

Medium Term Note Programme of Westpac New Zealand Limited

Supplementary document

Dated: 25 June 2020

This document supplements the product disclosure statement dated 20 December 2019 relating to an offer of medium term notes to be offered by Westpac New Zealand Limited.

Westpac New Zealand Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013.



1. What is this document?

- 1.1 This is a supplementary document dated 25 June 2020 prepared by Westpac New Zealand Limited NZBN 9429034324622 (**Westpac NZ**) under section 72 of the Financial Markets Conduct Act 2013.
- 1.2 It supplements Westpac NZ's Product Disclosure Statement dated 20 December 2019 relating to an offer of certain medium term notes to be issued by Westpac NZ (**PDS**). This supplementary document is to be read together with the PDS.
- 1.3 This supplementary document has been prepared to update the information contained in the "Risks of investing" section of the PDS.

2. What should you do with this supplementary document?

We recommend that you read this supplementary document with the PDS, consider the implications of the updated information and seek independent advice before deciding whether medium term notes (as defined in the PDS) may be suitable for you.

3. Updated information

- 3.1 This supplementary document updates the PDS by replacing the "Risk of investing" section at Section 5 of the PDS.
- 3.2 Except as updated by this supplementary document, the PDS is unchanged.

Risk of investing

General risks

Your investment in the Notes is subject to the following general risks:

Credit risk on Westpac NZ

The principal risk of Westpac NZ not meeting its obligations to holders under the Notes is that Westpac NZ may become insolvent, may be placed in receivership, liquidation or statutory management or otherwise may be unable to and/or fail to make any payment. In that event, you might not recover all your principal investment or receive the expected returns.

Secondary market risk

The Notes will be able to be traded through brokers on established 'over-the-counter' (OTC) markets. However, there may be no active trading market and an investment in Notes may not be very liquid. In particular, the nature of OTC markets means there is no organised central location for investors to buy and sell Notes and it may be more difficult for brokers to find buyers and sellers for Notes at any time than it is in comparison to highly liquid securities. The price at which you may be able to sell Notes may also be affected by factors related to the creditworthiness of Westpac NZ, and market-related factors such as movements in market interest rates.

Therefore, you may not be able to sell your Notes easily or at prices that will provide you with a return comparable to similar investments that have a developed secondary market, and you may receive less from a sale of your Notes than the amount you paid for them.

Specific risks relating to Westpac NZ's creditworthiness

Westpac NZ is aware of the following circumstances that exist or are likely to arise that significantly increase the risk that Westpac NZ may default on its payment obligations under the Notes.

The selection of risks has been based on an assessment as at the date of this document of both the probability of the risk occurring, and the impact it would have. The importance of different risks may change over time and other risks may emerge.

Westpac NZ expects some of these risks (alone or in combination) to arise in the ordinary course

of its business. When they do, this can lead to a loss, increase in costs or a reduction in revenues for Westpac NZ. For instance, provision is made for some credit defaults in the ordinary course of business.

Westpac NZ closely manages these risks and in the ordinary course of business these risks are not expected to have a materially adverse impact on Westpac NZ. However, unusual circumstances can also arise, such as widespread defaults in a particular sector, or the dysfunction and unavailability of international funding markets. These circumstances may occur for a range of reasons including, for example, as a consequence of a communicable disease outbreak or a pandemic such as the COVID-19 pandemic. The occurrence of any such circumstance may make the risks more difficult to manage. The impact on Westpac NZ can then be more severe, which would in turn lead to an increased risk of default.

It is not possible to forecast precisely the probability or magnitude of any of these risks, and in particular, the financial impact of the COVID-19 pandemic which is still evolving and highly uncertain. However, Westpac NZ seeks to reduce their likelihood, and the magnitude of their impact through developed processes including:

- a risk management strategy that includes core risk principles as well as policies and processes for measuring and monitoring risk, and is designed to reflect that everyone in Westpac NZ is responsible for identifying and managing risk and operating within Westpac NZ's desired risk profile as determined by the Westpac NZ board;
- a management assurance programme designed to identify the key operational and compliance risks, the controls in place to mitigate those risks and to obtain assurance that those controls have continued to operate effectively; and
- an independent audit function which covers the management of risks across Westpac NZ under an assurance plan.

The key potential impacts to you of any of these risks occurring, or a failure of the risk management systems or strategies, are:

- actual or perceived reduction in credit quality of Westpac NZ and/or the credit rating of Westpac NZ leading to a loss in the market value of Notes, if sold on the secondary market; and

- default by Westpac NZ in repaying the Notes or paying interest due on them.

Westpac NZ may incur losses from defaults by customers and counterparties

Westpac NZ faces the possibility that customers or counterparties may fail to fully honour their contractual obligations to Westpac NZ. This risk arises from Westpac NZ's lending activities as well as from interbank, treasury and international trade activities, and may cause losses in Westpac NZ's business.

Customer and counterparty defaults may increase as a result of market slowdowns, declines in property prices, conditions affecting specific industry sectors or geographic regions to which Westpac NZ has significant exposures.

Westpac NZ also expects that a communicable disease outbreak or a pandemic such as the COVID-19 pandemic may result in increased losses, which may be material, due to financial stress caused to Westpac NZ's customers and counterparties in a range of industry sectors.

Westpac NZ primarily manages these credit risks through a transaction-managed approach for larger customers (involving a detailed individual customer and transaction risk analysis) and a program-managed approach for certain high-volume customer credit portfolios (involving management on a statistical basis). Westpac NZ has a range of products and services tailored to assist customers suffering from COVID-19 related hardship.

Westpac NZ operates in a highly regulated environment and could be adversely affected by changes in or failing to comply with laws, regulations and legislative policy

As a financial institution, Westpac NZ is subject to regulation and regulatory oversight, including capital adequacy requirements and conditions of registration specified by the Reserve Bank of New Zealand. Regulation is becoming increasingly extensive and complex. Any significant regulatory developments, or change in regulatory policy, including as a consequence of actions taken by regulators in response to a communicable disease outbreak or a pandemic such as the COVID-19 pandemic, could have an adverse effect on how Westpac NZ's business is conducted and on the results of its operations.

Failure to comply with these and other laws, regulations or codes of practice (including without limitation in relation to money laundering, terrorist

financing, market manipulation and sanctions) could result in regulatory fines and sanctions, compensatory actions, changes to conditions of registration, reputational loss or Westpac NZ's banking licence being revoked.

Westpac NZ is highly dependent on the conduct of its employees, contractors and external service providers, and could be adversely affected in the event that an employee, contractor or external service provider engages in conduct that does not comply with any law, regulation or code of practice or is unfair or inappropriate. While Westpac NZ has policies and processes to manage employee, contractor or external service provider misconduct, these policies and processes may not always be effective.

Westpac NZ has implemented a compliance management framework and dedicated compliance function to assist management of compliance risks.

Westpac NZ could suffer losses due to operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes, among other things, technology risk, information security risk, model risk and outsourcing risk. While Westpac NZ has policies and processes to manage the risk of human error, these policies and processes may not always be effective and these risks may increase in periods of restricted movement such as has arisen from the COVID-19 pandemic.

Westpac NZ could incur losses from incorrect or fraudulent payments, money laundering, unauthorised transactions, unauthorised access to its networks and misconduct or negligence by employees.

Operational risks could impact on Westpac NZ's operations or adversely affect demand for its products and services. Operational risks can directly impact Westpac NZ's reputation and result in financial losses which would adversely affect its financial performance or condition. In addition, a communicable disease outbreak or a pandemic such as the COVID-19 pandemic may also negatively impact on the ability of Westpac NZ's back office support functions and key external suppliers and service providers to operate, in turn disrupting Westpac NZ's business and operations.

Westpac NZ has implemented a dedicated operational risk function and management framework to manage such risks.

Interest rate risks could adversely impact Westpac NZ's results

As a bank, Westpac NZ is subject to risks involving adverse movements in the level and volatility of interest rates. If Westpac NZ were to suffer substantial losses due to any market volatility (including as a consequence of a communicable disease outbreak or a pandemic such as the COVID-19 pandemic) it may adversely affect its business, prospects, liquidity, capital resources, financial performance or financial condition.

Westpac NZ hedges its exposure to interest rate risk through the use of derivatives.

Westpac NZ may not be able to obtain funding on acceptable terms

In order to carry on its business Westpac NZ requires access to significant amounts of funding on an ongoing basis. It is exposed to the risk that it may not be able to fund assets, or meet its payment obligations as they come due, without incurring unacceptable losses (liquidity risk). This liquidity risk is inherent in Westpac NZ's balance sheet due to mismatches in the maturity of assets and liabilities.

Westpac NZ's credit ratings could also affect the cost and availability of its funding from capital markets and other funding sources. They may also be important to customers or counterparties when evaluating Westpac NZ's products and services.

A communicable disease outbreak or a pandemic such as the COVID-19 pandemic may have a negative economic impact on Westpac NZ. The current and ongoing economic impacts of the COVID-19 pandemic have negatively affected Westpac NZ's credit ratings and, as the economic impacts from the COVID-19 pandemic continue, there is a risk that there will be further negative movement in Westpac NZ's credit ratings.

Negative changes to Westpac NZ's credit ratings could adversely affect its cost of funds and related margins, collateral requirements, liquidity, competitive position and its access to capital markets. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether Westpac NZ's ratings differ among rating agencies and whether any ratings changes also impact Westpac NZ's peers or the sector.

Westpac NZ manages liquidity risk through a liquidity risk management framework covering all aspects of liquidity risk management.

Further information about the risks faced by Westpac NZ and its business more generally is contained in the disclosure statements that Westpac NZ publishes under the Reserve Bank of New Zealand Act 1989. The most recent disclosure statements that Westpac NZ has published are available at [westpac.co.nz](https://www.westpac.co.nz) (click on the link 'Disclosure Statements' at the bottom left corner of the homepage).