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.

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

Financial instruments measured at fair value

Level 1 instruments

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

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

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

Level 2 instruments

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

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

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

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

Instrument	Balance sheet category	Includes:	Valuation
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities Other financial liabilities	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities, off-shore securities and corporate bonds Repurchase agreements and reverse repurchase agreements over non-asset backed debt securities	Valued using observable market prices which are sourced from independent pricing services, broker quotes or inter-dealer prices. If consensus prices are not available, these are classified as Level 3 instruments.
Deposits and other borrowings at fair value	Deposits and other borrowings	Certificates of deposit	Discounted cash flow using market rates offered for deposits of similar remaining maturities.
Debt issues at fair value	Debt issues	Commercial paper	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of the NZ Banking Group.
Life insurance assets	Life insurance assets included in assets held for sale	Local authority securities, investment grade corporate bonds, life insurance contract liabilities and units in unlisted unit trusts	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market inputs.

Level 3 instruments

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

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

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

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

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

	NZ BANKING GROUP							
	2022				2021			
$ millions	**Level 1**	**Level 2**	**Level 3[1]**	**Total**	Level 1	Level 2	Level 3[1]	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets measured at FVIS	**335**	**3,166**	**-**	**3,501**	891	3,644	-	4,535
Derivative financial instruments	**1**	**9,382**	**-**	**9,383**	1	3,851	-	3,852
Investment securities	**1,982**	**3,641**	**-**	**5,623**	2,152	2,528	-	4,680
Assets held for sale	**-**	**-**	**-**	**-**	-	370	-	370
Due from related entities	**5**	**4,040**	**-**	**4,045**	16	1,099	-	1,115
Total financial assets measured at fair value	**2,323**	**20,229**	**-**	**22,552**	3,060	11,492	-	14,552
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings at fair value[2]	**-**	**2,939**	**-**	**2,939**	-	3,450	-	3,450
Other financial liabilities[2]	**598**	**352**	**-**	**950**	932	948	-	1,880
Derivative financial instruments	**2**	**6,773**	**2**	**6,777**	10	2,607	3	2,620
Due to related entities	**3**	**6,513**	**-**	**6,516**	7	1,177	-	1,184
Debt issues at fair value[2]	**-**	**5,490**	**-**	**5,490**	-	2,979	-	2,979
Total financial liabilities measured at fair value	**603**	**22,067**	**2**	**22,672**	949	11,161	3	12,113

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

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the year ended 30 September 2022 (30 September 2021: no material changes in fair value).

Analysis of movements between fair value hierarchy levels

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

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

Financial instruments not measured at fair value

For financial instruments not measured at fair value on a recurring basis, fair value has been derived as follows:

Instrument	Valuation
Loans	Where available, the fair value of loans is based on observable market transactions; otherwise fair value is estimated using discounted cash flow models. For variable rate loans, the discount rate used is the current effective interest rate. The discount rate applied for fixed rate loans reflects the market rate for the maturity of the loan and the credit worthiness of the borrower.
Deposits and other borrowings	Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate their carrying value. Fair values for term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.
Due to related entities	Fair values are calculated in respect of long-term debt using a discounted cash flow model. The discount rate applied reflects the terms of the loan and the timing of the estimated cash flows. The carrying value of all other balances due to related entities approximates the fair value. These items are either short-term in nature or re-price frequently and are of a high credit rating.
Debt issues and loan capital	The fair values of these instruments are calculated based on quoted market prices, where available. Where quoted market prices are not available, fair values are calculated using a discounted cashflow model. The discount rates applied reflect the terms of the instruments and the timing of the estimated cash flows and are adjusted for any changes in the Banking Group's credit spreads.
Liabilities held for sale	The carrying value approximates the fair value. These items are either short-term in nature or re-price frequently and are of a high credit rating.
All other financial assets and financial liabilities	For all other financial assets and financial liabilities, the carrying value approximates the fair value. These items are either short-term in nature or re-price frequently and are of a high credit rating.

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

	NZ BANKING GROUP				
	2022				
	Carrying	Fair Value			
$ millions	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value					
Cash and balances with central banks	11,162	11,162	-	-	11,162
Collateral paid	87	87	-	-	87
Loans	97,392	-	-	96,041	96,041
Other financial assets	644	-	-	644	644
Due from related entities	2,564	-	2,564	-	2,564
Total financial assets not measured at fair value	111,849	11,249	2,564	96,685	110,498
Financial liabilities not measured at fair value					
Collateral received	724	724	-	-	724
Deposits and other borrowings	77,909	-	75,487	2,408	77,895
Other financial liabilities	4,657	-	4,657	-	4,657
Due to related entities	1,776	-	1,776	-	1,776
Debt issues[1]	14,443	-	14,242	-	14,242
Loan capital[1]	2,576	-	2,428	-	2,428
Total financial liabilities not measured at fair value	102,085	724	98,590	2,408	101,722

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

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

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

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

Note 25 Offsetting financial assets and financial liabilities

Accounting policy

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

Some of the NZ Banking Group's offsetting arrangements are not enforceable in all circumstances. The amounts in the tables below may not tie back to the balance sheet if there are balances which are not subject to offsetting or enforceable netting arrangements. The amounts presented in this note do not represent the credit risk exposure of the NZ Banking Group. Refer to Note 13 for information on credit risk management. The offsetting and collateral arrangements and other credit risk mitigation strategies used by the NZ Banking Group are further explained in the 'Management of risk mitigation' section under Note 13.5.

Notes to the financial statements

Note 25 Offsetting financial assets and financial liabilities (continued)

	NZ BANKING GROUP						
	2022						
	Amounts Subject to Enforceable Netting Arrangements						
	Amounts Offset on the Balance Sheet			Amounts Not Offset on the Balance Sheet			
$ millions	**Gross Amounts**	**Amounts Offset**	**Net Amounts Reported on the Balance Sheet**	**Other Recognised Financial Instruments**	**Cash Collateral**	**Financial Instrument Collateral**	**Net Amount**
Assets							
Reverse repurchase agreements[1]	**173**	**-**	**173**	**-**	**-**	**(171)**	**2**
Derivative financial instruments[2]	**18,158**	**(10,327)**	**7,831**	**(3,885)**	**(526)**	**-**	**3,420**
Due from related entities - derivative financial instruments[3]	**4,044**	**-**	**4,044**	**(4,044)**	**-**	**-**	**-**
Total assets	**22,375**	**(10,327)**	**12,048**	**(7,929)**	**(526)**	**(171)**	**3,422**
Liabilities							
Repurchase agreements[4]	**4,277**	**-**	**4,277**	**-**	**-**	**(4,277)**	**-**
Derivative financial instruments[2]	**16,282**	**(10,327)**	**5,955**	**(3,885)**	**(37)**	**-**	**2,033**
Due to related entities - derivative financial instruments[5]	**6,516**	**-**	**6,516**	**(4,044)**	**-**	**-**	**2,472**
Total liabilities	**27,075**	**(10,327)**	**16,748**	**(7,929)**	**(37)**	**(4,277)**	**4,505**

	NZ BANKING GROUP						
	2021						
	Amounts Subject to Enforceable Netting Arrangements						
	Amounts Offset on the Balance Sheet			Amounts Not Offset on the Balance Sheet			
$ millions	Gross Amounts	Amounts Offset	Net Amounts Reported on the Balance Sheet	Other Recognised Financial Instruments	Cash Collateral	Financial Instrument Collateral	Net Amount
Assets							
Reverse repurchase agreements[1]	697	-	697	-	-	(692)	5
Derivative financial instruments[2]	7,739	(4,124)	3,615	(2,019)	(314)	-	1,282
Due from related entities - derivative financial instruments[3]	1,115	-	1,115	(1,115)	-	-	-
Total assets	9,551	(4,124)	5,427	(3,134)	(314)	(692)	1,287
Liabilities							
Repurchase agreements[4]	3,014	-	3,014	-	-	(3,014)	-
Derivative financial instruments[2]	6,607	(4,124)	2,483	(2,019)	(144)	-	320
Due to related entities - derivative financial instruments[5]	1,184	-	1,184	(1,115)	-	-	69
Total liabilities	10,805	(4,124)	6,681	(3,134)	(144)	(3,014)	389

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

[2] $1,552 million (30 September 2021: $236 million) of derivative financial assets and $822 million (30 September 2021: $136 million) of derivative financial liabilities are not subject to enforceable netting arrangements.

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

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

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

Note 25 Offsetting financial assets and financial liabilities (continued)

Other recognised financial instruments

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

Cash collateral and financial instrument collateral

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

Note 26 Credit related commitments, contingent assets and contingent liabilities

Accounting policy

Undrawn credit commitments

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

Contingent assets

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

Contingent liabilities

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

Undrawn credit commitments

Undrawn credit commitments expose the NZ Banking Group to liquidity risk when called upon and also to credit risk if the customer fails to repay the amounts owed at the due date. The maximum exposure to credit loss is the contractual or notional amount of the instruments disclosed below. Some of the arrangements can be cancelled by the NZ Banking Group at any time. The actual liquidity and credit risk exposure varies in line with drawings and may be less than the amounts disclosed. The NZ Banking Group uses the same credit policies when entering into these arrangements as it does for on-balance sheet instruments. Refer to Note 13 and Note 31 for further details on credit risk management and liquidity risk.

	NZ BANKING GROUP	
$ millions	**2022**	2021
Letters of credit and guarantees[1]	**1,025**	948
Commitments to extend credit[2]	**27,904**	28,140
Total undrawn credit commitments	**28,929**	29,088

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

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

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

Contingent assets

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

Contingent liabilities

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

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

The NZ Banking Group has potential exposure relating to warranties, indemnities and other commitments it has provided to Fidelity Life and Westpac Life in connection to the sale of Westpac Life outlined in Note 33. The warranties, indemnities and other commitments cover a range of matters and risks, including certain accounting, compliance and taxation matters.

Note 27 Segment reporting

Accounting policy

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

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

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

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

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

On 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. Refer to Note 33 for details.

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

- Consumer Banking and Wealth provides financial services predominantly for individuals;
- Institutional and Business Banking provides a broad range of financial services for commercial, corporate, property finance, agricultural, institutional and government customers;
- Financial Markets provides foreign exchange, interest rate derivatives, government and credit products, commodities, carbon and energy capabilities. International Trade and Payments provide international trade solutions, payments products and services to consumer, business and institutional customers; and
- Investments and Insurance 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/aggregation of the results, assets and liabilities of the NZ Banking Group's controlled entities in the preparation of the aggregated financial statements of the NZ Banking Group; and
- results of certain business units excluded for management reporting purposes, but included within the aggregated financial statements of the NZ Banking Group for statutory financial reporting purposes.

Notes to the financial statements

Note 27 Segment reporting (continued)

	NZ BANKING GROUP					
$ millions	Consumer Banking and Wealth	Institutional and Business Banking	Financial Markets, International Trade and Payments	Investments and Insurance	Reconciling Items	Total
Year ended 30 September 2022						
Net interest income	**1,138**	**1,106**	**40**	**2**	**52**	**2,338**
Non-interest income	**143**	**109**	**94**	**56**	**182**	**584**
Net operating income before operating expenses and impairment charges	**1,281**	**1,215**	**134**	**58**	**234**	**2,922**
Operating expenses	**(648)**	**(433)**	**(37)**	**(43)**	**(25)**	**(1,186)**
Impairment (charges)/benefits	**3**	**24**	**-**	**-**	**-**	**27**
Profit before income tax	**636**	**806**	**97**	**15**	**209**	**1,763**
Year ended 30 September 2021						
Net interest income	1,117	959	28	1	(47)	2,058
Non-interest income	133	105	131	107	16	492
Net operating income before operating expenses and impairment charges	1,250	1,064	159	108	(31)	2,550
Operating expenses	(677)	(386)	(27)	(44)	(26)	(1,160)
Impairment (charges)/benefits	78	6	-	-	-	84
Profit before income tax	651	684	132	64	(57)	1,474
As at 30 September 2022						
Total gross loans	**57,968**	**39,684**	**556**	**-**	**(416)**	**97,792**
Total deposits and other borrowings	**43,574**	**34,334**	**-**	**-**	**2,940**	**80,848**
As at 30 September 2021						
Total gross loans	54,374	38,809	403	-	(85)	93,501
Total deposits and other borrowings	40,371	35,546	-	-	3,450	79,367

Note 28 Securitisation, covered bonds and other transferred assets

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

Securitisation

Securitisation is the transferring of assets (or an interest in either the assets or the cash flows arising from the assets) to a structured entity which then issues interest bearing debt securities to third party investors for funding deals and to the NZ Banking Group for liquidity deals.

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

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

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

Westpac New Zealand is obliged to repurchase any loan sold to and held by WNZSL (pursuant to its securitisation programme) where the loan does not meet certain terms and conditions of the WNZSL securitisation programme. It is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these obligations.

Covered bonds

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

The intercompany loan made by Westpac New Zealand to WNZCBL to fund the initial purchase (and subsequent further purchases which increased the cover pool) and the liability representing the deemed loan from WNZCBL to Westpac New Zealand are fully eliminated in the NZ Banking Group's financial statements.

Westpac New Zealand is obliged to repurchase any loan sold to and held by WNZCBL (pursuant to Westpac New Zealand's Global Covered Bond Programme) where:

- it is discovered that there has been a material breach of a sale warranty (or any such sale warranty is materially untrue);
- the loan becomes materially impaired or is enforced prior to the second monthly covered bond payment date falling after the assignment of the loan; or
- at the cut-off date relating to the loan, there were arrears of interest and that loan subsequently becomes a delinquent loan prior to the second monthly covered bond payment date falling after the assignment of the loan.

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

Repurchase agreements

Where securities are sold subject to an agreement to repurchase at a predetermined price, they remain recognised on the balance sheet in their original category (i.e. trading securities and financial assets measured at FVIS or investment securities). Repurchase agreements are designated at fair value when they are managed as part of a trading portfolio, otherwise they are measured on an amortised cost basis.

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

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

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

	NZ BANKING GROUP				
			For those liabilities that only have recourse to the transferred assets:		
$ millions	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities	Net fair value position
2022					
Securitisation - own assets[1]	**15,075**	**15,066**	**15,079**	**15,066**	**13**
Covered bonds[2]	**7,528**	**3,576**	**n/a**	**n/a**	**n/a**
Repurchase agreements	**5,345**	**4,277**	**n/a**	**n/a**	**n/a**
Total	**27,948**	**22,919**	**15,079**	**15,066**	**13**
2021					
Securitisation - own assets[1]	13,988	13,966	13,967	13,966	1
Covered bonds[2]	7,520	4,347	n/a	n/a	n/a
Repurchase agreements	3,431	3,014	n/a	n/a	n/a
Total	24,939	21,327	13,967	13,966	1

[1] The most senior rated securities at 30 September 2022 of $13,800 million (30 September 2021: $12,750 million) qualify as eligible collateral for repurchase agreements with the Reserve Bank. Westpac New Zealand complies with the Reserve Bank's guidelines for its overnight reverse repurchase agreement facility and open market operations, which allows banks in New Zealand to offer RMBS as collateral for the Reserve Bank's repurchase agreements.

[2] The difference between the carrying values of the covered bonds and the assets pledged allows for the immediate issuance of additional covered bonds if required. These additional assets can be repurchased by Westpac New Zealand at its discretion, subject to the conditions set out in the transaction documents. The cover pool is comprised of housing loans up to a value of $7,500 million as at 30 September 2022 (30 September 2021: $7,500 million). Over time, the composition of the cover pool will include, in addition to housing loans, accrued interest (representing accrued and unpaid interest on the outstanding housing loans) and cash (representing collections of principal and interest from the underlying housing loans).

Note 29 Structured entities

Accounting policy

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

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

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

Consolidated structured entities

Securitisation and covered bonds

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

NZ Banking Group managed funds

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

Non-contractual financial support

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

Note 29 Structured entities (continued)

Unconsolidated structured entities

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

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

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

Loans and other credit commitments	The NZ Banking Group lends to unconsolidated structured entities, subject to the NZ Banking Group's collateral and credit approval processes, in order to earn interest and fees and commissions income. The structured entities are mainly securitisation entities.
Investment management agreements	The NZ Banking Group manages funds that provide customers with investment opportunities. The NZ Banking Group also manages superannuation funds for its employees. The NZ Banking Group earns management fee income which is recognised in non-interest income. The NZ Banking Group may also retain units in these investment management funds, primarily through its consolidated life insurance entity up until its date of sale on 28 February 2022. The NZ Banking Group earns fund distribution income and recognises fair value movements through non-interest income.

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

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

	NZ BANKING GROUP					
	2022			2021		
$ millions	**Financing to Securitisation Vehicles**	**Group Managed Funds**	**Total**	Financing to Securitisation Vehicles	Group Managed Funds	Total
Assets						
Loans	**3,892**	**-**	**3,892**	3,128	-	3,128
Held for sale assets	**-**	**-**	**-**	-	237	237
Total on-balance sheet exposures	**3,892**	**-**	**3,892**	3,128	237	3,365
Total notional amounts of off-balance sheet exposures	**1,322**	**16**	**1,338**	1,563	16	1,579
Maximum exposure to loss	**5,214**	**16**	**5,230**	4,691	253	4,944
Size of structured entities[1]	**5,214**	**10,967**	**16,181**	4,691	12,175	16,866

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

Non-contractual financial support

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

Notes to the financial statements

Note 30 Capital management

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

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

There are no current regulatory capital requirements that apply specifically to the NZ Branch or the NZ Banking Group. The Overseas Bank's Board is responsible for ensuring that capital adequacy of the Overseas Banking Group and the Overseas Bank is maintained. The NZ Banking Group's capital is managed as part of the Overseas Banking Group's Internal Capital Adequacy Process. Westpac New Zealand is also required to maintain its own Internal Capital Adequacy Process under the Reserve Bank of New Zealand's capital adequacy requirements.

Under APRA's Prudential Standards, Australian ADIs, including the Overseas Banking Group and the Overseas Bank are required to maintain minimum ratios of capital to risk weighted assets, as determined by APRA. The minimum capital ratios are at least equal to those specified under the Basel III capital framework. For the calculation of risk weighted assets, the Overseas Banking Group and the Overseas Bank are accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime. The Overseas Banking Group and the Overseas Bank use the IRB 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 Basel Committee on Banking Supervision, except where APRA has exercised certain discretions.

The Overseas Banking Group (excluding entities specifically excluded by APRA regulations), and the Overseas Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2022.

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

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

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

From 1 January 2023, APRA's revised capital framework, including updated prudential standards for capital adequacy and credit risk capital, will become effective. As part of the revised framework, APRA has set a Total CET1 Requirement for D-SIBs of 10.25%. This requirement includes a capital conservation buffer of 4.75% applicable to D-SIBs and a base level for the countercyclical capital buffer of 1.0%. APRA has also indicated that it expects that D-SIBs (including the Overseas Bank) will likely operate with CET1 capital ratio above 11% in normal operating conditions under the new framework. The Overseas Bank and the Overseas Banking Group will seek to operate with a CET1 capital ratio of between 11.0% and 11.5% (operating capital range) in normal operating conditions as measured under the new capital framework from 1 January 2023.

Notes to the financial statements

Note 30 Capital management (continued)

The table below represents the capital adequacy calculation for the Overseas Banking Group and Overseas Bank as at 30 September 2022 based on APRA's application of the Basel III capital adequacy framework.

%	**30 Sep 22 Unaudited**	30 Sep 21 Unaudited
Overseas Banking Group (excluding entities specifically excluded by APRA)[4,5]		
Common Equity Tier 1 capital ratio	**11.3**	12.3
Additional Tier 1 capital ratio	**2.1**	2.3
Tier 1 capital ratio	**13.4**	14.6
Tier 2 capital ratio	**5.0**	4.2
Total regulatory capital ratio	**18.4**	18.9
Overseas Bank (Extended Licensed Entity)[4,6]		
Common Equity Tier 1 capital ratio	**11.3**	12.6
Additional Tier 1 capital ratio	**2.2**	2.3
Tier 1 capital ratio	**13.6**	14.9
Tier 2 capital ratio	**5.4**	4.3
Total regulatory capital ratio	**19.0**	19.2

[1] Noting that APRA may apply higher Common Equity Tier 1 (CET1) requirements for an individual ADI.
[2] If an ADI's CET1 ratio falls below the Total CET1 Requirement (at least 8%), they face restrictions on the distribution of earnings, such as dividends, distribution payments on AT1 capital instruments and discretionary staff bonuses.
[3] The Overseas Bank and the Overseas Banking Group are required to hold minimum capital as determined by APRA, which is at least equal to that specified under the Basel III capital framework.
[4] The capital ratios represent information mandated by APRA. The capital ratios of the Overseas Banking Group are publicly available in the Overseas Banking Group's Pillar 3 report. This information is made available to users via the Overseas Bank's website (www.westpac.com.au).
[5] Overseas Banking Group (excluding entities specifically excluded by APRA regulations) comprises the consolidation of the Overseas Bank and its subsidiary entities except those entities specifically excluded by APRA regulations for the purposes of measuring capital adequacy (Level 2). The head of the Level 2 group is the Overseas Bank.
[6] Overseas Bank (Extended Licensed Entity) comprises the Overseas Bank and its subsidiary entities that have been approved by APRA as being part of a single Extended Licensed Entity for the purpose of measuring capital adequacy (Level 1).

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

Note 31 Risk management, funding and liquidity risk and market risk

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

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

Principal risks	Note name	Note number
Overview	Risk management frameworks	31.1
Credit risk	Refer to Note 13 Credit risk management	13
Funding and liquidity risk	Liquidity modelling	31.2.1
The risk that the NZ Banking Group cannot meet its payment obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.	Sources of funding	31.2.2
	Assets pledged as collateral	31.2.3
	Contractual maturity of financial liabilities	31.2.4
	Expected maturity	31.2.5
Market risk	VaR	31.3.1
The risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices.	Traded market risk	31.3.2
	Non-traded market risk	31.3.3
Benchmark interest rate exposure	Interest rate benchmark reform	31.4

31.1 Risk management frameworks

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

The Board has delegated to the Group BRiskC responsibility to:

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

Notes to the financial statements

Note 31 Risk management, funding and liquidity risk and market risk (continued)

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

Risk	Risk management framework and controls
Funding and liquidity risk	– Westpac New Zealand funding and liquidity risk is measured and managed in accordance with the policies and processes defined in the Westpac New Zealand BRCC approved Liquidity Risk Management Framework. – Responsibility for managing Westpac New Zealand's liquidity and funding positions in accordance with the Liquidity Risk Management Framework is delegated to Westpac New Zealand Treasury, under the oversight of Westpac New Zealand's ALCO and the Financial Markets and Treasury Risk unit. – Westpac New Zealand Treasury undertakes an annual funding review that outlines Westpac New Zealand's balance sheet funding strategy over a three year period. This review encompasses trends in global markets, peer analysis, wholesale funding capacity, expected funding requirements and a funding risk analysis. This strategy is continuously reviewed to take account of changing market conditions, investor sentiment and estimations of asset and liability growth rates. This review is subsequently submitted to Westpac New Zealand BRCC for approval. – Daily liquidity risk reports are reviewed by Westpac New Zealand Treasury and the Westpac New Zealand Financial Markets and Treasury Risk unit. Liquidity reports are presented to Westpac New Zealand ALCO monthly and to the Westpac New Zealand BRCC quarterly. – Westpac New Zealand Treasury also maintains a contingent funding plan that outlines the steps that should be taken by Westpac New Zealand in the event of an emerging 'funding crisis'. The plan is approved by Westpac New Zealand BRCC. – The NZ Branch funding and liquidity risk is measured and managed in accordance with the policies and processes defined in the Group BRiskC approved Liquidity Risk Management Framework, which is part of the Group's Board approved Risk Management Strategy. – Responsibility for managing the NZ Branch liquidity and funding positions in accordance with the Liquidity Risk Management Framework is delegated to Group Treasury, under the oversight of Overseas Banking Group's ALCO and Treasury Risk. Group BRiskC oversees the Overseas Banking Group's ALCO with regards to APRA APS 210 obligations. – The Overseas Banking Group monitors the composition and stability of its funding to allow it to remain within its funding risk appetite. This includes compliance with both the LCR and NSFR.
Market risk	– The Market Risk Management Framework describes the Overseas Banking Group's approach to managing traded and non-traded market risk and is approved by the Group BRiskC. Westpac New Zealand operates its own Market Risk Management Framework that is closely aligned with that of the Overseas Banking Group. The Westpac New Zealand Framework is approved by the Westpac New Zealand BRCC. – Traded market risk includes interest rate, foreign exchange, commodity, credit spread and volatility risks. Non-traded market risk includes interest rate and foreign exchange risks. – The NZ Banking Group's framework does not allow for equity risk to be held. – Market risk is managed using VaR limits, NaR and structural risk limits (including credit spread and interest rate basis point value limits) as well as scenario analysis and stress testing. – The Group BRiskC approves the risk appetite for traded and non-traded risks through the use of VaR, NaR and specific structural risk limits. – The Overseas Banking Group's RISKCO has approved separate VaR sub-limits for the trading activities of the Overseas Banking Group's Financial Markets and Treasury units. – Market risk limits are assigned to business management based upon the Overseas Banking Group's risk appetite and business strategies in addition to the consideration of market liquidity and concentration of risks. – Market risk positions are managed by the trading and Treasury desks consistent with their delegated authorities and the nature and scale of the market risks involved. – Daily monitoring of current exposure and limit utilisation is conducted independently by Financial Markets and Treasury Risk, which monitors market risk exposures against VaR and structural risk limits. Oversight of risk specific to the NZ Banking Group is monitored by the NZ Branch's Trading Risk Management Unit. Daily VaR position reports are produced by risk type, by product lines and by geographic region. Quarterly reports are produced for the Overseas Banking Group's MARCO, Overseas Banking Group's RISKCO and Group BRiskC. – Daily stress testing and backtesting of VaR results are performed to support model integrity and to analyse extreme or unexpected movements. A review of the potential profit and loss outcomes is also undertaken to monitor any skew created by the historical data. – The Group BRiskC has approved a framework for profit or loss escalation which considers both single day and 20 day cumulative results. – Treasury's ALM unit is responsible for managing the non-traded interest rate risk including risk mitigation through hedging using derivatives. This is overseen by the Financial Markets and Treasury Risk unit and reviewed by the Group MARCO, Overseas Banking Group's RISKCO and Group BRiskC.

Notes to the financial statements

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Climate change risk

The NZ Banking Group recognises climate change as a major threat to our collective wellbeing and is committed to transparency and action across its business to address climate change. While this is not a material financial risk as at 30 September 2022, climate change risk is evolving and is expected to have a more significant impact on the NZ Banking Group's material financial risks in the future.

The two main sources of financial risks arising from climate change are physical risks and transition risks. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns or other long-term changes such as sea level rise. Transition risks are risks associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.

The NZ Banking Group seeks to understand the potential for climate-related transition and physical risks to impact its business, including their possible impact on credit risk, regulatory and reporting obligations, and our reputation.

Westpac New Zealand has voluntarily published a Climate Risk Report each year since 2020, based on the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD). A summary of Westpac New Zealand's approach to managing climate change risks against the four TCFD pillars is described below.

Governance:

- Westpac New Zealand's Board is responsible for considering the social, ethical, and environmental impact of Westpac New Zealand's activities, and setting standards and monitoring compliance with Westpac New Zealand's sustainability policies and practices. Westpac New Zealand's RISKCO oversees material risks, including climate-related risks. Westpac New Zealand's Credit Risk Committee, a subcommittee of RISKCO, oversees climate-related risks that present a credit risk to Westpac New Zealand.
- Westpac New Zealand is also represented on the Overseas Banking Group's Climate Change Financial Risk Committee which oversees work to identify and manage the potential impact on credit exposures from climate change-related transition and physical risks across the Overseas Banking Group and reports to the Overseas Banking Group's Credit Risk Committee.

Strategy:

- Westpac New Zealand has integrated climate-related risks and opportunities into its wider business strategy. It focuses on the most relevant aspects of climate change on its business, and their implications on its customers, communities, and Westpac New Zealand.
- During the year ended 30 September 2022, the Overseas Bank joined the United Nations-convened Net Zero Banking Alliance reinforcing its commitment to the global transition to a net-zero economy by 2050.
- As part of an Agri-sector Climate Risk Assessment, Westpac New Zealand identified a range of viable options to decarbonise and adapt to the physical impacts of climate change. This work is ongoing, with the aim to provide adaptation support to Westpac New Zealand's customers.
- Westpac New Zealand continues to evolve its ability to conduct climate-related scenario analysis.

Risk Management:

- Climate change risks are managed in accordance with Westpac New Zealand's Risk Management Framework which is supported by Westpac New Zealand's Sustainability Risk Management Framework (SRMF), Westpac New Zealand's Environmental, Social and Governance Credit Risk Policy and Board Risk Appetite Statements. The SRMF sets out the overall approach to climate risk, defining roles and responsibilities in accordance with the Three Lines of Defence standard. This framework is reviewed annually and has evolved to meet Westpac New Zealand's changing needs and expectations.

Metrics and Targets:

- Westpac New Zealand monitors its climate-related risks through a range of related metrics and targets covering its exposure to coastal hazards, sustainable finance, and its own operational emissions.
- Westpac New Zealand's suite of metrics and targets is evolving as the understanding of risks improves, better data becomes available and supporting processes and data infrastructure develop. Financed emissions are a particular focus in this area.

The NZ Banking Group has considered the impact of climate-related risks on its financial position and performance and while the effects of climate change represent a source of uncertainty, the NZ Banking Group has concluded that climate-related risks do not have a material impact on the judgements, assumptions and estimates for the year ended 30 September 2022. Refer to Note 13.1 for further information on how climate change risk is considered as part of credit risk.

For a comprehensive and detailed outline of Westpac New Zealand's approach to climate-related risks, refer to Westpac New Zealand's Climate Risk Report for September 2022 and prior iterations which can be accessed at www.westpac.co.nz/about-us/legal-information-privacy/disclosure-statements/.

Note 31 Risk management, funding and liquidity risk and market risk (continued)

31.2 Funding and liquidity risk

31.2.1 Liquidity modelling

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

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

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

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

31.2.2 Sources of funding

Sources of funding are regularly reviewed to maintain a wide diversification by currency, geography, product and term. Sources include, but are not limited to:

- deposits;
- debt issues;
- proceeds from sale of marketable securities;
- repurchase agreements with central bank;
- related entities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

Term Lending Facility and Funding for Lending Programme

From 26 May 2020 until 29 October 2020, the Reserve Bank made available a Term Lending Facility, to offer loans for a fixed term of three years at the rate of the Official Cash Rate, with access to the funds linked to banks' lending under the Scheme. On 20 August 2020, the Reserve Bank announced it would extend the availability of the Term Lending Facility to 1 February 2021 with terms of five years. In December 2020, the Reserve Bank announced that it would extend the window for the Term Lending Facility to 28 July 2021. As at 30 September 2022, Westpac New Zealand has drawn down $96 million under the Term Lending Facility (30 September 2021: $96 million).

On 11 November 2020, the Reserve Bank announced that additional stimulus would be provided through a Funding for Lending Programme, commencing in December 2020. The Funding for Lending Programme provides funding to banks at the prevailing OCR for a term of three years, secured by high quality collateral. The size of funding available under the Funding for Lending Programme includes an initial allocation of 4% of each bank's total resident loans and advances to New Zealand households, private non-financial businesses, and non-profit institutions serving households (eligible loans). A conditional additional allocation of up to 2% of eligible loans is also available, subject to growth in eligible loans, for a total size of up to 6% of eligible loans. The Funding for Lending Programme ran from 7 December 2020 to 6 June 2022 for the initial allocations and remains open to 6 December 2022 for the additional allocations. The Funding for Lending Programme term sheet is available on the Reserve Bank's website. As at 30 September 2022, Westpac New Zealand has drawn down $3,871 million under the Funding for Lending Programme (30 September 2021: $2,000 million).

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Liquid assets

The NZ Banking Group holds a portfolio of high-quality liquid assets as a buffer against unforeseen funding requirements. These assets are eligible for repurchase agreements with the Reserve Bank and are held in cash, government, local government and highly rated investment grade securities. The level of liquid asset holdings is reviewed frequently and is consistent with both the requirements of the balance sheet and market conditions.

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Cash and balances with central banks	**11,162**	8,604
Interbank lending	**99**	541
Supranational securities	**1,900**	873
NZ Government securities	**1,535**	1,942
NZ public securities	**2,544**	2,383
NZ corporate securities	**1,591**	1,386
Residential mortgage-backed securities	**7,397**	8,603
Available liquid assets	**26,228**	24,332

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Concentration of funding

	NZ BANKING GROUP	
$ millions	**2022**	2021
Funding consists of		
Collateral received	**724**	320
Deposits and other borrowings	**80,848**	79,367
Other financial liabilities[1]	**4,945**	3,985
Due to related entities[2]	**1,753**	1,209
Debt issues[3]	**19,933**	16,304
Loan capital	**2,576**	2,988
Total funding	**110,779**	104,173
Analysis of funding by geographical areas[3]		
New Zealand	**86,665**	82,208
Australia	**2,124**	2,141
United Kingdom	**8,822**	9,191
United States of America	**7,796**	5,396
China	**3,940**	1,756
Other	**1,432**	3,481
Total funding	**110,779**	104,173
Analysis of funding by industry sector		
Accommodation, cafes and restaurants	**553**	503
Agriculture	**1,821**	1,740
Construction	**2,645**	2,438
Finance and insurance	**40,436**	39,489
Forestry and fishing	**180**	226
Government, administration and defence	**3,204**	3,085
Manufacturing	**2,297**	2,078
Mining	**68**	69
Property services and business services	**7,882**	8,151
Services	**5,328**	4,802
Trade	**2,053**	2,009
Transport and storage	**750**	458
Utilities	**1,056**	776
Households	**34,917**	31,912
Other[4]	**5,836**	5,228
Subtotal	**109,026**	102,964
Due to related entities[2]	**1,753**	1,209
Total funding	**110,779**	104,173

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

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

[3] The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programmes is used as a proxy for the location of the original purchaser. Where the nature of the debt programmes does not necessarily represent an appropriate proxy, the debt issues are classified as 'Other'. These instruments may have subsequently been on-sold.

[4] Includes deposits from non-residents.

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

Notes to the financial statements

Note 31 Risk management, funding and liquidity risk and market risk (continued)

31.2.3 Assets pledged as collateral

The NZ Banking Group is required to provide collateral to other financial institutions, as part of standard terms, to secure liabilities. In addition to assets supporting the Covered Bond Programme disclosed in Note 28, the carrying value of these financial assets pledged as collateral is:

	NZ BANKING GROUP	
$ millions	**2022**	2021
Cash	**87**	207
Securities pledged under repurchase agreements:		
Investment securities	**-**	580
Trading securities and financial assets measured at FVIS	**347**	338
Residential mortgage-backed securities[1]	**4,998**	2,513
Total amount pledged to secure liabilities (excluding Covered Bond Programme)	**5,432**	3,638

[1] As at 30 September 2022, the NZ Banking Group has undertaken repurchase agreements with the Reserve Bank, under the Funding for Lending Programme and Term Lending Facility, using residential mortgage-backed securities. For the Funding for Lending Programme, the repurchase cash amount at 30 September 2022 is $3,871 million (30 September 2021: $2,000 million), which is recorded within other financial liabilities on the balance sheet, with underlying securities to the value of $4,883 million provided under the arrangement (30 September 2021: $2,398 million). For the Term Lending Facility, the repurchase cash amount at 30 September 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).

31.2.4 Contractual maturity of financial liabilities

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

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

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

Notes to the financial statements

Note 31 Risk management, funding and liquidity risk and market risk (continued)

	NZ BANKING GROUP						
	2022						
$ millions	On Demand	Up to 1 Month	Over 1 Month and Up to 3 Months	Over 3 Months and Up to 1 Year	Over 1 and Up to 5 Years	Over 5 Years	Total
Financial liabilities							
Collateral received	-	724	-	-	-	-	724
Deposits and other borrowings	43,277	6,960	11,873	17,744	1,656	-	81,510
Other financial liabilities	295	401	640	96	4,296	-	5,728
Derivative financial instruments:							
Held for trading	5,521	-	-	-	-	-	5,521
Held for hedging purposes (net settled)	-	7	116	99	377	1	600
Held for hedging purposes (gross settled):							
Cash outflow	-	33	60	359	8,002	1,881	10,335
Cash inflow	-	-	(11)	(35)	(7,024)	(1,827)	(8,897)
Due to related entities:							
Non-derivative balances	1,751	-	-	-	24	1	1,776
Derivative financial instruments:							
Held for trading	6,516	-	-	-	-	-	6,516
Debt issues	-	670	2,613	3,495	12,968	1,944	21,690
Loan capital	-	-	9	28	149	2,992	3,178
Total undiscounted financial liabilities	57,360	8,795	15,300	21,786	20,448	4,992	128,681
Total contingent liabilities and commitments							
Letters of credit and guarantees	1,025	-	-	-	-	-	1,025
Commitments to extend credit	27,904	-	-	-	-	-	27,904
Total undiscounted contingent liabilities and commitments	28,929	-	-	-	-	-	28,929

Note 31 Risk management, funding and liquidity risk and market risk (continued)

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

Note 31 Risk management, funding and liquidity risk and market risk (continued)

31.2.5 Expected maturity

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

	NZ BANKING GROUP					
	2022			2021		
$ millions	**Due within 12 months**	**Greater 12 months**	**Total**	Due within 12 months	Greater than 12 months	Total
Assets						
Cash and balances with central banks	**11,162**	**-**	**11,162**	8,604	-	8,604
Collateral paid	**87**	**-**	**87**	207	-	207
Trading securities and financial assets measured at FVIS	**2,708**	**793**	**3,501**	4,372	163	4,535
Derivative financial instruments	**6,965**	**2,418**	**9,383**	3,029	823	3,852
Investment securities	**558**	**5,065**	**5,623**	317	4,363	4,680
Loans	**14,953**	**82,439**	**97,392**	13,991	79,034	93,025
Due from related entities	**6,520**	**89**	**6,609**	1,700	39	1,739
Assets held for sale	**-**	**-**	**-**	382	-	382
All other assets	**871**	**1,152**	**2,023**	1,665	1,159	2,824
Total assets	**43,824**	**91,956**	**135,780**	34,267	85,581	119,848
Liabilities						
Collateral received	**724**	**-**	**724**	320	-	320
Deposits and other borrowings	**79,283**	**1,565**	**80,848**	77,939	1,428	79,367
Derivative financial instruments	**4,380**	**2,397**	**6,777**	2,145	475	2,620
Due to related entities	**6,808**	**1,484**	**8,292**	2,383	27	2,410
Debt issues	**6,541**	**13,392**	**19,933**	6,905	9,399	16,304
Loan capital	**-**	**2,576**	**2,576**	-	2,988	2,988
Liabilities held for sale	**-**	**-**	**-**	99	-	99
All other liabilities	**2,091**	**4,235**	**6,326**	3,043	2,493	5,536
Total liabilities	**99,827**	**25,649**	**125,476**	92,834	16,810	109,644

31.3 Market risk

31.3.1 Value-at-Risk

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

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

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

The key parameters of VaR are:

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

Note 31 Risk management, funding and liquidity risk and market risk (continued)

31.3.2 Traded market risk

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

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

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

	NZ BANKING GROUP							
	2022				2021			
$ millions	**As at**	**Maximum Exposure**	**Minimum Exposure**	**Average Exposure**	As at	Maximum Exposure	Minimum Exposure	Average Exposure
Interest rate risk	**2.9**	**3.9**	**1.3**	**2.6**	2.4	8.1	1.1	2.9
FX risk	**0.6**	**1.1**	**0.2**	**0.4**	0.3	1.7	0.2	0.4
Price risk	**0.4**	**1.0**	**0.1**	**0.4**	0.1	1.8	-	0.6
Volatility risk	**-**	**-**	**-**	**-**	-	-	-	-
Net market risk	**3.4**	**4.1**	**1.4**	**2.7**	2.5	9.8	1.1	3.3

31.3.3 Non-traded market risk

Non-traded market risk includes IRRBB – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.

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

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

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

Net interest income-at-Risk

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

	NZ BANKING GROUP							
	2022				2021			
% (increase)/ decrease in NII	**As at**	**Maximum Exposure**	**Minimum Exposure**	**Average Exposure**	As at	Maximum Exposure	Minimum Exposure	Average Exposure
NaR	**0.07**	**4.02**	**-**	**1.59**	5.00	11.95	0.88	5.27

Value at Risk – IRRBB[1]

The table below depicts VaR for IRRBB:

	NZ BANKING GROUP							
	2022				2021			
$ millions	**As at**	**Maximum Exposure**	**Minimum Exposure**	**Average Exposure**	As at	Maximum Exposure	Minimum Exposure	Average Exposure
Interest rate risk	**0.6**	**2.4**	**0.3**	**1.0**	1.1	3.8	0.2	1.1

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

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Risk mitigation

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

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

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

Foreign currency exposures

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Receivable/(payable)		
Australian dollar	**-**	14
US dollar	**11**	18

31.4 Interest rate benchmark reform

Overview

In recent years, financial regulators have reviewed the use of IBORs and recommended either a reform of the benchmark rate to reference market observable transactions (e.g. EURIBOR) or a transition of certain IBORs to more observable, risk-free alternative reference rates ('**ARR**').

On 5 March 2021, the UK regulator the Financial Conduct Authority confirmed the transition date for LIBORs to ARR. The cessation date for most LIBORs and the non-representative date for both GBP LIBOR and JPY LIBOR for the 1-month, 3-month and 6-month settings was 31 December 2021. The Banking Group ceased to enter into new contracts referencing these rates and the Banking Group's existing exposures have either matured or transitioned to an ARR with the exception of a small number of trades with immaterial balances. These remaining balances will be valued using synthetic rates, however no new trades will be entered into referencing these synthetic rates.

The cessation date for certain settings of USD LIBOR (i.e. overnight and 12-months) is 30 June 2023. This is also the non-representative date for USD LIBOR 1-month, 3-month and 6-month settings. The NZ Banking Group's exposure to new contracts referencing these rates is limited to transactions entered into for risk management purposes.

Risks

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

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

The NZ Banking Group does not expect material changes to its business-as-usual risk management frameworks and controls due to IBOR.

Governance

The NZ Banking Group forms part of the Ultimate Parent Bank's IBOR transition activities which are now included as part of business-as-usual functions. The Ultimate Parent Bank's systems have been enhanced to include transition and ARR capabilities and updated valuation models. The NZ Banking Group's exposure to new contracts referencing these rates is limited to transactions entered into for risk management purposes. The NZ Banking Group has monitoring controls in place to assess USD LIBOR exposures on a regular basis. This includes assessing customers and counterparties for readiness to transition or the inclusion of fallback provisions as well as compliance with an overall objective to transition away from USD LIBOR transactions.

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Financial instruments impacted by IBOR reform post transition date

Derivatives

The following table summarises the NZ Banking Group's derivative financial instrument exposures that are impacted by the IBOR reform that are yet to transition to ARR. While these exposures reference benchmark rates impacted by the IBOR reform as at 30 September 2022, almost all have bilateral adherence from our counterparties to the fallback clauses issued by the International Swaps and Derivatives Association ('ISDA') in the ISDA 2020 IBOR Fallbacks Protocol which provides a standardised process to identify the appropriate ARR at the relevant benchmark transition date.

	NZ BANKING GROUP				
	2022				
Benchmark	**Trading**		**Hedging**		
$ millions	**Asset Carrying amount**	**Liability Carrying amount**	**Asset Carrying amount**	**Liability Carrying amount**	**Notional amount**
USD LIBOR	**2,122**	**3,115**	**-**	**203**	**2,186**
Total impacted by IBOR reform post transition date	**2,122**	**3,115**	**-**	**203**	**2,186**

	NZ BANKING GROUP				
	2021				
Benchmark	Trading		Hedging		
$ millions	Asset Carrying amount[3]	Liability Carrying amount[4]	Asset Carrying amount	Liability Carrying amount	Notional amount
USD LIBOR[1]	841	417	87	-	1,816
GBP LIBOR	19	-	-	-	-
Total impacted by IBOR reform post transition date[2]	860	417	87	-	1,816

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

[2] Included in the table above for 30 September 2021 are cross currency swaps with a total carrying amount of $17 million derivative assets that had exposure to IBOR reform on both the currencies referenced in the swap arrangement. The carrying amount was included in the table based on the currency of the receive leg of the swap and was primarily comprised of USD/GBP LIBOR swaps with a carrying value of $13 million derivative asset. Another currency pair had a carrying value of $4 million derivative asset.

[3] Comparatives have been restated to correctly reflect the classification of related entity derivative assets exposed to USD LIBOR as trading derivative assets rather than non-derivative financial assets. The restatement results in a $266 million increase to trading derivative assets and a corresponding decrease of $266 million to non-derivative financial assets.

[4] Comparatives have been restated to correctly reflect the classification of related entity derivative liabilities exposed to USD LIBOR as trading derivative liabilities rather than non-derivative financial liabilities. The restatement results in a $56 million increase to trading derivative liabilities and a corresponding decrease of $56 million to non-derivative financial liabilities.

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

Note 31 Risk management, funding and liquidity risk and market risk (continued)

Non-derivatives

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

	NZ BANKING GROUP		
	2022		
	Trading		Hedging
	Financial assets	Financial liabilities	Undrawn credit commitments[1]
$ millions	**Carrying amount**	**Carrying amount**	**Notional contractual amount**
Benchmark			
USD LIBOR	**122**	**70**	**7**
Total impacted by IBOR reform post transition date	**122**	**70**	**7**

	NZ BANKING GROUP		
	2021		
	Trading		Hedging
	Financial assets	Financial liabilities	Undrawn credit commitments[1]
$ millions	Carrying amount[3]	Carrying amount[4]	Notional contractual amount
Benchmark			
USD LIBOR[2]	126	58	2
GBP LIBOR	13	-	1
EUR LIBOR	19	-	1
Total impacted by IBOR reform post transition date	158	58	4

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

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

[3] Comparatives have been restated to correctly reflect the classification of related entity derivative assets exposed to USD LIBOR as trading derivative assets rather than non-derivative financial assets. The restatement results in a $266 million increase to trading derivative assets and a corresponding decrease of $266 million to non-derivative financial assets.

[4] Comparatives have been restated to correctly reflect the classification of related entity derivative liabilities exposed to USD LIBOR as trading derivative liabilities rather than non-derivative financial liabilities. The restatement results in a $56 million increase to trading derivative liabilities and a corresponding decrease of $56 million to non-derivative financial liabilities.

Notes to the financial statements

Note 32 Notes to the statement of cash flows

Accounting policy

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

Cash and cash equivalents

	NZ BANKING GROUP	
$ millions	**2022**	2021
Cash and cash equivalents comprise:		
Cash and balances with central banks:		
Cash on hand	**631**	304
Balances with central banks	**10,531**	8,300
Interbank lending classified as cash and cash equivalents[1]	**99**	541
Cash and cash equivalents at end of the year	**11,261**	9,145

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

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Net profit attributable to the owner of the NZ Banking Group	**1,298**	1,057
Adjustments:		
Impairment charges/(benefits) on loans	**(27)**	(84)
Computer software amortisation costs	**47**	61
Depreciation	**88**	95
(Gain)/loss from hedging ineffectiveness	**(3)**	4
Movement in accrued interest receivable	**(85)**	21
Movement in accrued interest payable	**223**	(116)
Movement in current and deferred tax	**113**	33
Proceeds from disposal of controlled entities	**(417)**	-
Proceeds from other investing activities	**-**	(9)
Share-based payments	**3**	4
Other non-cash items[1]	**189**	(83)
Cash flows from operating activities before changes in operating assets and liabilities	**1,429**	983
Movement in collateral paid	**120**	190
Movement in trading securities and financial assets measured at FVIS	**1,046**	(186)
Movement in loans	**(4,731)**	(4,875)
Movement in other financial assets	**2**	42
Movement in due from related entities	**(1,941)**	910
Movement in other assets	**(1)**	5
Movement in collateral received	**404**	(188)
Movement in deposits and other borrowings	**1,475**	5,397
Movement in other financial liabilities	**953**	2,443
Movement in due to related entities	**(71)**	33
Movement in other liabilities	**14**	38
Net movement in external and related entity derivative financial instruments[1]	**2,563**	(877)
Net cash provided by/(used in) operating activities	**1,262**	3,915

[1] Comparatives have been restated to correctly reflect cash flows of ($271) million in other non-cash items relating to realised gains and losses on FX trading derivatives which were previously presented in Net movement in external and related entity derivative financial instruments.

Note 33 Assets and liabilities held for sale

Accounting policy

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

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

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

On 6 July 2021, the Overseas Banking Group announced the sale of Westpac Life to Fidelity Life. On 28 February 2022, the sale was completed. Westpac Life was subsequently renamed Fidelity Insurance Limited. As part of the transaction, Westpac New Zealand has entered into a 15-year alliance with Fidelity Insurance Limited for the distribution of life insurance products to Westpac New Zealand's customers (Distribution Agreement).

The sale was completed for $417 million resulting in a pre-tax gain on sale of $126 million recognised on the completion date in non-interest income. Ongoing commission payments from Fidelity Insurance Limited to Westpac New Zealand will be received in accordance with the Distribution Agreement.

Balance sheet presentation

Details of the assets and liabilities held for sale are as follows:

	NZ BANKING GROUP	
$ millions	**2022**	2021
Assets held for sale		
Life insurance assets	-	370
Other assets	-	12
Total assets held for sale	-	382
Liabilities held for sale		
Deferred tax liabilities	-	38
Current tax liabilities	-	15
Provisions	-	1
Other liabilities	-	43
Other financial liabilities	-	2
Total liabilities held for sale	-	99

Registered bank disclosures

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

i. General information (Unaudited)

Overseas Bank

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

Limits on material financial support by the Overseas Bank

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

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

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

While the limit and associated conditions do not apply to the ELE's non-equity exposures to the NZ Branch (which is within the ELE), the limit and associated conditions do apply to the NZ Branch's non-equity exposures to the rest of the NZ Banking Group other than Westpac New Zealand Group Limited. As at 30 September 2022, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit were below 5% of Level 1 Tier 1 capital of the Overseas Bank.

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

Ranking of local creditors in liquidation

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

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

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

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

Section 13A(3) of the Australian Banking Act affects all unsecured liabilities of the NZ Branch, which, as at 30 September 2022, amounted to $21,500 million (30 September 2021: $10,828 million).

Section 13A(4) of the Australian Banking Act also provides that it is an offence for an ADI not to hold assets (other than goodwill and any assets or other amount excluded by the prudential standards) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the year ended 30 September 2022, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

i. General information (Unaudited) (continued)

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

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

Guarantee arrangements

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

Directorate

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

Name: John McFarlane, MA, MBA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Unibail-Rodamco-Westfield SE and Old Oak Holdings Ltd.
Name: Peter King, BEc, FCA **Non-executive:** No **Country of Residence:** Australia **Primary Occupation:** Managing Director & Chief Executive Officer **Secondary Occupations:** Director **Board Audit Committee Member:** No **Independent Director:** No	**External Directorships:** Chairman and Director of Australian Banking Association Incorporated, Director of Institute of International Finance and The Financial Markets Foundation for Children.
Name: Nerida Caesar, BCom, MBA, GAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Chairman of Workplace Giving Australia Limited, Co-Chairman of G2GWGA Pty Limited and Director of CreditorWatch and NBN Co Limited.
Name: Nora Scheinkestel, LLB (Hons), PhD, FAICD **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Origin Energy Limited and Brambles Limited.
Name: Peter Marriott, BEc (Hons.), FCA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of Austraclear Limited, ASX Limited, ASX Settlement Corporation Limited and ASX Clearing Corporation Limited.

Registered bank disclosures

i. General information (Unaudited) (continued)

Directorate (continued)

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

i. General information (Unaudited) (continued)

Changes to Directorate

There have been two changes in the composition of the Board of Directors of the Overseas Bank since 30 September 2021. Steven Harker and Craig Dunn retired as Non-executive Directors of the Overseas Bank on 26 October 2021 and 15 December 2021, respectively.

Chief Executive Officer, NZ Branch

Name: Christopher James Leuschke, BCom, NZFMA (Chair)
Country of Residence: New Zealand
Primary Occupation: Chief Executive Officer, NZ Branch
Secondary Occupations: Head of Financial Markets, NZ Branch; Director
External Directorships: Director of Glue Guru International Limited

Responsible person

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

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

Address for communications

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

Board Audit Committee

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

Conflicts of Interest Policy

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

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

Transactions with directors

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

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

Auditor

PricewaterhouseCoopers

PwC Tower, Level 27

15 Customs Street West

Auckland, New Zealand

i. General information (Unaudited) (continued)

Pending proceedings or arbitration

Except as noted on page 95 as set out under the headings:

- ASIC's civil proceedings against the Overseas Bank relating to interest rate hedging activity; and
- Australian Transaction Reports and Analysis Centre (AUSTRAC) related class action against the Overseas Bank,

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

Credit ratings

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

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

On 7 June 2021, S&P revised the outlook on the Overseas Bank's long-term issuer credit rating to stable from negative while affirming it at AA-. The outlook change was in line with that of the other major Australian banks.

On 12 April 2021, Fitch affirmed the Overseas Bank's long-term issuer default rating (IDR) at A+ and revised its outlook to stable from negative, in line with its outlook for all the major Australian banks.

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

Descriptions of credit rating scales[1]

	Fitch Ratings	Moody's	S&P Global Ratings
The following grades display investment grade characteristics:			
Capacity to meet financial commitments is extremely strong. This is the highest issuer credit rating	AAA	Aaa	AAA
Very strong capacity to meet financial commitments	AA	Aa	AA
Strong capacity to meet financial commitments although somewhat susceptible to adverse changes in economic, business or financial conditions	A	A	A
Adequate capacity to meet financial commitments, but adverse business or economic conditions are more likely to impair this capacity	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant ongoing uncertainties exist which could affect the capacity to meet financial commitments on a timely basis	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default	B	B	B
Likelihood of default now considered a real possibility. Capacity to meet financial commitments is dependent on favourable business, economic and financial conditions	CCC	Caa	CCC
Highest risk of default	CC to C	Ca	CC
Obligations currently in default	RD to D	C	SD to D

[1] This is a general description of the rating categories based on information published by Fitch Ratings, Moody's and S&P Global Ratings.

The rating scales for long-term ratings issued by S&P and Fitch range from AAA to D. S&P's and Fitch's credit ratings may be modified by the addition of a plus or minus sign to show the relative standing within the major rating categories. The rating scale for long-term ratings assigned by Moody's range from Aaa to C. Moody's applies numeric modifiers of 1, 2, and 3 to show the relative standing within the major rating categories with 1 indicating the higher end of the category and 3 indicating the lower end.

i. General information (Unaudited) (continued)

Historical summary of financial statements

	NZ BANKING GROUP				
$ millions	**2022**	2021	2020	2019	2018
Income statement					
Interest income	**3,824**	3,041	3,596	4,119	4,067
Interest expense	**(1,486)**	(983)	(1,703)	(2,121)	(2,155)
Net interest income	**2,338**	2,058	1,893	1,998	1,912
Non-interest income	**584**	492	460	562	573
Net operating income before operating expenses and impairment charges	**2,922**	2,550	2,353	2,560	2,485
Operating expenses	**(1,186)**	(1,160)	(1,082)	(1,018)	(940)
Impairment (charges)/benefits	**27**	84	(320)	10	3
Profit before income tax	**1,763**	1,474	951	1,552	1,548
Income tax expense	**(465)**	(417)	(270)	(423)	(431)
Net profit for the year	**1,298**	1,057	681	1,129	1,117
Net profit for the year attributable to:					
Head office account and owner of the NZ Banking Group	**1,298**	1,057	681	1,129	1,117
Dividends paid on ordinary share capital	**(6,896)**	(265)	(346)	(807)	(572)
Balance sheet					
Total assets	**135,780**	119,848	113,196	106,762	96,656
Total individually impaired assets	**60**	109	137	69	145
Total liabilities	**125,476**	109,644	104,151	98,105	88,273
Total head office account	**2,624**	2,487	2,378	2,289	2,169
Total equity	**10,304**	10,204	9,045	8,657	8,383

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

Other material matters

Reports required under section 95 of the Banking (Prudential Supervision) Act 1989

On 23 March 2021, the Reserve Bank issued two notices to Westpac New Zealand under section 95 of the Banking (Prudential Supervision) Act 1989 requiring Westpac New Zealand to supply two external reviews to the Reserve Bank (the 'Risk Governance Review' and the 'Liquidity Review'). These reviews only applied to Westpac New Zealand and not to the Overseas Bank or its NZ branch.

The Risk Governance Review related to the effectiveness of Westpac New Zealand's risk governance, with a focus on the role played by the Westpac New Zealand Board. This review was undertaken by Oliver Wyman Limited (Oliver Wyman) and completed in November 2021. The review identified deficiencies in Westpac New Zealand's risk governance practices and operations which impacted the Westpac New Zealand Board's effectiveness in governing risk.

Westpac New Zealand has a programme of work underway to address the issues raised, which is being overseen by the Westpac New Zealand Board. Westpac New Zealand has engaged Oliver Wyman to provide independent assurance that Westpac New Zealand's remediation has been delivered to an appropriate standard. Westpac New Zealand is making good progress with this programme of work.

The Liquidity Review related to the effectiveness of Westpac New Zealand'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. This review was undertaken by Deloitte Touche Tohmatsu (Deloitte) and completed in May 2022. The review found that Westpac New Zealand had improved its liquidity control environment and had made improvements to its associated risk culture. The review did not identify any material control gaps or issues and made some recommendations for improvement, which are being implemented as part of Westpac New Zealand's continuous improvement activity.

From 31 March 2021, the Reserve Bank amended Westpac New Zealand's conditions of registration, requiring Westpac New Zealand to discount the value of its liquid assets by approximately 14%. From 15 August 2022, the Reserve Bank reduced the overlay to approximately 7%, which at 30 September 2022 was $1,489 million. The overlay will remain in place until the Reserve Bank is satisfied that control assurance work has been completed.

Technology programme

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

i. General information (Unaudited) (continued)

Reserve Bank's outsourcing policy

Condition of registration 22 requires Westpac New Zealand to comply with those provisions of the Reserve Bank's Outsourcing Policy that are currently in force, and to be fully compliant with all provisions of the policy by 1 October 2023. Westpac New Zealand is continuing to undertake a large-scale, multi-year, complex programme of work to become fully compliant by the compliance date. Westpac New Zealand continuously monitors its progress and, while it considers that it has a pathway to achieve compliance, significant risks remain in relation to the delivery of its plan by the compliance date.

Reserve Bank review of overseas bank branches

On 20 October 2021, the Reserve Bank announced it is reviewing its policy for branches of overseas banks (including the NZ Branch), with a view to creating a simple, coherent and transparent policy framework for branches of overseas banks. On 24 August 2022, the Reserve Bank released a second and final consultation paper, outlining its preferred approach to the regulation of branches, including:

- restricting overseas bank branches to engaging in wholesale business only (meaning they could not take retail deposits or offer products or services to retail customers), and limiting the maximum size of a branch to $15 billion in total assets; and
- requiring dual-registered branches (such as the NZ Branch), to only conduct business with customers with a turnover greater than $50 million. In addition, the branch must be sufficiently separate from the relevant subsidiary with any risks mitigated by specific conditions of registration.

The consultation period closes on 16 November 2022.

Deposit Takers Bill

The Deposit Takers Bill 2022 was introduced into the New Zealand Parliament on 22 September 2022. If passed, the Bill will create a single regulatory regime for banks and non-bank deposit takers in New Zealand and introduce a depositor compensation scheme to protect up to $100,000 per eligible depositor, per institution, if a payout event is triggered. The scheme is expected to be fully funded by levies and with a Crown backstop. If the Bill is passed, initial implementation of the depositor compensation scheme is expected in early 2024, with the remainder of the Bill to be implemented following the development of secondary legislation.

Overseas Bank and APRA enforceable undertaking on risk governance remediation

The Overseas Bank's CORE program is delivering the Integrated Plan required by the enforceable undertaking (EU) entered into with APRA in December 2020 in relation to the Overseas Bank's risk governance remediation and supporting the strengthening of the Overseas Bank's risk governance, accountability, and culture. Execution of the CORE program is ongoing and over 60% of the activities in the Integrated Plan have been assessed as complete and effective by the Independent Reviewer.

Promontory Australia, as the appointed Independent Reviewer, provides quarterly reports to APRA on the Overseas Bank's compliance with the EU and the Integrated Plan. Promontory Australia has provided seven reports to APRA so far, with its next report due in January 2023. These reports are published on the Overseas Bank's website every six months at www.westpac.com.au/about-westpac/media/core.

Overseas Bank risk management

The Overseas Bank is continuing to invest in strengthening its end-to-end management of risk. A range of shortcomings and areas for improvement in the Overseas Banking Group's risk governance have been highlighted in current and historical reviews, including embedding of its risk management framework, policies and systems, clarity of the three lines of defence model, regulatory reporting, data quality and management, product governance, prudential compliance management and associated control frameworks, its risk capabilities and business continuity management. The Overseas Banking Group has a number of risks currently considered outside of risk appetite or that do not meet the expectations of regulators, and has taken steps to seek to bring these risks into appetite.

The Overseas Bank's CORE program is designed to deliver improvements in many of these areas, including embedding a more proactive risk culture, embedding clear risk management accountabilities, improving the control environment, and uplifting risk awareness, capability and capacity for ongoing risk management.

Other areas of improvement such as operational risk, credit risk, sustainability risk, climate risk, compliance and conduct, financial crime, stress testing and model risk management are being addressed through investment in a number of areas, which may include subject-matter expertise, process and technology improvements.

APRA action against the Overseas Bank for breaches of liquidity requirements

On 1 September 2022 APRA announced that it had removed the 10% add-on applied to the net cash outflows included in the calculation of the Overseas Bank's Liquidity Coverage Ratio (LCR). The removal of the add-on increased the Overseas Bank's LCR by approximately 13 percentage points as at 1 September 2022.

i. General information (Unaudited) (continued)

APRA phasing out reliance on Committed Liquidity Facility

On 10 September 2021, APRA announced it expects authorised deposit-taking institutions to reduce their Committed Liquidity Facility (CLF) usage to zero in stages. The Overseas Bank has complied with APRA's announcement to date. In line with APRA's expectations, the Overseas Bank expects to reduce its CLF allocation to zero by 1 January 2023. To replace the reduction in the CLF, the Overseas Bank has increased its holdings of High Quality Liquid Assets. As at 30 September 2022, the Overseas Bank's CLF allocation was AUD$9.25 billion.

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

On 5 May 2021, ASIC filed civil proceedings against the Overseas Bank alleging that it had engaged in insider trading and unconscionable conduct and failed to comply with its Australian Financial Services Licence obligations. The allegations relate to interest rate hedging activity during the Overseas Bank's involvement in the 2016 Ausgrid privatisation transaction. The Overseas Bank has filed its Response to ASIC's Concise Statement. A hearing date for this matter has been set down for 18 March 2024.

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

The Overseas Bank is defending a class action proceeding which was commenced in December 2019 in the Federal Court of Australia on behalf of certain investors who acquired an interest in the Overseas Bank securities between 16 December 2013 and 19 November 2019. The proceeding involves allegations relating to market disclosure issues connected to the Overseas Bank's monitoring of financial crime over the relevant period, and matters which were the subject of the AUSTRAC civil proceedings. The damages sought on behalf of members of the class have not yet been specified. However, in the course of a procedural hearing, the applicant indicated that a preliminary estimate of the losses that may be alleged in respect of a subset of potential group members exceeded AUD$1 billion. While it remains unclear how the applicant will ultimately formulate their estimate of alleged damages claimed on behalf of group members, it is possible that the claim may be higher (or lower) than the amount referred to above. Given the time period and the nature of the claims alleged to be in question, along with the reduction in the Overseas Bank's market capitalisation at the time of the commencement of the AUSTRAC civil proceedings, it is likely that any total alleged damages (when, and if, ultimately articulated by the applicant) will be significant. The Overseas Bank continues to deny both that its disclosure was inappropriate and, as such, that any group member has incurred damage.

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

Disclosure Statements of the NZ Banking Group for the last five years are available, free of charge, at the internet address www.westpac.co.nz. A printed copy will also be made available, free of charge, upon request.

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2022 and for the six months ended 31 March 2022, respectively, and can be accessed at the internet address www.westpac.com.au.

ii. Additional financial disclosures

Additional information on balance sheet

	NZ BANKING GROUP	
$ millions	2022	2021
Interest earning and discount bearing assets	120,385	112,258
Interest and discount bearing liabilities	97,601	89,291
Total liabilities of the NZ Branch, net of amounts due to related entities	10,584	6,441
Total retail deposits of the NZ Branch	-	-

Additional information on concentrations of credit risk

Refer to Note 13.3 Credit risk concentrations for additional Information on concentration of credit exposure, in terms of customer and industry sector and material credit risk exposure to the agricultural sector, using the Australian and New Zealand Industrial Classification 2006.

Additional information on interest rate sensitivity

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

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 30 September 2022. The NZ Banking Group uses this contractual repricing information as a base, which is then altered to take account of customer behaviour, to manage its interest rate risk.

	NZ BANKING GROUP						
	2022						
$ millions	Up to 3 Months	Over 3 Months and Up to 6 Months	Over 6 Months and Up to 1 Year	Over 1 Year and Up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Financial assets							
Cash and balances with central banks	10,531	-	-	-	-	631	11,162
Collateral paid	87	-	-	-	-	-	87
Trading securities and financial assets measured at FVIS	1,803	478	335	8	877	-	3,501
Derivative financial instruments	-	-	-	-	-	9,383	9,383
Investment securities	-	35	522	1,443	3,623	-	5,623
Loans	43,483	8,027	16,803	18,773	10,995	(689)	97,392
Other financial assets	1	-	-	-	-	643	644
Due from related entities	2,561	-	-	-	-	4,048	6,609
Total financial assets	58,466	8,540	17,660	20,224	15,495	14,016	134,401
Non-financial assets							1,379
Total assets							135,780
Financial liabilities							
Collateral received	724	-	-	-	-	-	724
Deposits and other borrowings	47,526	9,982	7,384	951	614	14,391	80,848
Other financial liabilities	4,822	-	96	-	-	689	5,607
Derivative financial instruments	-	-	-	-	-	6,777	6,777
Due to related entities	1,718	-	-	-	25	6,549	8,292
Debt issues	3,567	2,105	950	4,769	9,603	(1,061)	19,933
Loan capital	-	-	-	-	2,765	(189)	2,576
Total financial liabilities	58,357	12,087	8,430	5,720	13,007	27,156	124,757
Non-financial liabilities							719
Total liabilities							125,476
On-balance sheet interest rate repricing gap	109	(3,547)	9,230	14,504	2,488		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	17,102	(986)	(10,303)	(7,600)	1,787		
Net interest rate repricing gap	17,211	(4,533)	(1,073)	6,904	4,275		

Registered bank disclosures

ii. Additional financial disclosures (continued)

Additional information on liquidity risk

Refer to Note 31.2.4 Contractual maturity of financial liabilities which shows the maturity analyses of financial liabilities.

Overseas Banking Group profitability and size

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2022.

Profitability	30 Sep 22
Net profit after tax for the year ended 30 September 2022 (A$ millions)[1]	5,694
Net profit after tax for the year ended 30 September 2022 as a percentage of average total assets	0.6%

Total assets and equity	30 Sep 22
Total assets (A$ millions)	1,014,198
Percentage change in total assets over the year ended 30 September 2022	8.4%
Total equity (A$ millions)	70,452

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

Reconciliation of mortgage-related amounts

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

	NZ BANKING GROUP
$ millions	**30 Sep 22**
Residential mortgages - total gross loans (as disclosed in Note 11 and Note 13.4)	**63,827**
Reconciling items:	
Unamortised deferred fees and expenses	(286)
Fair value hedge adjustments	385
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	12,209
Undrawn at default[1]	(3,273)
Residential mortgages by LVR (as disclosed in Additional mortgage information in Section iv. Credit and market risk exposures and capital adequacy)	**72,862**

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

iii. Asset quality

Past due assets

$ millions	NZ BANKING GROUP 30 Sep 22	30 Sep 21
Past due but not individually impaired assets		
Less than 30 days past due	**1,135**	966
At least 30 days but less than 60 days past due	**155**	192
At least 60 days but less than 90 days past due	**112**	118
At least 90 days past due	**224**	242
Total past due but not individually impaired assets	**1,626**	1,518

Movements in components of loss allowance

Refer to Note 12 Provision for expected credit losses for the movements in components of loss allowance.

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

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

	NZ BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Total gross carrying amount as at 30 September 2021	**85,020**	**7,871**	**501**	**109**	**93,501**
Transfers:					
Transfers to Stage 1	**4,597**	**(4,492)**	**(105)**	**-**	**-**
Transfers to Stage 2	**(8,762)**	**8,972**	**(207)**	**(3)**	**-**
Transfers to Stage 3 CAP	**(112)**	**(352)**	**474**	**(10)**	**-**
Transfers to Stage 3 IAP	**(1)**	**(12)**	**(13)**	**26**	**-**
Net further lending/(repayment)	**(2,331)**	**76**	**(10)**	**(8)**	**(2,273)**
New financial assets originated	**20,216**	**-**	**-**	**-**	**20,216**
Financial assets derecognised during the year	**(12,817)**	**(624)**	**(134)**	**(5)**	**(13,580)**
Amounts written-off	**-**	**-**	**(23)**	**(49)**	**(72)**
Total gross carrying amount as at 30 September 2022	**85,810**	**11,439**	**483**	**60**	**97,792**
Provision for ECL as at 30 September 2022	**(87)**	**(217)**	**(69)**	**(27)**	**(400)**
Total net carrying amount as at 30 September 2022	**85,723**	**11,222**	**414**	**33**	**97,392**

iii. Asset quality (continued)

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

Other asset quality information

	NZ BANKING GROUP	
$ millions	**30 Sep 22**	30 Sep 21
Undrawn commitments with individually impaired counterparties	**2**	7
Other assets under administration	**-**	-

Overseas Banking Group asset quality

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2022.

	2022
Total impaired exposures[1] (A$ millions)	**1,514**
Total impaired exposures expressed as a percentage of total assets	**0.1%**
Total provisions for ECL on impaired exposures[2] (A$ millions)	**726**
Total provisions for ECL on impaired exposures expressed as a percentage of total impaired exposures	**48.0%**
Total collectively assessed provision for ECL[2] (A$ millions)	**4,183**

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

[2] Total provisions for ECL on impaired assets and total collectively assessed provision for ECL both include A$274 million of provision for ECL that has been calculated collectively on groups of assets which have been determined to be impaired, but which are not individually significant.

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

Additional mortgage information

Residential mortgages by LVR as at 30 September 2022

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

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

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

	NZ BANKING GROUP					
	2022					
LVR range ($ millions)	Does not exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	31,385	14,683	13,323	3,161	1,374	63,926
Undrawn commitments and other off-balance sheet exposures	6,823	1,120	716	106	171	8,936
Value of exposures	**38,208**	**15,803**	**14,039**	**3,267**	**1,545**	**72,862**

Market risk

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

For each category of market risk, the NZ Banking Group's peak end-of-day aggregate capital charge is derived in accordance with the scalar approach as referred to in BPR140. Under this approach, the end-of-period capital charge is scaled by the ratio of peak capital charge to end-of-period capital charge using the internal value-at-risk method.

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at the reporting date and the peak end-of-day notional capital charges by risk type for the six months ended 30 September 2022.

	NZ BANKING GROUP	
	2022	
$ millions	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	8,421	674
Foreign currency risk	13	1
Equity risk	-	-
Peak end-of-day		
Interest rate risk	10,826	866
Foreign currency risk	101	8
Equity risk	-	-

Overseas Bank and Overseas Banking Group capital ratios

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

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

Insurance business

The NZ Banking Group previously conducted insurance business through its subsidiary Westpac Life. On 28 February 2022, the sale of Westpac Life to Fidelity Life was completed. Westpac Life was subsequently renamed Fidelity Insurance Limited. As at 30 September 2022, the NZ Banking Group does not conduct any insurance business. Refer to Note 33 for further details.

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Total assets of insurance business[1]	-	271
As a percentage of total consolidated assets of the NZ Banking Group	**0.00%**	0.23%

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

Non-consolidated insurance and non-financial activities

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

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

Securitisation

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

Funds management and other fiduciary activities

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

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

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

	NZ BANKING GROUP	
$ millions	**2022**	2021
Retirement plans	**9,063**	9,365
Retail unit trusts	**1,251**	1,998
Wholesale client portfolios	**654**	812
Term PIE	**2,026**	1,486
Cash PIE	**740**	743
Notice Saver PIE	**505**	519
Total funds under management	**14,239**	14,923

Other than funds under management disclosed above, there are no funds held in trust, funds under custodial arrangements or other funds held or managed subject to fiduciary responsibilities by any member of the NZ Banking Group (30 September 2021: nil).

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

Marketing and distribution of insurance products

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 Overseas Bank and a controlled entity of the NZ Banking Group. As part of the transaction, the NZ Banking Group entered into a 15-year alliance with Fidelity Insurance Limited for the distribution of Fidelity Insurance Limited's life insurance products to the NZ Banking Group's customers.

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

Arrangements to ensure no adverse impacts arising from the above activities

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

vi. Risk management policies

Information about risk

Risk Management Framework

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

The NZ Banking Group adopts a 'Three Lines of Defence model standard' approach to risk management which enables all employees to understand their role and responsibilities in the active management of risk.

The First Line of Defence – Business: manages the risks they originate

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

The Second Line of Defence – Risk: provides independent oversight, insight and challenge of First and Second Line activities

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

The Third Line of Defence – Audit: provides independent objective assurance

The Third Line is an assurance function that provides the Board, Board Committees and senior management with independent and objective evaluation of the adequacy and effectiveness of the NZ Banking Group's governance, risk management and internal controls.

Risk Management Frameworks

Further to the Directors' and Chief Executive Officer, NZ Branch's Statement on page 5 and except as noted on pages 93 to 95:

- the Overseas Bank and Westpac New Zealand together had systems in place to monitor and control adequately the material risks of the following relevant members of the NZ Banking Group:
  - BTNZ;
  - BTFGNZL;
  - WFSGNZL;
  - Westpac Life (Sold on 28 February 2022)
  - WNNZL;
  - WSNNZL;
  - WGINZL;
  - WHNZL;
  - WCNZL; and
  - WNZGL;
- the Overseas Bank and Westpac New Zealand together had systems in place to monitor and control adequately the material risks of the NZ Branch; and
- the remaining relevant members of the NZ Banking Group are not considered to have material risks.

vi. Risk management policies (continued)

The NZ Branch has a NZ Branch Risk Committee, NZ Branch RISKCO, which meets quarterly, and which oversees the management of enterprise risks across the NZ Branch. Enterprise risks are managed by a number of risk committees and include, but are not limited to, credit risk, compliance and conduct risk, operational risk, funding and liquidity risk, market risk, strategic risk, reputation and sustainability risk, risk culture, financial crime and cyber risk.

BTNZ maintains a Risk Management Framework approved by its Board which is closely aligned to the Overseas Banking Group and Westpac New Zealand's Risk Management Framework whilst reflecting BTNZ's specific regulatory and operating environment.

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

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

Financial risks

Refer to Note 31 Risk management, funding and liquidity risk and market risk for a discussion of the financial risks faced by the NZ Banking Group.

Other key material risks

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The definition excludes strategic risk. While the definition includes Legal Risk and Regulatory Risk, these are reflected primarily in Compliance and Conduct Risk.

Operational risk represents a category of risks that could have a negative impact on the achievement of business objectives. Operational risk events occurring could have an impact on financial performance, poor customer outcomes and/or reputational damage.

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

Compliance and conduct risk

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

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

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

Other risk classes

Other risk classes include:

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

vi. Risk management policies (continued)

Reviews of the NZ Banking Group's risk management systems

Westpac New Zealand Audit and the Overseas Banking Group's Group Audit function periodically reviews the NZ Banking Group's Operational, Compliance and Conduct, Market, Funding and Liquidity, Credit and Model Risk Frameworks. The rolling and periodic reviews follow an audit methodology which aims at achieving a review of the very high-risk areas annually and the high-risk areas bi-annually, medium risk areas every three years and low risk areas every four years.

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

Various external reviews of the NZ Banking Group's risk management system have been conducted during the year ended 30 September 2022 as part of ongoing compliance with regulatory requirements.

Internal audit function of the NZ Banking Group

The NZ Banking Group has an internal audit function. Westpac New Zealand Audit provides audit services to Westpac New Zealand and related entities. The Overseas Banking Group's Group Audit function provides audit services to the NZ Branch.

The Westpac New Zealand Audit function reports its findings on a quarterly basis, or more often as deemed appropriate, to the Westpac New Zealand BAC, and agrees the budget and the audit plan annually. In addition, the Westpac New Zealand BAC has private sessions with the Audit Executive. Furthermore, the Audit Executive reports to the Chair of the Westpac New Zealand BAC, and for administrative purposes to the Westpac New Zealand Chief Financial Officer, a member of the NZ Banking Group Executive Team.

The Overseas Banking Group's Group Audit function reports its findings on a quarterly basis, or more often as deemed appropriate, to the Overseas Banking Group's BAC, and agrees the budget and the audit plan annually. In addition, the Overseas Banking Group's BAC has private sessions with the Audit Executive. Furthermore, the Audit Executive reports to the Chair of the Overseas Banking Group's BAC, and for administrative purposes to the Overseas Banking Group Chief Financial Officer, a member of the Overseas Banking Group Executive Team.

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

Both Audit functions operate under a Charter approved by the relevant jurisdictional Board Audit Committee.

As set out in its Charter, Westpac New Zealand's BAC assists the Board to discharge its responsibilities by having oversight of the:

- Integrity of the financial statements, financial controls, reporting systems and internal audit standards of the NZ Banking Group and its subsidiaries;
- Integrity of the NZ Banking Group's Disclosure Statement;
- External audit engagement, including external auditor's qualifications, performance, independence and fees;
- Performance of Westpac New Zealand Audit; and
- Integrity of the NZ Banking Group's financial reporting and regulatory compliance. In conjunction with the Board Risk and Compliance Committee, this includes an oversight of the NZ Banking Group's statutory reporting requirements including compliance with all relevant New Zealand laws and regulatory standards relating to accounting and financial reporting, and supporting Ultimate Parent Bank compliance with APRA requirements.

As set out in its Charter, the Overseas Banking Group's BAC assist the Board to discharge its responsibilities by having oversight of the:

- Integrity of the financial statements and financial reporting systems of the Overseas Bank and its related bodies corporate (the Overseas Banking Group);
- External audit engagement, including the external auditor's qualifications, performance, independence and fees;
- Performance of the internal audit function (Overseas Banking Group's Group Audit); and
- Integrity of the Overseas Banking Group's corporate reporting including the Overseas Banking Group's financial reporting and compliance with prudential regulatory reporting and professional accounting requirements.

Access to the Overseas Bank disclosures

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

Conditions of registration

Conditions of registration

The registration of Westpac Banking Corporation ("the registered bank") in New Zealand is subject to the following conditions, which applied from 1 January 2022:

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration,:

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

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

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

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

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

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

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

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

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

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

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

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

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

9. That, for a loan-to-valuation measurement period ending on or after 31 October 2021, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

10. That, for a loan-to-valuation measurement period ending on or before 31 March 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

11. That, for a loan-to-valuation measurement period ending on or after 30 April 2022, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

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

Conditions of registration

In these conditions of registration,:

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

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

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

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

In conditions of registration 9 to 12,:

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2021, and where the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents referred to in BS19 for the purpose of defining these terms are:

BPR document	Version date
BPR131: Standardised credit risk RWAs	1 October 2021
BPR001: Glossary	1 July 2021

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

Changes to conditions of registration

There have been no changes to the Overseas Bank's conditions of registration since the reporting date for the previous disclosure statement.

Independent auditor's report

To the Directors of Westpac Banking Corporation

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

This report includes our:

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

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

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

- the balance sheet as at 30 September 2022;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the notes to the financial statements, which include significant accounting policies and other explanatory information; and
- the supplementary information required by Schedules 4, 7, 11 and 13 of the Order.

Our opinion

In our opinion:

- the NZ Banking Group's financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order and included within notes ii to vi of the registered bank disclosures):
  - comply with generally accepted accounting practice in New Zealand;
  - comply with NZ IFRS and IFRS; and
  - give a true and fair view of the financial position of the NZ Banking Group as at 30 September 2022 and its financial performance and cash flows for the year then ended.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)* section of our report.

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

Independence

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

Our firm carries out other services for the NZ Banking Group in the areas of other audit related services, which relate to agreed upon procedures over the issue of comfort letters and debt issuance programmes. We have also provided audit and non-audit assurance services in respect of non-consolidated entities managed by the NZ Banking Group. In addition, certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ Banking Group. The provision of these other services and relationships have not impaired our independence as auditor of the NZ Banking Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on loans and credit commitments As disclosed in Note 12 of the financial statements, the provision for expected credit losses (ECL) on loans and credit commitments totalled $439 million as at 30 September 2022. ECL is a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. The model to determine the ECL includes significant judgement in assumptions used to determine when a significant increase in credit risk (SICR) has occurred, in estimating forward looking macroeconomic scenarios (MES), applying a	Our audit procedures included testing the design and operating effectiveness of selected controls relating to the NZ Banking Group's ECL estimation process, which included controls over the data, model, assumptions and governance used in determining the provision for ECL on loans and credit commitments, as well as IT general controls related to the relevant IT systems. In addition to controls testing, our other significant audit procedures included, among others: • consideration of the appropriateness of the methodology inherent in the models for SICR and MES against the requirements of NZ IFRS 9; • the involvement of our credit risk modelling experts to evaluate the appropriateness of the models and the reasonableness of the assumptions applied within the models, the accuracy of the ECL model calculation and evaluating the results of management's model monitoring undertaken during the year;

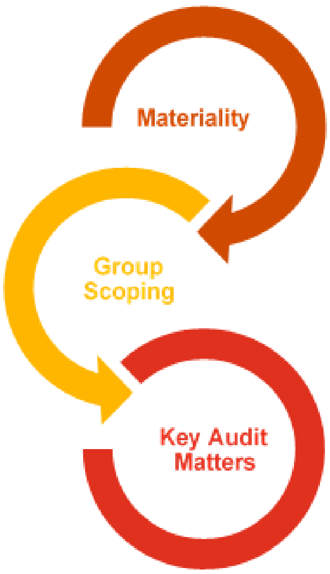
Description of the key audit matter	How our audit addressed the key audit matter
probability weighting to different scenarios, and identifying and calculating adjustments to model output (overlays). There is also a significant volume of data used in the ECL model, which is sourced from relevant Information Technology (IT) systems. For loans that meet specific risk based criteria, ECL is individually assessed by the NZ Banking Group. The flow on impacts of the Covid-19 pandemic, including the nature and extent of government support, supply chain constraints, high inflationary pressures and an increasing interest rate environment have resulted in challenging economic conditions leading to uncertainty around judgements made in determining the severity and probability weighting of MES and overlays used in ECL models. The principal considerations for our determination that performing procedures relating to the provision for ECL on loans and credit commitments is a key audit matter are: ● there was significant judgement and effort in evaluating audit evidence related to the model and assumptions used to determine the provision for ECL on loans and credit commitments; ● there was significant judgement and effort in evaluating audit evidence related to the identification and calculation of overlay adjustments to the ECL due to the impacts of current conditions and forecasts of future economic conditions; ● there was a high degree of auditor effort required to test critical data elements used in the model; ● there was a high degree of auditor effort required to test relevant IT controls used in determining the provision for ECL on loans and credit commitments; and ● the nature and extent of audit effort required to test the models, assumptions and judgements required specialised skill and knowledge.	● the involvement of our economics experts to assist in evaluating the reasonableness of the assumptions, economic variables and data applied in determining MES; ● challenging and assessing the appropriateness of overlay adjustments to provide evidence that the overlays recorded are reasonable; ● assessing the completeness of overlay adjustments by considering factors including model performance, data quality and other relevant risks; ● testing the completeness and accuracy of critical data elements used to calculate the overlays; ● assessing the review, challenge and approval by an internal governance committee of MES, probability weightings and overlay adjustments used in the ECL model and assessing the reasonableness of decisions; ● substantive testing on a sample basis of the input of critical data elements into source systems, and the flow and transformation of those critical data elements from source systems to the ECL model; ● for a sample of corporate loans not identified as impaired, considering the borrower's latest financial information provided to the NZ Banking Group to test the reasonableness of the credit risk grade rating that has been allocated to the borrower, a critical data element which involves significant management judgement; ● for a sample of impaired loans where the provision is individually assessed, considering the borrower's latest financial information, value of security held as collateral, multiple weighted scenario outcomes and independent expert advice (where applicable) provided to the NZ Banking Group to test the basis of measuring individually assessed provisions; and ● considering the impacts of events occurring subsequent to balance date on the ECL for loans and credit commitments. We also assessed the appropriateness of the NZ Banking Group's disclosures in the financial statements against the requirements of NZ IFRS.
IT systems and controls The NZ Banking Group is heavily dependent on complex, interdependent IT systems for the capture, processing, storage and extraction of significant volumes of transactions which is critical to the recording of financial information and the preparation of financial statements of the NZ Banking Group. Accordingly, we	For material financial statement transactions and balances, our procedures included gaining an understanding of the business processes, key controls and IT systems used to generate and support those transactions and balances and associated IT application controls and IT dependencies in manual controls. This involved the following areas: ● how user access is granted, reviewed and removed on a timely basis from IT applications and supporting

Description of the key audit matter	How our audit addressed the key audit matter
considered this to be a key audit matter. In common with all other major banks, access management controls are important to ensure both access and changes made to systems and data are appropriate. The NZ Banking Group's controls over IT systems include: ● user access to applications, process, and data; ● program development and changes; ● segregation of duties and privileged user accounts; and ● IT operations.	infrastructure. We also examined how privileged roles and functions are managed to those systems; ● how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT applications. We also assessed the appropriateness of users with access to make changes to IT applications across the NZ Banking Group; ● how controls are designed to enforce segregation of duties and the use of privileged accounts to ensure that data is only changed through authorised means; and ● how controls over operations are used to ensure that any issues are managed appropriately. Where relevant to our planned audit approach, we, along with our IT specialists, assessed the design and tested the effectiveness of certain controls over the continued integrity of the in-scope IT systems that are relevant to financial reporting. We also carried out tests, on a sample basis, of IT application controls and IT dependencies in manual controls that were key to our audit testing strategy in order to assess the accuracy of relevant system calculations, key reports and the operation of certain system enforced access controls. Where we identified design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.
Compliance, regulation and remediation provisions As disclosed in Note 20 of the financial statements, the compliance, regulation and remediation provisions totalled $65 million as at 30 September 2022. The provisions relate to matters pertaining to the provision of services to customers identified as a result of regulatory action and internal reviews, including instances of actual and potential non-compliance with consumer credit legislation. The principal consideration for our determination that these provisions are a key audit matter is due to significant judgements made by the NZ Banking Group in determining: ● the probability of future uncertain outcomes based on available information; ● the estimate of applicable customer refunds; ● the number of customers impacted; and	Our audit procedures included: ● obtaining an understanding of the NZ Banking Group's processes for identifying and assessing the impact of the NZ Banking Group's customer remediation obligations; ● reviewing the minutes of the NZ Banking Group's main governance meetings and attending the Westpac New Zealand Limited's Board Audit Committee and Board Risk and Compliance Committee meetings; ● reviewing correspondence with relevant regulatory bodies; ● discussing with management the remediation plans and considering the feasibility and intent to carry out such courses of action; ● evaluating and challenging the appropriateness of the methodologies applied, the assumptions and data used. This included the consideration of the results from testing performed by management on a sample basis; ● validating the mathematical accuracy of the models used by management; ● performing sensitivity analysis to assess the impact of reasonable changes to the key assumptions and

Description of the key audit matter	How our audit addressed the key audit matter
● the project costs associated with the remediation program, investigations and reviews. Disclosures are also made in Note 26 of the financial statements of contingent liabilities arising from possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is not probable or the potential liability cannot be reliably determined.	judgements; ● assessing whether changes from the prior year to the method, assumptions, or data were appropriate, including taking into consideration developments occurring subsequent to balance date; and ● assessing management's conclusions on whether or not the criteria for recognising a provision had been met for each matter identified based on available information. We also evaluated the reasonableness of the related disclosures made in Notes 20 and 26 of the financial statements against the requirements of NZ IFRS.

Our audit approach

Overview



The overall NZ Banking Group materiality is $72.1 million, which represents approximately 5% of a weighted average profit before income tax for the years ended 30 September 2020, 30 September 2021 and 30 September 2022.

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

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

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

- Provision for expected credit losses on loans and credit commitments;
- IT systems and controls; and
- Compliance, regulation and remediation provisions.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements and supplementary information (excluding credit and market risk exposures and capital adequacy) are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements and supplementary information (excluding credit and market risk exposures and capital adequacy).

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall NZ Banking Group materiality for the financial statements and supplementary information (excluding credit and market risk exposures and capital adequacy) as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements and supplementary information (excluding credit and market risk exposures and capital adequacy) as a whole.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the NZ Banking Group, the accounting processes and controls, and the industry in which the NZ Banking Group operates. Certain operational processes which are critical to financial reporting for the NZ Banking Group are undertaken outside of New Zealand. We worked with a PwC network firm engaged in the Westpac Banking Corporation group audit to understand certain processes that supported material balances, classes of transactions and disclosures within the NZ Banking Group's financial statements. This enabled us to evaluate the effectiveness of the controls over those processes and consider the implications for the remainder of our audit work.

Other Matter
We draw attention to note i of the registered bank disclosures on page 93 which reports that Westpac New Zealand Limited is required to supply two external reviews to the Reserve Bank under section 95 of the Banking (Prudential Supervision) Act 1989.

Information other than the financial statements, supplementary information and auditor's report
The Directors of Westpac Banking Corporation (the "Directors") are responsible, on behalf of Westpac Banking Corporation, for the other information included in the Disclosure Statement. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 5, 88 to 95, 105 and 106.

Our opinion on the financial statements and supplementary information (excluding credit and market risk exposures and capital adequacy) does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and supplementary information (excluding credit and market risk exposures and capital adequacy), our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements and supplementary information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy
The Directors are responsible, on behalf of Westpac Banking Corporation, for the preparation of the financial statements in accordance with Clause 25 of the Order, NZ IFRS and IFRS and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 11 and 13 of the Order.

In preparing the financial statements, the Directors are responsible for assessing the NZ Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the NZ Banking Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures) disclosed in accordance with Clause 25 and Schedules 4, 7, 11 and 13 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and supplementary information.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Report on other legal and regulatory requirements (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures) for the year ended 30 September 2022:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the NZ Banking Group as far as appears from an examination of those records.

Report on the review of the supplementary information relating to credit and market risk exposures and capital adequacy

We have examined the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in note iv of the registered bank disclosures for the year ended 30 September 2022.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

This conclusion is to be read in the context of what we say in the remainder of this report.

Basis for our conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities under this standard are further described in the *Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy* section of our report.

Responsibilities of the Directors for the supplementary information relating to and credit and market risk exposures and capital adequacy

The Directors are responsible, on behalf of Westpac Banking Corporation, for the preparation and fair presentation of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to credit and market risk exposures and capital adequacy that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to credit and market risk exposures and capital adequacy, disclosed in note iv of the registered bank disclosures, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs (NZ) and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note iv of the registered bank disclosures.

Who we report to

This report is made solely to the Directors, as a body. Our work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Westpac Banking Corporation and the Directors, as a body, for our work, for this report or for the opinions and conclusion we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
1 December 2022

Auckland