IBOR Transition Derivatives Disclosure Statement.

General information related to the discontinuance of benchmarks in derivative transactions and some associated risks.

Please visit Westpac Banking Corporation's (**Westpac**) website for general IBOR disclosure and the Westpac IQ IBOR Transition site for a general introduction on the discontinuance of reference rates and indices (**Benchmarks**), including the London Interbank Offered Rate (**LIBOR**), in derivative transactions, and associated risks.

Derivative transactions which reference interest rate Benchmarks typically incorporate the 2006 ISDA Definitions (or, for older transactions, earlier iterations thereof), as published by the International Swaps and Derivatives Association, Inc. (**ISDA**). For a number of interest rate Benchmarks, including LIBOR, this means that if it were to be unavailable, the rate would be determined by reference to quotations from other banks, with no alternative methodology provided.

The 2006 ISDA Definitions generally do not address the consequences of no quotations being provided. If the relevant Benchmark were permanently discontinued, it is unlikely that quotations would be provided for some or all of the remaining term of the transaction. In this scenario, it may be unclear how payments under, and/or the value of, the transaction should be calculated. If the transaction is centrally cleared or traded on an exchange, the rules of the relevant central clearing house or exchange may allow it to determine a substitute rate.

Parties to derivative transactions need to familiarise themselves with how Benchmarks such as LIBOR are defined within their documentation and how the related fallbacks apply and interact with related arrangements such as a cash product for which the derivative transaction is intended to serve as a hedge and take advice as to the potential impact and risks associated with the discontinuation of the Benchmarks.

There has been, and continues to be, much activity concerning references to Benchmarks in derivative transactions among market participants, trade associations and regulators. ISDA has indicated that it is planning to update (by way of one or more supplements) the 2006 ISDA Definitions, to include, with respect to various Interbank Offered Rate Benchmarks (**IBORs**), new fallback provisions which would apply if the relevant IBOR is permanently discontinued. For further information please see ISDA's website.

The new fallbacks are expected to provide that, upon a permanent discontinuation of the IBOR, references to the IBOR will be replaced with references to a rate based on the risk-free (or near risk-free) rate (an **RFR**) in the same currency. The RFR will be adjusted to reflect the fact that the IBOR is a term rate rather than an overnight rate. A spread will also be added to that adjusted RFR to account for the fact that IBORs include a degree of perceived bank credit risk.

The RFRs, even with the adjustment and addition of a spread, will not necessarily be a like for like rate for their corresponding IBORs. This means that adopting the updated fallbacks in an existing derivative transaction or triggering the fallbacks may cause the value of the derivative transaction to change. The extent of any such value change may not be known until the relevant spread is calculated, which may limit the parties' ability to prepare for the related economic effect.

ISDA has also indicated that it intends to publish a protocol pursuant to which parties, by adhering on the ISDA website, can amend existing derivative transactions with other adhering parties to include the same fallbacks. Incorporating ISDA's new fallbacks into derivative transactions entered into before the relevant changes to the 2006 ISDA Definitions are made via supplement will require positive action by the parties.

Both the proposed supplement(s) to the 2006 ISDA Definitions and the protocol itself are in draft form. One open point which may affect the proposed supplement(s) and protocol is the extent to which a so-called 'pre-cessation trigger' should be included in the ISDA documentation. Were it to be included, upon the supervisor for the administrator of the relevant IBOR determining that the IBOR is no longer representative, the rate in the derivative transaction would fall back to the adjusted RFR plus spread. The inclusion or exclusion of such a trigger may have an impact on the way in which the derivative transaction interacts with any other position for which the derivative is intended to serve as a hedge.

If the ISDA published provisions are not appropriate for a particular transaction, whether for a new or existing derivative transaction, parties will need to bilaterally negotiate and agree adjustments to the basis on which they adopt those provisions to reflect the needs of the particular transaction.

Industry initiatives such as ISDA's work on IBOR fallbacks are ongoing and parties to derivative transactions will need to ensure that they are familiar with the new fallback language being developed as part of this process. Similarly, if a derivative transaction is cleared or traded on an exchange, parties need to familiarise themselves with the approach the relevant clearing house or exchange is planning to take both with respect to the introduction of a new rate in case of a permanent discontinuance of the relevant IBOR as well as with respect to the way in which the transaction will be valued. Alongside familiarising themselves with the output from these industry efforts, parties to derivative transactions need to also put in place processes to actively monitor and manage their derivatives exposure to Benchmarks such as LIBOR. In each case they should take appropriate advice.

For derivative transactions that are traded under documentation not published by ISDA, parties need to understand and take advice on the potential legal, regulatory and financial impact on those transactions of possible changes in, or disruption to, Benchmarks referenced in those transactions. The scope of ISDA's work on IBOR fallbacks may not extend to all such derivative transactions and parties may be required to enter into bilateral negotiations and/or amendments to moderate the impact of changes in, or disruption to, Benchmarks referenced in those transactions. Westpac will continue to explore possible approaches to these transactions as market standards continue to develop.

The way in which the updated fallbacks published by ISDA operate may cause challenges for some transaction types, such as 'non-linear' transactions (for example swaptions) and multi-currency transactions where the way in which and the time at which the RFR for each currency is developed may differ.

Parties to derivative transactions may also have entered into related credit support documentation, such as a credit support annex. These documents may also reference interest rate Benchmarks and consideration must therefore be given to the consequences of any reform to, or disruption of, any of those Benchmarks.

Generally, there are risks associated with using a derivative transaction to hedge underlying exposure under a different product, such as a loan or a bond, which typically contain, in the case of a loan, a specific waterfall of fallback methods with a final fallback referencing the lender's cost of funding, the alternative base rate and/or PRIME, and in the case of a bond, a fallback to the rate for the previous interest period (which effectively converts the product into a fixed rate note). The time at which and the way in which the fallback operates under the derivative transaction may cause the derivative transaction to hedge any underlying exposure less effectively. Examples of differences in operation include differences in fallback rate (such as a difference in the way in which the RFR is adjusted or the spread is calculated) and a difference in triggers (such as the inclusion of a pre-cessation trigger in one instrument but not the other). Any mismatches may also impact the accounting treatment (such as hedge accounting) and tax treatment.

WBCIBORDS02 1219