Section 165(d) Dodd-Frank Act: 2021 Reduced U.S. Resolution Plan

Public section

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1. Executive Summary

Westpac Banking Corporation's ('WBC') U.S. Resolution Plan (the 'U.S. Plan') is being filed pursuant to section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ('the Dodd-Frank Act') and the jointly issued Resolution Plan rules[1] (together, the 'Regulations'). The Regulations require any foreign bank or company that is a Bank Holding Company ('BHC') to periodically submit to the Board of Governors of the Federal Reserve System ('FRB') and the Federal Deposit Insurance Corporation ('FDIC') a plan for the covered company's rapid and orderly resolution in the event of material financial distress or failure.

For a foreign-based Covered Company, like WBC, the Regulations require the U.S. Plan to include information with respect to WBC subsidiaries, branches and agencies, and critical operations and core business lines, as applicable, that are domiciled in the United States or conducted in whole or material part in the United States, together with information about any interconnections or interdependencies between WBC's U.S. and non-U.S. operations and a description of how the U.S. Plan is integrated into WBC's overall resolution or other contingency planning process.

The FRB and the FDIC jointly adopted the final rule that came into effect December 31, 2019. The final rule reflects amendments to the 2011 rule. Under the final rule, WBC qualifies as a Triennial Reduced Filer under the 'Other FBO' category for Foreign Banking Organizations ('FBO') with global consolidated assets greater than $250 billion that are not subject to category II[2] or category III[3] standards.

About Westpac

Founded in 1817, Westpac is Australia's first bank and oldest company. It was established as the Bank of NSW in Sydney before expanding across Australia and New Zealand over the next century. During this time, several banks were acquired and expanded the network across the region. In 1982 the company changed its name to Westpac.

Today WBC is one of the four major banks in Australia and one of the five major banks in New Zealand – supporting over 13.9 million customers. The bank has branches, affiliates and controlled entities throughout its home countries, and maintains branches and offices in key financial centers around the world, including London, New York, and Singapore.

A list of WBC's material-controlled entities can be found in Note 30 of the Group's financial statements, available in the 2021 WBC Group Annual Report[4]. As at September 30, 2021, WBC's market capitalization and global consolidated assets were A$95 billion (US$73.3 billion)[5] and A$936 billion (US$676.4 billion), respectively.

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[1] Resolution Plan rules jointly issued by the Federal Reserve Board ('FRB'), codified at 12 C.F.R. Part 243 (the 'FRB Rule'), and the Federal Deposit Insurance Corporation ('FDIC'), codified at 12 C.F.R. Part 381 (the 'FDIC Rule').

[2] Firms subject to Category II standards will be: FBOs with (a) ≥$700b average combined U.S. assets; or (b) ≥$100b average combined U.S. assets with ≥$75b in average cross-jurisdictional activity.

[3] Firms subject to Category III standards will be: FBOs with (a) ≥$250b and <$700b average combined U.S. assets; or (b) ≥$100b average combined U.S. assets with ≥$75b in average total nonbank assets, average weighted short-term wholesale funding, or average off-balance sheet

[4] A copy of the 2021 Annual Report is available: https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/ic/Annual_Report_2021_Final.pdf

[5] Based on the closing share price of Westpac's ordinary shares on the ASX and 0.7227 AUD/USD exchange rate as at September 30, 2021.

About New York Branch

In the United States, Westpac operates a federally licensed branch in New York (the 'NY Branch'). The NY Branch is a legal and operational extension of WBC and conducts Westpac's U.S. operations. The NY Branch is primarily a sales, marketing, and funding operation. The business includes the corporate investment bank, which performs relationship management function for the NY Branch's institutional and corporate clients, supporting their borrowing needs mainly via the extension of bilateral and syndicated loan facilities[6].

The other customer-facing business lines are Customer Insights and Financial Markets[7]. These teams cross-sell various products and services to the NY Branch's institutional client base, including cash management and transaction banking solutions as well as wholesale vanilla FX, bonds, and derivatives product solutions.

To facilitate business and support client needs, Westpac maintains memberships with, and participates in, certain payments, clearing and settlement systems. Westpac's material relationships are concentrated in the Australian and New Zealand financial markets, none of which are considered critical for the purposes of the U.S. Plan. In the United States, Westpac typically accesses payment, clearing and settlement systems through its agent banks.

Aside from the NY Branch, Westpac maintains several U.S. subsidiaries associated directly with Westpac or via subsidiaries.

2. Core Business Lines and Critical Operations

The Regulations define 'Critical Operations' as *'those operations of the covered company, including associated services, functions and support, the failure or discontinuance of which, in the view of the covered company or as jointly directed by the FRB and the FDIC, would pose a threat to the financial stability of the United States'.*

'Core Business Lines' are defined in the Regulations as *'those business lines of the covered company, including associated operations, services, functions and support, that, in the view of the covered company, upon failure would result in a material loss of revenue, profit, or franchise value'.*

While Westpac considers all its present business lines and operations of importance to the Group's current and future success and profitability, in light of the definitions set forth in the Regulations, the U.S. Plan does not identify any Critical Operations or Core Business Lines that were either domiciled in the United States, or conducted in whole or material part in the United States as at September 30, 2021.

[6] While the client relationships are maintained by staff of the NY Branch, any resulting loans are booked to Westpac Cayman Islands Branch.

[7] The marketing and distribution of interest rate derivative products is facilitated through the Branch. All other Debt Markets products and services (namely foreign sovereign and high-grade corporate debt securities) are distributed through Westpac's U.S. registered broker-dealer, Westpac Capital Markets, LLC.

3. Material Entities

A 'Material Entity' is defined in the Regulations as *'a subsidiary or foreign office of the covered company that is significant to the activities of a critical operation or core business line'*. On the basis that Westpac had no Core Business Lines or Critical Operations for U.S. resolution planning purposes, the NY Branch does not identify any Material Entities for the purpose of the U.S. Plan. Therefore, the scope the U.S. Plan is on Westpac's NY Branch as a legal and operational extension of the Covered Company, Westpac.

The WBC Group Recovery Plan process used to determine material entities, is consistent with that used for the Annual Report and is based on satisfying the 'Large Proprietary Company' test under Section 45A of the 2001 Corporations Act.

As at September 30, 2021, WBC had the following list of material control entities listed in the 2021 Annual Report:

Name	Country of incorporation	Name	Country of incorporation
Advance Asset Management Limited	Australia	Westpac Financial Services Group Limited	Australia
Asgard Capital Management Limited	Australia	Westpac Life Insurance Services Limited[1]	Australia
BT Financial Group Pty Limited	Australia	Westpac Overseas Holdings No. 2 Pty Limited	Australia
BT Funds Management Limited	Australia	Westpac Securitisation Holdings Pty Limited	Australia
BT Portfolio Services Limited	Australia	Westpac Life-NZ-Limited!	New Zealand
Capital Finance Australia Limited	Australia	Westpac New Zealand Group Limited	New Zealand
Crusade Trust No.2P of 2008	Australia	Westpac New Zealand Limited (WNZL)	New Zealand
Reinventure Fund, I.L.P.	Australia	Westpac NZ Covered Bond Limited[2]	New Zealand
Series 2008-1M WST	Australia	Westpac NZ Securitisation Limited[2]	New Zealand
St.George Finance Holdings Limited	Australia	Westpac Securities NZ Limited	New Zealand
Westpac Covered Bond Trust	Australia	Westpac Bank-PNG-Limited	Papua New Guinea
Westpac Equity Holdings Pty Limited	Australia		

4. Capital Adequacy

The Australian Prudential Regulation Authority ('APRA') measures an Authorized Deposit-taking Institution's ('ADI') regulatory capital using three measures:

- Common Equity Tier 1 Capital ('CET1') comprises the highest quality components of capital that consists of paid-up share capital, retained profits and certain reserves, less certain intangible assets, capitalized expenses and software, and investments and retained profits in insurance and funds management subsidiaries that are not consolidated for capital adequacy purposes;
- Tier 1 Capital being the sum of CET1 and Additional Tier 1 Capital. Additional Tier 1 Capital comprises high quality components of capital that consists of certain securities not included in CET1, but which include loss absorbing characteristics; and
- Total Regulatory Capital being the sum of Tier 1 Capital and Tier 2 Capital. Tier 2 Capital includes subordinated instruments and other components of capital that, to varying degrees, do not meet the criteria for Tier 1 Capital, but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

Under APRA's Prudential Standards, Australian ADIs, including WBC, are required to maintain a minimum CET1 ratio of at least 4.5%, Tier 1 ratio of at least 6.0% and Total Regulatory Capital of at least 8.0%. APRA may also require ADIs, including WBC, to meet Prudential Capital Requirements ('PCRs') above the industry PCRs. APRA does not allow the PCRs for individual ADIs to be disclosed.

APRA also requires ADIs to hold additional CET1 buffers comprising of:

- a capital conservation buffer ('CCB') of 3.5% for ADI's designated by APRA as domestic systemically important banks ('D-SIBs') unless otherwise determined by APRA, which includes a 1.0% surcharge for D-SIBs. APRA has determined that WBC is a D-SIB; and
- a countercyclical capital buffer. The countercyclical buffer is set on a jurisdictional basis and APRA is responsible for setting the requirement in Australia. The countercyclical buffer requirement is currently set to zero for Australia and New Zealand.

Collectively, the above buffers are referred to as the Capital Buffer ('CB'). Should the CET1 capital ratio fall within the capital buffer range, restrictions on the distributions of earnings will apply. This includes restrictions on the amount of earnings that can be distributed through dividends, Additional Tier 1 Capital distributions and discretionary staff bonuses.

On November 29, 2021, APRA released its final capital framework, which included updating its CET1 regulatory requirement at 10.25%[8] (currently 10.5%). APRA confirmed that it will implement a 10.25% regulatory requirement by increasing the Capital Conservation Buffer (CCB) to 4.75% including DSIB and by setting a base level countercyclical capital buffer of 1%.

Capital Management Strategy

WBC's approach to capital management seeks to ensure the bank is adequately capitalized. Westpac evaluates its approach to capital management through an Internal Capital Adequacy Assessment Process ('ICAAP'), the key features of which include:

- the development of a capital management strategy, including consideration of regulatory minimums, capital buffers and contingency plans
- consideration of both economic and regulatory capital requirements
- a stress testing framework that challenges the capital measures, coverage and requirements including the impact of adverse economic scenarios; and
- consideration of the perspectives of external stakeholders including rating agencies as well as equity and debt investors.

As at September 30, 2021, Westpac's CET1 capital ratio of 12.3% was comfortably above APRA's current unquestionably strong benchmark of 10.5% (10.25% from 1 January 2023).

[8] APRA, Information paper, *An unquestionably strong framework for bank capital*, November 2021

5. Funding and Liquidity risk

Funding & Liquidity Risk Management

Funding and liquidity risk is measured and managed in accordance with the policies and processes defined in the Board-approved Liquidity Risk Management Framework, which is part of the Westpac Board-approved Risk Management Strategy.

Responsibility for managing Westpac's liquidity and funding positions in accordance with the Liquidity Risk Management Framework is delegated to Treasury, under the oversight of the Group Asset and Liability Committee ('ALCO') and Treasury Risk.

Westpac's Liquidity Risk Management Framework sets out Westpac's funding and liquidity risk appetite, roles, and responsibilities of key people managing funding and liquidity risk within Westpac, risk reporting and control processes and limits and targets used to manage Westpac's balance sheet.

Treasury undertakes an annual funding review, which outlines Westpac'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.

Westpac monitors the composition and stability of its funding so that it remains within Westpac's funding risk appetite. This includes compliance with both the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR').

Westpac holds a portfolio of liquid assets for several purposes, including as a buffer against unforeseen funding requirements. The level of liquid assets held considers the liquidity requirements of Westpac's balance sheet under normal and stress conditions.

Treasury maintains a contingent funding plan that outlines the steps that should be taken by Westpac in the event of an emerging 'funding crisis.' The plan is aligned with Westpac's broader Liquidity Crisis Management Policy which is approved annually by the Board. Daily liquidity risk reports are reviewed by the Group's Treasury and Treasury Risk teams. Liquidity reports are presented to Group ALCO monthly and to the Board quarterly.

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 banks;
- principal repayments on loans;
- interest income; and
- fee income.

6. Primary Regulatory and Supervisory authorities of Westpac

Australia

Within Australia Westpac is subject to supervision and regulation by six principal agencies: APRA; the Reserve Bank of Australia ('RBA'); the Australian Securities and Investments Commission ('ASIC'); the Australian Securities Exchange ('ASX'); the Australian Competition and Consumer Commission ('ACCC'); and the Australian Transaction Reports and Analysis Centre ('AUSTRAC').

United States

Westpac's NY Branch is a U.S. federally licensed branch and therefore is subject to supervision, examination and regulation by the U.S. Office of the Comptroller of the Currency (the 'OCC'), and the Board of Governors of the Federal Reserve System (the 'Federal Reserve') under the U.S. International Banking Act of 1978 ('IBA') and related regulations.

A U.S. federal branch must maintain, with a Federal Reserve member bank, a capital equivalency deposit as prescribed by the OCC that is at least equal to 5% of its total liabilities, including acceptances, but excluding accrued expenses, and amounts due and other liabilities to other branches, agencies, and subsidiaries of the foreign bank.

In addition, a U.S. federal branch is subject to periodic onsite examination by the OCC. Such examination may address risk management, operations, asset quality, compliance with the record-keeping and reporting, and any additional requirements prescribed by the OCC from time to time.

A U.S. federal branch of a foreign bank is, by virtue of the IBA, subject to the receivership powers of the OCC.

As of 22 June 2016, WBC elected to be treated as a financial holding company in the U.S. pursuant to sections 4(h) and 4(l) of the Bank Holding Company Act of 1956 and sections 225.82 and 225.91 of the Federal Reserve Board's Regulation Y. This election will remain effective while certain capital and management standards prescribed by the U.S. Federal Reserve Board are met.

WBC and some of its affiliates are engaged in various activities, which are subject to regulation by other U.S. federal regulatory agencies including the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, the U.S. Commodity Futures Trading Commission, and the National Futures Association.

7. Identities of Principal Officers

Leadership Team for the NY Branch.

The leadership team is responsible for risk oversight, escalation and supporting the execution of the resolution strategy outlined in the U.S. Plan.

Role/ Title	Name
Country Head, Americas	Stuart Brown
General Manager, Europe & Americas	Chris Bannister
Chief Risk Officer, Europe & Americas	Anthony Velevitch
Head of Compliance, Americas	Susan Portes
Senior Lawyer, International Legal – Americas Institutional & Regulatory	Yvette Adiguzel
Head of Financial Markets & Treasury Risk, Europe & Americas	Jerry Fung

8. Resolution Planning Corporate Governance

The U.S. Plan leverages WBC's risk management frameworks. Under these frameworks, the Board is responsible for approving the WBC's Group Risk Management Framework, WBC's Group Risk Management Strategy and WBC's Group Risk Appetite Statement, and for monitoring the effectiveness of risk management by the Westpac Group. The Board has delegated to the Board Risk Committee ('BRiskC') responsibility to:

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

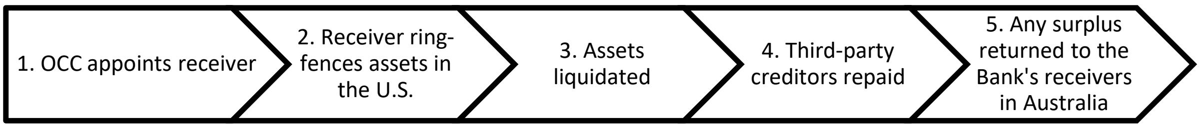
The Board Legal, Regulatory & Compliance Committee (BLRCC) is a sub-committee of the BRiskC. The BLRCC oversees material legal and regulatory change relevant to the Westpac Group. In addition, it oversees management of material litigation and regulatory investigations, compliance, conduct risk, financial crime risk and customer remediation activities and customer complaints. The BLRCC also reviews and approves the Compliance and Conduct Risk Management Framework and the Financial Crime Risk Management Framework.

For each of its primary financial risks, the Group maintains risk management frameworks and several supporting policies that define roles and responsibilities, acceptable practices, limits, and key controls.

9. Resolution Strategy

Westpac's U.S. Plan is intended to provide a guide for the orderly resolution of Westpac's NY Branch in a manner, which avoids systemic risk to the U.S. financial system and the U.S. economy. The resolution strategy for the NY Branch is premised on the assumption that Westpac has failed. Since the NY Branch is a legal extension of Westpac, failure of Westpac will in turn result in failure of the NY Branch.

As a U.S. federally licensed branch, the relevant resolution regime for the NY Branch is contained within the International Banking Act (IBA) of 1978[9]. The IBA empowers the OCC to appoint a receiver to take possession of all U.S. assets of Westpac, where the OCC determines that Westpac is insolvent. The appointed receiver would then liquidate the assets of the NY Branch, with the proceeds from such liquidation being used to pay the claims of all third-party creditors against the NY Branch[10], with any excess proceeds then able to be returned to Westpac's head office in Australia.



[9] A copy of the International Banking Act of 1978 is published on https://www.fdic.gov/regulations/laws/rules/8000-4800.html