Westpac New Zealand Limited

Covered Bond Investor Presentation

May 2021

Highlights

Operating environment

- Managed COVID-19 impacts well
- Economic recovery well advanced
- Westpac Economics GDP forecast at 4.2% this year, 4.4% next year
- Well regulated banking sector

Westpac New Zealand Limited (WNZL)

- Well capitalised; amongst the best capitalised banks globally
- Retail-focused bank, high quality assets
- Predominantly deposit funded at 82% deposit to loan ratio
- 1H21 NPAT $523m, up $267m on PCP
- Asset quality metrics improved

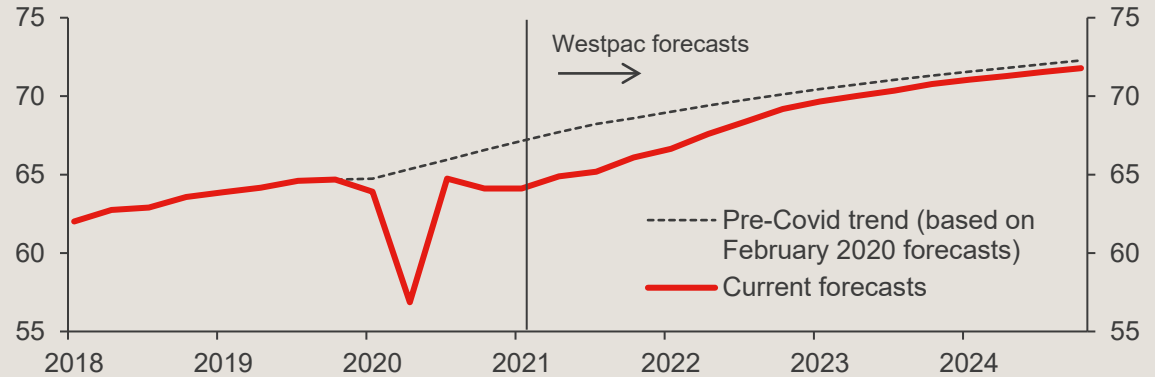
Quality covered bond pool

- Based on clear legislation and backed by a high-quality cover pool comprised of prime residential mortgages
- Covered pool weighted average LVR (unindexed) of 50%
- Residential mortgage portfolio has performed well through COVID-19
- Rated AAA, with AAA rating able to withstand a 3-notch downgrade of the Issuer

The New Zealand economy

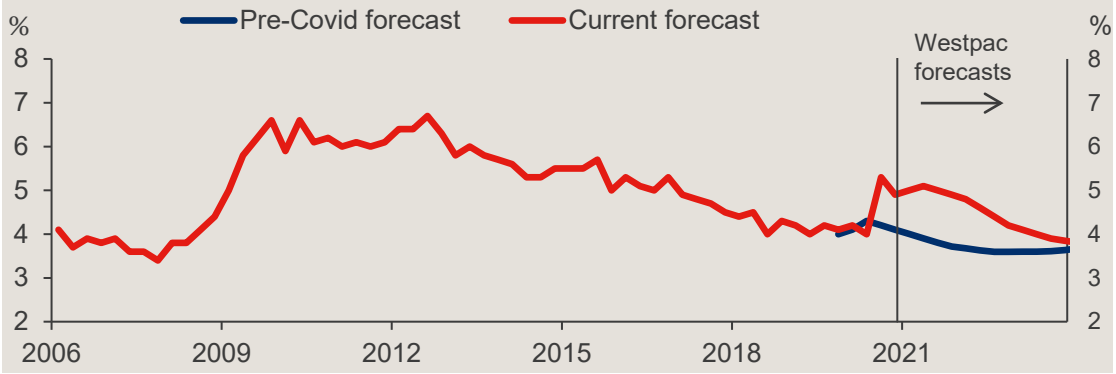
GDP components	Annual average % change			
	2019A	2020A	2021F	2022F
GDP (production)	2.4	-2.9	4.2	4.4
Economic indicators	**Annual % change**			
	2019A	2020A	2021F	2022F
Consumer price index	1.9	1.4	2.4	1.4
Unemployment rate	4.1	4.9	4.5	4.1
House price index	4.6	17.5	8.1	-3.0
Financial forecasts	**End of year**			
	2019A	2020A	2021F	2022F
NZD/USD	0.64	0.69	0.74	0.76

GDP (Real, quarterly $bn)



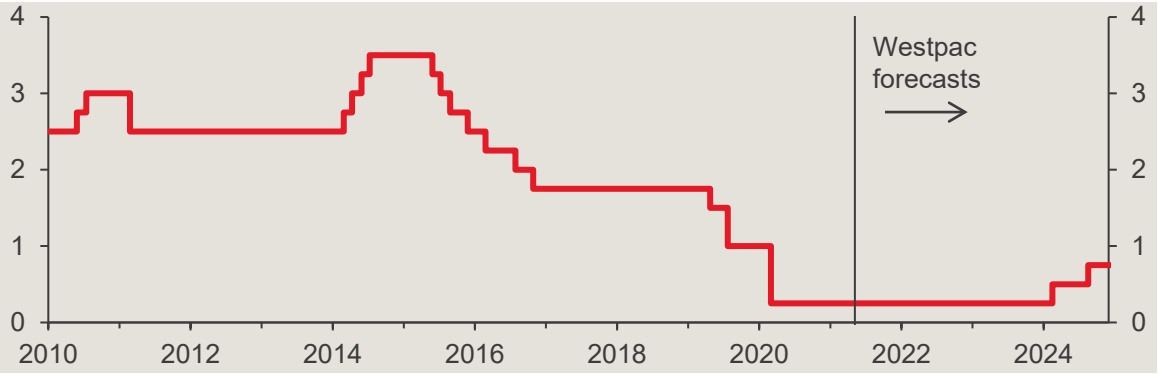
Source: Statistics NZ, Westpac Economics

Unemployment rate



Source: Stats NZ, Westpac Economics

Official Cash Rate (%)



Source: RBNZ, Westpac Economics

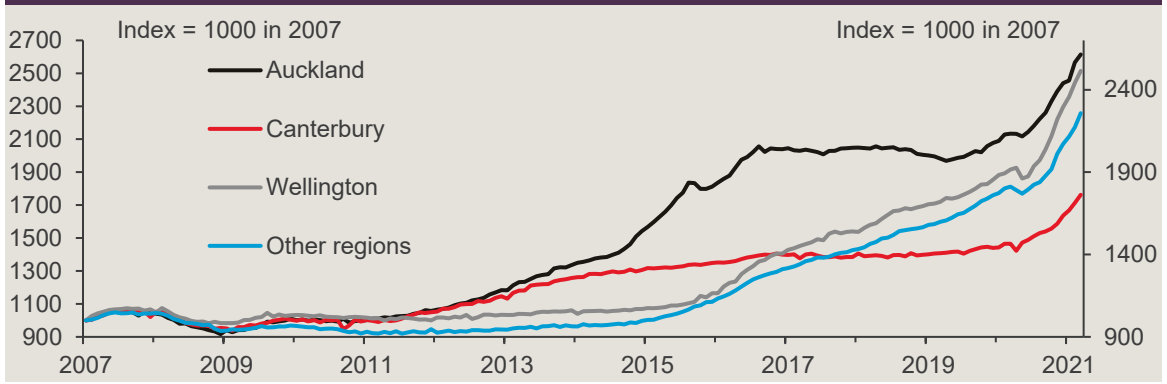
The New Zealand housing market

- The Government has announced a suite of new housing market policies affecting both demand and supply
- The most significant changes relate to the tax treatment of mortgage interest costs
- This will diminish the financial incentives for property investors and tilt housing market conditions more in favour of owner occupiers
- Westpac expects these policy changes will prompt a flattening-off of house prices over the remainder of 2021. That follows a period of very strong growth since the economy exited lockdown

The major changes introduced by the Government include:

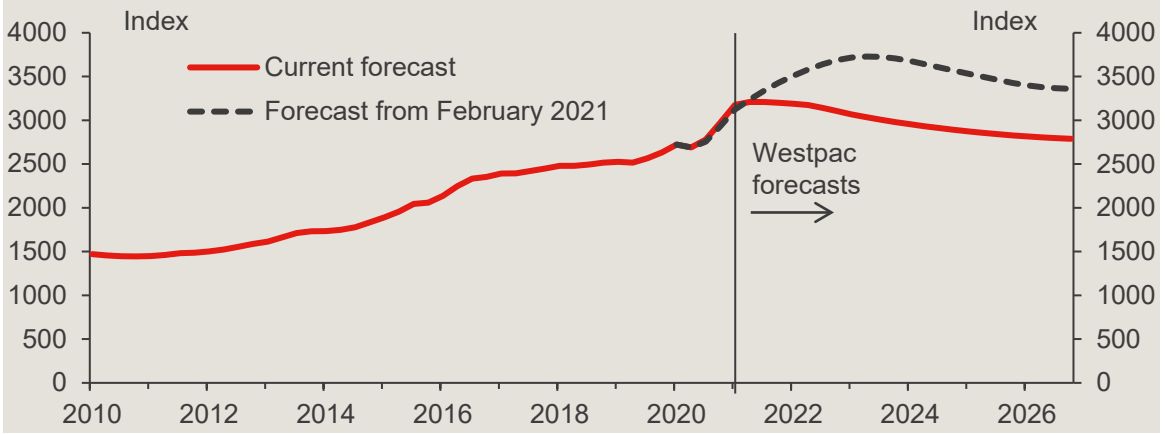
- Removing the ability to offset mortgage costs on residential investment properties against the income earned on those properties
  - This change will take effect from 1 October 2021 for properties purchased after 27 March 2021 and will be gradually phased in over the next four years for existing property owners
  - The Government is also looking at exceptions for new builds
- The holding period for taxing capital gains on residential investment properties (otherwise known as the 'Bright-line test') has been extended from 5 to 10 years
  - The holding period remains at 5 years for investors who buy new builds
- A $3.8bn Housing Acceleration Fund is being established to assist with the development of infrastructure (such as pipes and roads) to support new housing
- Additional financial assistance for first home buyers with changes in First Home Loans and Grants settings, including increases in income caps, as well as changes to regional price caps

New Zealand dwelling prices by region



Source: REINZ, Westpac

House price level forecasts



Source: CoreLogic, Westpac

Our focus

Our purpose

Ignite Financial Possibilities

Strategic priorities

Fix

Address outstanding issues

Simplify

Streamline and focus the business

Perform

Sustainable long-term returns

Objectives

- Deliver Regulatory Outcomes
- Strengthen Risk Management
- Develop to a Mature Risk Culture
- Deliver Remediation Outcomes
- Generate High Quality Data Informing Decision Making and Customer Experience

- Modernise Technology
- Optimise Technology
- Deliver 100% Digitally Enabled Journeys
- Westpac Banking Centre and Banking Capability
- Improve Employee Experience

- Build Performance Culture
- Enhance Financial Disciplines
- Expand Westpac Way of Working
- Focus on Markets & Segments with Greatest Return on Capital
- Attract and Retain Best Talent
- Deliver Compelling Purpose and Brand Framework

Our sustainability strategy

Sustainability Priorities	What	2025 Targets	Progress and 1H21 Highlights
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 Kiwis**	• Reduce operational emissions by 30% (vs 2019)[1]. Offset remaining emissions to be carbon neutral • Enable $10b in sustainable Finance[2] • Reduce climate-related financial risks	• Operating emissions reduced by 38% • Enabled $2.25b in sustainable finance • Partnered with app CoGo to help New Zealanders learn about, reduce and offset their carbon footprint • Recognised as New Zealand Sustainability Debt House of the Year (KangaNews 2020 Awards) and won the INFINZ award for Excellence in Institutional Banking for Westpac's role in leading and accelerating sustainable finance • Published Westpac NZ's inaugural Climate Risk Report in line with the recommendations of the Taskforce for Climate-Related Financial Disclosure (TCFD)
Manaaki te tāngata Care for people	**We want to help create thriving local communities and a workforce and society where everyone feels valued**	• Set a cultural diversity in leadership target by 2021 • 1% pre-tax profits invested in communities • $700m in lending to healthy, affordable and social housing[3]	• 0.52% ($3.8m) pre-tax profits invested in communities • $373m in lending to healthy, affordable and social housing • First bank to offer face-to-face sign language interpreters, through partner iSign to customers who are deaf, hard of hearing or speech impaired • Published our second gender pay analysis. Our overall gender pay gap in 2020 is 29.1% vs 30.3% in 2019. This figure compares the pay of the median man and median woman at Westpac NZ, and includes base salary, bonuses, overtime, miscellaneous payments and superannuation
E tipu pūtea ora Grow financial wellbeing	**We want to enable all Kiwis to be financially secure and independent**	• 25,000 people to participate in Westpac-facilitated financial education workshops • Help 15,000 Kiwis who are at risk of financial exploitation & exclusion • Source 25% of supplier spend from local businesses, including those owned by diverse and under-represented groups	• More than 8,000 participants in Westpac-facilitated financial education workshops • MyMahi partnership delivering 226 financial education workshops to secondary school students across New Zealand • Increased online financial education classes. To date more than 1,000 people have participated in online classes (169 in FY20)

1 Environmental year runs 1 July to 30 June. CO2e results include all Westpac business units based in New Zealand.
2 This target comprises (a) $5b for lending to climate change solutions, $700m lending for healthy, affordable and social housing, and other environmental, social, and sustainability-linked lending (building on FY20 exposure), and (b) facilitation of sustainable bonds from 1 October 2020 to 30 September 2025. All lending will meet the eligibility criteria set out in international sustainable finance principals. Our targets are a total commitment, measuring the cumulative flow of capital that will support Aotearoa to become a thriving, inclusive net-zero emissions economy.
3 This is a cumulative target and includes Kiwibuild and shared equity.

Significant developments

NZ Review

- Westpac Banking Corporation is reviewing the most appropriate ownership structure for its New Zealand operations.
- **Rationale:** Banking is increasingly a local business; BS11 – operational separation limits synergies
- **Considerations:** Potential value uplift from two locally focused businesses; separation and independence costs; impact of RBNZ reviews
- **Status:** Regulator engagement required; determining potential split of balance sheet in a demerger; progressing analysis

External Reviews (Section 95)

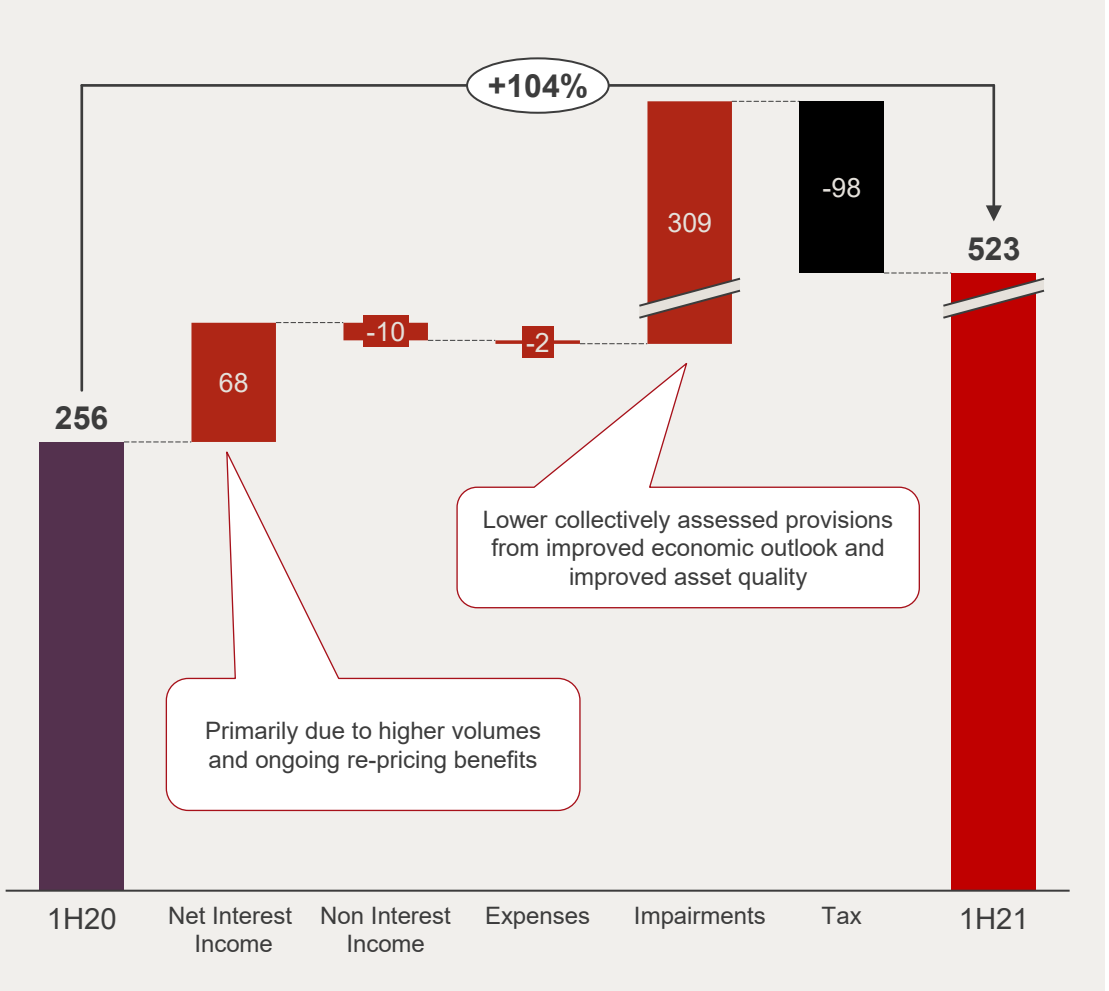
- The RBNZ has required WNZL to undertake 2 independent reports to address risk governance processes. These reports relate to:
  1. The effectiveness of actions to improve liquidity risk management and risk culture; and
  2. The effectiveness of risk governance at WNZL, with a focus on the Board
- Work has been underway to address these issues for some time, but more work is needed to meet expectations
- A selection process is underway to appoint Independent Reviewers, subject to RBNZ approval
- WNZL must hold a liquidity overlay of ~$2b from 31 March 21 until completion

Management

- WNZL CEO, David McLean retiring on 25 June 2021. Simon Power, General Manager Institutional & Business Banking, acting CEO while a global search is completed

1H21 financial performance

Net profit after tax ($m)



Key financial metrics

For the six months ending	Mar-20	Sep-20	Mar-21	Change on Mar-20
Revenue (NZ$m)	1,093	1,025	**1,151**	5%
Net interest margin (%)	1.94	1.80	**1.99**	5 bps
Cost to income (%)	48.0	49.3	**45.8**	(2 ppts)
Customer deposit to loan ratio (%)	79.4	80.7	**81.8**	2 ppts
Stressed exposures to TCE (%)[1]	1.64	1.59	**1.56**	(8 bps)

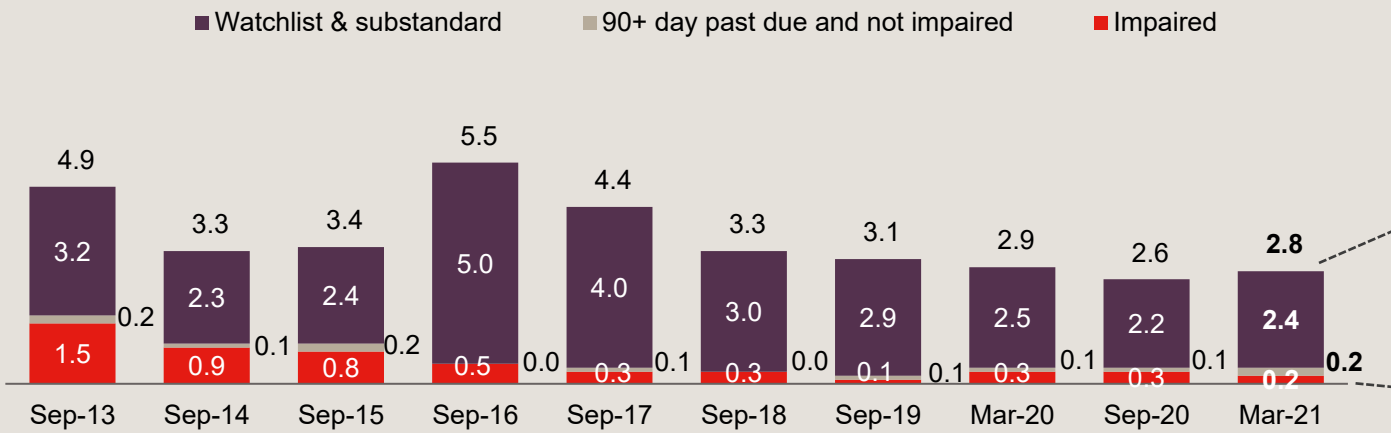
Key operating metrics

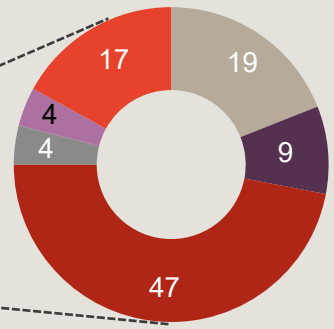
For the six months ending	Mar-20	Sep-20	Mar-21	Change on Mar-20
Customers (millions)	1.35	1.34	**1.33**	(1%)
Branches	151	143	**134**	(17)
Consumer NPS	+21	+14	**+16**	Down 5
Business NPS	+1	+7	**-1**	Down 2
Agri NPS	+21	+34	**+34**	Up 13
Service quality – complaints (000s)	9.6	9.5	**9.3**	(3%)

1 TCE is Total Committed Exposure.

Asset quality

Business stressed exposures as a % of business TCE (%)





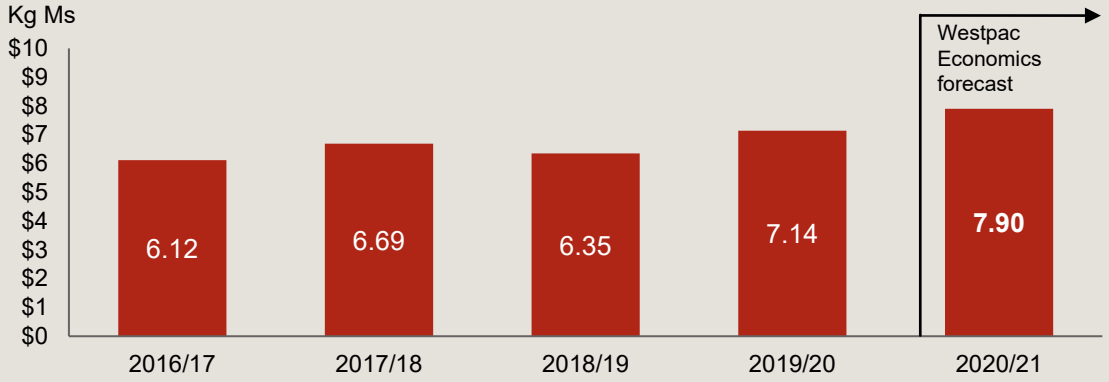
Property
Manufacturing
Agriculture, forestry & fishing
Wholesale trade
Construction
Other

Agribusiness portfolio

	Mar-20	Sep-20	Mar-21
TCE (NZ$bn)	9.6	10.0	**10.1**
Agriculture as a % of total TCE (%)	7.6	7.9	**7.7**
% of portfolio graded as 'stressed'[1] (%)	9.8	8.2	**8.0**
% of portfolio in impaired (%)	0.48	0.48	**0.29**

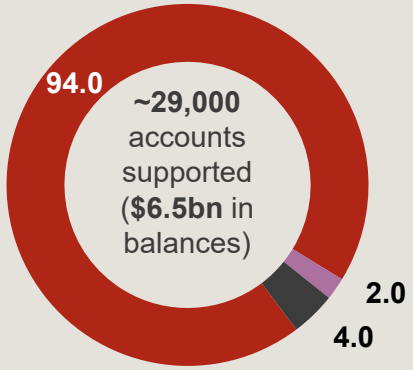
1 Includes impaired exposures.

Milk price (NZ$)



COVID-19: Putting customers first

Total mortgage deferral packages provided (% by balances)



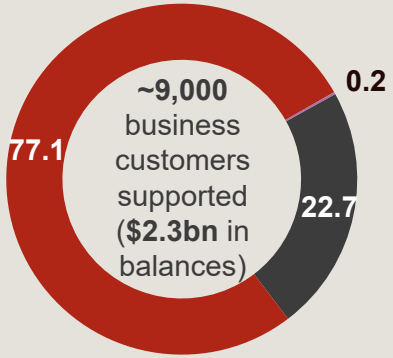
- Returned to normal repayment or paid down
- Restructured
- Hardship

Accounts in hardship following deferral represent 29bps of total mortgage accounts (42bps by balance)

Mortgage deferrals update

- **29k** mortgage accounts supported with **$6.5bn** in balances (~11% of eligible mortgage lending)
- **1.6k** accounts required further assistance (**$0.4bn** in balances)
  - 1k accounts moved into hardship arrangements following the end of the deferral period ($0.2bn in balances)
  - 0.6k accounts had their loans restructured ($0.1bn in balances)
- A very small number of accounts remained in April

Total business support packages provided (% by balances)



- Temporary overdraft
- Temporary change to interest-only
- Payment deferral

No significant changes in levels of stressed assets since COVID-19 began, remaining around 3%

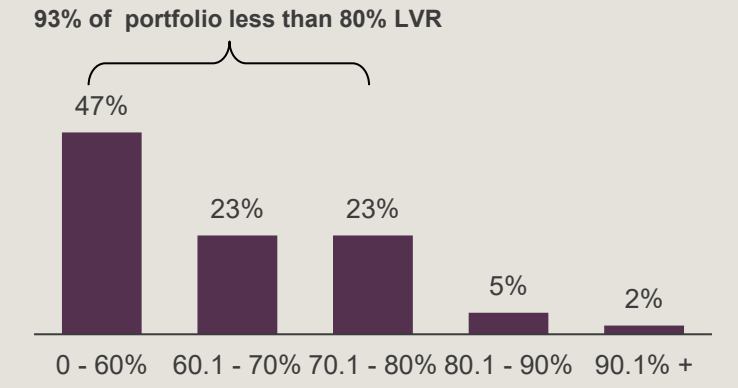
Business support packages update

- **9k** business accounts supported with **$2.3bn** in balances (~9% of eligible business lending balance)
- Support provided included temporary overdrafts, temporary change to interest-only, and deferral packages, with the majority of customers choosing temporary overdrafts or changing to interest-only
- At the end of March 2021 no COVID-19 temporary support packages were outstanding with loans either paid down or returned to normal repayment
- No temporary support packages outstanding at end of March 2021

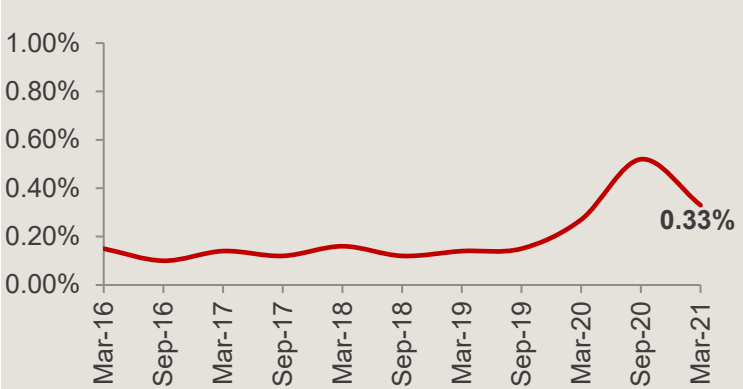
WNZL mortgage portfolio

Mortgage portfolio at 31 March 2021	
Total portfolio	**$58bn**
Fixed / Floating (%)	**86 / 14**
Owner occupied (%)	**71.9**
Investor (%)	**28.1**
Broker introduced (%)	**45.1**
Interest-only (%)	**21.6**
Origination LVR 80-90% (%)	**8.7**
Origination LVR >90%	**2.5**

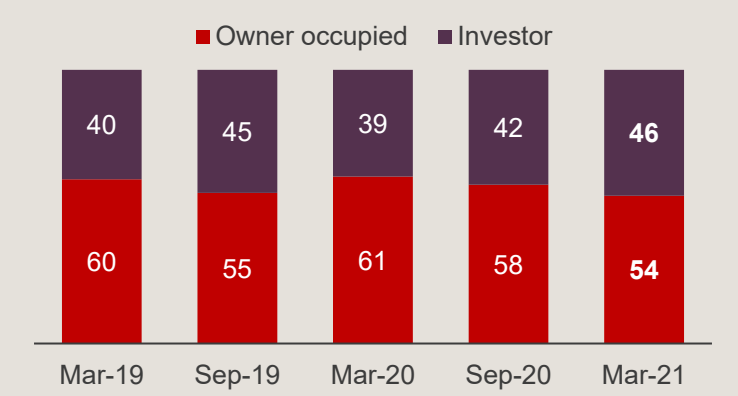
Mortgage portfolio LVR[1] (%) of portfolio



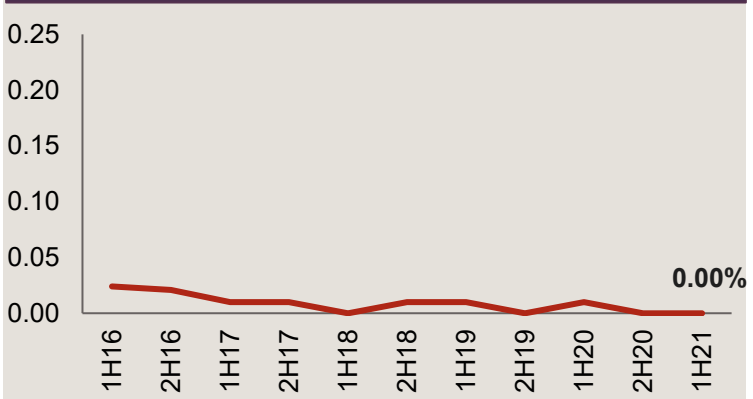
Mortgage 90+ day delinquencies (%)



Monthly new flows[2] (%)



Mortgage loss rates each half (%)

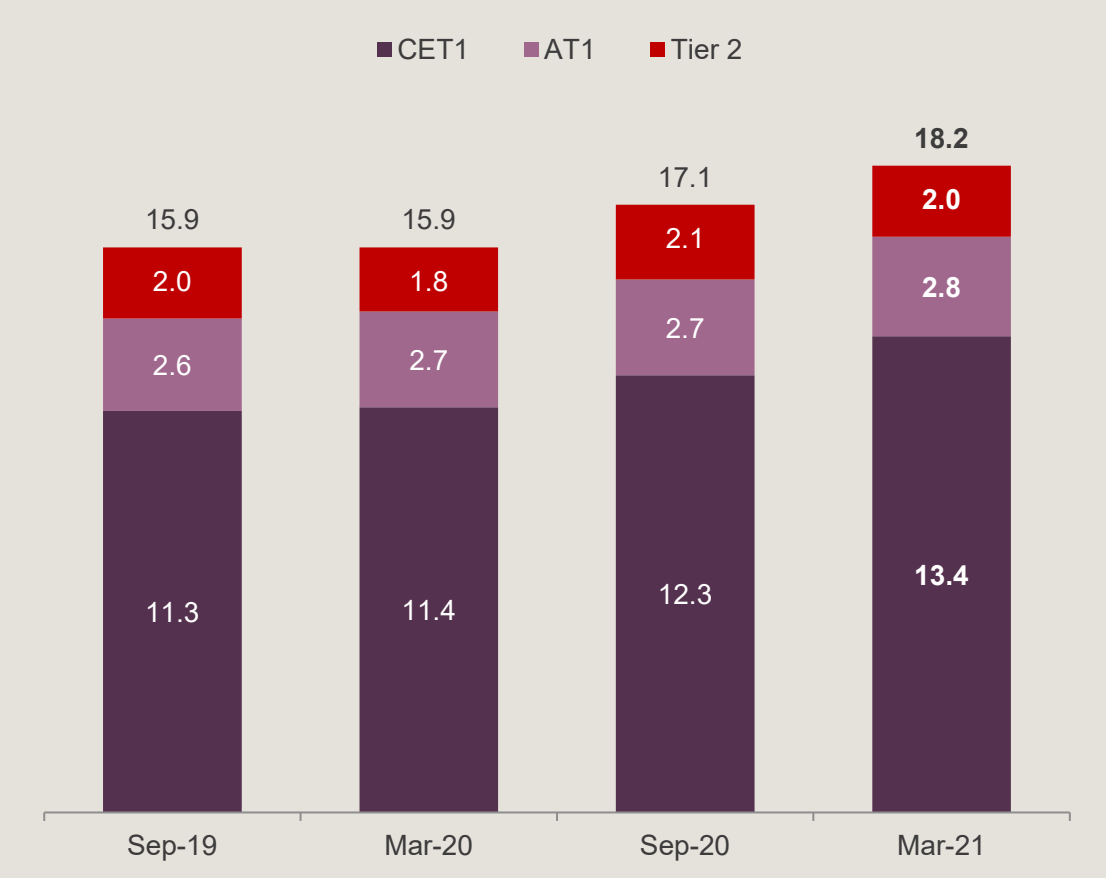


1 LVR based on current loan property value at latest credit event.

2 Investor lending provided for the purchase of, and/or secured by, residential investment property. Residential investment property is property that is not owner-occupied or for the owners exclusive use (such as a holiday house). Owner occupied includes all other residentially secured lending not classified as Investor lending.

Capital position

WNZL regulatory capital ratios (%)



Capital adequacy ratios (RBNZ basis)

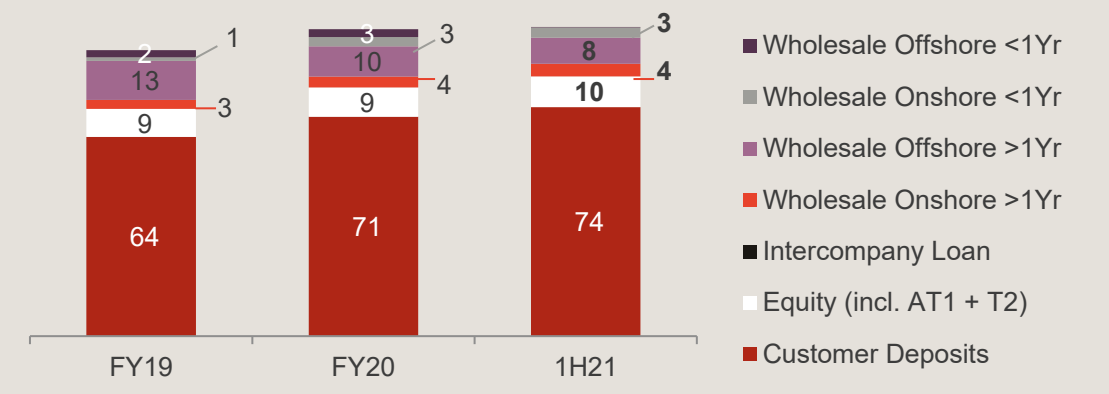
	Current Regulatory Minimum	Mar-21
Common Equity Tier 1 (CET1) Capital (incl. Capital Conservation Buffer (CCB))	7.0%	**13.4%**
Tier One Capital (incl. CCB)	8.5%	**16.2%**
Total Regulatory Capital (incl. CCB)	10.5%	**18.2%**
Buffer	2.5%	**8.9%**

RBNZ regulatory capital proposals

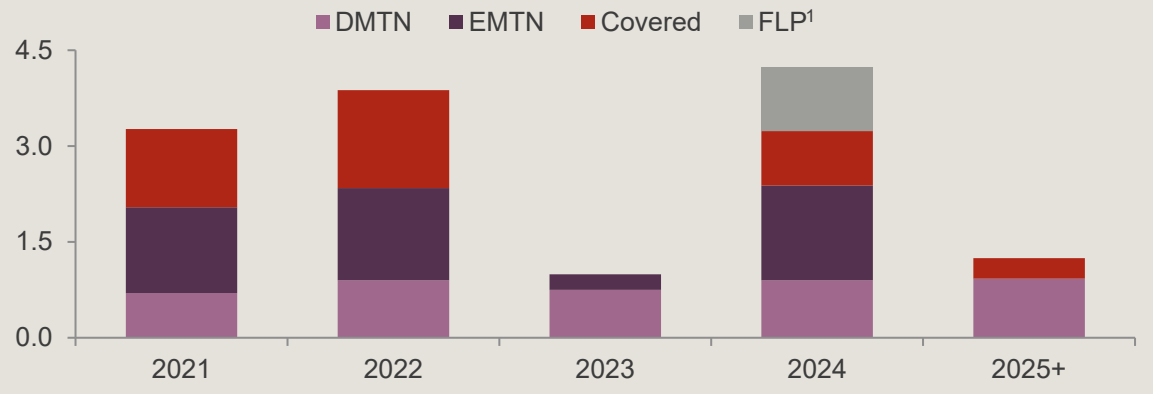
- Increasing total capital requirements from 10.5% of risk weighted assets (RWA) to 18% for systemically important banks
- Setting a Tier 1 capital requirement of 16% of RWA for systemically important banks
- Additional Tier 1 capital ('AT1') can comprise no more than 2.5% of the 16% Tier 1 capital requirement
- Eligible Tier 1 capital will comprise common equity and redeemable perpetual preference shares. Existing AT1 instruments will be phased out over a seven-year period
- Maintaining the existing Tier 2 capital requirement of 2% of RWA
- Recalibrating RWA for internal ratings-based banks, such that aggregate RWA will increase to approximately 90% of standardised RWA
- The RBNZ has delayed the start of the proposed changes to 1 July 2022 and banks will be given up to 7 years to comply

Wholesale funding profile

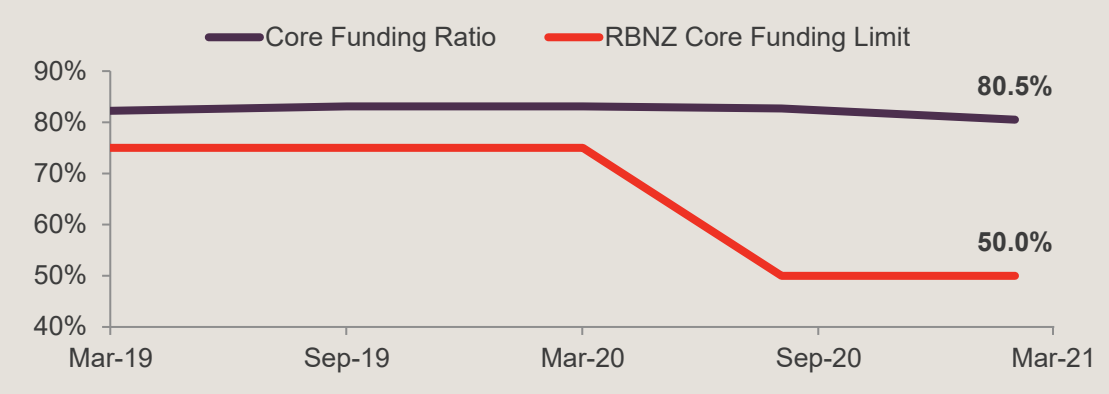
Funding composition (%)



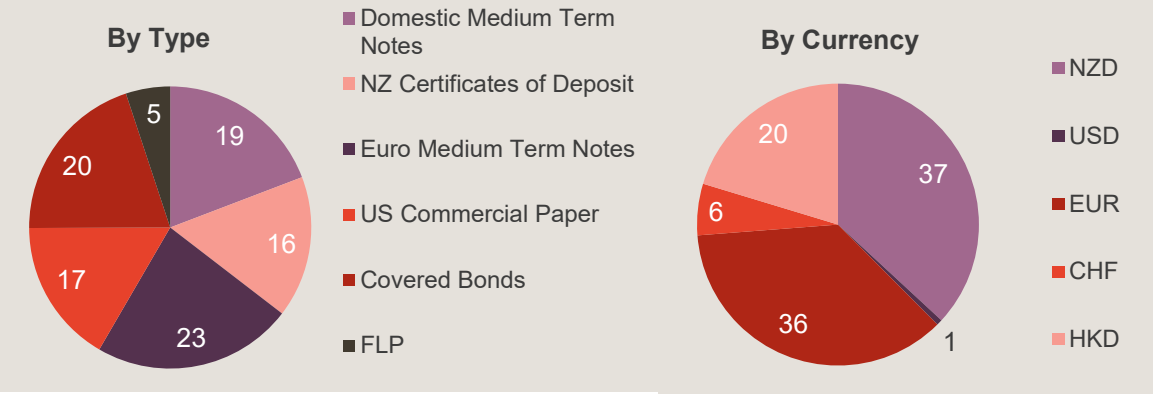
Term maturities by financial year (NZD $bn)



Core Funding Ratio (%)



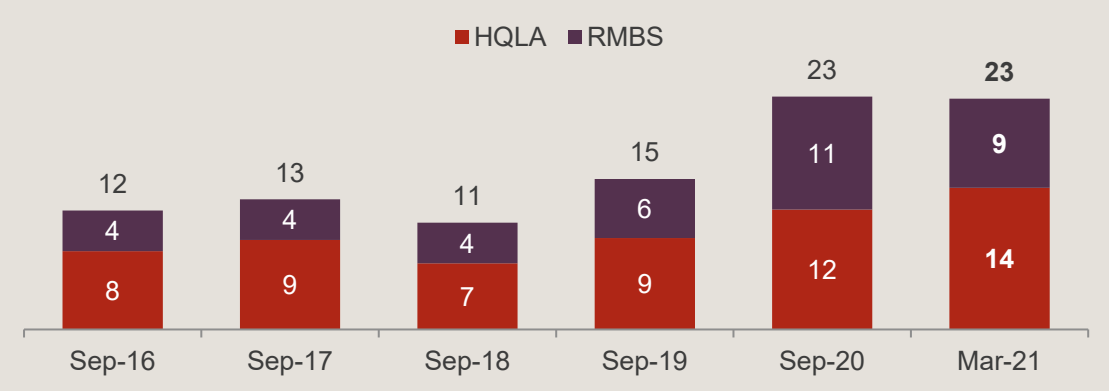
Wholesale funding (%)



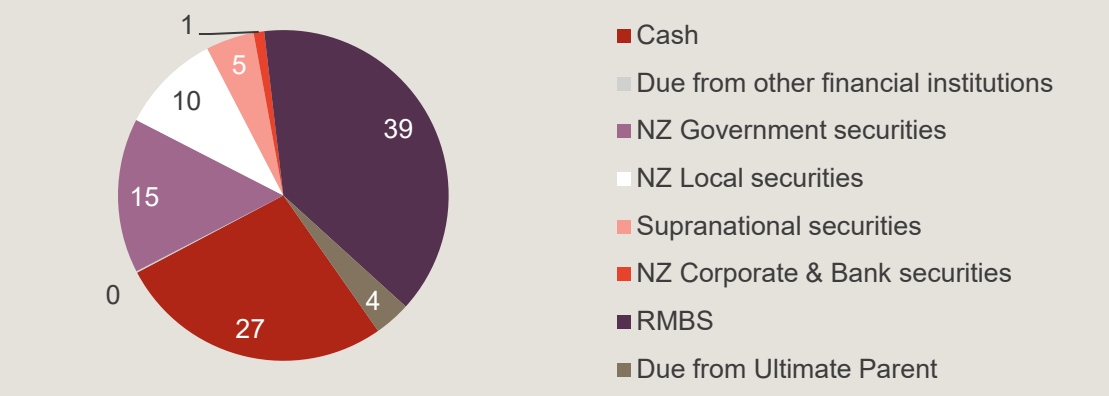
1 The FLP is the RBNZ's Funding for Lending Program. The FLP offers secured term central bank funding to registered banks, with the aim of lowering funding costs to stimulate lending growth across the economy and help reduce interest rates for borrowers. Under the FLP, the RBNZ will offer 3-year funding to eligible institutions. The funding will be structured as floating rate Repurchase Transactions priced at the Official Cash Rate (OCR), each for a term of three years. Participants may access the funding over a 2-year transaction period.

Liquid assets

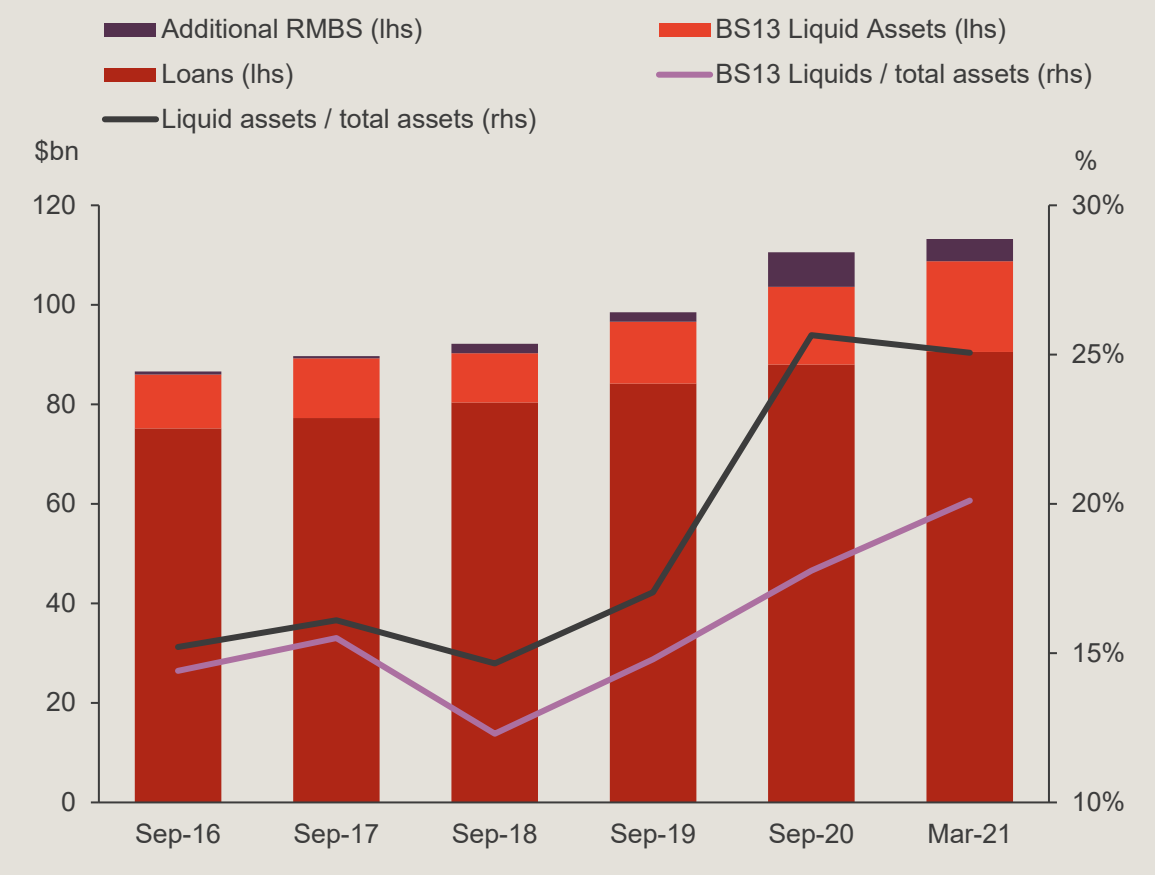
Liquid assets ($bn)



Liquid assets composition (%)



BS13 Liquid Asset position[1]



1. Additional RMBS and BS13 liquid assets shown at haircut amounts.

Covered bond programme overview[1]

Issuer	Westpac Securities NZ Limited, London Branch
Group Guarantor	Westpac New Zealand Limited
Group Guarantor Rating	AA- (Negative Outlook) / A1 (Stable Outlook) / A+ (Rating Watch Negative) by S&P / Moody's / Fitch
Format	Legislative Covered Bond
Expected Covered Bond Rating	Aaa / AAA by Moody's / Fitch
Programme Size	€5 billion
Maturity Options	Soft and Hard Bullet
Covered Bond Guarantor	Westpac NZ Covered Bond Limited, a special purpose vehicle (SPV)
Covered Bond Guarantee	Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds secured over the Mortgage Loans and its other assets (limited in recourse to its assets)
LVR Cap in Asset Coverage Test	75%
Asset Percentage	Subject to rating agency requirements, Programme maximum 90%
Collateral	New Zealand prime, first ranking residential mortgages
Programme Listing	London Stock Exchange
Covered Bond Governing Law	English Law

1 Investors in WSNZL Covered Bonds should read the Prospectus dated 17 December 2020, as supplemented.

Buffers to maintain covered bond ratings

The Covered Bonds currently benefit from a 3-notch buffer against downgrade of WNZL:

- Minimum WNZL rating to maintain AAA/Aaa rating on Covered Bonds:
  - Fitch: BBB+ (long-term ICR)
  - Moody's: A3(cr) (Counterparty Risk rating)
- Even without the benefit of Group support from WBC (+1 notch), there is still a 2-notch buffer to the AAA/Aaa rating on the Covered Bonds

Excess assets available to support outstanding Covered Bonds:

- There is currently a significant buffer of assets in the Covered Bond pool above the minimum required levels to support the outstanding Covered Bonds:
  - Assets in pool in excess of outstanding Covered Bonds: 90.9% (April 2021)[3]
  - Documented requirement: 11.1%
  - Rating Agency requirements: 9.3%[4] (Fitch) / 8.2%[5] (Moody's)
- If WNZL's rating is downgraded by Moody's, there are sufficient assets already in the Covered Bond pool to continue to support the Aaa rating (a 1-notch downgrade in (cr) rating will result in an increase in the Moody's requirement to 12.7%[5])
- Fitch's requirements are not expected to change in response to any change in WNZL's rating

Customary Covered Bond structural enhancements apply to protect Bondholders:

- Ratings-based triggers in the documentation provide further protections to Bondholders upon downgrade of WNZL. The documented triggers prescribe requirements for the funding of various reserves, replacement of counterparties, and/or collateral posting requirements upon downside credit rating migration of WNZL

Westpac New Zealand Limited – Ratings[1]

Agency	Moody's	Fitch
Stand alone rating	a3	a
Govt support	+1	0
Group support	+1	+1
Long-term ICR[2]	**A1**	**A+**
Counterparty Risk Rating (Moody's only)	**Aa3(cr)**	**n/a**
Short-term ICR[2]	**P-1**	**F1**
Outlook	Stable	Rating Watch Negative

1 As at 20 May 2021. Investors in WSNZL Covered Bonds should have regard to the risk factor titled, "WNZL could be adversely affected by the failure to maintain credit ratings" in the Prospectus dated 17 December 2020, as supplemented.
2 Issuer Credit Rating.
3 Assets of NZ$7.5bn supporting outstanding Covered Bonds of NZ$3.93bn (equiv.). Noting that a portion of these assets support the Demand Loan, which ranks senior in repayment to the Covered Bonds.
4 As at Jan 2021.
5 As at Dec 2019 (last disclosed).

Covered bond programme features[1]

Structure	Covered Bonds are issued by Westpac Securities NZ Limited, and guaranteed by WNZL (AA-/A1/A+ from S&P/Moody's/Fitch), backed by an unconditional and irrevocable guarantee by the Covered Bond Guarantor (Westpac NZ Covered Bond Limited), which is limited in recourse to its assets
Security	Security comprises a high-quality pool of first ranking, prime New Zealand residential mortgages which meet the eligibility criteria (the cover pool). Mortgages in the cover pool are sold to the Covered Bond Guarantor to ensure that covered bondholders have a priority claim over the cover pool in the event of issuer insolvency
Overcollateralisation	Prior to service of a Notice to Pay on the Covered Bond Guarantor, an Asset Coverage Test is run monthly to ensure the Covered Bond Guarantor has sufficient assets to support the outstanding Covered Bonds, plus overcollateralisation set by the ratings agencies (subject to a minimum documented over-collateralisation level of approximately 11% (i.e. an Asset Percentage of 90%) Following service of a Notice to Pay on the Covered Bond Guarantor, an Amortisation Test is run monthly to ensure the Covered Bond Guarantor has sufficient assets to meet the Covered Bond obligations
Asset Monitor	PricewaterhouseCoopers has been appointed to monitor the calculation of the Asset Coverage Test and the Amortisation Test on at least an annual basis
Hedging	The Interest Rate Swaps and Covered Bond Swaps are used to hedge any exposure of the Covered Bond Guarantor to interest rate and currency risks
Regulatory Support	The RBNZ permits Covered Bonds as repo eligible instruments under legislation passed in December 2013 relating to covered bonds. The RBNZ has set a limit of 10% of total assets of an issuing bank (calculated by reference to the value of assets encumbered for the benefit of covered bondholders)

1 Investors in WSNZL Covered Bonds should read the Prospectus dated 17 December 2020, as supplemented.

Covered bond pool overview

Covered Bond Pool eligibility criteria

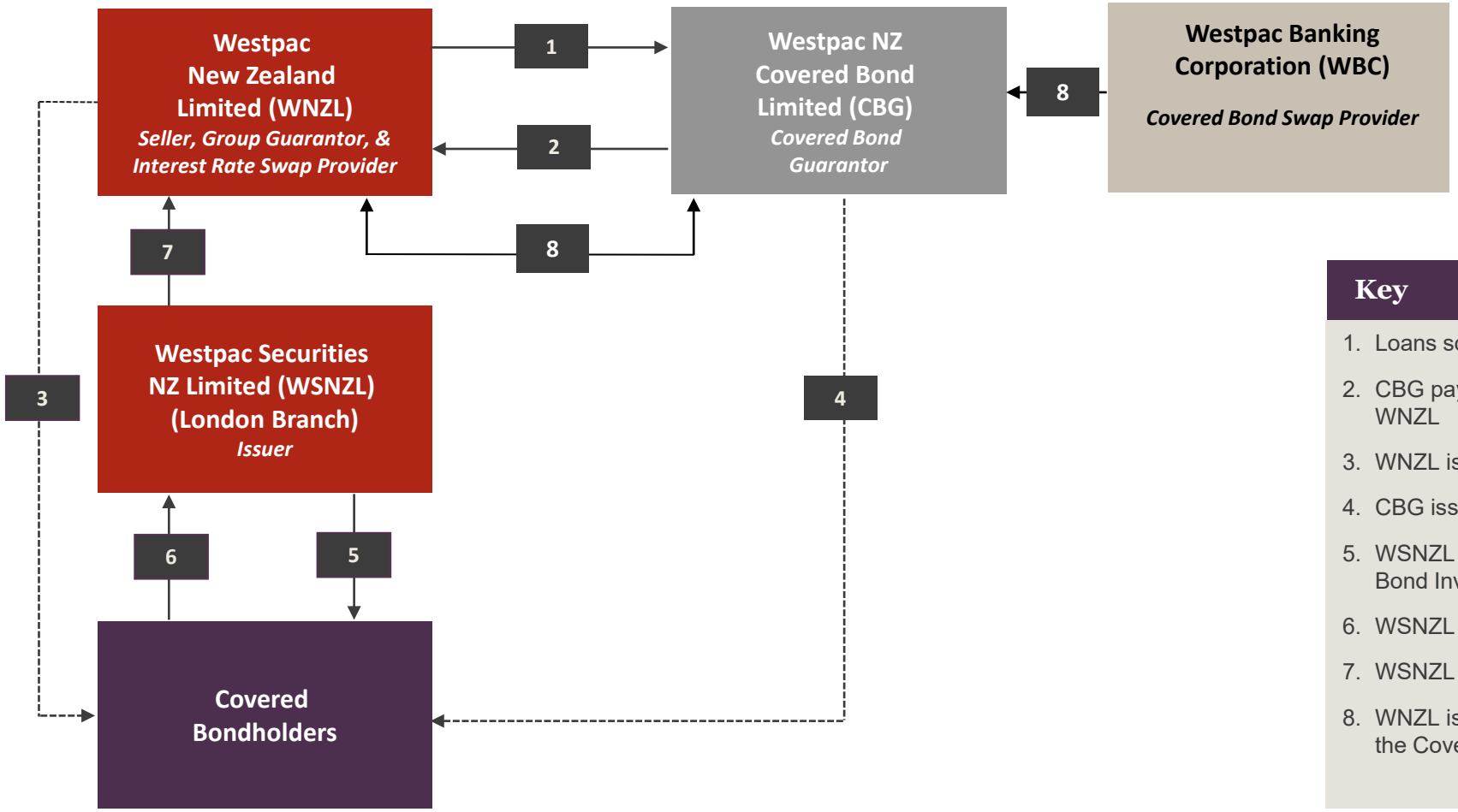
- First ranking mortgage registered under the New Zealand Real Property Legislation
- All loans are secured by a mortgage over land and a completed residential dwelling
- All residential loans are denominated and payable in New Zealand dollars
- Loans are originated by WNZL in the ordinary course of its business, subject to standard loan offer terms and conditions
- Outstanding Principal Balance owed by the borrower is not more than NZD1.5 million
- Borrower is a New Zealand resident
- Loans become amortising loans after any “interest only” period
- Loans are not governed or regulated by any rural, primary production, moratorium or mediation legislation other than Credit Contracts Act 1981 (NZ) or the Credit Contracts and Consumer Finance Act 2003 (NZ) (or any replacement thereof)
- Loans required to be repaid within 30 years of sale into the cover pool
- Loans are not delinquent more than 30 days or in default

Cover Pool Loan Statistics as at 30 April 2021

Total Pool Loan Balance[1]	**NZ$6,432,206,768**
Number of Loans	**40,892**
Average Loan Size	**NZ$157,297**
Max Loan Size	**NZ$1,500,000**
Weighted Average Current LVR (Unindexed)	**50.26%**
Weighted Average Current LVR (Indexed)	**44.64%**
90 day + Arrears	**0.00%**
Weighted Average Seasoning	**51 months**
Weighted Average Remaining Term to Maturity	**269 months**
Max Remaining Term to Maturity	**360 months**
Weighted Average Interest Rate	**3.25%**
Fixed / Floating Split	**89% / 11%**
Interest Only	**10%**

1 Pool loan balance excludes cash balances.

Covered bond programme structural overview



Key

1. Loans sold by WNZL to CBG
2. CBG pays WNZL, funded via Intercompany Loan from WNZL
3. WNZL issues guarantee to Bond Investors
4. CBG issues guarantee to Bond Investors
5. WSNZL (London branch) issues Covered Bonds to Bond Investors
6. WSNZL receives proceeds of covered bonds
7. WSNZL on-lends proceeds to WNZL
8. WNZL is the Interest Rate Swap Provider and WBC is the Covered Bond Swap Provider to CBG

Additional Information

Westpac New Zealand Structure

Westpac Group

Australia

Westpac
st.george
bankSA
RAMS
Bank of Melbourne
Westpac Institutional Bank

New Zealand

Westpac New Zealand Limited (WNZL)

- Locally incorporated bank, wholly owned but not guaranteed by Westpac Banking Corporation
- Comprises Westpac's consumer, business and institutional banking operations in NZ.
- AA- (Negative Outlook) / A1 (Stable Outlook) / A+ (Rating Watch Negative) by S&P / Moody's / Fitch
- Financial performance disclosed via semi-annual WNZL Disclosure Statement.
- Guarantor for WSNZL funding programmes

Westpac Securities NZ Limited (WSNZL)

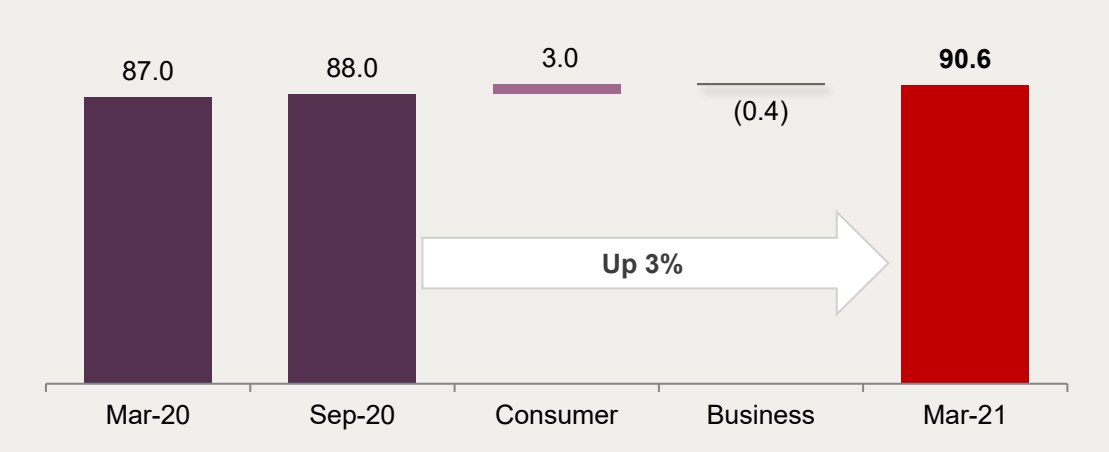
- A wholly owned subsidiary of WNZL
- Unconditional and irrevocable guarantee of funding programmes from WNZL
- Provides offshore wholesale funding for WNZL through its London branch

BT Funds Management (NZ)

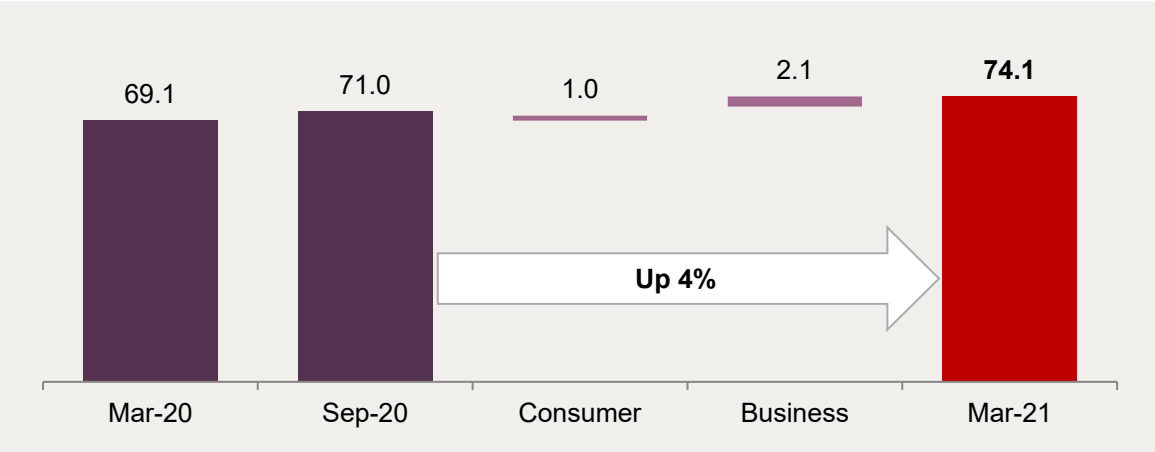
Westpac Life New Zealand Limited

1H21 balance sheet

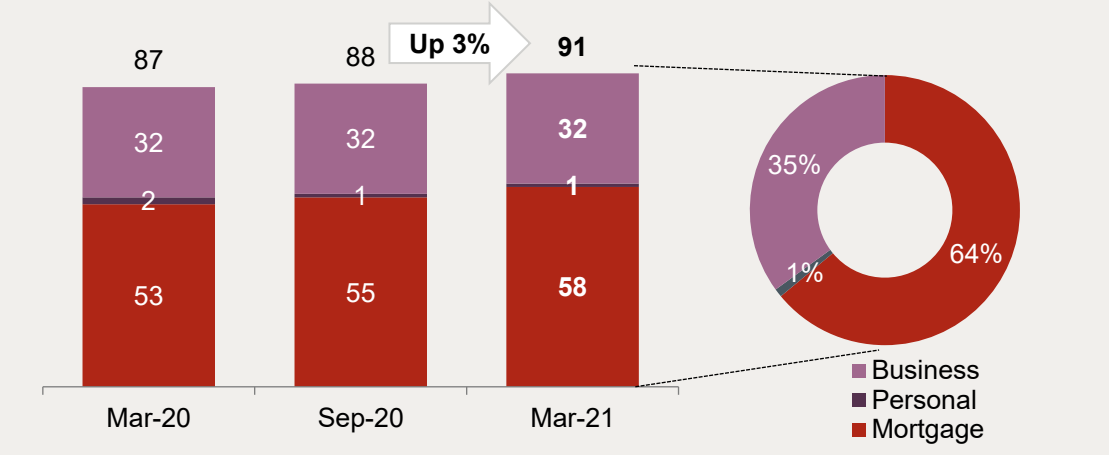
Net customer loans ($bn)



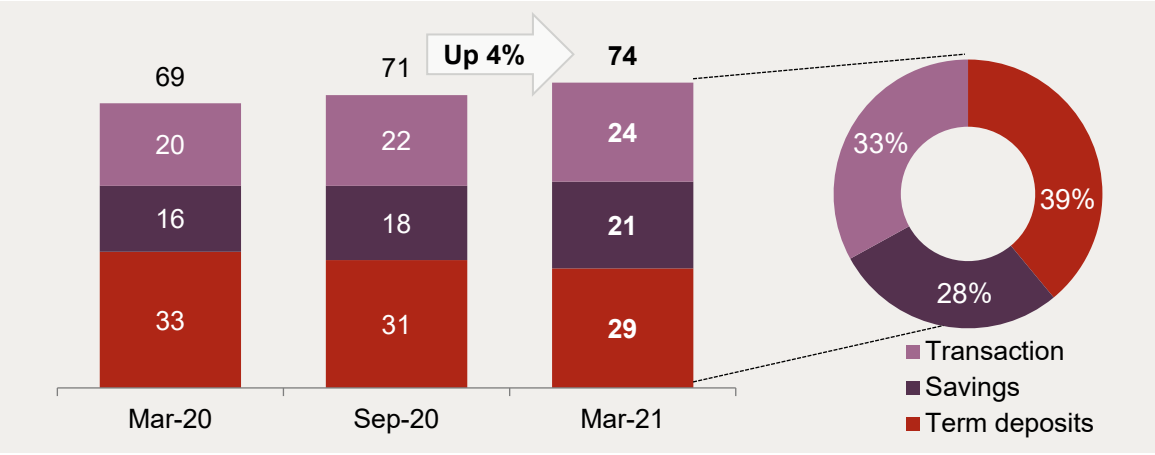
Customer Deposits ($bn)



Net customer loans ($bn) and % of total



Customer deposits ($bn) and % of total



WNZL lending portfolio

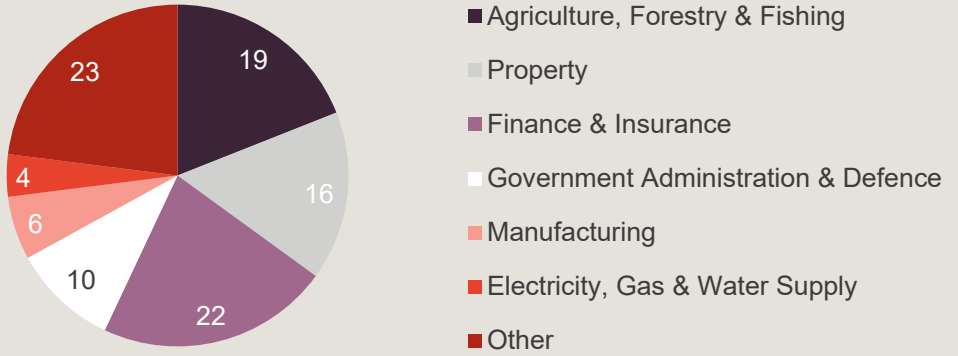
Total committed exposure (TCE)

$bn	Mar-20	Sep-20	Mar-21	%TCE	vs Mar-20	vs Sep-20
Consumer Lending	**70.5**	**72.6**	**75.7**	**58.5%**	**7.4%**	**4.3%**
Home Loans	63.1	65.3	68.6	53.0%	8.7%	5.1%
Credit Cards	4.2	4.1	4.0	3.1%	(4.8%)	(2.4%)
Other Retail	3.2	**3.2**	3.1	2.4%	(3.1%)	(3.1%)
Business Lending	**45.1**	**46.5**	**53.8**	**41.5%**	**19.3%**	**15.7%**
Non-Institutional[1]	24.5	24.7	24.5	18.9%	0.0%	(0.8%)
Institutional	20.6	21.8	29.3	22.6%	42.2%	34.4%
Total committed exposure	**115.6**	**119.1**	**129.5**	**100.0%**	**12.0%**	**8.7%**

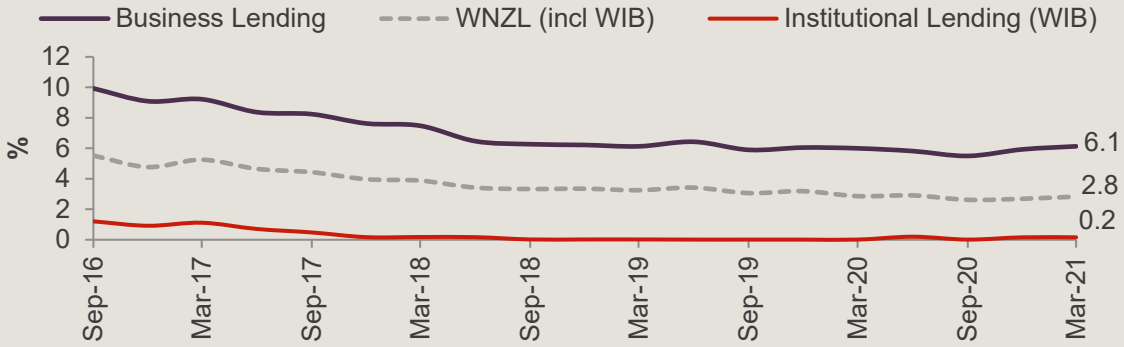
1H21 commentary

- 1H21 loan growth mainly driven by an increase in home loans, given buoyant housing market
- Unsecured consumer portfolios continue to decline, consistent with overall market trends
- Business stressed assets remain low, with many businesses benefitting from the economic recovery

Business TCE by industry (%)



Business stressed exposures as % of Business TCE



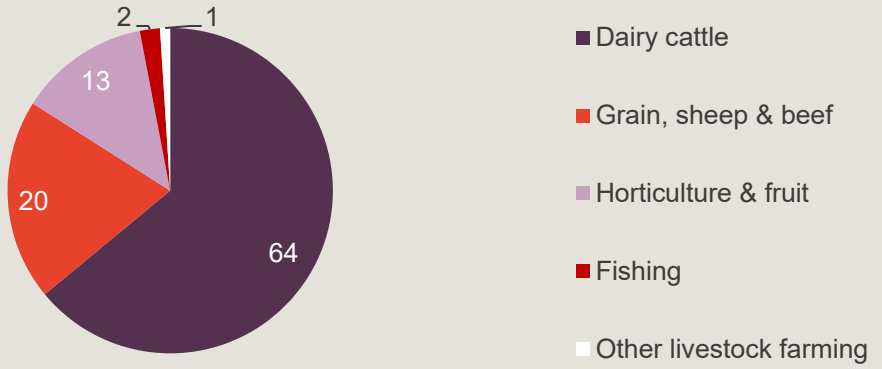
1 Non-institutional includes corporate, property, commercial and agribusiness within commercial.

Agribusiness portfolio

Agribusiness Portfolio

	Mar-20	Sep-20	Mar-21
Total committed exposure (TCE) ($bn)	9.6	10.0	**10.1**
Agriculture as a % of total TCE	7.6	7.9	**7.7**
% of portfolio graded as 'stressed'[1]	9.8	8.2	**8.0**
% of portfolio in impaired	0.48	0.48	**0.29**

Portfolio TCE by sector (%)



Dairy Portfolio

	Mar-20	Sep-20	Mar-21
Total committed exposure (TCE) ($bn)	6.3	6.5	**6.4**
Dairy as a % of total TCE	5.0	5.1	**4.9**
% of portfolio graded as 'stressed'[1]	12.0	10.1	**9.6**
% of portfolio in impaired	0.22	0.21	**0.21**

Highlights

- Dairy farmers continuing to repay debt. Low overall portfolio growth with increases mainly in horticulture, and other farming activities
- Dairy stressed assets reduced in the half - continuing to monitor customers with higher debt levels
- Rural land market remains challenging, although price stability and increased sales activity for smaller dairy farms and support blocks now evident

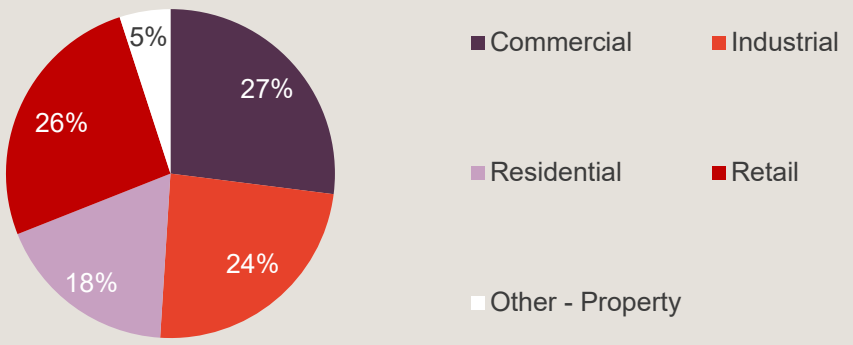
1 Includes impaired exposures

Commercial property portfolio

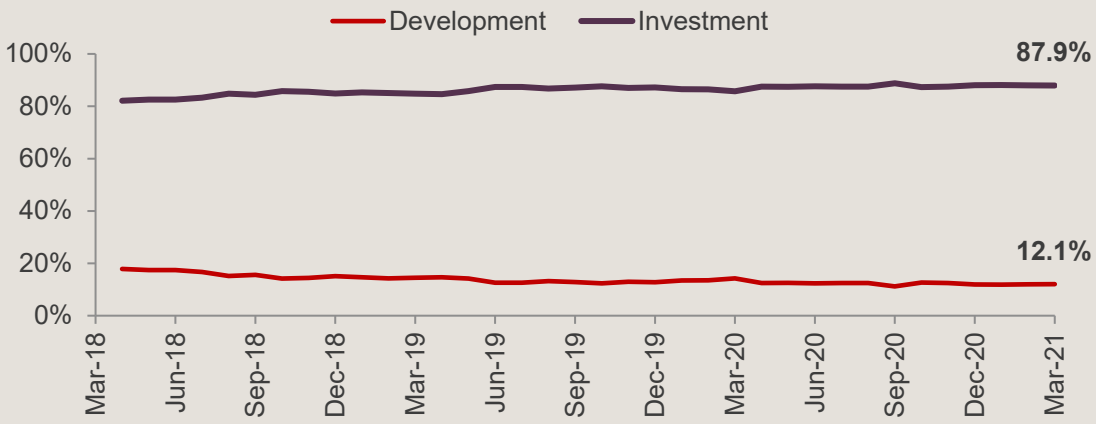
Commercial Property Portfolio

	Mar-20	Sep-20	Mar-21
Total committed exposure (TCE) ($bn)	8.8	8.5	**8.8**
Property as a % of total TCE	7.0	6.6	**6.7**
% of portfolio graded as 'stressed'[1]	2.67	2.96	**3.62**
% of portfolio in impaired	0.12	0.07	**0.07**

Portfolio TCE by sector (%)



Investor/developer split (%)



Highlights

- Portfolio increases mainly in Industrial lending due to strong investor demand
- Development/Investment portfolio mix remains low, reflective of strategy
- Larger developer clients taking a cautious approach given potential softening of house values due to recent tax changes

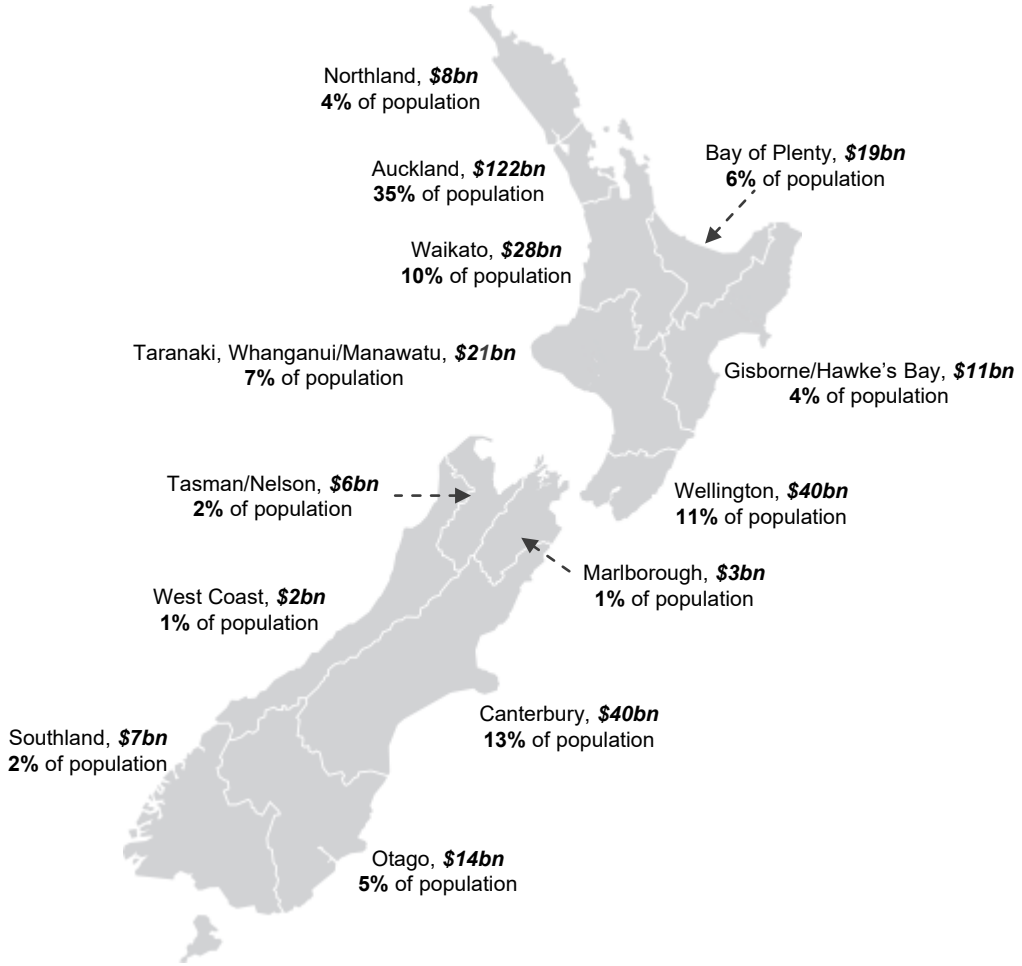
[1] Includes impaired exposures

Westpac Economics Update

Composition of the New Zealand economy

Regional GDP

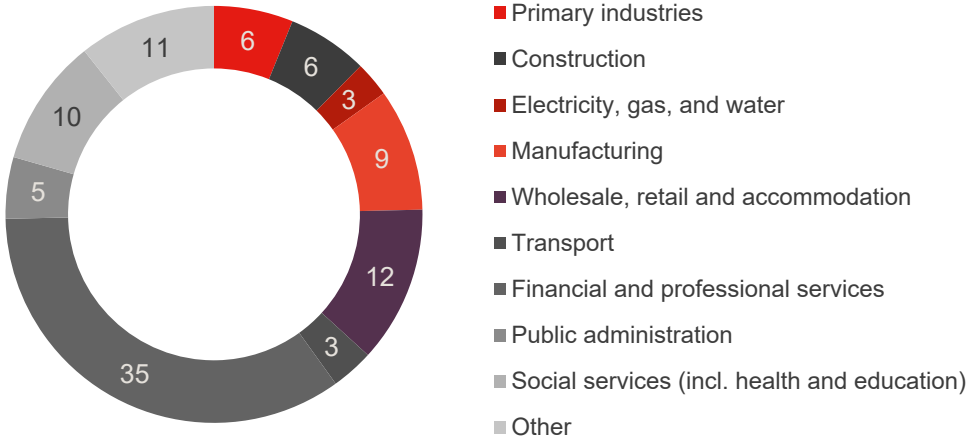
Total nominal GDP 2020: ***$322 bn***



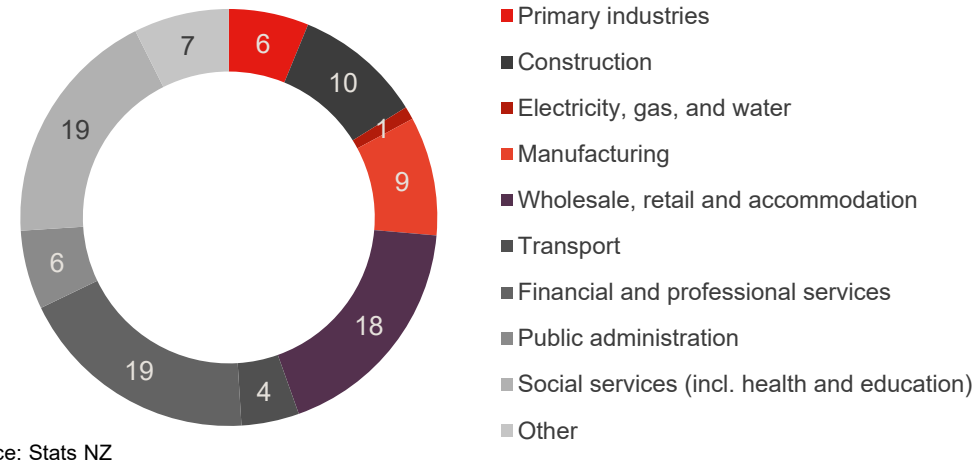
Sources: Stats NZ, Westpac Economics. Nationwide GDP and employment figures are for the year to Dec 2020, regional figure are for the year to March 2020.

NZ output and employment

NZ GDP by sector 2020 (%)



NZ employment by sector 2020 (%)

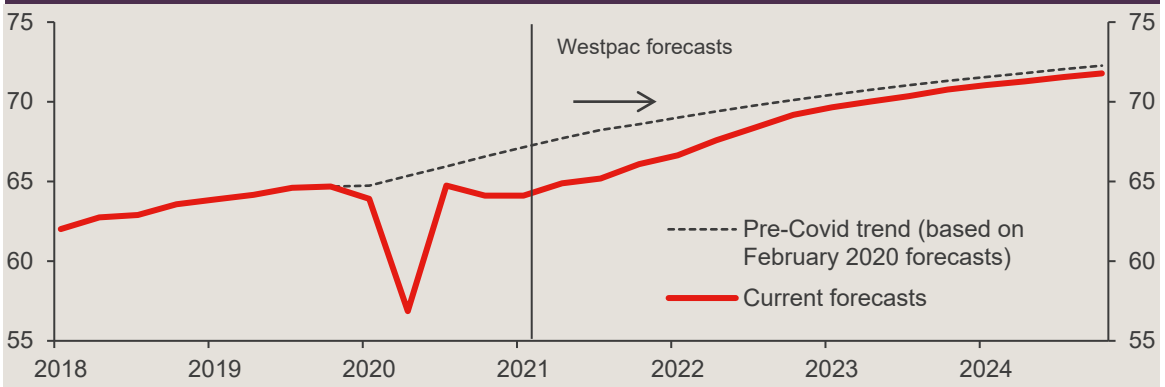


Source: Stats NZ

New Zealand economy

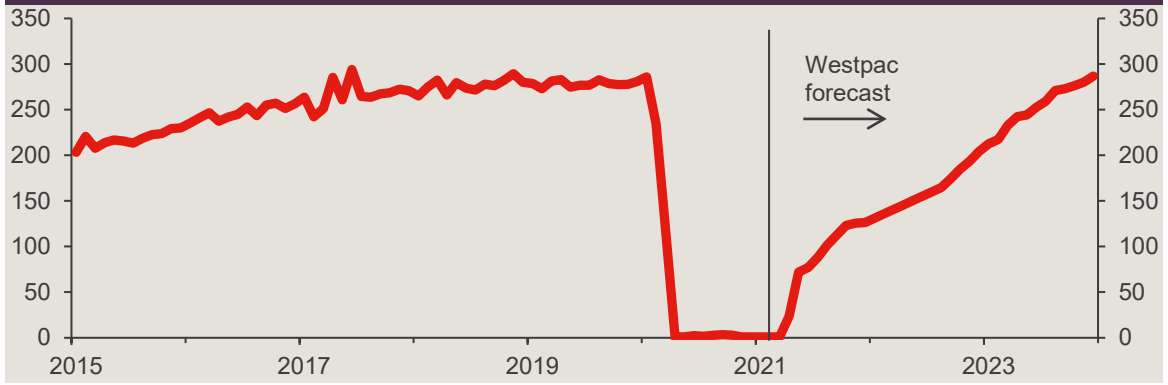
- The New Zealand economy contracted by 2.9% in 2020 and quarterly GDP is still 1% below pre-Covid levels. That compares favourably to most of NZs peers in the global economy
- Westpac Economics forecasts economic growth of +4.2% in 2021 and +4.4% in 2022
- The outlook remains uneven across sectors:
  - Industries that are closely linked to the international border, like tourism and hospitality, are continuing to struggle. While travel bubbles are being established, ongoing restrictions on travel mean conditions in tourism-related sectors are set to remain challenging for some time
  - In contrast, policy stimulus and the elimination of the virus in NZ mean that conditions in domestically focused industries like residential construction have been firmer
  - There has also been strength in commodity export prices, especially for dairy products

GDP (Real, quarterly $bn)



Source: Statistics NZ, Westpac Economics

International visitor arrivals (monthly, thousands)



Source: Stats NZ, Westpac

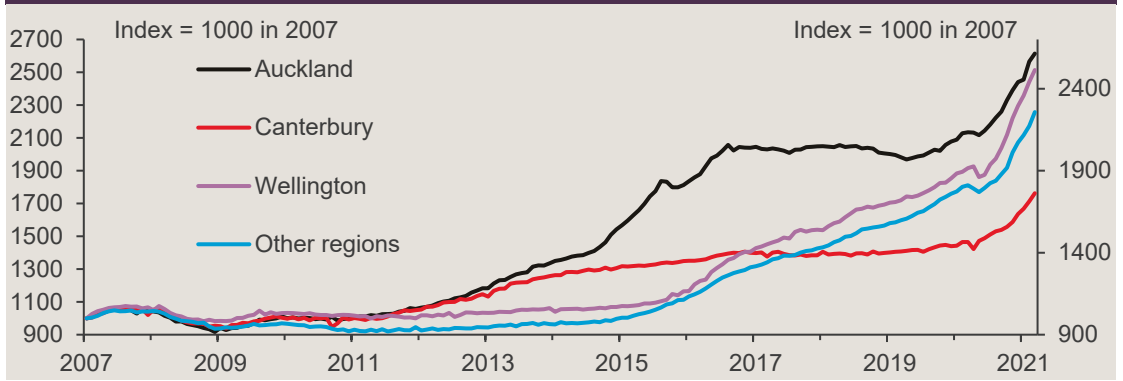
Housing market and Government policy

- The Government has announced a range of measures to slow house price growth and tilt the market to be more in favour of owner occupiers (rather than investors)
- The major changes that have been introduced include:
  - **Removing the ability for property investors to offset the interest on loans on residential investment properties against their income from those properties**. This change will take effect from 1 October 2021 for properties purchased after 27 March 2021. For existing property owners, deductibility will be phased out over the next four years. The Government is looking at exceptions for new builds
  - The holding period for taxing capital gains on investment properties (i.e. **the bright-line test**) will be extended from five to ten years
- Leveraged investors currently account for around one-third of sales in markets like Auckland and Wellington. The announced policy changes will reduce the financial incentives for property investors and indicate a drag on house prices

- Westpac Economics now expects house prices to flatten over the remainder of 2021 (previously Westpac Economics expected continued solid gains)
- Longer term interest rates are expected to gradually move higher over the coming years in response to the firming in global activity. As that passes through to domestic borrowing rates, modest falls in house prices of around 3% to 4% per annum are expected in 2022 and 2023 (as a comparison, prices have risen by more than 20% since the economy exited lockdown)
- A slowdown in the housing market signals associated downside risk for household spending and construction. This reinforces the case for the RBNZ keeping the OCR at low levels for an extended period
- Household debt levels have been rising in recent years, with much of that borrowing related to residential property. However, the low level of mortgage interest rates means that the proportion of households' incomes spent on debt servicing has fallen to its lowest level in at least two decades. The labour market has also been more resilient than expected

Housing market and Government policy (cont.)

New Zealand dwelling prices by region



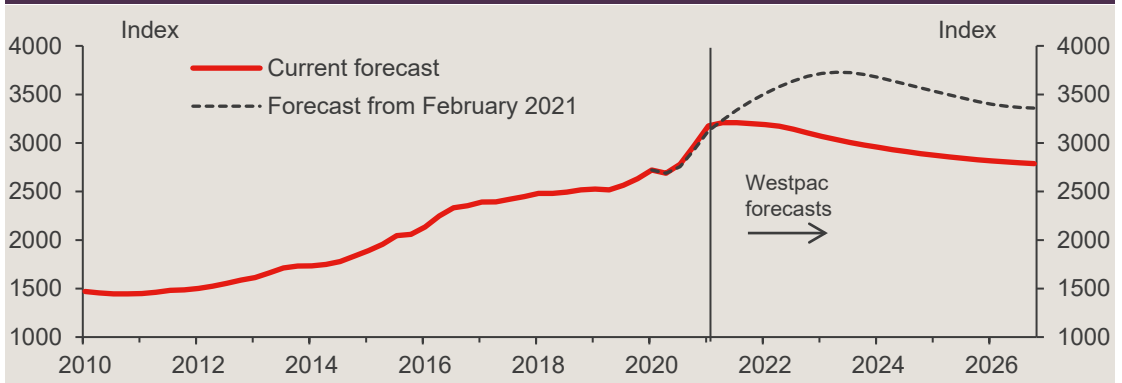
Source: Stats NZ, Westpac

Dwelling prices % change

Region	Pop'n	Last 3 mths (to Mar-21)	Last 12 mths (Mar-21)	Last 5 years (to Mar-21)
Auckland	1.7m	Up 7.1%	Up 22.5%	Up 39.2%
Wellington	0.5m	Up 9.5%	Up 31.2%	Up 104.7%
Canterbury	0.6m	Up 7.7%	Up 20.3%	Up 30.1%
Nationwide	5.1m	Up 8.5%	Up 24.0%	Up 58.6%

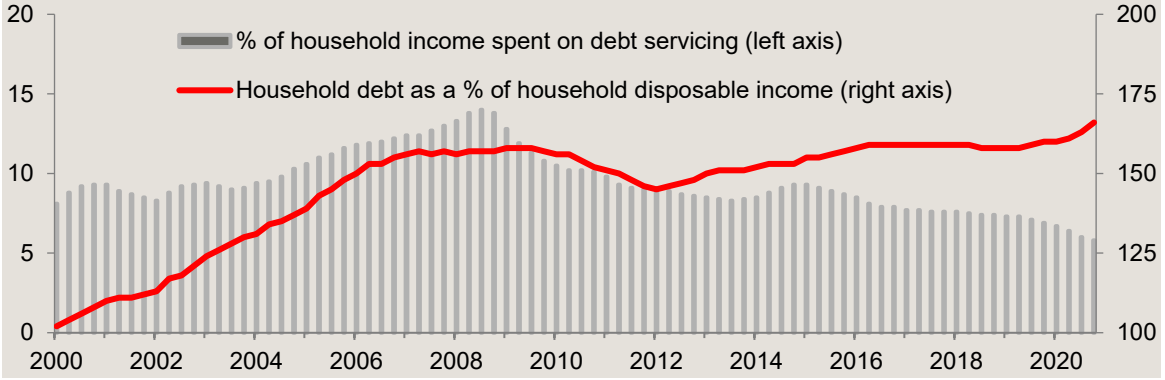
Source: REINZ, Westpac

Population growth and net migration (rolling annual totals)



Source: CoreLogic, Westpac

Household debt statistics



Source: RBNZ

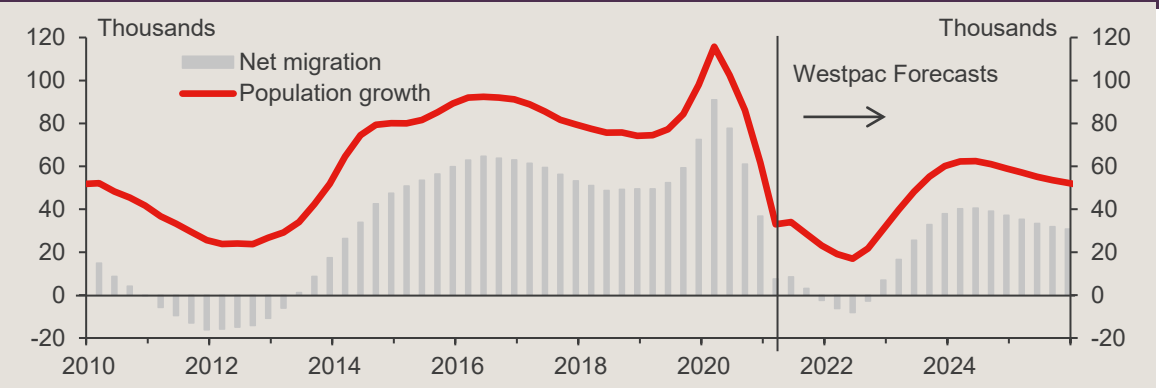
Construction and population growth

- Annual dwelling consent issuance has risen to an all time high, with a strong pipeline of work over the coming year. Much of this will be centred on Auckland, but increases in activity have been widespread
- In recent years population growth far outpaced home building, and an extended period of rapid home building is needed to address the related shortages
- As the middle of the decade approaches, Westpac Economics expect that the current period of very strong residential building will give way to a period of more moderate activity
    - Migration and population growth are currently very low due to the closure of the borders
    - While we expect migration will pick up following the rollout of vaccines and the opening of the borders, the Government is planning to tighten migration policy, focusing on skilled workers. As a result, net migration is expected to remain well below the levels seen in recent years

Monthly residential building consents

Source: Stats NZ, Westpac

Population growth and net migration (rolling annual totals)

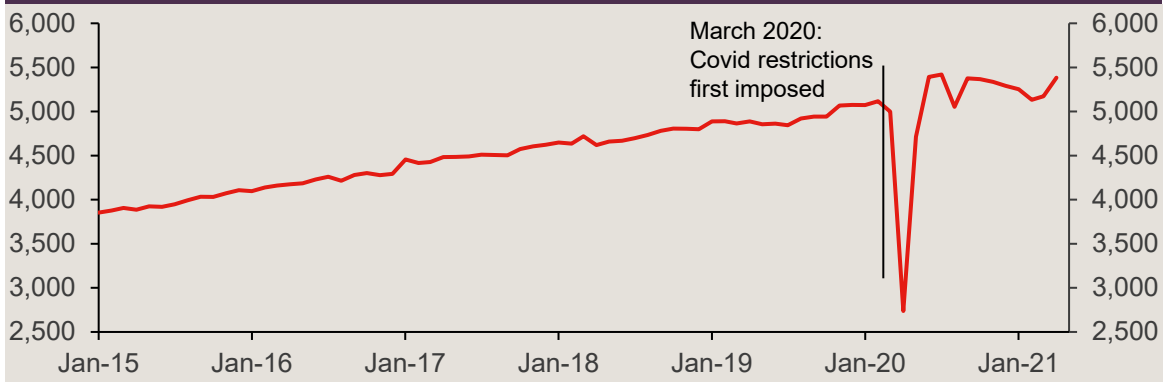


Source: Stats NZ, Westpac

Households and spending

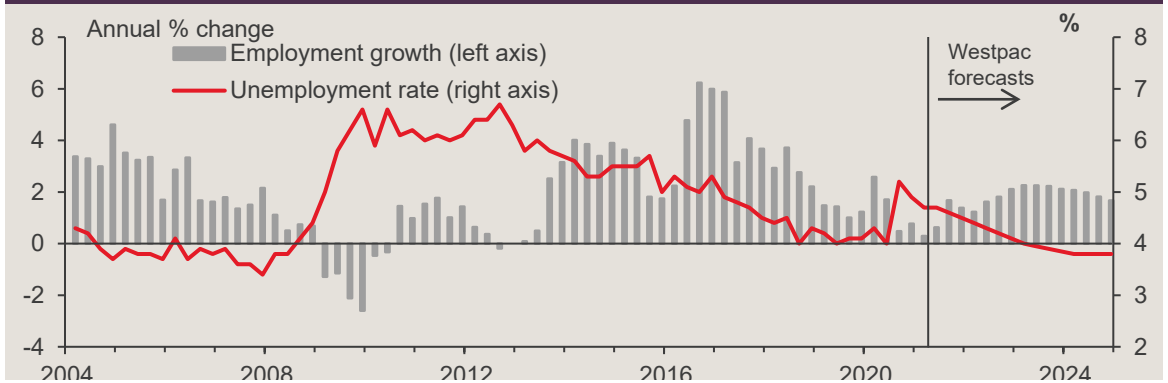
- Retail spending has been resilient and running above the levels seen prior to COVID-19
- However, there has been a change in the composition of spending
  - Since the outbreak of COVID-19 and the related closure of the border, spending on durable items like household furnishings has been strong
  - That has helped to offset the drag from reduced spending in the hospitality sector
- The labour market has been more resilient than expected
- Unemployment fell for a second quarter in March to 4.7%. With a growing number of businesses reporting that they are planning to take on new staff, it is now looking like unemployment peaked at 5.2% back in September – much lower than forecast at the onset of COVID-19
- Westpac Economics expect unemployment will continue to trend down over the course of this year

Monthly retail spending excl. fuel ($m)



Source: Stats NZ, Westpac

Labour market

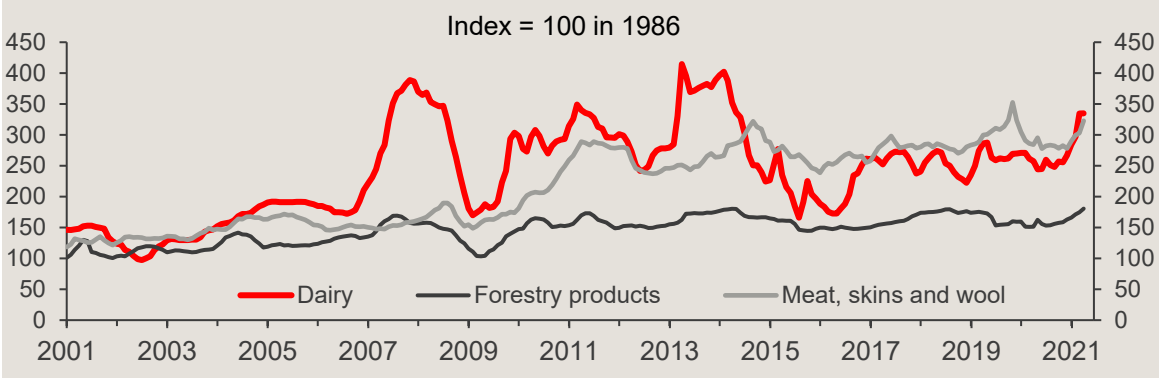


Source: Stats NZ, Westpac

Agriculture

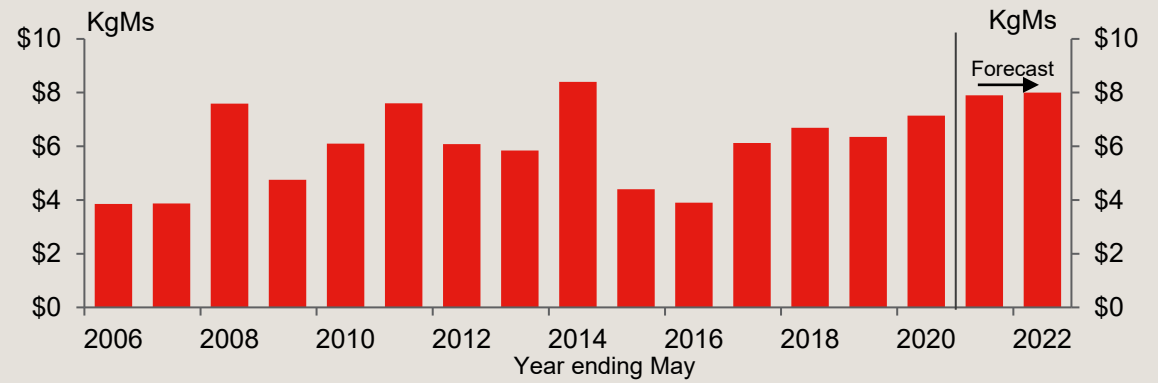
- New Zealand's commodity prices have increased 17% so far this year, and Westpac Economics expect a further lift of circa 5% through to the September quarter
- Strong Chinese demand, the firming in the global growth outlook and tight global agricultural supply bodes well for the remainder of 2021
- **Dairy:** Westpac Economics' farmgate milk price forecast for the soon to be completed 2020/21 season is $7.90/kg (following $7.14/kg milk price in 2019/20). Westpac Economics' forecast is at the upper end of Fonterra's forecast range of $7.30-$7.90/kg. For 2021/22, Westpac Economics expect a similarly strong farmgate milk price of $8.00/kg
- Farmers continue to repay debt, however the strong outlook for agricultural incomes is prompting more investment activity both on and off farm

NZ commodity price index (World Prices)



Source: ANZ, Westpac Economics

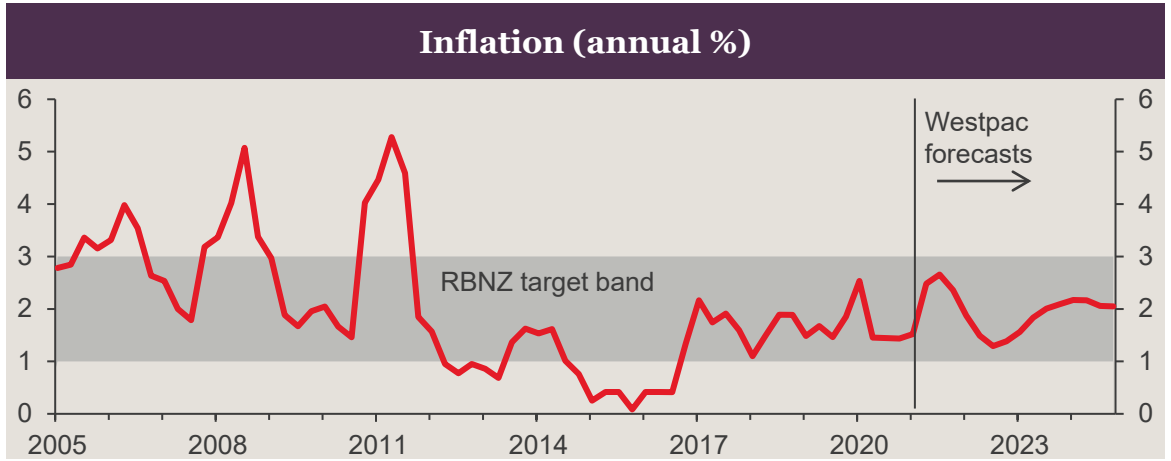
Farmgate Milk Price



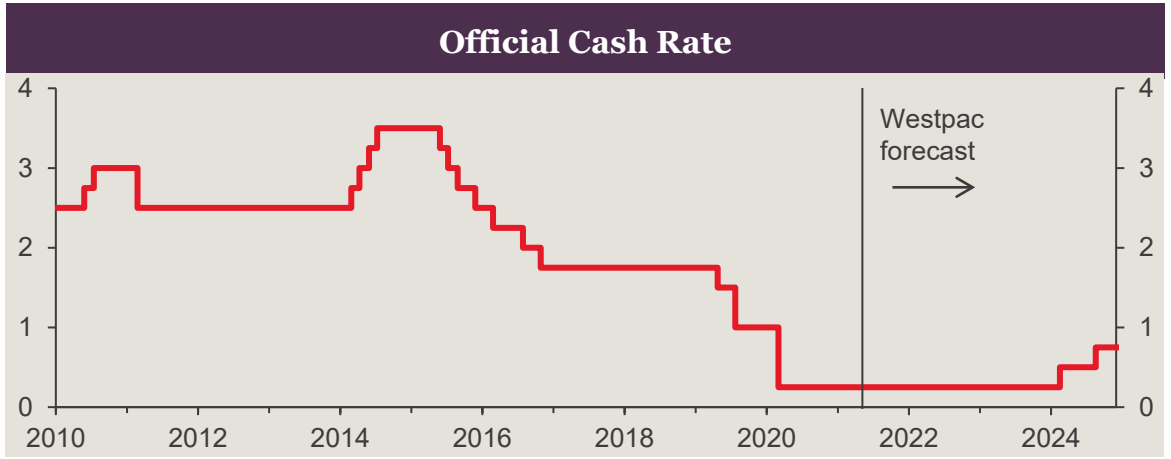
Source: Fonterra, Westpac Economics

Monetary policy

- Inflation has picked up and is forecast to rise to 2.7% by the end of this year. However, this rise is expected to be temporary. Inflation is being boosted by base effects following last year's lockdown, as well as by disruptions to global supply chains
- As post-COVID-19 disruptions ease, inflation is forecast to drop back below 2% over 2022. The economy is still grappling with the large hole in demand resulting from the closure of NZ's borders and the loss of international tourism spending. Unemployment is also above pre-COVID-19 levels
- Westpac Economics expects that the Official Cash Rate (OCR) will remain on hold until March 2024. The RBNZ is not likely to increase the OCR until the borders reopen and longer-term inflation is comfortably on a path to 2%
- Although Westpac Economics expect the OCR to remain on hold for some time, there is a degree of tightening in monetary conditions already occurring. The RBNZ has already slowed the pace of bond purchases in its Large-Scale Asset Purchase programme. In addition the Funding for Lending Programme for banks is unlikely to be extended beyond the end of 2022



Source: Statistics NZ, Westpac Economics



Source: RBNZ, Westpac Economics

Economic forecasts

GDP components	Quarterly % change				Annual average % change			
	Dec-20	Mar-21	Jun-21	Sep-21	2019	2020	2021F	2022F
GDP (production)	-1.0	0.0	1.2	0.5	2.4	-2.9	4.2	4.4
Private consumption	1.0	1.5	1.5	1.5	3.6	-1.7	7.8	2.8
Government consumption	1.7	1.3	1.2	1.1	5.4	5.8	4.8	3.4
Residential investment	1.9	2.0	1.3	0.8	4.9	-4.3	16.2	1.4
Business Investment	-3.1	4.4	-0.3	1.1	2.4	-8.9	7.3	6.8
Exports	-1.1	-6.6	8.4	4.0	2.4	-12.0	-1.2	11.9
Imports	9.1	9.4	3.5	5.2	2.2	-16.5	21.0	5.4
Economic indicators	**Quarterly % change**				**Annual % change**			
	Dec-20	Mar-21	Jun-21	Sep-21	2019	2020	2021F	2022F
Consumer price index	0.5	0.8	0.5	0.8	1.9	1.4	2.4	1.4
Employment change	0.6	0.5	0.1	0.4	1.2	0.8	1.4	2.1
Unemployment rate	4.9	4.7	4.7	4.6	4.1	4.9	4.5	4.1
Labour cost index (all sectors)	0.4	0.4	0.6	0.5	2.6	1.6	1.9	2.1
Current account balance (% of GDP)	-0.8	-1.9	-2.9	-3.6	-3.3	-0.8	-3.7	-2.7
Terms of trade	1.3	1.5	6.2	2.0	7.1	-1.7	9.0	-3.0
House price index	9.0	7.4	1.0	0.0	4.6	17.5	8.1	-3.0
Financial forecasts	**End of quarter**				**End of year**			
	Dec-20	Mar-21	Jun-21	Sep-21	2019	2020	2021F	2022F
90 day bank bill	0.27	0.26	0.35	0.35	1.17	0.27	0.35	0.35
5 year swap	0.31	0.88	1.10	1.15	1.18	0.31	1.20	1.40
TWI	72.9	74.9	75.6	74.9	71.4	72.9	75.0	75.2
NZD/USD	0.69	0.72	0.73	0.73	0.64	0.69	0.74	0.76

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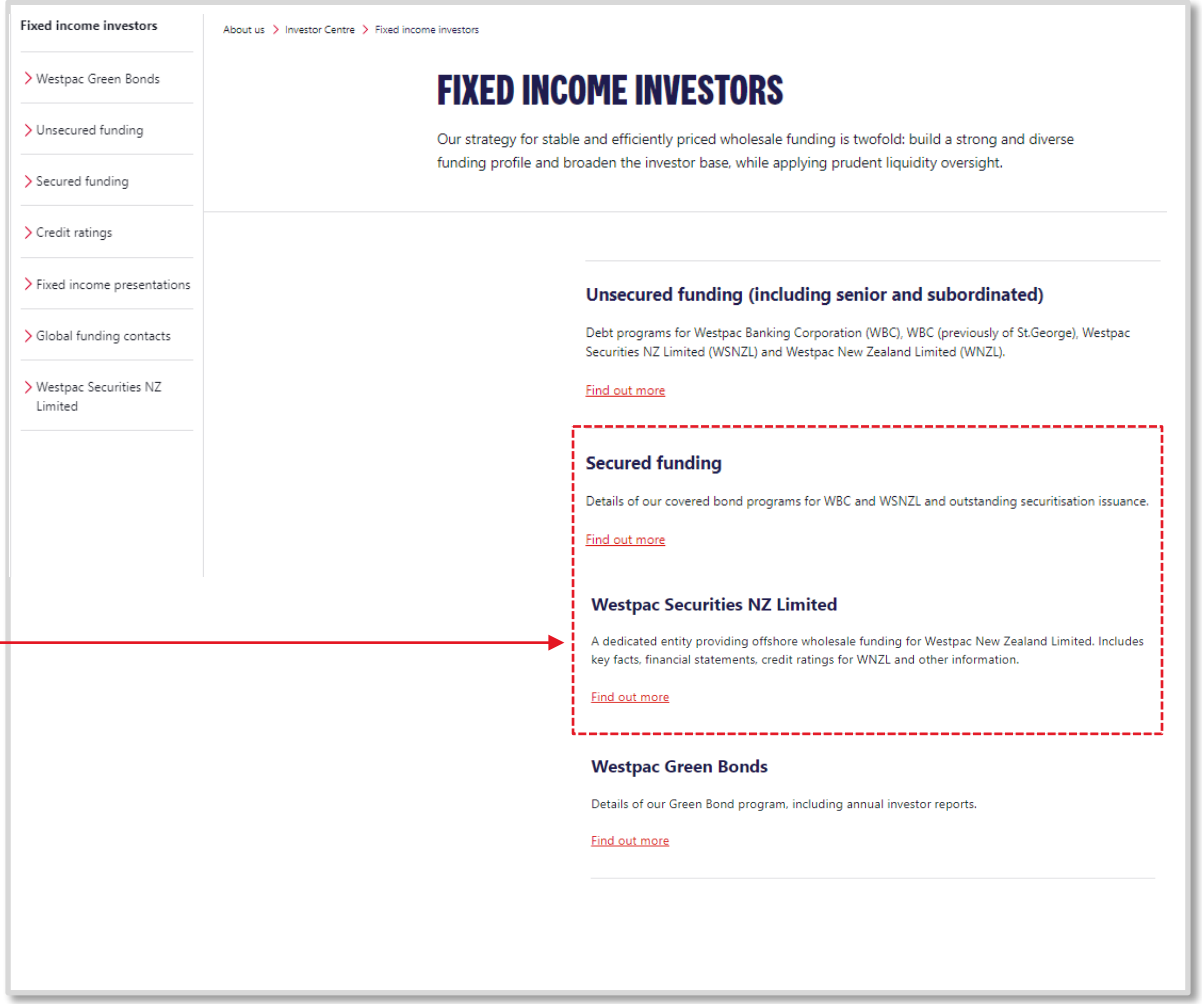
WNZL and WSNZL

Please visit our investor website:

https://www.westpac.com.au/about-westpac/investor-centre/fixed-income-investors/

- Funding and Securitisation Programmes
- WNZL Disclosure Statements
- WSNZL Financial Statements



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