IBOR Transition Derivatives Disclosure Statement

General information related to the discontinuance of benchmarksin 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. For additional IBOR alternative reference rates disclosure please also see the Interest Rate Derivatives Disclosures Annex included in Westpac's Dodd Frank Material Disclosures.

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 Interbank Offered Rates (**IBORs**), including LIBOR, this means that if the IBOR were to be unavailable, the rate would be determined by reference to quotations from reference banks, with no alternative methodology provided.

The 2006 ISDA Definitions generally do not address the consequences of no quotations being provided by reference banks. If the relevant IBOR were permanently or indefinitely discontinued, it is unlikely that quotations would be provided by reference banks on a large scale and for a prolonged period of time in response to the discontinuance of the relevant IBOR. In this scenario, it may be unclear how payments under, and/or the value of, a 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.

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 finalised a supplement to the 2006 ISDA Definitions addressing IBOR fallbacks (the **IBOR Fallbacks Supplement**) and published the ISDA 2020 IBOR Fallbacks Protocol (the **IBOR Fallbacks Protocol**). The IBOR Fallbacks Supplement introduces new triggers and fallbacks in the definitions of rate options that use certain IBORs as the applicable rate. The fallbacks are triggered if the relevant IBOR ceases to be provided permanently or indefinitely, and, in the case only of LIBOR, after a determination and announcement by the Financial Conduct Authority that LIBOR is no longer representative.

The new fallbacks provide that, upon a permanent or indefinite discontinuation of the IBOR or on the date that LIBOR is non-representative (if applicable), if it is not possible to determine a rate using linear interpolation, the applicable rate for the relevant IBOR rate option will first fall back to a term adjusted risk-free (or near risk-free) rate (**RFR**) in the same currency plus a spread. The RFR will be adjusted by being compounded in arrears for the relevant term 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 new IBOR triggers and fallbacks contained in the IBOR Fallbacks Supplement will automatically apply to all transactions incorporating the 2006 ISDA Definitions that are entered into on or after 25 January 2021 (**Effective Date**) without any further action needed.

Derivative transactions incorporating the 2006 ISDA Definitions entered into prior to the Effective Date will not automatically incorporate the new triggers and fallbacks from the IBOR Fallbacks Supplement. For derivative transactions entered into prior to the Effective Date, ISDA has published the IBOR Fallbacks Protocol, pursuant to which parties can agree to amend those transactions to incorporate the same triggers and fallbacks contained in the IBOR Fallbacks Supplement. By adhering to the IBOR Fallbacks Protocol, parties can make such amendments to their existing derivative transactions with other adhering parties. For further information please see ISDA's website.

It is important to understand that the RFRs, even with the adjustment and addition of a spread, will not necessarily be a like for like replacement 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.

Generally, there are risks associated with using a derivative transaction to hedge exposure under a different product, such as a loan or a bond. The time at which and the way in which the fallback operates under the derivative transaction as compared with the product being hedged may cause the derivative transaction to serve as a less effective hedge. Examples of differences in operation include differences in fallback rate (such as a difference in the way in which the RFR is adjusted or a spread is calculated), differences in interest accrual periods or payment dates resulting from varying accrual or payment conventions and a difference in triggers (such as the inclusion of a pre-cessation or non-representativeness trigger in one instrument but not the other). Any mismatches may also have broader ramifications, such as on the accounting treatment or tax treatment. Parties to derivative transactions need to familiarise themselves with how Benchmarks are defined within their documentation and how the related fallbacks apply and interact with related arrangements and take professional advice as to the potential impact and risks associated with the discontinuation of these Benchmarks.

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; in-arrear swaps; interest rate caps and floors; and range accrual products) and multi-currency transactions where the way in which and the time at which the RFR for each currency is developed or applied may differ.

If the ISDA published provisions are not appropriate for a particular transaction, whether for a new or existing derivative transaction, parties should consider bilaterally negotiating adjustments to the basis on which they adopt those provisions or otherwise addressing IBOR cessation or LIBOR non-representativeness.

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 or indefinite 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 industry efforts, parties to derivative transactions may 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, disruption to, or discontinuance of, 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, disruption to, or discontinuance of, Benchmarks referenced in those transactions. Westpac will continue to explore possible approaches to these transactions as market standards continue to develop.

Parties to derivative transactions may also have entered into related credit support documentation, such as a credit support annex. These documents may also reference overnight interest rate Benchmarks. The amendment of overnight rates in these documents (such as the Euro OverNight Index Average (**EONIA**) or the Effective Federal Funds Rate) will not be covered by the IBOR Fallbacks Supplement or the IBOR Fallbacks Protocol. Consideration must therefore be given to the consequences of any reform to, or disruption of, any of those Benchmarks.