WESTPAC NEW ZEALAND LIMITED

Annual Report and 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 (New Zealand Incorporated Registered Banks) Order 2014 (as amended) ('**Order**').

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**');
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Bank as at 30 September 2022 are set out in Note 23;
- Westpac Banking Corporation (otherwise referred to as the '**Ultimate Parent Bank**');
- Ultimate Parent Bank and its controlled entities (otherwise referred to as the '**Ultimate Parent Bank Group**'); and
- New Zealand Branch of the Ultimate Parent Bank (otherwise referred to as the '**NZ Branch**').

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
AMA	Advanced Measurement Approach
ANZSIC	Australian and New Zealand standard industrial classification
APRA	Australian Prudential Regulation Authority
APS 222	APRA's Prudential Standard 222 Associations with Related Entities
AT1	Additional Tier 1 capital
BAC	Board Audit Committee
BKBM	Bank bill benchmark rate
Board	Board of Directors of the Bank
BPRs	Banking Prudential Requirements
BPS Act	Banking (Prudential Supervision) Act 1989 (formerly the Reserve Bank of New Zealand Act 1989)
BRCC	Board Risk and Compliance Committee
BS13	Reserve Bank document 'Liquidity Policy'
BS2B	Capital Adequacy Framework (Internal Models Based Approach)
CAP	Collectively assessed provisions
CCCFA	Credit Contracts and Consumer Finance Act 2003
CCF	Credit Conversion Factor
CGU	Cash generating unit
CREDCO	Credit Risk Committee
CRG	Customer risk grade
EAD	Exposure at default
ECL	Expected credit losses
ELE	Extended licensed entity
Fidelity Life	Fidelity Life Assurance Company Limited
Financial statements	Consolidated financial statements
Fitch	Fitch Ratings
FVHA	Fair value hedge accounting
FVIS	Fair value through income statement
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
GST	Goods and services tax
IAP	Individually assessed provisions
IASB	International Accounting Standards Board
IBOR	Interbank offered rates
ICAAP	Internal capital adequacy assessment process
IRB	Internal Rating Based
IRRBB	Interest rate risk in the banking book
LGD	Loss given default
LVR	Loan-to-value ratio
Moody's	Moody's investor services
NaR	Net interest income-at-risk
New Zealand Audit	The Banking Group's independent assurance unit for New Zealand
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
Reserve Bank	Reserve Bank of New Zealand
RISKCO	Executive Risk Committee
RMBS	Residential mortgage-backed securities
RWA	Risk weighted assets
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)

Westpac New Zealand sustainability performance (Unaudited)

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

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

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

Sustainability Strategy results for the year ended 30 September 2022

Manaaki te ao: Care for the planet.

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

2025 targets*	FY22 Progress
1. Reduce annual Scope 1, 2, and Scope 3 Mandatory operational emissions by 30% against a 2019 base year.[1] Offset remaining emissions to be carbon neutral.	45.7% reduction (see Key climate risk metrics)
2. Enable $10b in sustainable finance.[2]	$7.31b
3. Manage our climate-related financial risks.	Refer to Climate Risk Update

Highlights for the year ended 30 September 2022 include:

- Enabled over $3.87b of sustainable debt.
  - Supported seven customers as Sustainability Coordinator to execute Sustainability-Linked Loans and participated in Sustainability-Linked Loans executed by T&G Global and Auckland Council.
  - Westpac NZ was Sole Sustainability Coordinator or Green Bond Advisor on all four inaugural Green and Sustainability Bond issuances in FY22 by Genesis, Transpower, Christchurch City Holdings and Goodman (through GMT Bond Issuer Limited).
- We won the INFINZ Award for Excellence in Institutional and Corporate Banking for 'Leading and Accelerating Sustainable Finance' in 2022.
- 51% of our fleet is now electric or plug-in hybrid vehicles.

Climate Risk Update

We plan to release our third Climate Risk Report in November 2022, which is based on the Task Force on Climate-related Financial Disclosures recommendations. During the year ended 30 September 2022, our effort has been focused on:

- Establishing a work programme to prepare WNZL for the incoming mandatory climate-related disclosure regime.
- Estimating our financed emissions to understand the emissions profile of our lending portfolio.
- Progressing our AgriSector Climate Risk Assessment, in partnership with Lincoln University's Agri Economics Research Unit, with the intention to publish key findings.

Key climate risk metrics

Our operational carbon emissions reductions of 45.7% for the year ended 30 June 2022 against a 2019 base year are largely due to COVID-19 border restrictions and domestic lockdowns throughout the year reducing business travel and business operations, alongside the shift to hybrid working patterns. We purchased New Zealand native permanent forestry credits to offset our residual operational carbon emissions to maintain our Toitū net carbonzero certification.

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

Industry segment	30 Sep 22	30 Sep 21
Residential mortgages	2.1%	2.3%
Commercial property lending	2.1%	2.2%
Agricultural lending	3.4%	3.4%

During the year ended 30 September 2022:

- Lending to fossil fuel mining and production increased by 21% from financing a gas-fired back-up power generator.[4]
- Climate change solution lending increased by 14%, strongly influenced by the increase in lending to renewable energy.

Manaaki te tāngata: Care for people.

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

2025 targets*	FY22 Progress
4. Set a cultural diversity in leadership target.[5]	Initiative in progress
5. 1% of annual pre-tax profits invested in communities.[6]	0.57%/ $8.26m
6. $700m in lending to healthy, affordable and social housing.[7]	$677m

Highlights for the year ended 30 September 2022 include:

- $1.28m fundraised by WNZL staff and the community in the annual Chopper Appeal for the Westpac Rescue Helicopters.
- Our interest-free Westpac Warm Up loan expanded to $40k to help encourage warmer, drier and more energy efficient homes. This expansion also included increasing the types of items covered, including electric vehicle chargers and solar batteries.
- Contributed 10,328 hours to the community through WNZL staff volunteering.

E tipu pūtea ora: Grow financial wellbeing.

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

2025 targets*	FY22 Progress
7. 25,000 people to participate in Westpac facilitated financial education workshops.	22,378
8. Help 15,000 New Zealanders who are at risk of financial exploitation and exclusion.	6,251
9. Source 25% of annual supplier spend from local businesses, including those owned by diverse and under-represented groups.	14.6%

Highlights for the year ended 30 September 2022 include:

- Launched our Money Makes Cents course, designed to help school-leavers and those managing their money for the first time establish strong and simple money habits early.
- Increased support to vulnerable communities, including:
  - Expanded resourcing to support vulnerable communities who need support to overcome various barriers on the journey to financial wellbeing
  - Rolled out the New Start Initiative nationally, helping prisoners near release obtain a valid ID, debit card and online banking access, making it easier for them to reintegrate into the community
- Partnered with IDCARE in 2022 to provide specialist aftercare support for customers impacted by fraud or scams. With free priority access to case managers and counsellors, we hope to reduce the harm experienced from compromised personal information.

For more information on our Sustainability activities, please read our 2022 Sustainability Report.

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

[1] Environmental Year runs 1 July to 30 June. CO2e results include all Westpac business units based in New Zealand. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity. Scope 3 Mandatory covers the indirect emissions relevant to the day-to-day running of the business but excludes emissions from customers. These are sector specific, as defined by the Toitū net carbonzero programme.

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

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

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

[5] Progress on this target has been delayed due to challenges in collecting sufficient employee data, with which to set appropriate targets in-line with best practice. Work to collect data is ongoing, with targets to be set within the next 6-18 months.

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

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

Annual report

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of Westpac New Zealand Limited has agreed that the Annual Report of Westpac New Zealand Limited need not comply with the requirements of paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be included in the Annual Report other than the financial statements for the year ended 30 September 2022 and the independent auditor's report on those financial statements.

For and on behalf of the Board of Directors:

P.M. Greenwood

Chair

25 November 2022

C.A. McGrath

Chief Executive

25 November 2022

Directors' Statement

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

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

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that over the year ended 30 September 2022, except as noted on pages 91, 120 and 121:

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

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

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

This Disclosure Statement has been signed by all the Directors:

Philippa Greenwood

Catherine McGrath

David Green

Rob Hamilton

David Havercroft

Sam Knowles

Jonathan Mason

Christine Parker

Michael Rowland

Dated this 25th day of November 2022

Income statement for the year ended 30 September 2022

		THE BANKING GROUP	
$ millions	Note	**2022**	2021
Interest income:			
Calculated using the effective interest method	2	**3,704**	3,001
Other	2	**37**	11
Total interest income	2	**3,741**	3,012
Interest expense	2	**(1,450)**	(946)
Net interest income		**2,291**	2,066
Net fees and commissions income	3	**252**	236
Other income	3	**16**	4
Net operating income before operating expenses and impairment charges		**2,559**	2,306
Operating expenses	4	**(1,131)**	(1,099)
Impairment (charges)/benefits	6	**27**	84
Profit before income tax		**1,455**	1,291
Income tax expense	7	**(408)**	(360)
Net profit attributable to the owner of the Bank		**1,047**	931

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

Statement of comprehensive income for the year ended 30 September 2022

	THE BANKING GROUP	
$ millions	**2022**	2021
Net profit attributable to the owner of the Bank	**1,047**	931
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	**496**	107
Transferred to income statement:		
Cash flow hedging instruments	**28**	69
Income tax on items taken to or transferred from equity:		
Investment securities	**88**	45
Cash flow hedging instruments	**(147)**	(49)
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)	**158**	23
Total comprehensive income attributable to the owner of the Bank	**1,205**	954

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

Balance sheet as at 30 September 2022

		THE BANKING GROUP	
$ millions	Note	**2022**	2021
Assets			
Cash and balances with central banks	33	**10,820**	8,472
Collateral paid		**42**	185
Trading securities and financial assets measured at FVIS	9	**2,118**	2,280
Derivative financial instruments	24	**169**	221
Investment securities	10	**5,623**	4,680
Loans	11	**96,882**	92,632
Other financial assets	14	**263**	712
Due from related entities	23	**2,606**	1,834
Property and equipment		**402**	410
Deferred tax assets	15	**39**	216
Intangible assets	16	**785**	673
Other assets		**69**	65
Total assets		**119,818**	112,380
Liabilities			
Collateral received		**82**	188
Deposits and other borrowings	17	**80,848**	79,367
Other financial liabilities	18	**4,348**	2,900
Derivative financial instruments	24	**118**	178
Due to related entities	23	**2,961**	1,836
Debt issues	19	**19,933**	16,304
Current tax liabilities		**58**	43
Provisions	20	**233**	241
Other liabilities		**374**	381
Loan capital	21	**2,083**	2,579
Total liabilities		**111,038**	104,017
Net assets		**8,780**	8,363
Shareholder's equity			
Share capital	22	**7,300**	7,300
Reserves		**137**	(15)
Retained profits		**1,343**	1,078
Total shareholder's equity		**8,780**	8,363

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

Signed on behalf of the Board of Directors.

P.M. Greenwood

25 November 2022

J.P. Mason

25 November 2022

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

		THE BANKING GROUP			
		Reserves			
$ millions	Share Capital	Investment Securities Reserve	Cash Flow Hedge Reserve	Retained Profits	Total Shareholder's Equity
As at 30 September 2020	7,300	57	(82)	415	7,690
Impact from a change in accounting policy	-	-	-	(6)	(6)
Restated opening balance	7,300	57	(82)	409	7,684
Year ended 30 September 2021					
Net profit attributable to the owner of the Bank	-	-	-	931	931
Net gains/(losses) from changes in fair value	-	(162)	107	-	(55)
Income tax effect	-	45	(30)	-	15
Transferred to income statement	-	-	69	-	69
Income tax effect	-	-	(19)	-	(19)
Remeasurement of defined benefit obligations	-	-	-	18	18
Income tax effect	-	-	-	(5)	(5)
Total comprehensive income for the year ended 30 September 2021	-	(117)	127	944	954
Transactions with owner:					
Dividends paid on ordinary shares	-	-	-	(275)	(275)
As at 30 September 2021	7,300	(60)	45	1,078	8,363
Year ended 30 September 2022					
Net profit attributable to the owner of the Bank	**-**	**-**	**-**	**1,047**	**1,047**
Net gains/(losses) from changes in fair value	**-**	**(313)**	**496**	**-**	**183**
Income tax effect	**-**	**88**	**(139)**	**-**	**(51)**
Transferred to income statement	**-**	**-**	**28**	**-**	**28**
Income tax effect	**-**	**-**	**(8)**	**-**	**(8)**
Remeasurement of defined benefit obligations	**-**	**-**	**-**	**8**	**8**
Income tax effect	**-**	**-**	**-**	**(2)**	**(2)**
Total comprehensive income for the year ended 30 September 2022	**-**	**(225)**	**377**	**1,053**	**1,205**
Transactions with owner:					
Dividends paid on ordinary shares (refer to Note 22)	**-**	**-**	**-**	**(788)**	**(788)**
As at 30 September 2022	**7,300**	**(285)**	**422**	**1,343**	**8,780**

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

		THE BANKING GROUP	
$ millions	Note	**2022**	2021
Cash flows from operating activities			
Interest received		**3,756**	3,168
Interest paid		**(1,212)**	(1,076)
Non-interest income received		**223**	211
Operating expenses paid		**(982)**	(919)
Income tax paid		**(278)**	(331)
Cash flows from operating activities before changes in operating assets and liabilities		**1,507**	1,053
Net (increase)/decrease in:			
Collateral paid		**143**	(37)
Trading securities and financial assets measured at FVIS		**153**	154
Loans		**(4,581)**	(4,855)
Other financial assets		**3**	41
Due from related entities		**920**	(517)
Other assets		**(1)**	5
Net increase/(decrease) in:			
Collateral received		**(106)**	(231)
Deposits and other borrowings		**1,481**	5,397
Other financial liabilities		**1,286**	2,678
Due to related entities		**466**	465
Other liabilities		**13**	39
Net movement in external and related entity derivative financial instruments		**266**	(405)
Net cash provided by/(used in) operating activities	33	**1,550**	3,787
Cash flows from investing activities			
Purchase of investment securities		**(1,668)**	(648)
Proceeds from investment securities		**310**	673
Purchase of capitalised computer software		**(171)**	(104)
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		**(1,556)**	(98)
Cash flows from financing activities			
Net movement in due to related entities		**(54)**	181
Proceeds from debt issues	19	**13,602**	9,476
Repayments of debt issues	19	**(10,297)**	(8,369)
Payments for the principal portion of lease liabilities		**(62)**	(49)
Issue of loan capital (net of issue costs)	21	**590**	-
Redemption of loan capital	21	**(1,178)**	-
Dividends paid to ordinary shareholder	22	**(788)**	(275)
Net cash provided by/(used in) financing activities		**1,813**	964
Net increase/(decrease) in cash and cash equivalents		**1,807**	4,653
Cash and cash equivalents at the beginning of the year		**9,013**	4,360
Cash and cash equivalents at the end of the year	33	**10,820**	9,013

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 33.

Notes to the financial statements

Note 1 Financial statements preparation

The Bank was incorporated as Westpac New Zealand Limited under the Companies Act 1993 (Company Number 1763882) on 14 February 2006. The head office of the Bank is situated at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand and the address for service of process on the Bank is S. O'Brien, Legal, Westpac on Takutai Square, 53 Galway Street, Auckland 1010, New Zealand.

The Bank is a locally incorporated subsidiary of the Ultimate Parent Bank providing consumer and business banking to New Zealand customers.

The financial statements are for the Banking Group.

These financial statements were authorised for issue by the Board of Directors of the Bank on 25 November 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 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 Banking Group.

Notes to the financial statements

Note 1 Financial statements preparation (continued)

(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 Banking Group's equity interest in the acquiree, over the fair value of the identifiable net assets acquired.

(vi) Foreign currency translation

Functional and presentational currency

The financial statements are presented in New Zealand dollars which is the 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) Reserves

Investment securities reserve

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

Cash flow hedge reserve

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

b. Principles of consolidation

The Banking Group subsidiaries are entities which the Bank controls and consolidates as it is exposed to, or has rights to, variable returns from the entities, and can affect those returns through its power over the entities.

All transactions between entities within the 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 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 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 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 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.

Note 1 Financial statements preparation (continued)

(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.

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 Banking Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the 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 Banking Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 25.

d. Critical accounting assumptions and estimates

Applying the 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 25 Fair value of financial assets and financial liabilities

Notes to the financial statements

Note 1 Financial statements preparation (continued)

Impact of COVID-19

The 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 assessment 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 Banking Group.

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 Banking Group's ECL model and on the carrying amount net of the provision for ECL for financial assets in stage 3.

		THE BANKING GROUP	
$ millions	Note	**2022**	2021
Interest income			
Calculated using the effective interest method			
Cash and balances with central banks		**161**	16
Investment securities		**92**	79
Loans		**3,451**	2,906
Total interest income calculated using the effective interest method		**3,704**	3,001
Other			
Trading securities and financial assets measured at FVIS		**33**	11
Due from related entities	23	**4**	-
Total other		**37**	11
Total interest income		**3,741**	3,012

Interest expense			
Calculated using the effective interest method			
Deposits and other borrowings		**771**	426
Due to related entities	23	**21**	17
Debt issues		**167**	145
Loan capital		**122**	96
Other interest expense		**43**	6
Total interest expense calculated using the effective interest method		**1,124**	690
Other			
Deposits and other borrowings		**58**	20
Due to related entities	23	**8**	1
Debt issues		**39**	7
Other interest expense[1]		**221**	228
Total other		**326**	256
Total interest expense		**1,450**	946

Net interest income		**2,291**	2,066

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

Note 3 Non-interest income

Accounting policy

Non-interest income includes net fees and commissions income and other income.

Net fees and commissions income

When another party is involved in providing goods or services to a Banking Group customer, the 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 Banking Group is acting as an agent for another party, the income earned by the 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 Banking Group has a future service obligation to customers under the 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.

	THE BANKING GROUP	
$ millions	**2022**	2021
Net fees and commissions income		
Facility fees	**41**	53
Transaction fees and commissions[1]	**263**	221
Other non-risk fee income[2]	**14**	19
Fees and commissions income	**318**	293
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	**252**	236
Other income		
Net ineffectiveness on qualifying hedges	**5**	(4)
Other non-interest income	**11**	8
Total other income	**16**	4
Total non-interest income	**268**	240

[1] Includes transaction fees and commissions due from related entities. Refer to Note 23.

[2] Includes management fees due from related entities. Refer to Note 23.

Deferred income in relation to the credit card loyalty programmes for the 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 Banking Group.

Note 3 Non-interest income (continued)

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 28.

	THE BANKING GROUP				
$ millions	**Consumer Banking and Wealth**	**Institutional and Business Banking**	**Investments and Insurance**	**Reconciling Items**	**Total**
Year ended 30 September 2022					
Fees and commissions income					
Facility fees	**24**	**14**	**-**	**3**	**41**
Transaction fees and commissions	**178**	**75**	**-**	**10**	**263**
Other non-risk fee income	**7**	**20**	**-**	**(13)**	**14**
Fees and commissions income	**209**	**109**	**-**	**-**	**318**
Fees and commissions expenses	**(66)**	**-**	**-**	**-**	**(66)**
Net fees and commissions income	**143**	**109**	**-**	**-**	**252**
Year ended 30 September 2021					
Fees and commissions income					
Facility fees	26	16	-	11	53
Transaction fees and commissions	155	75	-	(9)	221
Other non-risk fee income	9	14	-	(4)	19
Fees and commissions income	190	105	-	(2)	293
Fees and commissions expenses	(57)	-	-	-	(57)
Net fees and commissions income	133	105	-	(2)	236

Note 4 Operating expenses

		THE BANKING GROUP	
$ millions	Note	**2022**	2021
Staff expenses		**635**	532
Lease expense		**20**	26
Depreciation		**88**	95
Technology services and telecommunications		**145**	165
Purchased services		**81**	99
Software amortisation costs		**47**	61
Related entities - management fees	23	**5**	5
Other		**110**	116
Total operating expenses		**1,131**	1,099

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 $63 million, purchased services decreased by $15 million, other decreased by $14 million and consultant costs decreased by $34 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.

Notes to the financial statements

Note 5 Auditor's remuneration

	THE BANKING GROUP	
$'000s	**2022**	2021
Audit and audit related services		
Audit and review of financial statements[1]	**2,957**	2,493
Other audit related services[2,3]	**923**	356
Total remuneration for audit and other audit related services	**3,880**	2,849
Other services	**-**	-
Total remuneration for non-audit services	**-**	-
Total remuneration for audit, other audit related services and non-audit services	**3,880**	2,849

[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 the Banking Group.

[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 the Banking Group's debt issuance programme (30 September 2021: $53,872).

It is the 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 Banking Group is important.

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 Banking Group's loan recovery procedures, the 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 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.

	THE 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 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.

	THE BANKING GROUP	
$ millions	**2022**	2021
Income tax expense		
Current tax:		
Current year	**384**	348
Prior year adjustments	**(4)**	(1)
Deferred tax (refer to Note 15)		
Current year	**24**	12
Prior year adjustments	**4**	1
Total income tax expense	**408**	360
Profit before income tax	**1,455**	1,291
Tax calculated at tax rate of 28%	**407**	361
Other non-assessable items	**-**	(2)
Expenses not deductible for tax purposes	**1**	1
Total income tax expense	**408**	360

The effective tax rate for the year ended 30 September 2022 was 28.0% (30 September 2021: 27.9%).

Note 8 Imputation credit account

	THE BANKING GROUP	
$ millions	**2022**	2021
Imputation credits available for use in subsequent reporting periods	**971**	1,090

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 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).

	THE BANKING GROUP	
$ millions	**2022**	2021
Government and semi-government securities	**954**	1,839
Other debt securities	**1,164**	260
Reverse repurchase agreements	**-**	181
Total trading securities and financial assets measured at FVIS	**2,118**	2,280

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.

	THE 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:

	THE BANKING GROUP	
$ millions	**2022**	2021
Residential mortgages	**63,869**	60,854
Other retail	**2,829**	2,976
Corporate	**30,459**	29,144
Other	**121**	129
Total gross loans	**97,278**	93,103
Provision for ECL on loans (refer to Note 12)	**(396)**	(471)
Total net loans	**96,882**	92,632

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 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 Banking Group considers that the customer is unable to repay its credit obligations in full, irrespective of recourse by the Banking Group to action such as realising security. Indicators include a breach of contract with the 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 Banking Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. For these facilities, lifetime is based on historical behaviour.

Movement between stages

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

Note 12 Provision for expected credit losses (continued)

Accounting policy (continued)

Critical accounting assumptions and estimates

Key judgements include when a significant increase in credit risk has occurred, the estimation of forward-looking macroeconomic information and overlays. Other factors which can impact the provision include the borrower's financial situation, the realisable value of collateral, the 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 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 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 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 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 Banking Group.

	THE 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	**33**	**92**	**13**	**17**	**155**	27	122	6	60	215
Total provision for ECL on loans (refer to Note 11)	**85**	**215**	**69**	**27**	**396**	84	244	74	69	471
Provision for ECL on credit commitments[1]										
Residential mortgages	**6**	**4**	**-**	**-**	**10**	5	1	-	-	6
Other retail	**5**	**7**	**-**	**-**	**12**	5	9	1	-	15
Corporate	**7**	**14**	**-**	**-**	**21**	8	25	-	-	33
Total provision for ECL on credit commitments (refer to Note 20)	**18**	**25**	**-**	**-**	**43**	18	35	1	-	54
Total provision for ECL on loans and credit commitments	**103**	**240**	**69**	**27**	**439**	102	279	75	69	525
Gross loans	**85,362**	**11,374**	**482**	**60**	**97,278**	84,661	7,833	500	109	93,103
Credit commitments	**27,303**	**2,180**	**26**	**1**	**29,510**	27,759	1,691	18	6	29,474
Gross loans and credit commitments	**112,665**	**13,554**	**508**	**61**	**126,788**	112,420	9,524	518	115	122,577
Coverage ratio on loans (%)	**0.10**	**1.89**	**14.32**	**45.00**	**0.41**	0.10	3.12	14.80	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

[1] Includes provision for ECL on related entity credit commitments of $4 million classified as Due to Related Entities in the Balance Sheet.

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.

Note 12 Provision for expected credit losses (continued)

	THE 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**

	THE 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:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 30 September 2021	46	70	46	8	170
Due to changes in credit quality:					
Transfers to Stage 1	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)

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	
$ millions	CAP	CAP	CAP	IAP	Total
Residential mortgages					
Provision for ECL as at 30 September 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.

	THE 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 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 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 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).

	THE 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 Banking Group as at 30 September 2022 and 30 September 2021.

	THE 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 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 $0.7 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 $3.5 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).

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 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 32.1 for details of the Banking Group's overall risk management framework.

- The Banking Group'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 Banking Group has its own credit approval limits approved by the Banking Group's Board as delegated by the Ultimate Parent Bank Group Chief Risk Officer.
- The BRCC, RISKCO and CREDCO monitor the risk profile, performance and management of the 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 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 Banking Group's model risk policies.
- An annual review is performed of the Credit Risk Rating System for approval by the BRCC.
- Specific credit risk estimates (including PD, LGD and EAD) are reviewed by CREDCO, overseen, reviewed annually and approved by the Banking Group's Chief Risk Officer.
- 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 Banking Group's Chief Financial Officer and the Chief Risk Officer with oversight from the Board (and its Committees).
- Policies for delegating credit approval authorities and formal limits for the extension of credit are established throughout the 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 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 Ultimate Parent Bank's Related Entity Risk Management Policy and supporting policies govern credit exposures to related entities to minimise the spread of credit risk between the Ultimate Parent Bank Group.
- Climate change related credit risks are considered in line with the Ultimate Parent Bank's Climate Change Position Statement. Climate change risks are managed in line with the Banking Group's risk framework which is supported by the Ultimate Parent Bank's Sustainability Risk Management Framework, the Banking Group'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.
- CREDCO oversees work to identify and manage the potential impact on credit exposures from climate change-related transition and physical risks across the Banking Group.
- The Banking Group's ESG Credit Risk Policy details the overall approach to managing ESG risks in the credit risk process for applicable transactions.

Notes to the financial statements

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

		Transaction-managed	
Financial Statement Disclosure	**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+
		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.

Note 13 Credit risk management (continued)

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 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 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 Banking Group's industry risk appetite limits.

Individual countries

The 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 Banking Group, or the 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.

	THE BANKING GROUP	
$ millions	**2022**	2021
Financial assets		
Cash and balances with central banks	**10,820**	8,472
Collateral paid	**42**	185
Trading securities and financial assets measured at FVIS	**2,118**	2,280
Derivative financial instruments	**169**	221
Investment securities	**5,623**	4,680
Loans	**96,882**	92,632
Other financial assets	**263**	712
Due from related entities	**2,606**	1,834
Total financial assets	**118,523**	111,016
Undrawn credit commitments		
Letters of credit and guarantees[1]	**1,609**	1,338
Commitments to extend credit	**27,901**	28,136
Total undrawn credit commitments	**29,510**	29,474
Total maximum credit risk exposure	**148,033**	140,490

[1] Comparatives have been restated to correctly reflect an additional $503 million in off-balance sheet credit exposures arising under the financial guarantee with the NZ Branch.

Note 13 Credit risk management (continued)

Concentration of credit exposures

	THE BANKING GROUP	
$ millions	**2022**	2021
On-balance sheet credit exposures		
Analysis of on-balance sheet credit exposures by geographical areas		
New Zealand	**115,905**	109,073
Overseas	**3,014**	2,414
Subtotal	**118,919**	111,487
Provision for ECL on loans	**(396)**	(471)
Total on-balance sheet credit exposures	**118,523**	111,016
Analysis of on-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**395**	464
Agriculture	**9,263**	9,371
Construction	**495**	496
Finance and insurance	**6,029**	5,547
Forestry and fishing	**506**	481
Government, administration and defence	**16,086**	13,828
Manufacturing	**2,212**	1,598
Mining	**218**	212
Property	**8,097**	7,777
Property services and business services	**1,040**	1,152
Services	**1,384**	1,720
Trade	**2,210**	1,810
Transport and storage	**1,181**	1,270
Utilities	**1,894**	1,687
Retail lending	**65,197**	62,165
Subtotal	**116,207**	109,578
Provision for ECL on loans	**(396)**	(471)
Due from related entities	**2,606**	1,834
Other financial assets	**106**	75
Total on-balance sheet credit exposures	**118,523**	111,016

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

Note 13 Credit risk management (continued)

	THE BANKING GROUP	
$ millions	2022	2021[1]
Off-balance sheet credit exposures consists of		
Credit risk-related instruments	**29,510**	29,474
Total off-balance sheet credit exposures	**29,510**	29,474
Analysis of off-balance sheet credit exposures by geographical areas		
New Zealand	**29,001**	28,933
Overseas	**509**	541
Total off-balance sheet credit exposures	**29,510**	29,474
Analysis of off-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**126**	96
Agriculture	**628**	699
Construction	**502**	570
Finance and insurance	**1,874**	2,077
Forestry and fishing	**183**	230
Government, administration and defence	**967**	808
Manufacturing	**1,551**	1,797
Mining	**106**	57
Property	**1,651**	1,627
Property services and business services	**806**	720
Services	**1,293**	1,148
Trade	**2,196**	2,165
Transport and storage	**789**	986
Utilities	**1,777**	1,827
Retail lending	**15,061**	14,667
Total off-balance sheet credit exposures	**29,510**	29,474

[1] Comparatives have been restated to correctly reflect an additional $503 million in off-balance sheet credit exposures arising under the financial guarantee with the NZ Branch.

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

Notes to the financial statements

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:

	THE 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	1,569	6,000	-	7,569	6,007	3,353	-	9,360
Weak	-	172	360	532	22	525	403	950
Total Loans - Residential Mortgages	57,337	6,172	360	63,869	56,573	3,878	403	60,854
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	12,869	-	-	12,869	10,706	-	-	10,706
Good/satisfactory	12,972	3,560	-	16,532	14,734	1,288	-	16,022
Weak	-	934	124	1,058	-	2,275	141	2,416
Total Loans - Corporate	25,841	4,494	124	30,459	25,440	3,563	141	29,144
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	11,532	-	-	11,532	10,272	-	-	10,272
Good/satisfactory	25	16	-	41	23	5	-	28
Weak	-	2	1	3	-	3	1	4
Total all other financial assets	11,557	18	1	11,576	10,295	8	1	10,304
Undrawn credit commitments[2]								
Strong	22,615	-	-	22,615	22,651	1	-	22,652
Good/Satisfactory	4,677	2,032	-	6,709	5,101	1,553	-	6,654
Weak	11	148	27	186	7	137	24	168
Total undrawn credit commitments	27,303	2,180	27	29,510	27,759	1,691	24	29,474
Total strong	109,652	-	-	109,652	100,123	1	-	100,124
Total good/satisfactory	20,180	12,181	-	32,361	27,228	6,425	-	33,653
Total weak	13	1,391	570	1,974	44	3,106	634	3,784
Total on and off balance sheet	129,845	13,572	570	143,987	127,395	9,532	634	137,561

[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.

[2] Comparatives have been restated to correctly reflect an additional $503 million in off-balance sheet credit exposures arising under the financial guarantee with the NZ Branch.

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

Note 13 Credit risk management (continued)

13.5 Credit risk mitigation, collateral and other credit enhancements

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

This includes the 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.

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

Collateral

The following table 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, due from related entities 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 Banking Group mitigates credit risk through controls covering:

Collateral and valuation management	The Ultimate Parent Bank manages collateral under collateralisation agreements centrally for all branches of the Ultimate Parent Bank and the Bank. 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 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 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.

Note 13 Credit risk management (continued)

Other credit enhancements	The 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 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 Banking Group's corporate, sovereign and bank credit portfolios through monitoring the exposure and any offsetting hedge positions.
Offsetting	Creditworthy customers domiciled in New Zealand may enter into formal agreements with the Banking Group, permitting the 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 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 26.
Central clearing	The Banking Group increasingly executes derivative transactions through central clearing counterparties. Central clearing counterparties mitigate risk through stringent membership requirements, the collection of margin against all trades placed, the default fund, and an explicitly defined order of priority of payments in the event of default.

Note 13 Credit risk management (continued)

Collateral held against loans

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

	THE 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**	**71**	**53**	**90**	100	49	68	37	88
Partially secured	**-**	**2**	**11**	**3**	**3**	-	3	15	1	5
Unsecured	**-**	**50**	**18**	**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	26	-	74
Partially secured	**6**	**1**	**37**	**-**	**13**	6	6	14	-	8
Unsecured	**-**	**33**	**30**	**-**	**10**	-	43	60	-	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

	THE BANKING GROUP	
$ millions	**2022**	2021
Cash, primarily for derivatives	**82**	188
Securities under reverse repurchase agreements [1]	**57**	671
Total other collateral held	**139**	859

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

Notes to the financial statements

Note 14 Other financial assets

$ millions	THE BANKING GROUP 2022	2021
Accrued interest receivable	**157**	96
Trade debtors	**2**	1
Interbank lending	**-**	541
Other	**104**	74
Total other financial assets	**263**	712

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 Banking Group's critical accounting assumptions and estimates.

Note 15 Deferred tax assets (continued)

	THE BANKING GROUP	
$ millions	**2022**	2021
Deferred tax assets/(liabilities) comprise the following temporary differences:		
Provision for ECL on loans	**111**	132
Provision for ECL on credit commitments	**12**	15
Cash flow hedges	**(165)**	(18)
Provision for employee entitlements	**20**	22
Compliance, regulation and remediation provisions	**18**	21
Software, property and equipment	**(43)**	(48)
Lease liabilities	**78**	81
Other temporary differences	**8**	11
Net deferred tax assets	**39**	216
The deferred tax (charge)/credit in income tax expense comprises the following temporary differences:		
Provision for ECL on loans	**(21)**	(36)
Provision for ECL on credit commitments	**(3)**	(1)
Compliance, regulation and remediation provisions	**(3)**	9
Software, property and equipment	**5**	5
Lease liabilities	**(3)**	2
Other temporary differences	**(3)**	8
Total deferred tax (charge)/credit in income tax expense	**(28)**	(13)
The deferred tax (charge)/credit in OCI comprises the following temporary differences:		
Cash flow hedges	**(147)**	(49)
Provision for employee entitlements	**(2)**	(5)
Total deferred tax (charge)/credit in OCI	**(149)**	(54)
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

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 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 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)

Note 16 Intangible assets (continued)

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.

	THE BANKING GROUP	
$ millions	**2022**	2021
Goodwill	**477**	477
Computer software	**308**	196
Total intangible assets	**785**	673

Goodwill has been allocated to the Consumer Banking and Wealth CGU, which is a single CGU.

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 Banking Group continues to have considerable headroom when determining whether goodwill is recoverable, and no impairment should be recognised.

Significant assumptions used in recoverable amount calculations

The assumptions made for goodwill impairment testing for the Consumer Banking and Wealth 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 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 CGU.

	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%

The 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 Consumer Banking and Wealth CGU that would result in an indication of impairment or have a material impact on the 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.

	THE 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 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.

	THE BANKING GROUP	
$ millions	**2022**	2021
Accrued interest payable	**293**	118
Trade creditors and other accrued expenses	**73**	86
Repurchase agreements[1]	**3,967**	2,676
Interbank placements	**4**	-
Other	**11**	20
Total other financial liabilities	**4,348**	2,900
Other financial liabilities at fair value	**-**	580
Other financial liabilities at amortised cost	**4,348**	2,320
Total other financial liabilities	**4,348**	2,900

[1] Repurchase agreements include those under the Funding for Lending Programme and Term Lending Facility. Refer to Note 32.2.2 for further details.

Note 19 Debt issues

Accounting policy

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

	THE 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

	THE 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.

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 Banking Group is committed to provide facilities and guarantees as explained in Note 27. 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 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.

	THE 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**	**Other**	**Total**
Balance as at 30 September 2021	**79**	**54**	**76**	**30**	**2**	**241**
Additions	**43**	**-**	**27**	**3**	**1**	**74**
Utilisation	**(26)**	**-**	**(16)**	**-**	**-**	**(42)**
Reversal of unutilised provisions	**(1)**	**(15)**	**(22)**	**-**	**(2)**	**(40)**
Balance as at 30 September 2022	**95**	**39**	**65**	**33**	**1**	**233**

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 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 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 27 for further details on contingent liabilities.

Note 21 Loan capital

Accounting policy

Loan capital are debt instruments which qualify for inclusion as regulatory capital under the Reserve Bank BPRs. 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.

	THE BANKING GROUP	
$ millions	**2022**	2021
Additional Tier 1 loan capital - Convertible subordinated perpetual notes	**1,493**	1,491
Tier 2 loan capital - Subordinated notes	**590**	-
Tier 2 loan capital - Convertible subordinated notes	**-**	1,088
Total loan capital	**2,083**	2,579

	THE BANKING GROUP	
$ millions	**2022**	2021
Movement reconciliation		
Balance at beginning of the year	**2,579**	2,612
Issuances[1]	**590**	-
Maturities, repayments, buy-backs and reductions	**(1,178)**	-
Total cash movements	**(588)**	-
FX translation impact	**90**	(35)
Other (amortisation of bond issue costs, etc)	**2**	2
Total non-cash movements	**92**	(33)
Balance at end of the year	**2,083**	2,579

[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 AT1 notes is provided below:

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

[1] The AT1 notes were issued by the Bank and rank equally amongst themselves and are subordinated to the claims of depositors and senior or less subordinated creditors of the Bank, but rank ahead of the Bank's ordinary shares.

In accordance with the Reserve Bank BPRs, the AT1 notes are subject to a transitional phase-out from 1 January 2022. In line with the transitional phase-out schedule contained in BPR110, 87.5% of the total nominal value of the AT1 notes will be recognised as regulatory capital between 1 January 2022 and 31 December 2022.

Interest payable

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

Redemption

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

Conversion

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

Note 21 Loan capital (continued)

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

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

Tier 2 loan capital

On 16 September 2022, the Bank issued $600m of subordinated notes. On 22 September 2022, the Bank 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 the Bank. The subordinated notes rank equally amongst themselves and are subordinated to the claims of depositors and senior or less subordinated creditors of the Bank, but rank ahead of the AT1 notes and the Bank's ordinary shares.

Interest payable

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

Early redemption

The Bank may elect to redeem all or some of the 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	8 September 2015	London Branch of the Ultimate Parent Bank	Australian 90 day Bank Bill Rate + 2.87% p.a.	22 March 2026	Redeemed on 22 September 2022

Interest payable

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

Early redemption

The Bank 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 Share capital

Accounting policy

Share capital

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

Ordinary shares fully paid

	THE BANKING GROUP	
	2022 Number of Shares Authorised and Issued	2021 Number of Shares Authorised and Issued
Balance at beginning of the year	**7,300,001,000**	7,300,001,000
Share capital issued	**-**	-
Balance at end of the year	**7,300,001,000**	7,300,001,000

In accordance with the Reserve Bank document BPR110, ordinary share capital is classified as Common Equity Tier 1 capital.

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

On 21 February 2022 and 19 August 2022, the Bank declared and paid dividends of $465 million and $323 million to its immediate parent company, Westpac New Zealand Group Limited, respectively.

Notes to the financial statements

Note 23 Related entities

Related entities

The 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.

Banking Group

The Bank is a controlled entity of Westpac New Zealand Group Limited. The ultimate parent bank of the Bank is Westpac Banking Corporation.

The Banking Group consists of the Bank and all its controlled entities. As at 30 September 2022, the Bank had the following controlled entities:

Name of entity	Principal activity	Notes
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	9.5% owned[2]
Westpac NZ Covered Bond Limited ('**WNZCBL**')	Guarantor	9.5% owned[2]
Westpac NZ Securitisation Holdings Limited ('**WNZSHL**')	Holding company	9.5% owned[3]
Westpac NZ Securitisation Limited ('**WNZSL**')	Funding company	9.5% owned[3]
Westpac NZ Securitisation No.2 Limited ('**WNZSL2**')	Non-active company	9.5% 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 Banking Group, through its subsidiary, WNZOL, has a qualifying interest of 9.5% in WNZCBHL and its wholly-owned subsidiary company, WNZCBL. The Bank 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 Banking Group.

[3] The Banking Group, through its subsidiary WNZOL, has a qualifying interest of 9.5% in WNZSHL and its wholly-owned subsidiary companies, WNZSL and WNZSL2. The Bank 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 Banking Group.

[4] Westpac Term PIE Fund, Westpac Cash PIE Fund and Westpac Notice Saver PIE Fund (collectively referred to as the '**PIE Funds**') were established as unit trusts. The PIE Funds are PIEs, where BT Funds Management (NZ) Limited ('**BTNZ**') (an indirectly wholly-owned subsidiary of the Ultimate Parent Bank) is the manager and issuer. The manager has appointed the Bank to perform all customer management and account administration for the PIE Funds. The Bank is the PIE Funds' registrar and administration manager. The Bank 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 Banking Group.

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

All entities in the Banking Group are 100% owned unless otherwise stated. All the entities within the 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.

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

Nature of transactions

The Banking Group has transactions with members of the Ultimate Parent Bank Group on commercial terms, including the provision of management, distribution and administrative services.

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

The NZ Branch provides financial market services, foreign currency, trade and interest rate risk products to the Banking Group and its customers, which includes derivative transactions (refer to Note 24).

Effective 1 October 2014, the Bank and the NZ Branch entered into an agreement whereby the Bank will reimburse the NZ Branch for any credit losses incurred by it due to certain customers of the Bank defaulting on certain financial market and international products. The Banking Group receives commission from the sale of these products to customers for providing this guarantee.

This is treated as a financial guarantee for accounting purposes. Financial guarantee contracts are recognised as financial liabilities (recorded within provisions) when a payment under a contract has become probable. The liability is initially measured at fair value and subsequently at the

Notes to the financial statements

Note 23 Related entities (continued)

higher of the amount of the loss allowance determined in accordance with NZ IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

The value of the exposures guaranteed at 30 September 2022 is $1,057 million (30 September 2021: $821 million[1]), for which a liability has been recognised of $4.3 million (30 September 2021: $5.5 million).

Refer to Note 21 for details of the loan capital transactions undertaken by the Banking Group with related entities.

[1] The comparative for 30 September 2021 has been restated to correctly reflect an additional $101 million in off-balance sheet credit exposures arising under the financial guarantee with the NZ Branch.

Transactions with related entities

		THE BANKING GROUP	
$ millions	**Note**	**2022**	2021
Ultimate Parent Bank			
Interest income[1]	2	**4**	-
Interest expense:			
Loan capital	2	**122**	96
Other[2]	2	**29**	17
Non-interest income:			
Commissions received		**46**	43
Management fees received		**3**	3
Operating expenses - management fees	4	**5**	5
Immediate Parent Company			
Dividends paid	22	**788**	275
Other controlled entities of the Ultimate Parent Bank			
Non-interest income:			
Distribution fees received on managed fund products		**15**	16
Distribution fees received on life and general insurance products[3]		**5**	31
Management fees received		**3**	6
Operational cost recharges		**8**	-

[1] Includes interest income on reverse repurchase agreements and cash held with the NZ Branch.

[2] Includes interest expense on other funding provided by and repurchase agreements with the NZ Branch.

[3] 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.

Due from and to related entities

	THE BANKING GROUP	
$ millions	**2022**	2021
Due from related entities		
Ultimate Parent Bank	**2,602**	1,821
Other controlled entities of the Ultimate Parent Bank	**4**	13
Total due from related entities	**2,606**	1,834
Due from related entities at fair value[1]	**2,155**	899
Due from related entities at amortised cost	**451**	935
Total due from related entities	**2,606**	1,834
Due to related entities		
Ultimate Parent Bank	**2,895**	1,754
Other controlled entities of the Ultimate Parent Bank	**66**	82
Total due to related entities	**2,961**	1,836
Due to related entities at fair value[2]	**2,200**	1,080
Due to related entities at amortised cost	**761**	756
Total due to related entities	**2,961**	1,836

[1] Consists of reverse repurchase agreements of $57 million (30 September 2021: $493 million) and derivative financial instruments of $2,098 million (30 September 2021: $406 million) (refer to Note 24).

[2] Consists of repurchase agreements of $1,326 million (30 September 2021: $916 million) and derivative financial instruments of $874 million (30 September 2021: $164 million) (refer to Note 24).

Note 23 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 Banking Group. This includes all Executive/Non-Executive Directors and members of the executive team.

	THE BANKING GROUP	
$'000s	**2022**	2021
Salaries and other short-term benefits	**9,105**	8,287
Post-employment benefits	**627**	555
Termination benefits	**684**	1,087
Share-based payments[1]	**1,672**	2,945
Total key management personnel compensation	**12,088**	12,874
Loans to key management personnel	**3,805**	10,370
Deposits from key management personnel	**8,397**	19,276
Interest income on amounts due from key management personnel	**54**	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.

The Directors have received remuneration from the Banking Group and these amounts are included in the table above.

Loans and deposits with key management personnel

All loans and deposits are made in the ordinary course of business of the 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 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 24 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 Banking Group uses derivative financial instruments for our ALM 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 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 Banking Group's ALM activities, refer to Note 32.

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.

Note 24 Derivative financial instruments (continued)

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

	THE BANKING GROUP					
	2022					
	Trading		Hedging		Total derivatives carrying value	
$ millions	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate contracts						
Swap agreements	**35**	**-**	**1,185**	**(315)**	**1,220**	**(315)**
Total interest rate contracts	**35**	**-**	**1,185**	**(315)**	**1,220**	**(315)**
FX contracts						
Cross currency swap agreements (principal and interest)	**648**	**23**	**399**	**(700)**	**1,047**	**(677)**
Total FX contracts	**648**	**23**	**399**	**(700)**	**1,047**	**(677)**
Total of gross derivatives	**683**	**23**	**1,584**	**(1,015)**	**2,267**	**(992)**
Total of net derivatives	**683**	**23**	**1,584**	**(1,015)**	**2,267**	**(992)**
Consisting of:						
Derivatives held with external counterparties	**-**	**-**	**169**	**(118)**	**169**	**(118)**
Derivatives held with related parties	**683**	**23**	**1,415**	**(897)**	**2,098**	**(874)**

	THE BANKING GROUP					
	2021					
	Trading		Hedging		Total derivatives carrying value	
$ millions	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate contracts						
Swap agreements	10	(5)	271	(167)	281	(172)
Total interest rate contracts	10	(5)	271	(167)	281	(172)
FX contracts						
Cross currency swap agreements (principal and interest)	106	8	240	(178)	346	(170)
Total FX contracts	106	8	240	(178)	346	(170)
Total of gross derivatives	116	3	511	(345)	627	(342)
Total of net derivatives	116	3	511	(345)	627	(342)
Consisting of:						
Derivatives held with external counterparties	-	-	221	(178)	221	(178)
Derivatives held with related parties	116	3	290	(167)	406	(164)

Note 24 Derivative financial instruments (continued)

Hedge accounting

The 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 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 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 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 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 Banking Group primarily uses one-to-one hedge accounting to manage specific exposures.

The 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 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 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 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 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 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 Banking Group's ALM activities, economic hedges may be entered into to hedge long-term funding transactions.

Note 24 Derivative financial instruments (continued)

Interest Rate Benchmark Reform

The Banking Group's hedging relationships include hedged items and hedging instruments that are impacted by IBOR reform. Refer to Note 32.4 for further details of the Banking Group's exposure to IBOR reform.

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.

			THE 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	1,004	-	1,351	39	(3)
	Cross currency swap	Interest rate risk	269	9,890	1,911	12,070	(17)	(708)
Cash flow hedges	Cross currency swap	FX risk	304	2,456	343	3,103	416	8
Total one-to-one hedge relationships			920	13,350	2,254	16,524	438	(703)
Macro hedge relationships								
Portfolio fair value hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	23,800	264	(14)
Macro cash flow hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	20,230	882	(298)
Total macro hedge relationships			N/A	N/A	N/A	44,030	1,146	(312)
Total of gross hedging derivatives			N/A	N/A	N/A	60,554	1,584	(1,015)
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	1,584	(1,015)

			THE 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	-	1,761	2	(55)
	Cross currency swap	Interest rate risk	1,686	3,738	3,035	8,459	71	(33)
Cash flow hedges	Cross currency swap	FX risk	4,019	2,591	337	6,947	169	(145)
Total one-to-one hedge relationships			6,115	7,680	3,372	17,167	242	(233)
Macro hedge relationships								
Portfolio fair value hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	20,925	43	(19)
Macro cash flow hedges	Interest rate swap	Interest rate risk	N/A	N/A	N/A	15,493	226	(93)
Total macro hedge relationships			N/A	N/A	N/A	36,418	269	(112)
Total of gross hedging derivatives			N/A	N/A	N/A	53,585	511	(345)
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	511	(345)

Note 24 Derivative financial instruments (continued)

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

				THE 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	**0.6947**	0.7046

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.

	THE 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	**23,456**	**(343)**	20,872	(52)
Debt issues	**(10,973)**	**1,052**	(8,531)	(54)

There were no accumulated FVHA adjustment losses (30 September 2021: $3.75 million) 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:

	THE 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	**146**	**(83)**	**63**	(24)	(89)	(113)
Net gains/(losses) from changes in fair value	**456**	**40**	**496**	147	(40)	107
Transferred to net interest income	**1**	**27**	**28**	23	46	69
Balance at end of year	**603**	**(16)**	**587**	146	(83)	63

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 24 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:

			THE 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	**355**	**(363)**	**(8)**
	Cross currency swap	Interest rate risk	**(1,103)**	**1,104**	**1**
Cash flow hedges	Interest rate swap	Interest rate risk	**470**	**(458)**	**12**
	Cross currency swap	FX risk	**66**	**(66)**	**-**
Total			**(212)**	**217**	**5**

			THE 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	272	(274)	(2)
	Cross currency swap	Interest rate risk	(71)	70	(1)
Cash flow hedges	Interest rate swap	Interest rate risk	169	(170)	(1)
	Cross currency swap	FX risk	7	(7)	-
Total			377	(381)	(4)

Note 25 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 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 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 Banking Group uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

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

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

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

Fair value hierarchy

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

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

Valuation techniques

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

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

Notes to the financial statements

Note 25 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
Debt instruments	Trading securities and financial assets measured at FVIS Investment securities	New Zealand Government bonds	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.

Level 2 instruments

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

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

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

Note 25 Fair values of financial assets and financial liabilities (continued)

Level 3 instruments

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

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

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

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

	THE BANKING GROUP							
	2022				2021			
$ millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets measured at FVIS	**86**	**2,032**	**-**	**2,118**	636	1,644	-	2,280
Derivative financial instruments	**-**	**169**	**-**	**169**	-	221	-	221
Investment securities	**1,982**	**3,641**	**-**	**5,623**	2,152	2,528	-	4,680
Due from related entities	**-**	**2,155**	**-**	**2,155**	-	899	-	899
Total financial assets measured at fair value	**2,068**	**7,997**	**-**	**10,065**	2,788	5,292	-	8,080
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings at fair value[1]	**-**	**2,939**	**-**	**2,939**	-	3,450	-	3,450
Other financial liabilities[1]	**-**	**-**	**-**	**-**	-	580	-	580
Derivative financial instruments	**-**	**118**	**-**	**118**	-	178	-	178
Due to related entities	**-**	**2,200**	**-**	**2,200**	-	1,080	-	1,080
Debt issues at fair value[1]	**-**	**5,490**	**-**	**5,490**	-	2,979	-	2,979
Total financial liabilities measured at fair value	**-**	**10,747**	**-**	**10,747**	-	8,267	-	8,267

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

Analysis of movements between fair value hierarchy levels

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

Financial instruments not measured at fair value

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	The fair value of the loan due to related entities is estimated 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.
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.

Note 25 Fair values of financial assets and financial liabilities (continued)

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

	THE BANKING GROUP				
	2022				
			Fair Value		
$ millions	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value					
Cash and balances with central banks	**10,820**	**10,820**	**-**	**-**	**10,820**
Collateral paid	**42**	**42**	**-**	**-**	**42**
Loans	**96,882**	**-**	**-**	**95,528**	**95,528**
Other financial assets	**263**	**-**	**-**	**263**	**263**
Due from related entities	**451**	**-**	**446**	**5**	**451**
Total financial assets not measured at fair value	**108,458**	**10,862**	**446**	**95,796**	**107,104**
Financial liabilities not measured at fair value					
Collateral received	**82**	**82**	**-**	**-**	**82**
Deposits and other borrowings	**77,909**	**-**	**75,487**	**2,408**	**77,895**
Other financial liabilities	**4,348**	**-**	**4,348**	**-**	**4,348**
Due to related entities	**761**	**-**	**761**	**-**	**761**
Debt issues[1]	**14,443**	**-**	**14,242**	**-**	**14,242**
Loan capital[1]	**2,083**	**-**	**599**	**1,625**	**2,224**
Total financial liabilities not measured at fair value	**99,626**	**82**	**95,437**	**4,033**	**99,552**

	THE BANKING GROUP				
	2021				
			Fair Value		
$ millions	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value					
Cash and balances with central banks	8,472	8,472	-	-	8,472
Collateral paid	185	185	-	-	185
Loans	92,632	-	-	92,485	92,485
Other financial assets	712	-	541	171	712
Due from related entities	935	-	922	13	935
Total financial assets not measured at fair value	102,936	8,657	1,463	92,669	102,789
Financial liabilities not measured at fair value					
Collateral received	188	188	-	-	188
Deposits and other borrowings	75,917	-	74,307	1,641	75,948
Other financial liabilities	2,320	-	2,320	-	2,320
Due to related entities	756	-	756	-	756
Debt issues[1]	13,325	-	13,423	-	13,423
Loan capital[1]	2,579	-	-	2,744	2,744
Total financial liabilities not measured at fair value	95,085	188	90,806	4,385	95,379

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

Notes to the financial statements

Note 26 Offsetting financial assets and financial liabilities

Accounting policy

Financial assets and financial liabilities are presented net on the balance sheet when the 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 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 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 Banking Group are further explained in the 'Management of risk mitigation' section under Note 13.5.

	THE 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							
Derivative financial instruments	**169**	-	**169**	-	**(77)**	-	**92**
Due from related entities - reverse repurchase agreements[1]	**57**	-	**57**	-	-	**(57)**	-
Due from related entities - derivative financial instruments[1]	**2,098**	-	**2,098**	**(874)**	-	-	**1,224**
Total assets	**2,324**	-	**2,324**	**(874)**	**(77)**	**(57)**	**1,316**
Liabilities							
Repurchase agreements[2]	**3,967**	-	**3,967**	-	-	**(3,967)**	-
Derivative financial instruments	**118**	-	**118**	-	**(33)**	-	**85**
Due to related entities - repurchase agreements[3]	**1,326**	-	**1,326**	-	-	**(1,326)**	-
Due to related entities - derivative financial instruments[3]	**874**	-	**874**	**(874)**	-	-	-
Total liabilities	**6,285**	-	**6,285**	**(874)**	**(33)**	**(5,293)**	**85**

[1] Forms part of due from related entities on the balance sheet (refer to Note 23).

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

[3] Forms part of due to related entities on the balance sheet (refer to Note 23).

Note 26 Offsetting financial assets and financial liabilities (continued)

	THE 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]	181	-	181	-	-	(181)	-
Derivative financial instruments	221	-	221	-	(186)	-	35
Due from related entities - reverse repurchase agreements[2]	493	-	493	-	-	(490)	3
Due from related entities - derivative financial instruments[2]	406	-	406	(164)	-	-	242
Total assets	1,301	-	1,301	(164)	(186)	(671)	280
Liabilities							
Repurchase agreements[3]	2,676	-	2,676	-	-	(2,676)	-
Derivative financial instruments	178	-	178	-	(142)	-	36
Due to related entities - repurchase agreements[4]	916	-	916	-	-	(916)	-
Due to related entities - derivative financial instruments[4]	164	-	164	(164)	-	-	-
Total liabilities	3,934	-	3,934	(164)	(142)	(3,592)	36

[1] Forms part of trading securities and financial assets measured at FVIS (refer to Note 9).
[2] Forms part of due from related entities on the balance sheet (refer to Note 23).
[3] Forms part of other financial liabilities on the balance sheet (refer to Note 18).
[4] Forms part of due to related entities on the balance sheet (refer to Note 23).

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 27 Credit related commitments, contingent assets and contingent liabilities

Accounting policy

Undrawn credit commitments

The 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.

Note 27 Credit related commitments, contingent assets and contingent liabilities (continued)

Undrawn credit commitments

Undrawn credit commitments expose the 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 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 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 32 for further details on liquidity risk and credit risk management.

	THE BANKING GROUP	
$ millions	**2022**	2021
Letters of credit and guarantees[1,2]	**1,609**	1,338
Commitments to extend credit[3]	**27,901**	28,136
Total undrawn credit commitments	**29,510**	29,474

[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 Banking Group may hold cash as collateral for certain guarantees issued.

[2] Letters of credit and guarantees includes the value of exposures guaranteed by the Bank to NZ Branch, as disclosed in Note 23 Related entities. Comparatives have been restated to correctly reflect an additional $503 million in off-balance sheet credit exposures arising under the financial guarantee with the NZ Branch.

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

Contingent assets

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

Contingent liabilities

The Banking Group is reviewing its processes for some products relating to the requirements of the 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 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.

Guarantees

As disclosed in Note 23, the Bank has an agreement with the NZ Branch whereby the Bank will reimburse the NZ Branch for any credit losses incurred by it due to certain customers of the Bank defaulting on certain financial market and international products.

Notes to the financial statements

Note 28 Segment reporting

Accounting policy

Operating segments are presented on a basis that is consistent with information provided internally to the Banking Group's chief operating decision-maker and reflect the management of the business, rather than the legal structure of the 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 Banking Group has determined that the Bank's 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 Banking Group's segment reporting incorporates Consumer Banking and Wealth, Institutional and Business Banking, and Investments and Insurance sectors within New Zealand. On this basis, no geographical segment reporting is provided.

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

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

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

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

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

Reconciling items primarily represent:

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

Note 28 Segment reporting (continued)

	THE BANKING GROUP				
$ millions	**Consumer Banking and Wealth**	**Institutional and Business Banking**	**Investments and Insurance**	**Reconciling Items**	**Total**
Year ended 30 September 2022					
Net interest income	**1,138**	**1,106**	**2**	**45**	**2,291**
Non-interest income	**143**	**109**	**56**	**(40)**	**268**
Net operating income before operating expenses and impairment charges	**1,281**	**1,215**	**58**	**5**	**2,559**
Operating expenses	**(648)**	**(433)**	**(43)**	**(7)**	**(1,131)**
Impairment (charges)/benefits	**3**	**24**	**-**	**-**	**27**
Profit before income tax	**636**	**806**	**15**	**(2)**	**1,455**
Year ended 30 September 2021					
Net interest income	1,117	959	1	(11)	2,066
Non-interest income	133	105	107	(105)	240
Net operating income before operating expenses and impairment charges	1,250	1,064	108	(116)	2,306
Operating expenses	(677)	(386)	(44)	8	(1,099)
Impairment (charges)/benefits	78	6	-	-	84
Profit before income tax	651	684	64	(108)	1,291
As at 30 September 2022					
Total gross loans	**57,968**	**39,684**	**-**	**(374)**	**97,278**
Total deposits and other borrowings	**43,574**	**34,335**	**-**	**2,939**	**80,848**
As at 30 September 2021					
Total gross loans	54,374	38,809	-	(80)	93,103
Total deposits and other borrowings	40,371	35,546	-	3,450	79,367

Note 29 Securitisation, covered bonds and other transferred assets

The 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 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 Banking Group for liquidity deals.

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

For securitisation structured entities which the Banking Group controls, as defined in Note 30, the structured entities are classified as subsidiaries and consolidated. When assessing whether the Banking Group controls a structured entity, it considers its exposure to and ability to affect variable returns. The 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 the Bank's internal residential mortgage-backed securitisation programme. Under this programme the Bank 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 the Bank to WNZSL are fully eliminated in the Banking Group's financial statements.

The Bank 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 Banking Group will arise from these obligations.

Note 29 Securitisation, covered bonds and other transferred assets (continued)

Covered bonds

The 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 the Bank) 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 the Bank 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 the Bank are fully eliminated in the Banking Group's financial statements.

The Banking Group is obliged to repurchase any loan sold to and held by WNZCBL (pursuant to the Bank'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 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.

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

	THE 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	**6,395**	**5,293**	**n/a**	**n/a**	**n/a**
Total	**28,998**	**23,935**	**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	4,009	3,592	n/a	n/a	n/a
Total	25,517	21,905	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. The Bank 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 the Bank 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 30 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 Banking Group does not control a structured entity then it will not be consolidated.

The 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 Banking Group uses structured entities to securitise its financial assets through the Covered Bond Programme and the Bank's internal residential mortgage-backed securitisation programme. Refer to Note 29 for further details.

Funds managed by a member of the Ultimate Parent Bank Group

As disclosed in Note 23, the PIE Funds are consolidated within the financial statements of the Banking Group.

Non-contractual financial support

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

Unconsolidated structured entities

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

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 Banking Group's main interests in unconsolidated structured entities, which arise in the normal course of business, are loans and other credit commitments. The Banking Group lends to unconsolidated structured entities, subject to the 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.

The following table shows the 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, the maximum exposure to loss is the notional amounts.

	THE BANKING GROUP	
	2022	2021
$ millions	**Financing to Securitisation Vehicles**	Financing to Securitisation Vehicles
Assets		
Loans	**3,892**	3,128
Total on-balance sheet exposures	**3,892**	3,128
Total notional amounts of off-balance sheet exposures	**1,322**	1,563
Maximum exposure to loss	**5,214**	4,691
Size of structured entities[1]	**5,214**	4,691

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

Non-contractual financial support

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

Note 31 Capital management

The primary objectives of the Banking Group's capital management activities are to ensure that the Banking Group complies with the regulatory capital requirements prescribed by the Reserve Bank, maintains strong credit ratings and a strong capital position to support its business objectives and maximises shareholder value.

The Banking Group manages and adjusts its capital structure in light of changing economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Banking Group may adjust the amount of dividend payments to its shareholders, reduce discretionary expenditure, return or issue capital to its shareholders or issue capital securities.

Three independent processes, undertaken by Directors and senior management of the Bank, are designed to manage the Banking Group's capital adequacy to support its current and future activities:

1. The Banking Group actively monitors its capital adequacy as part of the annual Banking Group ICAAP and reports this to senior management and the Bank's BRCC. This process supports the Board approved risk appetite statement, which outlines the target debt rating, target capital ratios and the degree of earnings volatility that Banking Group determines to be acceptable. The Bank sets its target capital ratios at a higher level than required by the regulator, which both reduces the risk of breaching the conditions of registration and provides investor confidence.
2. The Banking Group calculates the capital required to be held for its current risk profile and forecasts the estimated capital position based on expected future activities. The forecast capital required is assessed against the target ranges that have been approved by the Board in regard to capital ratios. The Banking Group also reviews its capital positions in this process against other stakeholder requirements to ensure capital efficiency.
3. The Ultimate Parent Bank Group takes capital considerations into account during its Board Strategy Review, which is an annual process where the current strategic direction of the Ultimate Parent Bank Group is reviewed and refined.

The following tables show the Banking Group's capital summary and capital ratios.

	THE BANKING GROUP	
$ millions	**2022 Unaudited**	2021 Unaudited
Tier 1 capital		
Common Equity Tier 1 capital		
Total shareholder's equity	**8,780**	8,363
Less deductions from Common Equity Tier 1 capital	**(1,276)**	(947)
Total Common Equity Tier 1 capital	**7,504**	7,416
Additional Tier 1 capital instruments[1]	**1,313**	1,500
Total Tier 1 capital	**8,817**	8,916
Tier 2 capital instruments[1]	**600**	1,088
Total capital	**9,417**	10,004

[1] Classified as a liability and excludes capitalised transaction costs. Additional Tier 1 capital instruments and Tier 2 capital instruments are itemised in Note 21. Further details on convertibility for Additional Tier 1 and Tier 2 capital instruments are noted in Note 21.

		THE BANKING GROUP	
%	**Reserve Bank Minimum Ratios**	**2022[1] Unaudited**	2021 Unaudited
Capital ratios			
Common Equity Tier 1 capital ratio	4.5	**11.0**	13.8
Tier 1 capital ratio	6.0	**13.0**	16.6
Total capital ratio	8.0	**13.9**	18.6
Prudential capital buffer ratio	3.5	**5.9**	9.3

[1] Due to changes in BPRs effective from 1 January 2022, the ratios for the Banking Group as at 30 September 2022 are not comparable to 30 September 2021. Refer to page 105 for more detail.

Note 31 Capital management (continued)

Reserve Bank Capital Review

On 5 December 2019, the Reserve Bank announced changes to the capital adequacy framework that applies to New Zealand incorporated registered banks (including the Bank). The new framework includes the following components:

- Progressively increasing the total capital requirements from 10.5% of RWA to 18% for domestic systemically important banks (including the Bank) and 16% for all other banks over a seven-year period ending 1 July 2028, including:
  - Increasing the Tier 1 capital requirement from 8.5% to 16% of RWA for domestic systemically important banks and 14% for all other banks;
  - Increasing the AT1 limit from 1.5% to 2.5% of the Tier 1 capital requirement ; and
  - Maintaining the existing Tier 2 capital limit of 2% of the total capital requirement.

  These ratios include the minimum capital ratios that banks must maintain and the prudential capital buffer above the minimum capital ratios that banks must maintain to avoid restrictions on distributions (among other things).
- Eligible Tier 1 capital under the new framework comprises common equity and redeemable perpetual preference shares. Existing AT1 instruments are being progressively phased out by 1 July 2028;
- The RWA for Sovereign and Banks asset classes are classified under a standardised approach from 1 January 2022;
- Credit IRB RWA is subject to a floor of 85% of the standardised requirement from 1 January 2022;
- The IRB scalar increased from 1.06 to 1.2 from 1 October 2022; and
- The scalar for standardised exposures reduced from 1.06 to 1.0 from 1 October 2022.

The increases in the required level of bank capital started to come into effect on 1 July 2022 with the increase in the prudential capital buffer from 2.5% to 3.5% and will be fully implemented on 1 July 2028. The new definitions of eligible capital came into effect on 1 October 2021.

Changes to Operational Risk measurement from AMA to Standardised Approach applied with effect from 1 July 2022 pursuant to a change to the Bank's Conditions of Registration.

Note 32 Risk management, funding and liquidity risk and market risk

Financial instruments are fundamental to the 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 Banking Group.

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

Principal risks	Note name	Note number
Overview	Risk management frameworks	32.1
Credit risk	Refer to Note 13 Credit risk management	13
Funding and liquidity risk	Liquidity modelling	32.2.1
The risk that the 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	32.2.2
	Assets pledged as collateral	32.2.3
	Contractual maturity of financial liabilities	32.2.4
	Expected maturity	32.2.5
Market risk	VaR	32.3.1
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.	Non-traded market risk	32.3.2
Benchmark interest rate exposure	Interest rate benchmark reform	32.4

Note 32 Risk management, funding and liquidity risk and market risk (continued)

32.1 Risk management frameworks

The Board is responsible for approving the Banking Group's Risk Management Framework, Risk Management Strategy and Risk Appetite Statement and monitoring the effectiveness of risk management by the Banking Group. The Banking Group is wholly owned by the Ultimate Parent Bank and, therefore, a member of the group of companies comprising the Ultimate Parent Bank Group. Accordingly, the Banking Group's Risk Management Framework is closely aligned with the Ultimate Parent Bank's Risk Management Framework.

The Board has delegated to the BRCC to:

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

For each of its primary financial risks, the 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	- Funding and liquidity risk is measured and managed in accordance with the policies and processes defined in the BRCC approved Liquidity Risk Management Framework which is part of the Banking Group's Board-approved Risk Management Framework. - Responsibility for managing the Banking Group's liquidity and funding positions in accordance with the Liquidity Risk Management Framework is delegated to Treasury, under the oversight of the Banking Group's ALCO and the Financial Markets and Treasury Risk unit. - The Banking Group's Liquidity Risk Management Framework sets out the Banking Group's funding and liquidity risk appetite, roles and responsibilities of key people managing funding and liquidity risk within the Banking Group, risk reporting and control processes and limits and targets used to manage the Banking Group's balance sheet. - Treasury undertakes an annual funding review that outlines the Banking Group's balance sheet funding strategy over a three year period. This review encompasses trends in global markets, peer analysis, wholesale funding capacity, expected funding requirements and a funding risk analysis. This strategy is continuously reviewed to take account of changing market conditions, investor sentiment and estimations of asset and liability growth rates. - The Banking Group monitors the composition and stability of its funding to allow it to remain within the Banking Group's funding risk appetite and complies with regulatory requirements. - The Banking Group holds a portfolio of liquid assets for several purposes, including as a buffer against unforeseen funding requirements. The level of liquid assets held takes into account the liquidity requirements of the Banking Group's balance sheet under normal and stress conditions. - Treasury also maintains a contingent funding plan that outlines the steps that should be taken by the Banking Group in the event of an emerging 'funding crisis'. The plan is aligned with the Banking Group's broader Liquidity Crisis Management Policy which is approved by the BRCC. - Daily liquidity risk reports are reviewed by Treasury and the Financial Markets and Treasury Risk unit. Liquidity reports are presented to ALCO monthly and to the RISKCO and BRCC quarterly.
Market risk	- Market risk is measured and managed in accordance with the policies and processes defined in the BRCC approved Market Risk Management Framework which is part of the Banking Group's Board-approved Risk Management Framework. - Responsibility for managing the Banking Group's non-traded market risk in accordance with the Market Risk Management Framework is delegated to Treasury, under the oversight of the Banking Group's ALCO and the Financial Markets and Treasury Risk unit. - The Banking Group's Market Risk Management Framework sets out the Banking Group's market risk appetite, roles and responsibilities of key people managing market risk within the Banking Group, risk reporting and control processes and limits and targets used to manage market risk. - The Banking Group's Market Risk Management Framework makes a distinction between traded and non-traded market risk for the purposes of risk management, measurement and reporting. - The Banking Group's Market Risk Management Framework does not allow for traded market risk, including equity and commodity price risks. Any traded market risk activities are conducted by the Ultimate Parent Bank's financial markets business through its NZ Branch and in accordance with the Ultimate Parent Bank's Market Risk Management Framework. - Non-traded market risk arises from banking book activities and is primarily comprised of IRRBB. The Banking Group does not carry material foreign exchange risks due to the risks being hedged through the NZ branch. - Market risk is managed using VaR limit, NaR and structural risk limits (including credit spread and interest rate basis point value limits) as well as scenario analysis and stress testing. - Daily market risk reports are reviewed by Treasury, and the Financial Markets and Treasury Risk unit. Key market risk metrics are presented to ALCO monthly and to RISKCO and BRCC quarterly.

Note 32 Risk management, funding and liquidity risk and market risk (continued)

Climate change risk

The 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 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 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.

The Banking Group 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 the Banking Group's approach to managing climate change risks against the four TCFD pillars is described below.

Governance:

- The Banking Group's Board is responsible for considering the social, ethical, and environmental impact of the Banking Group's activities and setting standards and monitoring compliance with the Banking Group's sustainability policies and practices. The Banking Group's RISKCO oversees material risks, including climate-related risks. The Banking Group's CREDCO, a subcommittee of RISKCO, oversees climate-related risks that present a credit risk to the Banking Group.
- The Banking Group is also represented on the Ultimate Parent Bank 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 Ultimate Parent Bank Group and reports to the Ultimate Parent Bank Group's CREDCO.

Strategy:

- The Banking Group 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 the Banking Group.
- During the year ended 30 September 2022, the Ultimate Parent 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, the Banking Group 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 the Banking Group's customers.
- The Banking Group continues to evolve its ability to conduct climate-related scenario analysis.

Risk Management:

- Climate change risks are managed in accordance with the Banking Group's Risk Management Framework which is supported by the Banking Group's Sustainability Risk Management Framework (SRMF), the Banking Group'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 the Banking Group's changing needs and expectations.

Metrics and Targets:

- The Banking Group 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.
- The Banking Group'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 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 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 the Banking Group's approach to climate-related risks, refer to the 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 32 Risk management, funding and liquidity risk and market risk (continued)

32.2 Funding and liquidity risk

The Banking Group aims to maintain a mix of retail and wholesale funding, with emphasis on the value of core funding consistent with the principles inherent in BS13.

32.2.1 Liquidity modelling

The Banking Group is subject to the conditions of BS13. The following metrics are calculated and reported on a daily basis 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 Banking Group calculates the following liquidity ratios in accordance with the Ultimate Parent Bank's liquidity risk framework under APRA Prudential Standard APS 210 Liquidity:

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

32.2.2 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 loans for a term 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, the Bank 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 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, the Bank has drawn down $3,871 million under the Funding for Lending Programme (30 September 2021: $2,000 million).

Note 32 Risk management, funding and liquidity risk and market risk (continued)

Liquid assets

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

	THE BANKING GROUP	
$ millions	**2022**	2021
Cash and balances with central banks	**10,820**	8,472
Interbank lending	**-**	541
Receivables due from the Ultimate Parent Bank	**-**	424
Supranational securities	**1,900**	873
NZ Government securities	**788**	2,193
NZ public securities	**2,544**	2,384
NZ corporate securities	**1,236**	507
Residential mortgage-backed securities	**7,397**	8,603
Available liquid assets	**24,685**	23,997

Note 32 Risk management, funding and liquidity risk and market risk (continued)

Concentration of funding

	THE BANKING GROUP	
$ millions	**2022**	2021
Funding consists of		
Collateral received	**82**	188
Deposits and other borrowings	**80,848**	79,367
Other financial liabilities[1]	**3,971**	2,676
Due to related entities[2]	**2,060**	1,652
Debt issues[3]	**19,933**	16,304
Loan capital	**2,083**	2,579
Total funding	**108,977**	102,766
Analysis of funding by geographical areas[3]		
New Zealand	**88,873**	84,206
Australia	**709**	728
United Kingdom	**8,220**	9,188
United States of America	**5,810**	3,496
China	**2,775**	1,756
Other	**2,590**	3,392
Total funding	**108,977**	102,766
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	**40,056**	38,839
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]	**4,107**	4,028
Subtotal	**106,917**	101,114
Due to related entities[2]	**2,060**	1,652
Total funding	**108,977**	102,766

[1] Other financial liabilities, as presented above, are in respect of repurchase agreements 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.

Note 32 Risk management, funding and liquidity risk and market risk (continued)

32.2.3 Assets pledged as collateral

The Banking Group is required to provide collateral to other financial institutions, as part of standard terms, to secure liabilities. In addition to assets supporting the Covered Bond Programme disclosed in Note 29, the carrying value of these financial assets pledged as collateral is:

	THE BANKING GROUP	
$ millions	**2022**	2021
Cash	**42**	185
Securities pledged under repurchase agreements:		
Investment securities[1]	**1,397**	1,496
Residential mortgage-backed securities[2]	**4,998**	2,513
Total amount pledged to secure liabilities (excluding Covered Bond Programme)	**6,437**	4,194

[1] As at 30 September 2022, $1,397 million of investment securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank, which is recorded within due to related entities on the balance sheet (30 September 2021: $916 million) and no investment securities were pledged to third parties which is recorded within other financial liabilities on the balance sheet (30 September 2021: $580 million).

[2] As at 30 September 2022, the Banking Group has undertaken repurchase agreements with the Reserve Bank, under the Funding for Lending Programme and Term Lending Facility, using residential mortgage-backed securities. For the Funding for Lending Programme, the repurchase cash amount at 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).

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

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

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

Notes to the financial statements

Note 32 Risk management, funding and liquidity risk and market risk (continued)

	THE 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	-	82	-	-	-	-	82
Deposits and other borrowings	43,277	6,960	11,873	17,744	1,656	-	81,510
Other financial liabilities	4	83	-	96	4,296	-	4,479
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	3	-	1	-	-	4
Held for hedging purposes (gross settled):							
Cash outflow	-	9	15	89	1,850	402	2,365
Cash inflow	-	-	(5)	(7)	(1,743)	(370)	(2,125)
Due to related entities:							
Non-derivative balances	685	1,326	43	-	31	2	2,087
Derivative financial instruments:							
Held for trading	(22)	-	-	-	-	-	(22)
Held for hedging purposes (net settled)	-	7	83	42	198	1	331
Held for hedging purposes (gross settled):							
Cash outflow	-	25	45	270	6,151	1,479	7,970
Cash inflow	-	-	(5)	(28)	(5,282)	(1,457)	(6,772)
Debt issues	-	670	2,613	3,495	12,968	1,944	21,690
Loan capital	-	-	9	28	149	2,306	2,492
Total undiscounted financial liabilities	43,944	9,165	14,671	21,730	20,274	4,307	114,091
Total contingent liabilities and commitments							
Letters of credit and guarantees	1,609	-	-	-	-	-	1,609
Commitments to extend credit	27,901	-	-	-	-	-	27,901
Total undiscounted contingent liabilities and commitments	29,510	-	-	-	-	-	29,510

Note 32 Risk management, funding and liquidity risk and market risk (continued)

	THE 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	-	188	-	-	-	-	188
Deposits and other borrowings	46,151	6,515	10,957	14,512	1,470	-	79,605
Other financial liabilities	406	280	-	96	2,079	-	2,861
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	8	5	13	18	-	44
Held for hedging purposes (gross settled):							
Cash outflow	-	3	9	1,378	1,793	-	3,183
Cash inflow	-	-	(2)	(1,253)	(1,700)	-	(2,955)
Due to related entities:							
Non-derivative balances	629	916	53	13	51	10	1,672
Derivative financial instruments:							
Held for trading	(3)	-	-	-	-	-	(3)
Held for hedging purposes (net settled)	-	10	27	20	69	-	126
Held for hedging purposes (gross settled):							
Cash outflow	-	4	1,123	37	358	2,797	4,319
Cash inflow	-	-	(1,096)	(2)	(65)	(2,700)	(3,863)
Debt issues	-	709	724	5,600	6,570	3,068	16,671
Loan capital	-	-	6	18	1,174	1,500	2,698
Total undiscounted financial liabilities	47,183	8,633	11,806	20,432	11,817	4,675	104,546
Total contingent liabilities and commitments							
Letters of credit and guarantees[1]	1,338	-	-	-	-	-	1,338
Commitments to extend credit	28,136	-	-	-	-	-	28,136
Total undiscounted contingent liabilities and commitments	29,474	-	-	-	-	-	29,474

[1] Comparatives have been restated to correctly reflect an additional $503 million in off-balance sheet credit exposures arising under the financial guarantee with the NZ Branch.

Note 32 Risk management, funding and liquidity risk and market risk (continued)

32.2.5 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 Banking Group expects a large proportion of these balances to be retained.

	THE 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	**10,820**	**-**	**10,820**	8,472	-	8,472
Collateral paid	**42**	**-**	**42**	185	-	185
Trading securities and financial assets measured at FVIS	**1,325**	**793**	**2,118**	2,117	163	2,280
Derivative financial instruments	**58**	**111**	**169**	151	70	221
Investment securities	**558**	**5,065**	**5,623**	317	4,363	4,680
Loans	**14,443**	**82,439**	**96,882**	13,598	79,034	92,632
Due from related entities	**1,322**	**1,284**	**2,606**	1,576	258	1,834
All other assets	**469**	**1,089**	**1,558**	969	1,107	2,076
Total assets	**29,037**	**90,781**	**119,818**	27,385	84,995	112,380
Liabilities						
Collateral received	**82**	**-**	**82**	188	-	188
Deposits and other borrowings	**79,283**	**1,565**	**80,848**	77,939	1,428	79,367
Derivative financial instruments	**3**	**115**	**118**	109	69	178
Due to related entities	**2,103**	**858**	**2,961**	1,681	155	1,836
Debt issues	**6,541**	**13,392**	**19,933**	6,905	9,399	16,304
Loan capital	**-**	**2,083**	**2,083**	-	2,579	2,579
All other liabilities	**399**	**4,614**	**5,013**	1,164	2,401	3,565
Total liabilities	**88,411**	**22,627**	**111,038**	87,986	16,031	104,017

32.3 Market risk

32.3.1 Value-at-Risk

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

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

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

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 key parameters of VaR are:

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

Note 32 Risk management, funding and liquidity risk and market risk (continued)

32.3.2 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 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):

	THE 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	**1.12**	**3.58**	**0.98**	**1.91**	4.12	10.90	0.82	4.62

Value at Risk – IRRBB[1]

The table below depicts VaR for IRRBB:

	THE BANKING GROUP							
	2022				2021			
$ millions	As at	Maximum Exposure	Minimum Exposure	Average Exposure	As at	Maximum Exposure	Minimum Exposure	Average Exposure
Interest rate risk	**1.7**	**3.3**	**0.8**	**1.8**	1.9	2.9	0.5	1.6

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

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 Banking Group hedges its exposure to such interest rate risk using derivatives. Further details on the Banking Group's use of hedge accounting are discussed in Note 24.

Note 32 Risk management, funding and liquidity risk and market risk (continued)

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

Governance

The 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 Banking Group's exposure to new contracts referencing these rates is limited to transactions entered into for risk management purposes. The 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 32 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 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.

	THE BANKING GROUP				
	2022				
	Trading		Hedging		
$ millions	Asset Carrying amount	Liability Carrying amount	Asset Carrying amount	Liability Carrying amount	Notional amount
Benchmark					
USD LIBOR	**-**	**-**	**13**	**-**	**70**
Total impacted by IBOR reform post transition date	**-**	**-**	**13**	**-**	**70**

	THE BANKING GROUP				
	2021				
	Trading		Hedging		
$ millions	Asset Carrying amount	Liability Carrying amount	Asset Carrying amount	Liability Carrying amount	Notional amount
Benchmark					
USD LIBOR[1]	-	-	-	-	58
Total impacted by IBOR reform post transition date[1]	-	-	-	-	58

[1] The 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 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).

Note 32 Risk management, funding and liquidity risk and market risk (continued)

Non-derivatives

The following table summarises the Banking Group's non-derivative financial instrument exposures that are impacted by the IBOR reform that are yet to transition to ARR. The 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 Banking Group's derivative contracts.

	THE BANKING GROUP		
	2022		
	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**

	THE BANKING GROUP		
	2021		
	Financial assets	Financial liabilities	Undrawn credit commitments[1]
$ millions	Carrying amount	Carrying amount	Notional contractual amount
Benchmark			
USD LIBOR[2]	127	58	2
GBP LIBOR	13	-	1
EUR LIBOR	19	-	1
Total impacted by IBOR reform post transition date	159	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 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 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).

Notes to the financial statements

Note 33 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

	THE BANKING GROUP	
$ millions	**2022**	2021
Cash and cash equivalents comprise:		
Cash and balances with central banks:		
Cash on hand	**289**	171
Balances with central banks	**10,531**	8,301
Interbank lending classified as cash and cash equivalents[1]	**-**	541
Cash and cash equivalents at end of the year	**10,820**	9,013

[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 Bank

	THE BANKING GROUP	
$ millions	**2022**	2021
Net profit attributable to the owner of the Bank	**1,047**	931
Adjustments:		
Impairment charges/(benefits) on loans	**(27)**	(84)
Computer software amortisation costs	**47**	61
Depreciation	**88**	95
(Gain)/loss from hedging ineffectiveness	**(5)**	4
Movement in accrued interest receivable	**(76)**	19
Movement in accrued interest payable	**238**	(120)
Movement in current and deferred tax	**130**	29
Proceeds from other investing activities	**-**	(9)
Share-based payments	**3**	3
Other non-cash items	**62**	124
Cash flows from operating activities before changes in operating assets and liabilities	**1,507**	1,053
Movement in collateral paid	**143**	(37)
Movement in trading securities and financial assets measured at FVIS	**153**	154
Movement in loans	**(4,581)**	(4,855)
Movement in other financial assets	**3**	41
Movement in due from related entities	**920**	(517)
Movement in other assets	**(1)**	5
Movement in collateral received	**(106)**	(231)
Movement in deposits and other borrowings	**1,481**	5,397
Movement in other financial liabilities	**1,286**	2,678
Movement in due to related entities	**466**	465
Movement in other liabilities	**13**	39
Net movement in external and related entity derivative financial instruments	**266**	(405)
Net cash provided by/(used in) operating activities	**1,550**	3,787

Registered bank disclosures

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

i. General information (Unaudited)

Ultimate Parent Bank

The Ultimate Parent Bank is incorporated in Australia under the Australian Corporations Act 2001 and its 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 Ultimate Parent Bank

The Ultimate Parent Bank is an ADI under the Banking Act 1959 (Commonwealth of Australia) (**'Australian Banking Act'**) and, as such, is subject to prudential regulation and supervision by APRA. APRA has the power to prescribe prudential requirements which may affect the ability of the Ultimate Parent Bank to provide material financial support to the Bank. Pursuant to current APRA requirements, and unless APRA provides otherwise, the Ultimate Parent Bank must comply with, among other prudential requirements, APS 222.

On 20 August 2019 APRA released the final revised standard for APS 222 which came into effect on 1 January 2022. Key changes include revisions to the limit for exposure to ADIs (or overseas based equivalents) from 50% of Total Regulatory Capital to 25% of Tier 1 Capital. The revised standard also included changes to the requirements for entities to be included in the Ultimate Parent Bank Extended Licensed Entity (Level 1). APS 222 includes the following prudential requirements:

- the Ultimate Parent Bank's exposure to the Bank (being an overseas equivalent of an ADI as defined in APS 222) must not exceed 25% of the Ultimate Parent Bank's Level 1 capital base (as defined in APS 222);
- the Ultimate Parent Bank must not hold unlimited exposures to the Bank; and
- the Ultimate Parent Bank must not enter into cross-default provisions whereby a default by the Bank on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default of the Ultimate Parent Bank in its obligations;
- when determining limits on acceptable levels of exposure to the Bank, the Ultimate Parent Bank must have regard to:
  - the level of exposures that would be approved for unrelated entities of broadly equivalent credit status; and
  - the impact on the Ultimate Parent Bank's stand-alone capital and liquidity positions in the event of a failure of the Bank or any other related entity to which it is exposed.

Under APS 222, APRA has the ability to set specific limits on the Ultimate Parent Bank's exposure to related entities, which include the Bank.

The Ultimate Parent Bank complies with the requirements set by APRA in respect of the extent of financial support that is provided to the Bank.

Section 13A(3) of the Australian Banking Act provides that, in the event that the Ultimate Parent Bank becomes unable to meet its obligations or suspends payment, the assets of the Ultimate Parent Bank in Australia are to be available to satisfy the liabilities of the Ultimate Parent Bank in the following order:

- first, certain obligations of the Ultimate Parent Bank 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 Australian Banking Act) as part of the Financial Claims Scheme for the Australian Government guarantee of 'protected accounts' (including most deposits) up to A$250,000 in the winding-up of the Ultimate Parent Bank;
- second, APRA's costs (if any) in exercising its powers and performing its functions relating to the Ultimate Parent Bank in connection with the Financial Claims Scheme;
- third, the Ultimate Parent Bank's liabilities (if any) in Australia in relation to 'protected accounts' that account-holders keep with the Ultimate Parent Bank;
- fourth, the Ultimate Parent Bank's debts (if any) to the Reserve Bank of Australia;
- fifth, the Ultimate Parent Bank'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 Ultimate Parent Bank's other liabilities (if any) in the order of their priority apart from the above.

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.

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

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

i. General information (Unaudited) (continued)

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

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

Voting securities and power to appoint directors

The Bank is a wholly-owned subsidiary of Westpac New Zealand Group Limited, a New Zealand incorporated company, which in turn is a wholly-owned subsidiary of Westpac Overseas Holdings No. 2 Pty Limited, an Australian incorporated company. Westpac Overseas Holdings No. 2 Pty Limited is, in turn, a wholly-owned subsidiary of the Ultimate Parent Bank.

At 30 September 2022, Westpac New Zealand Group Limited has a direct qualifying interest in 100% of the voting securities of the Bank. Westpac Overseas Holdings No. 2 Pty Limited and the Ultimate Parent Bank have an indirect qualifying interest in 100% of the voting securities of the Bank.

The Ultimate Parent Bank has the power under the Bank's constitution to directly appoint up to 100% of the Board from time to time by giving written notice to the Bank.

Priority of financial liabilities in the event of liquidation

In the unlikely event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those classes of creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors in accordance with the priorities set out in that Schedule. Deposits from customers are unsecured and rank equally with other unsecured unsubordinated liabilities of the Bank, and such liabilities would rank ahead of any subordinated instruments issued by the Bank to the extent of any such subordination.

Guarantee arrangements

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

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

Directorate

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

Name: Philippa Mary Greenwood, LLB **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Fisher & Paykel Healthcare Corporation Limited, The A2 Milk Company Limited, and ALP Studios Limited.
Name: Catherine Anne McGrath, LLB, BCom **Non-executive:** No **Country of Residence:** New Zealand **Primary Occupation:** Chief Executive, Westpac New Zealand Limited **Secondary Occupations:** Director **Board Audit Committee Member:** No **Independent Director:** No	**External Directorships:** Director of BT Funds Management (NZ) Limited.
Name: David John Green **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of Casa Verde Investments Limited, Abner & Hobson Limited and MyFarm UF1 GP Limited.

i. General information (Unaudited) (continued)

Name: Robert David Hamilton, BSc, BCom **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Director of Tourism Holdings Limited, Oceania Healthcare Limited, NZX Limited, Stelvio Consulting Limited, and Kamari Consulting Limited
Name: David Thomas Havercroft, BA (Hons) **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of DJH Corporate Trustees Limited, Kiwi Wealth Limited, Kiwi Wealth Investments General Partner Limited, Kiwi Investment Management Limited, Kiwi Wealth Management Limited, Portfolio Custodial Nominees Limited, Reflect Limited, The Guitar Gallery Limited, W3 Capital Limited, and Spark New Zealand Limited.
Name: Ian Samuel Knowles, MSc, BSc, FIstD **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** Yes	**External Directorships:** Director of Synlait Milk Limited, Synlait Milk Finance Limited, Adminis Limited, Adminis NZ Limited, Adminis Custodial Nominees Limited, Adminis Investors Nominees Limited, ACNL Nominees No. 1 Limited, Leadrly Limited, On-Brand Partners (NZ) Limited, Tohora Holding Limited, Rangatira Limited, Fire Security Services 2016 Limited, Montoux Limited, Software Innovation NZ Limited, Umajin Inc, Growthcom Limited, Com Investments Limited, Com Nominees Limited, and CFB Group Inc.
Name: Jonathan Parker Mason, MBA, MA, BA **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes, Chair **Independent Director:** Yes	**External Directorships:** Director of Zespri Group Limited, Zespri International Limited, Air New Zealand Limited, Vector Limited and Allagash Limited.
Name: Christine Joy Parker, BGDipBus (HRM) **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Group Executive, Human Resources, Westpac Banking Corporation **Secondary Occupations:** Director **Board Audit Committee Member:** No **Independent Director:** No	**External Directorships:** Director of St. George Foundation Limited.
Name: Michael Campbell Rowland, B.Comm, FCA **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Chief Financial Officer, Westpac Banking Corporation **Secondary Occupations:** Director **Board Audit Committee Member:** Yes **Independent Director:** No	**External Directorships:** Director of Rebalti Investments Pty Limited and Rebalti Pty Limited.

Changes to Directorate

On 1 October 2021, Janice Dawson, a Non-executive Director and Chair of the Board, retired from the Board. Philippa Greenwood, an existing Non-executive Director, was appointed Chair of the Board on 1 October 2021. Simon Power, an Executive Director of the Bank retired from the Board on 15 November 2021. Catherine McGrath was subsequently appointed as an Executive Director of the Bank on 15 November 2021. Mary Quin, an independent Non-executive Director of the Bank, retired from the Board on 20 May 2022. On 7 June 2022, David Green was appointed as Non-Executive Director of the Bank.

Address for communications

All communications may be sent to the Directors at the head office of the Bank at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand.

Registered bank disclosures

i. General information (Unaudited) (continued)

Board Audit Committee

There is a BAC that covers audit matters, comprising four members, all of whom are non-executive directors and three of whom are independent directors.

Conflicts of Interest Policy

The Bank's Conflicts of Interest Policy establishes procedures to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Bank and their personal, professional or business interests are managed appropriately.

Each Director must give notice to the Board of any direct or indirect interest in a matter relating to the affairs of the Bank as soon as practicable after the relevant facts have come to that Director's knowledge. Where a matter is to be considered at a Directors' meeting in which one or more Directors have an interest, the Board's practice is to manage any conflict of interest on a case-by-case basis, depending on the circumstances.

Transactions with directors

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

- Has been entered into on terms other than those which would, in the ordinary course of business of the 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 duties.

Information pertaining to loans to and other transactions with Directors is disclosed in Note 23 of this Disclosure Statement.

Auditor

PricewaterhouseCoopers
PwC Tower, Level 27
15 Customs Street West
Auckland, New Zealand

Pending proceedings or arbitration

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

Credit ratings

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

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

On 1 July 2021, S&P affirmed the Bank at AA- and revised its outlook to stable from negative.

On 29 June 2021, Fitch removed the Rating Watch Negative (RWN) from the Bank's long-term issuer default rating (IDR) while also affirming the long-term IDR at 'A+' with a stable outlook. Earlier on 28 March 2021, Fitch had placed the Bank's ratings on RWN.

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

i. General information (Unaudited) (continued)

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.

Historical summary of financial statements

	THE BANKING GROUP				
$ millions	**2022**	2021	2020	2019	2018
Income statement					
Interest income	**3,741**	3,012	3,540	4,011	3,989
Interest expense	**(1,450)**	(946)	(1,665)	(2,068)	(2,145)
Net interest income	**2,291**	2,066	1,875	1,943	1,844
Non-interest income	**268**	240	243	329	344
Net operating income before operating expenses and impairment charges	**2,559**	2,306	2,118	2,272	2,188
Operating expenses	**(1,131)**	(1,099)	(1,030)	(961)	(886)
Impairment (charges)/benefits	**27**	84	(320)	10	(3)
Profit before income tax	**1,455**	1,291	768	1,321	1,299
Income tax expense	**(408)**	(360)	(218)	(357)	(363)
Net profit for the year	**1,047**	931	550	964	936
Net profit for the year attributable to:					
Owner of the Bank	**1,047**	931	550	964	936
Dividends paid or provided	**(788)**	(275)	(325)	(2,965)	(1,870)
Balance sheet					
Total assets	**119,818**	112,380	103,192	96,607	89,871
Total individually impaired assets	**60**	109	129	69	145
Total liabilities	**111,038**	104,017	95,502	89,190	82,593
Total shareholder's equity	**8,780**	8,363	7,690	7,417	7,278

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

Registered bank disclosures

i. General information (Unaudited) (continued)

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 the Bank under section 95 of the Banking (Prudential Supervision) Act 1989 requiring the Bank to supply two external reviews to the Reserve Bank (the 'Risk Governance Review' and the 'Liquidity Review'). These reviews only applied to the Bank and not to the Ultimate Parent Bank or its NZ Branch.

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

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

The Liquidity Review related to the effectiveness of the Bank's actions to improve liquidity risk management and the associated risk culture. This followed previously identified breaches of the Reserve Bank's Liquidity Policy (BS13) and non-compliances with condition of registration 14 identified through the Reserve Bank's liquidity thematic review. This review was undertaken by Deloitte Touche Tohmatsu (Deloitte) and completed in May 2022. The review found that the Bank had improved its liquidity control environment 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 the Banks's continuous improvement activity.

From 31 March 2021, the Reserve Bank amended the Bank's conditions of registration, requiring the Bank to discount the value of its liquid assets by approximately 14%. 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, the Bank 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 the Bank's expectations and those of the regulators.

Reserve Bank's outsourcing policy

Condition of registration 22 requires the Bank 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. The Bank is continuing to undertake a large-scale, multi-year, complex programme of work to become fully compliant by the compliance date. The Bank 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.

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.

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 NZ Branch currently provides financial markets, trade finance and international payments products and services to customers referred by the Bank. The consultation period closes on 16 November 2022.

Registered bank disclosures

ii. Additional financial disclosures

Additional information on balance sheet

	THE BANKING GROUP	
$ millions	**2022**	2021
Interest earning and discount bearing assets	**116,325**	110,398
Interest and discount bearing liabilities	**95,643**	87,974

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 Banking Group's policy guidelines.

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

	THE BANKING GROUP						
	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**	**-**	**-**	**-**	**-**	**289**	**10,820**
Collateral paid	**42**	**-**	**-**	**-**	**-**	**-**	**42**
Trading securities and financial assets measured at FVIS	**1,409**	**209**	**276**	**3**	**221**	**-**	**2,118**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**169**	**169**
Investment securities	**-**	**35**	**522**	**1,443**	**3,623**	**-**	**5,623**
Loans	**43,099**	**7,862**	**16,796**	**18,773**	**10,996**	**(644)**	**96,882**
Other financial assets	**-**	**-**	**-**	**-**	**-**	**263**	**263**
Due from related entities	**485**	**-**	**-**	**-**	**-**	**2,121**	**2,606**
Total financial assets	**55,566**	**8,106**	**17,594**	**20,219**	**14,840**	**2,198**	**118,523**
Non-financial assets							**1,295**
Total assets							**119,818**
Financial liabilities							
Collateral received	**82**	**-**	**-**	**-**	**-**	**-**	**82**
Deposits and other borrowings	**47,526**	**9,982**	**7,384**	**951**	**614**	**14,391**	**80,848**
Other financial liabilities	**3,872**	**-**	**96**	**-**	**-**	**380**	**4,348**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**118**	**118**
Due to related entities	**2,026**	**-**	**-**	**-**	**33**	**902**	**2,961**
Debt issues	**3,567**	**2,105**	**950**	**4,769**	**9,603**	**(1,061)**	**19,933**
Loan capital	**1,493**	**-**	**-**	**-**	**590**	**-**	**2,083**
Total financial liabilities	**58,566**	**12,087**	**8,430**	**5,720**	**10,840**	**14,730**	**110,373**
Non-financial liabilities							**665**
Total liabilities							**111,038**
On-balance sheet interest rate repricing gap	**(3,000)**	**(3,981)**	**9,164**	**14,499**	**4,000**		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	**15,750**	**160**	**(8,888)**	**(8,457)**	**1,435**		
Net interest rate repricing gap	**12,750**	**(3,821)**	**276**	**6,042**	**5,435**		

ii. Additional financial disclosures (continued)

Additional information on liquidity risk

Refer to Note 32.2.4 Contractual maturity of financial liabilities which shows the maturity analyses of financial liabilities.

Reconciliation of mortgage-related amounts

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

	THE BANKING GROUP
$ millions	**30 Sep 22**
Residential mortgages - total gross loans (as disclosed in Note 11, Note 13.4 and Section iii. Asset quality)	**63,869**
Reconciling items:	
Unamortised deferred fees and expenses	**(286)**
Fair value hedge adjustments	**343**
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. Capital adequacy and regulatory liquidity ratios)	**72,862**
Accrued interest receivable	**60**
Partial write-offs	**5**
Residential mortgages - EAD (as disclosed in Credit risk exposures by asset class in Section iv. Capital adequacy and regulatory liquidity ratios)	**72,927**

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

iii. Asset quality

Past due assets

	THE BANKING GROUP			
	30 Sep 22			
$ millions	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Past due but not individually impaired assets				
Less than 30 days past due	**876**	**88**	**171**	**1,135**
At least 30 days but less than 60 days past due	**92**	**12**	**51**	**155**
At least 60 days but less than 90 days past due	**58**	**6**	**48**	**112**
At least 90 days past due	**129**	**20**	**75**	**224**
Total past due but not individually impaired assets	**1,155**	**126**	**345**	**1,626**

	THE BANKING GROUP			
	30 Sep 21			
$ millions	Residential Mortgages	Other Retail	Corporate	Total
Past due but not individually impaired assets				
Less than 30 days past due	693	87	186	966
At least 30 days but less than 60 days past due	98	18	76	192
At least 60 days but less than 90 days past due	76	9	33	118
At least 90 days past due	173	29	40	242
Total past due but not individually impaired assets	1,040	143	335	1,518

Movements in components of loss allowance

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

iii. Asset quality (continued)

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.

	THE 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	**84,661**	**7,833**	**500**	**109**	**93,103**
Transfers:					
Transfers to Stage 1	**4,568**	**(4,463)**	**(105)**	**-**	**-**
Transfers to Stage 2	**(8,707)**	**8,914**	**(204)**	**(3)**	**-**
Transfers to Stage 3 CAP	**(112)**	**(349)**	**471**	**(10)**	**-**
Transfers to Stage 3 IAP	**(1)**	**(12)**	**(13)**	**26**	**-**
Net further lending/(repayment)	**(2,462)**	**73**	**(10)**	**(8)**	**(2,407)**
New financial assets originated	**20,181**	**-**	**-**	**-**	**20,181**
Financial assets derecognised during the year	**(12,766)**	**(622)**	**(134)**	**(5)**	**(13,527)**
Amounts written-off	**-**	**-**	**(23)**	**(49)**	**(72)**
Total gross carrying amount as at 30 September 2022	**85,362**	**11,374**	**482**	**60**	**97,278**
Provision for ECL as at 30 September 2022	**(85)**	**(215)**	**(69)**	**(27)**	**(396)**
Total net carrying amount as at 30 September 2022	**85,277**	**11,159**	**413**	**33**	**96,882**

	THE 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	80,836	7,023	572	129	88,560
Transfers:					
Transfers to Stage 1	4,755	(4,626)	(128)	(1)	-
Transfers to Stage 2	(6,619)	6,970	(350)	(1)	-
Transfers to Stage 3 CAP	(149)	(480)	639	(10)	-
Transfers to Stage 3 IAP	(43)	(2)	(16)	61	-
Net further lending/(repayment)	(4,162)	(100)	(29)	9	(4,282)
New financial assets originated	23,381	-	-	-	23,381
Financial assets derecognised during the year	(13,338)	(952)	(154)	(42)	(14,486)
Amounts written-off	-	-	(34)	(36)	(70)
Total gross carrying amount as at 30 September 2021	84,661	7,833	500	109	93,103
Provision for ECL as at 30 September 2021	(84)	(244)	(74)	(69)	(471)
Total net carrying amount as at 30 September 2021	84,577	7,589	426	40	92,632

iii. Asset quality (continued)

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

The impacts of changes in gross carrying amounts of loans on expected loss allowance can be further disaggregated into the following types of credit exposure:

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	Total
$ millions	CAP	CAP	CAP	IAP	
Residential mortgages					
Total gross carrying amount as at 30 September 2021	**56,573**	**3,878**	**382**	**21**	**60,854**
Transfers:					
Transfers to Stage 1	2,376	(2,313)	(63)	-	-
Transfers to Stage 2	(4,856)	5,022	(166)	-	-
Transfers to Stage 3 CAP	(73)	(208)	287	(6)	-
Transfers to Stage 3 IAP	(1)	-	(9)	10	-
Net further lending/(repayment)	(3,724)	41	(7)	(1)	(3,691)
New financial assets originated	12,946	-	-	-	12,946
Financial assets derecognised during the year	(5,904)	(248)	(84)	(1)	(6,237)
Amounts written-off	-	-	-	(3)	(3)
Total gross carrying amount as at 30 September 2022	**57,337**	**6,172**	**340**	**20**	**63,869**
Provision for ECL as at 30 September 2022	(40)	(87)	(43)	(9)	(179)
Total net carrying amount as at 30 September 2022	**57,297**	**6,085**	**297**	**11**	**63,690**
Other retail					
Total gross carrying amount as at 30 September 2021	**2,519**	**392**	**64**	**1**	**2,976**
Transfers:					
Transfers to Stage 1	719	(709)	(10)	-	-
Transfers to Stage 2	(1,041)	1,059	(18)	-	-
Transfers to Stage 3 CAP	(16)	(61)	77	-	-
Transfers to Stage 3 IAP	-	-	(1)	1	-
Net further lending/(repayment)	(193)	82	(13)	1	(123)
New financial assets originated	440	-	-	-	440
Financial assets derecognised during the year	(365)	(55)	(20)	-	(440)
Amounts written-off	-	-	(23)	(1)	(24)
Total gross carrying amount as at 30 September 2022	**2,063**	**708**	**56**	**2**	**2,829**
Provision for ECL as at 30 September 2022	(12)	(36)	(13)	(1)	(62)
Total net carrying amount as at 30 September 2022	**2,051**	**672**	**43**	**1**	**2,767**
Corporate					
Total gross carrying amount as at 30 September 2021	**25,440**	**3,563**	**54**	**87**	**29,144**
Transfers:					
Transfers to Stage 1	1,473	(1,441)	(32)	-	-
Transfers to Stage 2	(2,810)	2,833	(20)	(3)	-
Transfers to Stage 3 CAP	(23)	(80)	107	(4)	-
Transfers to Stage 3 IAP	-	(12)	(3)	15	-
Net further lending/(repayment)	1,506	(50)	10	(8)	1,458
New financial assets originated	6,049	-	-	-	6,049
Financial assets derecognised during the year	(5,794)	(319)	(30)	(4)	(6,147)
Amounts written-off	-	-	-	(45)	(45)
Total gross carrying amount as at 30 September 2022	**25,841**	**4,494**	**86**	**38**	**30,459**
Provision for ECL as at 30 September 2022	(33)	(92)	(13)	(17)	(155)
Total net carrying amount as at 30 September 2022	**25,808**	**4,402**	**73**	**21**	**30,304**

The above gross carrying amount table does not include 'Other' credit exposures (refer to Note 11) on the basis that the provision for ECL is nil.

iii. Asset quality (continued)

	THE BANKING GROUP				
	Performing		Non-performing		
	Stage 1	Stage 2	Stage 3	Stage 3	Total
$ millions	CAP	CAP	CAP	IAP	
Residential mortgages					
Total gross carrying amount as at 30 September 2020	50,660	4,079	455	18	55,212
Transfers:					
Transfers to Stage 1	2,821	(2,741)	(79)	(1)	-
Transfers to Stage 2	(3,148)	3,437	(288)	(1)	-
Transfers to Stage 3 CAP	(106)	(323)	437	(8)	-
Transfers to Stage 3 IAP	(1)	-	(15)	16	-
Net further lending/(repayment)	(2,899)	(100)	(8)	(1)	(3,008)
New financial assets originated	16,631	-	-	-	16,631
Financial assets derecognised during the year	(7,385)	(474)	(120)	(2)	(7,981)
Amounts written-off	-	-	-	-	-
Total gross carrying amount as at 30 September 2021	56,573	3,878	382	21	60,854
Provision for ECL as at 30 September 2021	(41)	(69)	(46)	(8)	(164)
Total net carrying amount as at 30 September 2021	56,532	3,809	336	13	60,690
Other retail					
Total gross carrying amount as at 30 September 2020	2,870	355	71	3	3,299
Transfers:					
Transfers to Stage 1	568	(556)	(12)	-	-
Transfers to Stage 2	(646)	678	(32)	-	-
Transfers to Stage 3 CAP	(18)	(92)	112	(2)	-
Transfers to Stage 3 IAP	-	-	(1)	1	-
Net further lending/(repayment)	(386)	70	(15)	1	(330)
New financial assets originated	566	-	-	-	566
Financial assets derecognised during the year	(435)	(63)	(25)	(1)	(524)
Amounts written-off	-	-	(34)	(1)	(35)
Total gross carrying amount as at 30 September 2021	2,519	392	64	1	2,976
Provision for ECL as at 30 September 2021	(16)	(53)	(22)	(1)	(92)
Total net carrying amount as at 30 September 2021	2,503	339	42	-	2,884
Corporate					
Total gross carrying amount as at 30 September 2020	27,214	2,589	46	108	29,957
Transfers:					
Transfers to Stage 1	1,319	(1,282)	(37)	-	-
Transfers to Stage 2	(2,776)	2,806	(30)	-	-
Transfers to Stage 3 CAP	(25)	(65)	90	-	-
Transfers to Stage 3 IAP	(42)	(2)	-	44	-
Net further lending/(repayment)	(842)	(93)	(6)	9	(932)
New financial assets originated	5,861	-	-	-	5,861
Financial assets derecognised during the year	(5,269)	(390)	(9)	(39)	(5,707)
Amounts written-off	-	-	-	(35)	(35)
Total gross carrying amount as at 30 September 2021	25,440	3,563	54	87	29,144
Provision for ECL as at 30 September 2021	(27)	(122)	(6)	(60)	(215)
Total net carrying amount as at 30 September 2021	25,413	3,441	48	27	28,929

The above gross carrying amount table does not include 'Other' credit exposures (refer to Note 11) on the basis that the provision for ECL is nil.

iii. Asset quality (continued)

Other asset quality information

	THE BANKING GROUP				
	30 Sep 22				
$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
Undrawn commitments with individually impaired counterparties	1	-	1	-	2
Other assets under administration	-	-	-	-	-

	THE BANKING GROUP				
	30 Sep 21				
$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
Undrawn commitments with individually impaired counterparties	-	1	6	-	7
Other assets under administration	-	-	-	-	-

iv. Capital adequacy and regulatory liquidity ratios (Unaudited)

With effect from 1 October 2021, the Banking Group's conditions of registration were amended to reflect new Reserve Bank BPRs, which replaced the previous Reserve Bank document BS2B. The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the Reserve Bank BPRs.

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

The Banking Group's capital summary as at 30 September 2022

		THE BANKING GROUP
$ millions	Note	**2022**
Tier 1 capital		
Common Equity Tier 1 capital		
Paid-up ordinary shares issued by the Bank plus related share premium	22	**7,300**
Retained earnings (net of appropriations)		**1,343**
Accumulated other comprehensive income and other disclosed reserves[1]		**137**
Less deductions from Common Equity Tier 1 capital		
Goodwill		**(477)**
Other intangible assets[2]		**(326)**
Cash flow hedge reserve		**(422)**
Deferred tax asset deduction		**(39)**
Expected loss excess over eligible allowance		**(12)**
Total Common Equity Tier 1 capital		**7,504**
Additional Tier 1 capital		
Additional Tier 1 capital instruments[3]	21	**1,313**
Total additional Tier 1 capital		**1,313**
Total Tier 1 capital		**8,817**
Tier 2 capital		
Tier 2 capital instruments[3]	21	**600**
Revaluation reserves		**-**
Eligible impairment allowance in excess of expected loss		**-**
Total Tier 2 capital		**600**
Total capital		**9,417**

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

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

[3] Classified as a liability under Generally Accepted Accounting Practice and excludes capitalised transaction costs. Additional Tier 1 capital instruments and Tier 2 capital instruments are itemised in Note 21. Further details on convertibility for Additional Tier 1 capital instruments are noted in Note 21.

Capital Structure

Refer to Note 21 Loan capital and Note 22 Share capital for information on the Banking Group's capital structure.

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Credit risk subject to the IRB approach

Credit risk exposures by asset class

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

The Banking Group's credit risk exposures by asset class as at 30 September 2022

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Residential mortgages						
Up to and including 0.10	-	-	-	-	-	-
Over 0.10 up to and including 0.50	0.47	34,221	14.40	11.73	4,255	340
Over 0.50 up to and including 1.0	0.70	26,426	21.02	22.73	6,366	510
Over 1.0 up to and including 2.5	1.52	11,253	22.31	42.70	5,094	407
Over 2.5 up to and including 10.0	3.72	663	25.76	88.87	625	50
Over 10.0 up to and including 99.99	-	-	-	-	-	-
Default	100.00	364	20.70	112.91	436	35
Total	1.24	72,927	18.15	21.70	16,776	1,342
Other retail						
Up to and including 0.10	0.05	760	46.31	6.82	55	4
Over 0.10 up to and including 0.50	0.19	862	54.27	20.98	191	15
Over 0.50 up to and including 1.0	0.54	276	55.67	41.79	122	10
Over 1.0 up to and including 2.5	1.79	527	67.44	81.53	456	37
Over 2.5 up to and including 10.0	5.40	347	69.90	104.28	384	31
Over 10.0 up to and including 99.99	18.76	65	78.20	158.56	110	9
Default	100.00	15	81.74	110.14	17	1
Total	2.06	2,852	57.31	44.17	1,335	107
Small business						
Up to and including 0.10	0.10	22	22.68	5.63	1	-
Over 0.10 up to and including 0.50	0.34	1,068	25.60	14.26	162	12
Over 0.50 up to and including 1.0	0.91	642	31.47	30.71	209	17
Over 1.0 up to and including 2.5	1.83	344	28.55	36.01	131	11
Over 2.5 up to and including 10.0	4.62	155	31.05	45.67	75	6
Over 10.0 up to and including 99.99	14.08	19	31.01	59.00	12	1
Default	100.00	47	29.37	281.04	140	11
Total	3.16	2,297	28.14	29.98	730	58
Corporate/Business lending						
Up to and including 0.04	0.03	5,770	46.06	19.72	1,206	96
Over 0.04 up to and including 0.10	0.07	4,266	49.42	26.97	1,220	98
Over 0.10 up to and including 0.40	0.22	9,428	42.69	41.81	4,179	334
Over 0.40 up to and including 3.0	1.16	15,159	31.76	60.08	9,653	772
Over 3.0 up to and including 10.0	4.78	239	28.05	81.75	207	17
Over 10.0 up to and including 99.0	23.54	691	39.26	191.09	1,399	112
Default	100.00	166	53.11	78.87	139	11
Total	1.51	35,719	39.28	47.55	18,003	1,440
Total credit risk exposures subject to the internal ratings based approach		113,795			36,844	2,947

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

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

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

	Undrawn Commitments and other Off-Balance Sheet Contingent Liabilities[1]		Counterparty Credit Risk on Derivatives and Securities Financing Transactions	
$ millions	Value	EAD	Value	EAD
Residential mortgages	12,209	8,937	-	-
Other retail	2,852	1,610	-	-
Small business	848	696	-	-
Corporate/Business lending	10,183	10,183	7,110	185
Total	**26,092**	**21,426**	**7,110**	**185**

[1] Certain balances which are part of the guarantee with the NZ Branch are not included as off-balance sheet contingent liabilities, reflecting their treatment in RWA calculations as components of on-balance sheet or counterparty credit risk exposure.

Additional mortgage information

Residential mortgages by LVR as at 30 September 2022

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

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

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

	THE BANKING GROUP					
	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**

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Specialised lending subject to the slotting approach

The Banking Group's specialised lending: Project and property finance credit risk exposures as at 30 September 2022

On-balance sheet exposures subject to the slotting approach	Total Exposures After Credit Risk Mitigation $ millions	Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Supervisory slotting grade				
Strong	**5,021**	**70.00**	**3,724**	**299**
Good	**1,683**	**90.00**	**1,606**	**128**
Satisfactory	**125**	**115.00**	**153**	**12**
Weak	**136**	**250.00**	**362**	**29**
Default	**16**	**-**		**-**
Total on-balance sheet exposures subject to the slotting approach	**6,981**	**78.99**	**5,845**	**468**

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

Off-balance sheet exposures subject to the slotting approach	EAD $ millions	Average Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Undrawn commitments and other off-balance sheet exposures	**1,498**	**78.75**	**1,251**	**100**
Total specialised lending exposures subject to the slotting approach	**8,479**	**78.94**	**7,096**	**568**

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

Credit risk exposures subject to the standardised approach

The Banking Group's credit risk exposures subject to the standardised approach as at 30 September 2022

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

Calculation of on-balance sheet exposures

	Total Exposure After Credit Risk Mitigation $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Sovereigns and central banks	**12,993**	**-**	**-**	**-**
Multilateral development banks and other international organisations	**1,558**	**-**	**-**	**-**
Public sector entities	**2,008**	**20.00**	**426**	**34**
Banks	**985**	**42.01**	**439**	**35**
Past due assets	**1**	**150.00**	**2**	**-**
Other assets[2]	**1,231**	**62.69**	**817**	**66**
Total on-balance sheet exposures subject to the standardised approach	**18,776**	**8.46**	**1,684**	**135**

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

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

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Calculation of off-balance sheet exposures

	Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor %	Credit Equivalent Amount $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Total off-balance sheet exposures subject to the standardised approach	**1,223**	**39.49**	**483**	**25.03**	**128**	**10**
Counterparty credit risk for counterparties subject to the standardised approach						
FX contracts	**19,879**	**N/A**	**1,665**	**20.00**	**354**	**28**
Interest rate contracts	**54,730**	**N/A**	**389**	**20.00**	**82**	**7**
Other	**-**	**N/A**	**-**	**-**	**486**	**39**
Total counterparty credit risk for counterparties subject to the standardised approach	**74,609**		**2,054**		**922**	**74**
Standardised subtotal (on and off-balance sheet)			**21,313**		**2,734**	**219**

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

Credit risk mitigation

The Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities. This includes the Banking Group establishing that it has direct, irrevocable and unconditional recourse to collateral and other credit enhancements through obtaining legally enforceable documentation.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to LGD. Due to system limitations, the value of the guarantee is not always separately recorded, and therefore, neither this value nor a close alternative is available for disclosure, under Clause 7 of Schedule 11 to the Order. The Banking Group does not apply any credit risk mitigation from eligible financial collateral for exposures subject to the standardised approach or from credit derivatives as at 30 September 2022.

Equity risk

The Banking Group's equity exposures as at 30 September 2022

Equity	Total Exposure $ millions	Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Equity holdings (not deducted from capital) included in the NZX 50 or overseas equivalent index	**-**	**-**	**-**	**-**
All other equity holdings (not deducted from capital)	**3**	**400**	**12**	**1**

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

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Application of standardised floor to total credit risk RWA

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

- The greater of:
  - 1.06 x total RWA subject to the IRB RWA treatment (as shown in the tables in the sections Credit risk subject to the IRB approach and Specialised lending subject to the slotting approach on pages 99 and 101 respectively); and
  - 0.85 x total Standardised Equivalent RWA for each credit risk exposure subject to the IRB RWA treatment (commonly referred to as the standardised floor); and
- 1.06 x total RWA subject to the Standardised RWA treatment.

The following table shows the output from these calculations, and the resulting total credit risk RWA used in the calculation of the Bank and the Banking Group's total capital requirements and capital ratios as at 30 September 2022.

	THE BANKING GROUP			
	30 Sep 22			
	RWA for modelled exposures			
$ millions	RWA calculated using models[2]	RWA recalculated using standardised approach	RWA for standardised exposures[1,3]	Total credit risk RWA
Total IRB and supervisory slotting exposure[1]	**43,940**	**66,268**		
Standardised floor		**56,328**		
RWA with floor applied		**56,328**	**2,746**	**59,074**

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

[2] This amount includes $36,844 million for IRB classes and $7,096 million for supervisory slotting exposures.

[3] This amount includes $2,734 million for exposures subject to the standardised approach and $12 million for equity exposures.

From 1 October 2022, the requirement will change and IRB Banks will be required to calculate total credit risk RWA as the sum of:

- The greater of:
  - 1.2 x total RWA subject to the IRB RWA treatment (as shown in the tables in the sections Credit risk subject to the IRB approach and Specialised lending subject to the slotting approach on pages 99 and 101 respectively); and
  - 0.85 x total Standardised Equivalent RWA for each credit risk exposure subject to the IRB RWA treatment (commonly referred to as the standardised floor); and
- 1.0 x total RWA subject to the Standardised RWA treatment.

If this requirement were applied to the Banking Group's RWA as at 30 September 2022, the standardised floor would still apply for modelled exposures and the RWA for Standardised Exposures would reduce by $155 million, reducing the Banking Group's total credit risk RWA to $58,919 million.

Operational risk

Operational risk capital requirement

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

	THE BANKING GROUP	
	2022	
$ millions	Implied Risk-weighted Exposure	Total Operational Risk Capital Requirement
Standardised Approach		
Operational risk	**6,809**	**545**

As of 1 July 2022, the Bank transitioned to the Standardised Approach for calculating Operational Risk capital as set out in BPR150. In addition, the Bank continues to comply with the qualitative requirements set out in section B1 of BPR151 AMA Operational Risk.

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Market risk

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

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six months ended 30 September 2022 of the aggregate capital charge for that category of market risk derived in accordance with BPR140.

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

	THE BANKING GROUP	
	2022	
$ millions	Implied Risk-weighted Exposure	Aggregate Capital Charge
End-of-period		
Interest rate risk	**2,034**	**163**
Foreign currency risk	**-**	**-**
Equity risk	**-**	**-**
Peak end-of-day		
Interest rate risk	**3,088**	**247**
Foreign currency risk	**-**	**-**
Equity risk	**-**	**-**

Total capital requirements
Banking Group Pillar I Total Capital Requirement

	THE BANKING GROUP		
	2022		
$ millions	Total Exposure After Credit Risk Mitigation[1]	Risk-weighted Exposure or Implied Risk-weighted Exposure	Total Capital Requirement
Total credit risk	**131,552**	**59,074**	**4,726**
Operational risk	**N/A**	**6,809**	**545**
Market risk	**N/A**	**2,034**	**163**
Total	**131,552**	**67,917**	**5,434**

[1] The total credit risk amount includes $102,557 million for exposures subject to IRB approach and $7,679 million for exposures subject to the slotting approach, being the equivalent exposure under the standardised approach of $113,795 million EAD for credit risk exposures subject to IRB approach and $8,479 million EAD for specialised lending subject to slotting approach.

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Capital ratios

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

Due to changes in BPRs effective from 1 January 2022, the ratios for the Banking Group at 30 September 2022 are not comparable to 30 September 2021. As at 1 January 2022, the RWA of counterparties in the Bank and Sovereign asset classes are calculated under a standardised approach and the modelled exposures for IRB banks have had a floor of 85% of the requirement under a standardised approach applied. In addition, existing capital instruments that have conversion features are no longer fully eligible as capital with 87.5% of the total nominal value of affected instruments recognised as regulatory capital between 1 January 2022 and 31 December 2022.

For the purposes of calculating the capital adequacy ratios for the Bank on a solo basis, a subsidiary that is not a securitisation SPV must be consolidated with the Bank if it is a wholly-owned and wholly-funded subsidiary of the Banking Group. In this context, wholly-funded by the Bank means there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue or trade creditors, where aggregate exposure to trade creditors does not exceed the greater of 5% of the subsidiary's shareholder's equity and 1% of the subsidiary's total assets. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank or is ultimately owned by the Bank through a chain of ownership where each entity is 100% owned by its parent. An SPV must be consolidated with the Bank if it is required to be consolidated with the Banking Group under New Zealand Generally Accepted Accounting Practice and is a covered bond SPV, or an internal RMBS SPV, that is, an SPV that is set up to securitise residential mortgage loans originated by the Bank and is funded exclusively by the Bank. As at 30 September 2022, the Bank's two SPVs have been consolidated in accordance with the Reserve Bank's new prudential requirements for the purposes of calculating solo capital. The Bank's ratios at 30 September 2022 are not comparable to 30 September 2021, as the calculation requirements at 30 September 2021 did not include the consolidation of the Bank's two SPVs.

	THE BANKING GROUP			THE BANK	
%	Reserve Bank Minimum Ratios	**30 Sep 22**	30 Sep 21	**30 Sep 22**	30 Sep 21
Common Equity Tier 1 capital ratio	4.5	**11.0**	13.8	**11.0**	12.9
Tier 1 capital ratio	6.0	**13.0**	16.6	**12.9**	15.5
Total capital ratio	8.0	**13.9**	18.6	**13.8**	17.3
Prudential capital buffer ratio	3.5	**5.9**	9.3	**N/A**	N/A

Capital for other material risks

Summary of ICAAP

The Banking Group's ICAAP outlines the Banking Group's approach to meeting minimum capital requirements and confirming that capital held by the Bank is commensurate with its risk profile. The Banking Group's ICAAP complies with the requirements set out in Part D of the Reserve Bank document 'Capital Adequacy' (BPR100) in accordance with the Bank's Conditions of Registration.

The Banking Group's ICAAP is founded on the principle that its target level of capital is directly related to its risk appetite and corresponding risk profile. The ICAAP supplements the minimum regulatory capital requirements in respect of credit, market and operational risk through the consideration of a broader range of risk types and the Banking Group's risk and capital management capabilities. The ICAAP also takes account of future strategic objectives, stress testing, regulatory developments and peer group comparatives.

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

The Banking Group's internal capital allocation for 'other material risks' is $350 million as at 30 September 2022 (30 September 2021: $316 million).

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Ultimate Parent Bank Group Basel III capital adequacy ratios

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

%	30 Sep 22	30 Sep 21
Ultimate Parent Bank Group (excluding entities specifically excluded by APRA)[1, 2]		
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
Ultimate Parent Bank (Extended Licensed Entity)[1, 3]		
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] The capital ratios represent information mandated by APRA. The capital ratios of the Ultimate Parent Bank Group are publicly available in the Ultimate Parent Bank Group's Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

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

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

Under APRA's Prudential Standards, ADIs, including the Ultimate Parent Bank Group and the Ultimate Parent Bank, are required to maintain minimum ratios of capital to risk weighted assets, as determined by APRA, which are at least equal to those specified under the Basel III capital framework. For the calculation of risk weighted assets, the Ultimate Parent Bank Group is accredited by APRA to apply advanced models. The Ultimate Parent Bank Group uses the Advanced IRB approach for credit risk, the Standardised Measurement Approach for operational risk and the internal model approach for IRRBB 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 Ultimate Parent Bank Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly basis. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

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

iv. Capital adequacy and regulatory liquidity ratios (Unaudited) (continued)

Regulatory liquidity ratios

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

	THE BANKING GOUP	
%	**30 Sep 22**	30 Jun 22
Average for the three months ended		
One-week mismatch ratio	**8.8**	6.9
One-month mismatch ratio	**7.9**	6.3
Core funding ratio	**88.1**	86.2

Effective 15 August 2022, the Reserve Bank reduced the adjustment to liquid assets to 107%, reducing the overlay by 50%, reflecting the Liquidity Review findings that there had been improvements in the liquidity control environment and the associated risk culture. The overlay will remain in place until the Reserve Bank has received confirmation from the WNZL Board that the liquidity control assurance work is complete.

The overlay is specified by the Reserve Bank as a requirement to discount the value of the Bank's liquid assets by approximately 7% which at 30 September 2022 was $1.5 billion. Refer to Other material matters on page 91 for further detail.

v. Concentration of credit exposures to individual counterparties

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

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

	THE BANKING GROUP	
	2022	
% of Banking Group's Common Equity Tier 1 Capital	Non-bank Counterparties[1] Long-term credit rating A- or A3 and above	Non-bank Counterparties[1] Long-term credit rating at least BBB- or Baa3, and at most BBB+ or Baa1
As at 30 September 2022[2]		
Exceeds 10% and not 15%	**2**	**-**
Exceeds 15% and not 20%	**1**	**-**
Peak end-of-day aggregate credit exposure for the six months ended 30 September 2022[2]		
Exceeds 10% and not 15%	**1**	**1**
Exceeds 15% and not 20%	**2**	**-**

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

[2] There are no bank counterparties with aggregate credit exposure that equals or exceeds 10% of the Banking Group's Common Equity Tier 1 capital. There are no non-bank counterparties with aggregate credit exposure that equals or exceeds 10% of the Banking Group's Common Equity Tier 1 capital and with a long-term credit rating of less than BBB- or Baa3, or its equivalent, or unrated.

The peak end-of-day aggregate credit exposure to each individual counterparty (which are not members of a group of closely related counterparties) or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the six-month period ending 30 September 2022, and then dividing that amount by the Banking Group's Common Equity Tier 1 capital as at 30 September 2022.

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

vi. Credit exposures to connected persons

The Banking Group's credit exposure to connected persons is derived in accordance with the Bank's conditions of registration and the Reserve Bank document 'Connected Exposures Policy', is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

The Reserve Bank defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits. Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier 1 capital of the Banking Group have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the year ended 30 September 2022 and then dividing that amount by the Banking Group's Tier 1 capital as at 30 September 2022.

Credit exposures to connected persons reported in the following table have been calculated on a bilateral net basis. Netting has occurred in respect of certain transactions which are the subject of a bilateral netting agreement. On this basis, there is a limit of 125% of the Banking Group's Tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

	THE BANKING GROUP	
$ millions	**As at 30 Sep 22**	**Peak End-of-day for the Year Ended 30 Sep 22**
Credit exposures to connected persons:		
On gross basis, before netting	**3,324**	**4,702**
As a percentage of Tier 1 capital of the Banking Group at end of the year	**37.7%**	**53.3%**
Amount that has been netted off in determining the net exposure	**1,113**	**1,474**
As a percentage of Tier 1 capital of the Banking Group at end of the year	**12.6%**	**16.7%**
On partial bilateral net basis	**2,211**	**3,228**
As a percentage of Tier 1 capital of the Banking Group at end of the year	**25.1%**	**36.6%**
Credit exposures to non-bank connected persons	**1**	**1**
As a percentage of Tier 1 capital of the Banking Group at end of the year	**0.0%**	**0.0%**

As at 30 September 2022, the rating-contingent limit applicable to the Banking Group was 60% of Tier 1 capital on a bilateral net basis. There have been no changes to this rating-contingent limit over the year ended 30 September 2022. Within the overall rating-contingent limit there is a sub-limit of 15% of Tier 1 capital which applies to the aggregate credit exposure to non-bank connected persons.

Where a bank is funding a large loan it is common practice to share the risk of a customer default through risk transfer to an acceptable entity. These arrangements are called risk lay-off arrangements. As at 30 September 2022, the Banking Group had $17 million of aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons).

The aggregate amount of the Banking Group's loss allowance for credit exposures to connected persons that are credit impaired was nil as at 30 September 2022.

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

Insurance business

The Banking Group does not conduct any insurance business.

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

Securitisation

The Banking Group uses structured entities to securitise its financial assets through the Covered Bond Programme and the Bank's internal residential mortgage-backed securitisation programme. Refer to Note 29 Securitisation, covered bonds and other transferred assets for further information and amounts of outstanding securitised assets.

Funds management and other fiduciary activities

The Bank markets the retail managed investment products of BTNZ, a member of the Ultimate Parent Bank Group, through its branches, advisory business and private bank. The Bank derives distribution fees from the sale of these managed investment products, marketed on behalf of BTNZ (except the PIE Funds). The Bank also provides investment advice to a number of clients (including investors in BTNZ's managed investment products), which includes the provision of other fiduciary activities.

The PIE Funds are administered by the Banking Group (refer to Note 23 for further details) and invest in deposits with the Bank. The Bank is considered to control the PIE Funds, and as such they are consolidated within the financial statements of the Banking Group. As at 30 September 2022, $3,271 million (30 September 2021: $2,749 million) of funds under management were invested by the PIE Funds in the Bank's deposits.

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 Banking Group (30 September 2021: nil).

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 Ultimate Parent Bank and a related entity of the Banking Group. As part of the transaction, the 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 Banking Group's customers.

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

Financial services provided to entities conducting the above activities

Financial services provided by any member of the Banking Group to entities which conduct the trust, custodial, securitisation, funds management and other fiduciary activities described above, or on whose behalf insurance products are marketed or distributed, have been provided at arm's length terms and conditions and at fair value.

Assets purchased from entities conducting the above activities

Assets purchased by any member of the Banking Group from entities which conduct the trust, custodial, securitisation, funds management and other fiduciary activities specified above, or on whose behalf insurance products are marketed or distributed, have been purchased on arm's length terms and conditions and at fair value.

Funding provided to entities in aggregate and individually

During the year ended 30 September 2022, the Banking Group did not provide any funding to entities that provide services relating to the Banking Group's involvement in conducting trust and custodial activities, funds management and other fiduciary activities, securitisation activities or insurance product marketing and distribution activities described in this note (30 September 2021: nil).

viii. Risk management policies

Information about risk

Risk Management Framework

The Banking Group regards the management of risk to be a fundamental management activity performed at all levels of its business. The 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 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 and core functions proactively identify, evaluate, own and manage the risks in their businesses, that originate within approved risk appetite and policies.

The First Line is required to establish and maintain appropriate governance structures, 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 sets frameworks, controls (including policies and limits) and standards for use across the Banking Group. They can require remediation or cessation of activity where these are not adhered to. Their approach will be risk-based and proportionate to First Line activities.

The Second Line of Defence reviews and challenges the First Line activities and decisions that materially affect the Banking Group's risk position and independently evaluates the effectiveness of First Line controls, monitoring, compliance and risk management. In addition, the Second Line of Defence provides insight to the First Line assisting in developing, maintaining and enhancing the business' approach to risk management and considers and reports the aggregated risk profile of the Banking Group to ensure end-to-end oversight of risk.

The Second Line is operationally independent from First Line, with unfettered access to Board and BRCC.

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 Banking Group's governance, risk management and internal controls.

Financial risks

Refer to Note 32 Risk management, funding and liquidity risk and market risk for a discussion of the financial risks faced by the 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 Regulator Risk, these are reflected primarily in Compliance and Conduct Risk.

Operational risk has the potential, as a result of the way business objectives are pursued, to negatively impact the Banking Group's financial performance, customer service and/or reputation in the community or cause other damage to the business.

The Banking Group has an Operational Risk Management Framework, which is aligned to the Ultimate Parent Bank's Operational Risk Framework and outlines the business requirements for managing operational risk with respect to governance, risk and control assessments, incident management, and ongoing reporting and monitoring. This Framework is approved by the BRCC.

The Bank's RISKCO, chaired by the Banking Group's Chief Risk Officer, is responsible for overseeing the effectiveness and implementation of the Operational Risk Management Framework and Compliance and Conduct Risk Management Frameworks. RISKCO monitors the operational risk profiles and the action plans and has the discretion to escalate material matters to the Bank's BRCC and/or the relevant Ultimate Parent Bank Group Risk Committee.

Effective 1 July 2022, the Reserve Bank approved the Bank's transition from the Advanced Measurement Approach for calculating Operational Risk Capital as set out in *BPR151: AMA Operational Risk* to the Standardised Approach as set out in *BPR150: Standardised Operational Risk*. In addition, the Bank continues to maintain controls to comply with the qualitative requirements as set out in Section B1 of BPR151.

Compliance and conduct risk

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

viii. Risk management policies (continued)

Compliance and conduct risk management is a cornerstone of the way the Banking Group conducts business as it ensures the protection of the Banking Group and its stakeholders. Effective compliance and conduct risk management enables the Banking Group to identify emerging issues as matters arise and, where necessary, put in place preventative measures. The Banking Group has a Compliance and Conduct Risk Management Framework which is supported by compliance and conduct policies and there is a dedicated compliance function to assist the business in managing its compliance and conducts risks.

The Banking Group's RISKCO is responsible for overseeing the effectiveness and implementation of the Compliance and Conduct Risk Management Framework. RISKCO oversees compliance and conduct risks across the Banking Group and regularly reports material matters to the Banking Group's BRCC and/or the relevant Ultimate Parent Bank Group Risk Committee.

Other risk classes

Other risk classes include:

- Financial Crime: the risk that the Banking Group fails to prevent financial crime and comply with applicable global financial crime regulatory obligations;
- Cyber Risk: the risk that the 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 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 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 Banking Group's risk culture does not promote and reinforce behavioural expectations or structures to identify, understand, discuss or act on risks.

Capital adequacy

Refer to Note 31 Capital management for the Banking Group's approach to assessing the adequacy of its capital to support current and future activities and the role that directors and senior management take in the capital management process.

Reviews of the Banking Group's risk management systems

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

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

Various external reviews of the Bank'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 Banking Group

The Banking Group has an internal audit function, New Zealand Audit. New Zealand Audit comprises a New Zealand based audit team, supported by the Ultimate Parent Bank Group Audit Credit Portfolio Review (including Model Risk) functions, which report to the Bank's BAC, as well as to the Ultimate Parent Bank.

New Zealand Audit, as an independent function, has no direct authority over the activities of management. It has unlimited access to all of the Banking Group's activities, records, property and employees. The scope of responsibility of New Zealand Audit covers systems of management control across all business activities and support functions at all levels of management within the 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 three years and low risk areas every four years. The Chief Internal Auditor reports on a quarterly basis, or more often as deemed appropriate, to the Bank's BAC, to agree the budget and the annual audit plan and to report its findings. In addition, the Bank's BAC has private sessions with the Chief Internal Auditor. Furthermore, the Chief Internal Auditor reports to the Chair of the Bank's BAC, and for administrative purposes to the Banking Group's Chief Financial Officer and the Ultimate Parent Bank's General Manager Group Audit.

As set out in its Charter, the Bank'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 Bank and its subsidiaries;

viii. Risk management policies (continued)

- Integrity of the Bank's Disclosure Statement;
- External audit engagement, including external auditor's qualifications, performance, independence and fees;
- Performance of NZ Audit; and
- Integrity of the Bank's financial reporting and regulatory compliance. In conjunction with the Board Risk and Compliance Committee, this includes an oversight of the Bank'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.

Measurement of impaired assets

Impaired assets are measured on a monthly basis. Refer to Note 6 Impairment charges/(benefits) and Note 12 Provision for expected credit losses which describe the approaches the Banking Group follows for assessing asset impairment.

Recoverable amounts are represented by net loans, which are calculated as gross loans less provisions for impairment.

Credit risk mitigation

Refer to Note 13.5 Credit risk mitigation, collateral and other credit enhancements and Note 26 Offsetting financial assets and financial liabilities for the policies and processes the Banking Group follows to mitigate credit risk.

Where the effect of credit risk mitigation through eligible collateral is used to reduce our measure of risk, the Banking Group, as an AIRB Bank, uses the comprehensive method to measure the mitigating effects of the collateral or eligible guarantees.

Additional information about credit risk

Classification of Banking Group exposures by regulatory exposure class

The Banking Group reports capital adequacy under BPR130. The regulation specifies two different methodologies to be applied in calculating credit risk RWAs: the standardised approach and the internal ratings based (IRB) approach. For non-modelled exposure classes, the standardised approach applies. For modelled exposure classes, the IRB approach applies, with total RWA being subject to a floor of 85% of the standardised RWA as described in Section iv. Capital adequacy and regulatory liquidity ratio.

Modelled exposure classes – IRB approach applies, subject to standardised floor.

Exposure Class	Subclass	Segmentation Criteria
Corporate	Corporate	All transaction-managed customers not elsewhere classified where annual turnover exceeds $50 million.
	Business lending	All transaction-managed customers not elsewhere classified where annual turnover is $50 million or less.
	Specialised lending - property finance	Applied to transaction-managed customers where the primary source of debt service, security and repayment is derived from either the sale of a property development or income produced by one or more investment properties.
	Specialised lending - project finance	Applied to transaction-managed customers where the primary source of debt service, repayment and security is revenues generated by a project.
Residential mortgages	Residential mortgages	All program-managed exposures secured by residential mortgages defined as housing lending.
Other retail	Small business	Program-managed business lending.
	Other retail	All other program-managed lending to retail customers, including credit cards, personal loans and personal overdrafts.

viii. Risk management policies (continued)

Non-modelled exposure classes – standardised approach applies.

Exposure Class	Subclass	Segmentation Criteria
Sovereign	Crown	Applied to transaction-managed customers identified by ANZSIC code
	MDBs and supranationals	Applied to organisations listed in section C2.4(1) of BPR131
Bank	Public Sector Entities	Applied to transaction-managed customers identified by ANZSIC code
	Bank	Applied to transaction-managed customers identified by ANZSIC code;
Equity	Equity	All equity items that have not been deducted from capital and meet the definition of equity exposures in BPR001 and meet the requirements set out in table C1.5B in BPR130, paragraphs C2.13 and C2.14 in BPR131, and B5 in BPR133.
Other assets	Other assets	All other assets not falling within the above classes.

Overview of the internal credit risk ratings process by portfolio

(a) Transaction-managed approach (including business lending, corporate, Sovereign and bank)

The process for assignment and approval of individual PDs and LGDs involves business unit representatives recommending the CRGs and LGDs under criteria guidelines. Credit Officers then independently evaluate the recommendations and approve the final outcomes. An expert judgement decision-making process is employed to evaluate the CRG. The following represent the types of business lending, corporate, sovereign and banking exposures included within the transaction-managed portfolio approach:

- direct lending exposures;
- contingent lending exposures;
- pre-settlement exposures;
- FX settlement exposures; and
- transaction exposures.

All of the above exposure categories also apply to Specialised Lending, which is a sub-asset class of Corporate and in the Banking Group comprises Property Finance and Project Finance. Regulatory risk-weights are also applied to Specialised Lending.

Definitions, methods and data for estimation and validation of PD, LGD and EAD

PD

The PD is a through-the-cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year. The Banking Group reflects its PD estimate in a CRG.

LGD

The LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn. The Banking Group assigns an LGD to each credit facility, assuming an event of default has occurred, and taking into account a conservative estimate of the net realisable value of assets to which the Banking Group has recourse and over which it has security. LGDs also reflect the seniority of exposures in the customer's capital and debt structure.

LGD estimates are benchmarked against observed historical LGDs from internal and external data and are calibrated to reflect losses expected in an economic downturn. The calculation of historical LGDs is based on an economic loss and includes allowances for workout costs and the discounting of future cash flows to the date of default.

LGD values range from 5% to 100%. The range of LGD values ensures that the risk of loss is differentiated across many credit facilities extended to customers.

EAD and CCF

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. To calculate EAD, historical data is analysed to determine what proportion of undrawn commitments are ultimately utilised by customers who end up in default. The proportion of undrawn commitments ultimately utilised by customers is termed the CCF. EAD therefore consists of the initial outstanding balances plus the CCF multiplied by undrawn commitments. For transaction-managed exposures CCF's are all 100%.

viii. Risk management policies (continued)

b) Program-managed approach (including residential mortgages, small business and other retail)

Each customer is rated using details of their account performance or application details and segmented into pools of similar risk. These segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristics of default. The retail (program-managed) portfolio is divided into a number of segments per product with each segment assigned a quantified measurement of its PD, LGD and EAD.

Retail asset class exposures included in the retail (program-managed) portfolio approach are split into the following categories of products:

Asset sub-classes	Product categories
Residential mortgages	▪ Mortgages
Small business	▪ Equipment finance ▪ Business overdrafts ▪ Business term loans ▪ Business credit cards
Other retail	▪ Credit cards ▪ Personal loans ▪ Overdrafts

PD

PDs are assigned at the retail segment level and reflect the likelihood of accounts within that segment to default. A long-run average is used to assign a PD to each account in a segment based on the segment's characteristics. The PD estimate for each segment is based on internal data.

Models are used to help determine or establish the appropriate internal rating for program-managed portfolios.

LGD

LGD measures the proportion of the exposure that will be lost if default occurs. LGD is measured as a percentage of EAD. The approach to LGD varies depending on whether the retail product is secured or unsecured. A downturn period is used to reflect the effect on the collateral for secured products. For unsecured products, a long-run estimate is used for LGD.

EAD

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. To calculate EAD, historical data is analysed to determine what proportion of undrawn commitments are ultimately utilised by customers who end up in default.

Additional information about operational risk

Calculating operational risk capital

Operational risk regulatory capital is calculated on a quarterly basis. Standardised operational risk capital is based on a prescribed formula universal to all New Zealand registered banks that apply this approach to Operational Risk capital calculation.

The standardised operational risk capital requirement is the sum of two components, covering the operational risk arising on retail and commercial banking business on the one hand and all other activities on the other. The calculation takes into account a combination of loans, advances and securities in the retail and commercial parts of the bank and proportions of various income components for all other activities.

Controls surrounding credit risk rating systems

Refer to Note 13.1 Risk management frameworks and Note 13.2 Credit risk ratings system for a discussion of the control mechanisms for the rating systems the Banking Group uses to measure credit risk.

Conditions of registration

Conditions of registration for Westpac New Zealand Limited

The registration of the Bank in New Zealand is subject to the following conditions, which applied on and after 5 September 2022:

The registration of the Bank as a registered bank is subject to the following conditions:

1. That:
   (a) the Total capital ratio of the Banking Group is not less than 8%;
   (b) the Tier 1 capital ratio of the Banking Group is not less than 6%;
   (c) the Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5%;
   (d) the Total capital of the Banking Group is not less than $30 million;

For the purposes of this condition of registration,:

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" included in "total RWA equivalents" has the same meaning as in BPR150: Standardised Operational Risk;

"Total capital" has the same meaning as in BPR110: Capital Definitions.

1A. That:
   (a) the bank has an internal capital adequacy assessment process ('**ICAAP**') that accords with the requirements set out Part D of BPR100: Capital Adequacy;
   (b) under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the bank must:
   (a) comply with the minimum requirements for using the IRB approach set out in BPR134: IRB Minimum System Requirements;
   (b) comply with the minimum qualitative requirements for using the AMA approach for operational risk set out in subpart B1 of BPR151: AMA Operational Risk;
   (c) follow the process in Part E of BPR120: Capital Adequacy Process Requirements for obtaining Reserve Bank approval for any changes to any IRB credit risk model;
   (d) maintain a compendium of approved models in accordance with the requirements of section E1.5 of BPR120: Capital Adequacy Process requirements.

1C. That if the Prudential Capital Buffer ('**PCB**') ratio of the Banking Group is 3.5% or less, the bank must:
   (a) according to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the Banking Group's PCB ratio; and:

Banking Group's PCB ratio	Percentage limit on distributions of the Bank's earnings	Capital Buffer Response Framework stage
0% – 0.5%	0%	Stage 3
>0.5 – 1%	30%	Stage 2
>1 – 2%	60%	Stage 1
>2 – 3.5%	100%	None

   (b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration:

"prudential capital buffer ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

1CA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, "transitional AT1 capital instrument" has the meaning given in section A2.3 of BPR110: Capital Definitions and "loss absorption trigger event" and "non-viability trigger event" have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.

1D. That—
   (a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and
   (b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration,:

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

2. That the 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.

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

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

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating of the Bank[1]	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

[1] This table uses the rating scales of S&P, Fitch Ratings and Moody's (Fitch Ratings' scale is identical to S&P).

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier 1 capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled 'Connected exposures policy' (BS8) dated October 2021.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the bank complies with the following corporate governance requirements:

   (a) the board of the bank must have at least five directors;

   (b) the majority of the board members must be non-executive directors;

   (c) at least half of the board members must be independent directors;

   (d) an alternate director:

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

   (f) the chairperson of the board of the bank must be independent; and

   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

   For the purposes of this condition of registration, 'non-executive' and 'independent' have the same meaning as in the Reserve Bank of New Zealand document entitled 'Corporate Governance' (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank 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.

8. That a person must not be appointed as chairperson of the board of the bank 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.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;

   (b) the committee must have at least three members;

   (c) every member of the committee must be a non-executive director of the bank;

   (d) the majority of the members of the committee must be independent; and

   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:

    (a) that the bank's clearing and settlement obligations due on a day can be met on that day;

    (b) that the bank's financial risk positions on a day can be identified on that day;

    (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

    (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

    This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2023 or when the existing outsourcing arrangement becomes compliant with condition 22, from which point in time condition 22 will apply to that outsourcing arrangement.

    For the purpose of this condition of registration:

    (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and

    (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled 'Outsourcing Policy' (BS11) dated September 2022.

12. That:

    (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;

    (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together '**CEO**') is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and

    (c) all staff employed by the bank have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and are accountable (directly or indirectly) to the CEO of the bank.

13. That, for the purposes of calculating the bank's capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the bank.

14. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:

    (a) the one-week mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day;

    (b) the one-month mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day; and

    (c) the one-year core funding ratio of the Banking Group is not less than 75 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled 'Liquidity Policy' (BS13) dated July 2022 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated July 2022, except that:

    (a) in the formula for calculating 'one-week mismatch dollar amount', the value of 'primary liquid assets after accounting for haircuts' must be divided by 1.07; and

    (b) in the formula for calculating 'one-month mismatch dollar amount', the value of 'primary liquid assets after accounting for haircuts' must be divided by 1.07 and the value of 'secondary liquid assets after accounting for haircuts' must be divided by 1.07.

15. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

16. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition:

    "total assets" means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets:

    "SPV" means a person:

    (a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;

    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:

    "covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

17. That:

    (a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisitions Policy' (BS15) dated December 2011; and

(b) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

(i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisitions Policy' (BS15) dated December 2011; and

(iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

18. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can:

(a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager:

(i) all liabilities are frozen in full; and

(ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

(b) apply a de minimis to relevant customer liability accounts;

(c) apply a partial freeze to the customer liability account balances;

(d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

(e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

(f) reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

19. That the bank has an Implementation Plan that:

(a) is up-to-date; and

(b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: 'Open Bank Resolution Pre-positioning Requirements Policy' (BS17) dated June 2022.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

20. That the bank has a compendium of liabilities that:

(a) at the product-class level lists all liabilities, indicating which are:

(i) pre-positioned for Open Bank Resolution; and

(ii) not pre-positioned for Open Bank Resolution;

(b) is agreed to by the Reserve Bank; and

(c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

21. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

22. That the bank must comply with the Reserve Bank of New Zealand document 'Outsourcing Policy' (BS11) dated September 2022.

23. That, for a loan-to-valuation measurement period ending on or after 31 July 2021, the total of the bank'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.

24. That, for a loan-to-valuation measurement period ending on or before 31 December 2021, 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.

25. That, for a loan-to-valuation measurement period ending on or after 31 January 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 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.

26. That the bank 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.

In these conditions of registration,:

"Banking Group" means Westpac New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

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

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1D, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are —

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2021
BPR120: Capital adequacy process requirements	1 July 2021
BPR130: Credit risk RWAs overview	1 July 2021
BPR131: Standardised credit risk RWAs	1 October 2021
BPR132: Credit risk mitigation	1 October 2021
BPR133: IRB credit risk RWAs	1 October 2021
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 July 2021

In conditions of registration 23 to 26,:

"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:

"loan-to-valuation measurement period" means a period of three calendar months ending on the last day of the third calendar month.

Material non-compliance with conditions of registration

CoR14 non-compliance

In August 2019 the Reserve Bank commenced a thematic review of compliance with its Liquidity Policy (BS13). On 9 July 2021, the Reserve Bank provided the Bank with final review findings in relation to the Bank. The findings identified a series of quantitative areas of non-compliance with BS13 by the Bank which the Reserve Bank considered collectively constituted non-compliance with condition of registration 14 in a material respect by the Bank. Whilst undertaking remediation activity, the Bank identified two further instances of non-compliance with BS13 which individually are not considered material. However, when considered collectively, and in conjunction with the findings from the Reserve Bank Liquidity review, there remains material non-compliance with condition of registration 14 by the Bank. The Bank is undertaking remediation activity to address the identified non-compliance with BS13.

CoR1B non-compliance

During the reporting period, the Bank was non-compliant with conditions of registration 1B in respect of operational risk capital model governance and scenario financial estimate requirements set out in Part B of BPR151 (previously BS2B), in relation to the Advanced Measurement Approach for determining capital requirements for operational risk.

With effect from 1 July 2022, the Bank transitioned to the Reserve Bank's standardised approach for operational risk capital (BPR150) and is no longer utilising the Advanced Measurement Approach. The Bank is undertaking further assessment to validate its control environment for BPR150. In addition, the Bank continues to comply with the qualitative requirements set out in section B1 of BPR151 AMA Operational Risk.

CoR22 non-compliance

The Bank entered into outsourcing arrangements without the required risk mitigants in place for the adequate support of two key software or hardware environments. Specifically:

- For a period of one year and four months, it did not have the required risk mitigants in place to ensure adequate support services were available for software used to comply with the Bank's anti-money laundering and tax transaction monitoring obligations.
- For a period of three years in relation to certain hardware and a period ranging from four to seven years for operating system software, it entered into outsourcing arrangements without the required risk mitigants in place to ensure adequate support services were available for certain payment systems operated by the Bank, which support some of the Bank's payment processing services.

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

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

However, if a critical problem had arisen with the software without the required risk mitigants in place, then this could have increased the risk that the Bank may not have been able to access support to restore the relevant services within the Bank's recovery time objectives. This would, in turn, impact the Bank's ability to provide certain services to business and retail customers who are using these services or business applications. This may also impact the Bank's ability to be administered under statutory management or to address the impact of a service or function provider failure.

Conditions of registration

Once the non-compliances came to the Bank's attention, internal investigations took place, and the incidents were reported to the Reserve Bank. The Bank has now entered into a new support agreement for the software application that is the subject of one non-compliance listed above and remediation work is underway in respect of the remaining non-compliances.

<u>BS11 compendium requirements</u>

From January 2021 to 31 July 2022, the Bank identified, and has remediated, a number of instances of non-compliance with BS11 compendium requirements which individually are not considered material. However, when considered collectively this constitutes non-compliance with conditions of registration 22 in a material respect by the Bank.

Changes to conditions of registration

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

- With effect from 23 June 2022 references to the BS11 Outsourcing Policy and BS17 Open Bank Resolution policies were updated to reflect minor changes to those policies.
- With effect from 1 July 2022:
  - dividend restrictions implemented to support financial stability in response to COVID-19, were removed.
  - the Bank's Prudential Capital Buffer was increased from 2.5% to 3.5%.
  - reference to the BS13 Liquidity Policy was updated to reflect a minor change to that policy.
  - the Bank adopted the Reserve Bank's standardised approach for operational risk capital.
- With effect from 15 August 2022 the bank's liquidity overlay quantum was reduced from 1.14 to 1.07.
- With effect from 5 September 2022 reference to the BS11 Outsourcing Policy was updated to reflect the inclusion of a temporary BS11 suspension clause and other minor changes to that policy.

Independent auditor’s report

To the shareholder of Westpac New Zealand Limited

This report is for the Banking Group, comprising Westpac New Zealand Limited (the “Bank”) and the entities it controlled as at 30 September 2022 or from time to time during the financial year.

This report includes our:

- audit opinion on the consolidated financial statements (the “financial statements”) prepared in accordance with Clause 24 of the Registered Bank Disclosure Statements (New Zealand 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, 13, 14, 15 and 17 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 capital adequacy and regulatory liquidity requirements prepared in accordance with Schedule 11 of the Order.

Report on the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

We have audited the Banking Group’s financial statements required by Clause 24 of the Order and the supplementary information required by Schedules 4, 7, 13, 14, 15 and 17 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, 13, 14, 15 and 17 of the Order.

Our opinion

In our opinion:

- the Banking Group’s financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11, 13, 14, 15 and 17 of the Order and included within notes ii to viii 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 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, 13, 14, 15 and 17 of the Order and included within notes ii, iii and v to viii 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 Banking Group; and
  - fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

PricewaterhouseCoopers, PwC Tower, 15 Customs Street West, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, pwc.co.nz

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 capital adequacy and regulatory liquidity requirements)* 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 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 Banking Group in the areas of other audit related services, which relate to agreed upon procedures over the issue of comfort letters and debt issuance programmes. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and relationships have not impaired our independence as auditor of the 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.

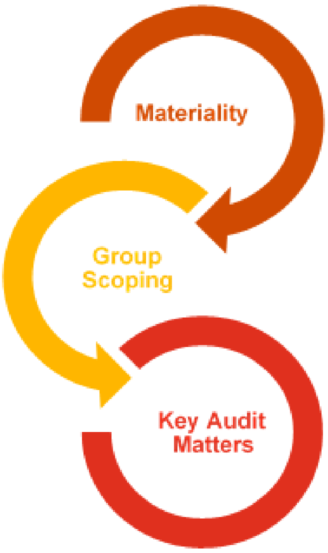
Description of the key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on loans and credit commitments As disclosed in Note 12 of the financial statements, the provision for expected credit losses (ECL) on loans and credit commitments totalled $439 million 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 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 Banking Group.	Our audit procedures included testing the design and operating effectiveness of selected controls relating to the 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; ● 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

Description of the key audit matter	How our audit addressed the key audit matter
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.	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 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 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 Banking Group's disclosures in the financial statements against the requirements of NZ IFRS.
IT systems and controls The 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 Banking Group. Accordingly, we considered this to be a key audit matter. In common with all other major banks, access management controls are important to ensure both access and changes made to systems and data are appropriate. The Banking Group's controls over IT systems include: ● user access to applications, process and data;	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 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 Banking Group; ● how controls are designed to enforce segregation of

Description of the key audit matter	How our audit addressed the key audit matter
● program development and changes; ● segregation of duties and privileged user accounts; and ● IT operations.	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 Banking Group in determining: ● the probability of future uncertain outcomes based on available information; ● the estimate of applicable customer refunds; ● the number of customers impacted; and ● the project costs associated with the remediation program, investigations and reviews. Disclosures are also made in Note 27 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.	Our audit procedures included: ● obtaining an understanding of the Banking Group's processes for identifying and assessing the impact of the Banking Group's customer remediation obligations; ● reviewing the minutes of the Banking Group's main governance meetings and attending the Banking Group'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 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 27 of the financial statements against the requirements of NZ IFRS.

Our audit approach

Overview



The overall Banking Group materiality is $62.9 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 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 Banking Group's performance.

Full scope audits were conducted over the most financially significant operations, being Consumer Banking and Wealth and Institutional and Business Banking divisions as well as the 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 capital adequacy and regulatory liquidity requirements) 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 capital adequacy and regulatory liquidity requirements).

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the financial statements and supplementary information (excluding capital adequacy and regulatory liquidity requirements) 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 capital adequacy and regulatory liquidity requirements) 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 Banking Group, the accounting processes and controls, and the industry in which the Banking Group operates. Certain operational processes which are critical to financial reporting for the 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 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 other matters included in the Disclosure Statement as follows:

- the Bank is required to supply two external reviews to the Reserve Bank under section 95 of the Banking (Prudential Supervision) Act 1989, as referred to in note i of the registered bank disclosures on page 91; and
- the Bank has identified material matters of non-compliance with aspects of its conditions of registration, as referred to within conditions of registration on pages 120 and 121.

Information other than the financial statements, supplementary information and auditor's report

The Directors of the Bank (the "Directors") are responsible, on behalf of the Bank, for the other information included in the Annual Report and Disclosure Statement. The other information comprises the Annual Report and the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 5 to 7, 86 to 91 and 116 to 121.

Our opinion on the financial statements and supplementary information (excluding capital adequacy and regulatory liquidity requirements) 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 capital adequacy and regulatory liquidity requirements), 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 capital adequacy and regulatory liquidity requirements)

The Directors are responsible, on behalf of the Bank, for the preparation of the financial statements in accordance with Clause 24 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, 13, 14, 15 and 17 of the Order.

In preparing the financial statements, the Directors are responsible for assessing the 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 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 capital adequacy and regulatory liquidity requirements)

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 capital adequacy and regulatory liquidity requirements disclosed in note iv of the registered bank disclosures) disclosed in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15 and 17 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 capital adequacy and regulatory liquidity requirements)

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 capital adequacy and regulatory liquidity requirements 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 Banking Group as far as appears from an examination of those records.

Report on the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

We have examined the supplementary information relating to capital adequacy and regulatory liquidity requirements required by Schedule 11 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 capital adequacy and regulatory liquidity requirements disclosed in note iv of the registered bank disclosures, is not, in all material respects, disclosed in accordance with Schedule 11 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 capital adequacy and regulatory liquidity requirements* section of our report.

Responsibilities of the Directors for the supplementary information relating to capital adequacy and regulatory liquidity requirements

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 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 capital adequacy and regulatory liquidity requirements that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in note iv of the registered bank disclosures, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the supplementary information relating to capital adequacy and regulatory liquidity requirements 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 capital adequacy and regulatory liquidity requirements disclosed in note iv of the registered bank disclosures.

Who we report to

This report is made solely to the Bank's shareholder. 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 the Bank and the Bank's shareholder, 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
25 November 2022

Auckland