Westpac Securities NZ Limited

Annual report

For the year ended 30 September 2016

Westpac Securities NZ Limited

Contents

This annual report covers Westpac Securities NZ Limited (the '**Company**') as an individual entity.

Westpac Securities NZ Limited is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is:

Westpac on Takutai Square
16 Takutai Square
Auckland

A description of the nature of the Company's operations and its principal activities is included in the Management report on page 3.

The members of the Board of Directors of the Company ('**Board**') at the date of these financial statements are:

Name	Principal activity outside the Company
David McLean	Chief Executive, Westpac New Zealand Limited ('**WNZL**')
Jason Clifton	Chief Financial Officer, WNZL
Mark Weenink	General Manager, Regulatory Affairs, Compliance and Legal, WNZL
Carolyn Kidd	Chief Risk Officer, WNZL

Westpac Securities NZ Limited

Information contained in or accessible through the websites mentioned in this annual report do not form part of this annual report unless we specifically state that such information is incorporated by reference and forms part of this annual report. All references in this annual report to websites are inactive textual references and are for information only.

Disclosure regarding forward-looking statements

This Annual Report contains statements that constitute 'forward-looking statements' within the meaning of Section 21E of the United States Securities Exchange Act of 1934.

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Annual Report and include statements regarding the Company's intent, belief or current expectations with respect to the Company's business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. Words such as 'will', 'may', 'expect', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'estimate', 'anticipate', 'believe', 'probability', 'risk', 'aim' or other similar words are used to identify forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond the Company's control, and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with the Company's expectations or that the effect of future developments on the Company will be those anticipated. Actual results could differ materially from those expected, depending on the outcome of various factors, including, but not limited to:

- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity, leverage and capital requirements;
- regulatory investigations, litigation, fines, penalties, restrictions or other regulator imposed conditions;
- the stability of New Zealand, Australian and international financial systems and disruptions to financial markets and any losses or business impacts the Company, WNZL or its customers or counterparties may experience as a result;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- adverse asset, credit or capital market conditions;
- changes in investment preferences of businesses and consumers away from bank deposits towards other assets or investment classes;
- changes to the credit ratings of WNZL or Westpac Banking Corporation ('**WBC**') or to the methodology used by credit rating agencies;
- levels of inflation, interest rates, exchange rates and market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in economic conditions, consumer spending, saving and borrowing habits in New Zealand, Australia, Asia and in other countries and regions in which WNZL or its customers or counterparties conduct their operations and WNZL's ability to maintain or to increase market share and control expenses;
- the effects of competition in the geographic and business areas in which WNZL conducts its operations;
- information security breaches, including cyberattacks;
- reliability and security of WBC's or WNZL's technology and risks associated with changes to technology systems;
- the conduct, behaviour or practices of the Company, WNZL and WBC or their staff;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- the effectiveness of WNZL's risk management policies, including internal processes, systems and employees;
- the occurrence of environmental change or external events in countries in which WNZL or its customers or counterparties conduct their operations;
- internal and external events which may adversely impact WNZL's reputation;
- changes to the value of WNZL's intangible assets;
- changes in political, social or economic conditions in any of the major markets in which WNZL or its customers or counterparties operate;
- the success of strategic decisions involving diversification or innovation, in addition to business expansion and integration of new businesses; and
- various other factors beyond WNZL's and the Company's control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made in this Annual Report by the Company refer to the section 'Risk factors' in this Management report. When relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and events.

The Company is under no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise, after the date of this Annual Report.

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Management report

Review and results of the Company's operations during the year ended 30 September 2016

The principal activity of the Company (acting through its London branch) is to raise and manage offshore wholesale funding for WNZL.

The profit after income tax expense of the Company for the year ended 30 September 2016 was $3,155,000 compared with the profit after tax of $6,419,000 for the year ended 30 September 2015, a decrease of 51%.

Interest income increased by 11% to $195,743,000 compared to the year ended 30 September 2015. The $19,630,000 increase was in line with the increase in interest expense and a result of higher average debt issues throughout the year.

Interest expense increased by 11% to $191,403,000 compared to the year ended 30 September 2015. The $18,776,000 increase was in line with the increase in interest income and a result of higher average debt issues throughout the year.

Net interest income increased by 24% to $4,340,000 compared to the year ended 30 September 2015.

Non-interest income decreased by 4% to $1,065,000 compared to year ended 30 September 2015.

Operating expenses decreased by 4% to $968,000 compared to the year ended 30 September 2015.

The Company had a tax expense of $1,282,000 compared to a tax credit of $2,832,000 for the year ended 30 September 2015, due to the settlement of the dispute between the New Zealand Inland Revenue Department ('**NZ IRD**') and the Company in the previous year.

Total debt securities issued as at 30 September 2016 was $11,329,259,000 which was a decrease of $295,743,000 or 3%, compared to $11,625,002,000 as at 30 September 2015. This decrease was largely due to strengthening of the New Zealand Dollar.

For further information on the financial performance and position of WNZL, refer to its most recent Disclosure Statement available on WNZL's website at www.westpac.co.nz.

Significant events during the year ended 30 September 2016

There were no significant events during the year ended 30 September 2016.

Risk factors

The Company's business is subject to risks that can adversely impact its financial performance, financial condition and future performance. As the Company is an indirect, wholly-owned subsidiary of WNZL, it is consequently affected by the same principal risks and uncertainties which affect WNZL. The principal risks and uncertainties that affect WNZL are set forth below. There are no additional material risk factors solely affecting the Company. If any of the following risks occur, the Company's business, prospects, financial performance or financial condition could be materially adversely affected, with the result that the trading price of the Company's securities could decline and as a security holder you could lose all, or part, of your investment. You should carefully consider the risks described and the other information in this Annual Report before investing in the Company's securities. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems to be immaterial, may also become important factors that affect the Company.

Risks relating to WNZL's business

WNZL's businesses are highly regulated and WNZL could be adversely affected by failing to comply with existing laws and regulations or by changes in laws, regulations or regulatory policy

As a financial institution, WNZL is subject to detailed laws and regulations in each of the jurisdictions in which WNZL or the Company operate or obtain funding, including New Zealand, the United Kingdom, the United States, Switzerland and various jurisdictions in Asia. WNZL is also supervised by a number of different regulatory and supervisory authorities which have broad administrative powers over its businesses. The Reserve Bank of New Zealand ('**RBNZ**') and the Financial Markets Authority ('**FMA**') have supervisory oversight of WNZL's operations.

WNZL is responsible for ensuring that it complies with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which it operates or obtains funding, as well as meeting its ethical standards.

Compliance risk is the risk of legal or regulatory sanction or financial or reputational loss, arising from WNZL's failure to abide by the compliance obligations required of it. An example of the broad administrative power available to regulatory authorities is the power available to the RBNZ in certain circumstances to investigate WNZL's affairs and/or issue a direction to WNZL (such as a direction to comply with a prudential requirement, to conduct an audit, to remove a Director, executive officer or employee or not to undertake transactions). Other regulators also have the power to investigate, including looking into past conduct. In recent years, there have been significant increases in the nature and scale of regulatory investigations, enforcement actions and the quantum of fines issued by global regulators. The nature of these reviews can be wide ranging and may result in litigation fines, penalties, revocation, suspension or variation of conditions of relevant regulatory licences or other administrative action by regulators. During the year ended 30 September 2016, WNZL has received notices and requests for information from its regulators. Regulatory investigations, litigation, fines, penalties, restrictions or regulator imposed conditions could adversely affect WNZL's business, reputation, prospects, financial performance or financial condition.

As with other financial services providers, WNZL faces increasing supervision and regulation in most of the jurisdictions in which it operates or obtains funding, particularly in the areas of funding, liquidity, capital adequacy, conduct and prudential regulation, anti-bribery and corruption, anti-money laundering and counter-terrorism financing and economic and trade sanctions. In December 2010, the Basel Committee on Banking Supervision ('**BCBS**') announced a revised global regulatory framework known as Basel III. Basel III, among other things, increased the required quality and quantity of capital held by banks and introduced new standards for the management of liquidity risk. The BCBS continues to refine this framework and the RBNZ and the Australian Prudential Regulation Authority are expected to incorporate the majority of these changes into their prudential standards.

During the year ended 30 September 2016, there were also a series of other regulatory releases from authorities in the various jurisdictions in which WNZL operates or obtains funding proposing significant regulatory change for financial institutions. This includes new accounting and reporting standards which have been finalised and global over-the-counter (OTC) derivatives reform.

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Management report (continued)

Other areas of proposed or potential change that could impact WNZL include changes to tax legislation, regulation relating to remuneration, consumer protection and competition legislation, privacy and data protection, anti-bribery and corruption, anti-money laundering and counter-terrorism financing laws and trade sanctions. In addition, further changes may occur driven by policy, prudential or political factors. For example, in 2013, the Australian Government commissioned a Financial System Inquiry (**'FSI'**) with broad terms of reference. The FSI's Final Report made 44 recommendations and the Australian Government endorsed the overwhelming majority of them. The Australian Government is now establishing a number of consultation processes to consider detailed implementation. The Australian Government or other regulators may also initiate further reviews, or commissions of inquiry, which could lead to additional regulatory change. The final impact of the FSI and the impact of any additional reviews or inquiries is difficult to predict but may result in further substantial regulatory changes which could have a material impact on WNZL's business, prospects, financial performance or financial condition.

Recent New Zealand reforms include the Financial Markets Conduct Act 2013 which overhauls the securities law regime. The legislation was passed in September 2013 and is expected to be fully implemented by the end of 2016. The Credit Contracts and Consumer Finance Amendment Act, which amended the entire suite of legislation that governs credit contracts, received Royal Assent in June 2014 and came into full effect in June 2015.

With effect from 1 November 2015 for new lending, the RBNZ has established a new asset class in the Capital Adequacy Frameworks for bank loans to residential property investors. With effect from 1 October 2016, the RBNZ has introduced further changes to the loan-to-value ratio (**'LVR'**) restrictions such that (i) there is a new limit of 5 percent on new lending carried out in the relevant measurement period for residential property investment where the LVR is greater than 60 percent, and (ii) there is now a limit of 10 percent on new non-residential property investment lending carried out in the measurement period where the LVR is greater than 80 percent The RBNZ is currently reviewing its outsourcing policy (BS11). It released a second consultation paper in May 2016 and is expected to release its final policy positions before the end of 2016 and an exposure draft of the policy is expected early in 2017.

The RBNZ is also undertaking a stocktake of the regulatory framework applying to banks with the aim of improving the efficiency, clarity and consistency of regulatory requirements. One of the key issues considered was the RBNZ's off-quarter disclosure requirements. In September 2016 the RBNZ released a consultation paper that proposed an option which would involve the RBNZ publishing a quarterly electronic "dashboard" of key financial information submitted by individual locally incorporated banks, which would replace the existing off-quarter disclosure statement requirements for these banks. The paper also considered the RBNZ's less preferred option which involves locally incorporated banks publishing a shorter disclosure statement providing essential information on capital and asset quality plus liquidity. The RBNZ had announced in December 2015 that it had decided to recommend to the Minister of Finance that the requirement for overseas incorporated registered banks to publish off-quarter disclosure information should be removed. Changes to the off-quarter disclosure regime are expected to take effect in 2017.

Regulation is becoming increasingly extensive and complex. Some areas of potential regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach. This may result in conflicts with specific requirements of the jurisdictions in which WNZL operates and, in addition, such changes may be inconsistently introduced across jurisdictions.

Changes may also occur in the oversight approach of regulators. It is possible that governments in jurisdictions in which WNZL or the Company operates or obtains funding might revise their application of existing regulatory policies that apply to, or impact, WNZL's or the Company's business, including for reasons relating to national interest and/or systemic stability. The powers exercisable by WNZL's regulators may also be expanded in the future.

Regulatory changes and the timing of their introduction continue to evolve and WNZL manages its businesses in the context of regulatory uncertainty. The nature and impact of future changes are not predictable and are beyond WNZL's control. Regulatory compliance and the management of regulatory change are an important part of WNZL's planning processes. WNZL expects that it will be required to continue to invest significantly in compliance and the management and implementation of regulatory change and, at the same time, significant management attention and resources will be required to update existing, or implement new, processes to comply with new regulations.

Regulatory changes may also impact WNZL's operations by requiring it to have increased levels of liquidity and higher levels of, and better quality, capital and funding as well as place restrictions on the businesses it conducts (including limiting its ability to provide products and services to certain customers), require WNZL to amend its corporate structure or require WNZL to alter its product or service offerings. If regulatory change has any such effect, it could adversely affect one or more of WNZL's businesses, restrict its flexibility, require it to incur substantial costs and impact the profitability of one or more of its business lines. Any such costs or restrictions could adversely affect WNZL's business, prospects, financial performance or financial condition.

Adverse credit and capital market conditions or depositor preferences may significantly affect WNZL's ability to meet funding and liquidity needs and may increase its cost of funding

WNZL relies on deposits and credit and capital markets to fund its business and as a source of liquidity. WNZL's liquidity and costs of obtaining funding are related to credit and capital market conditions.

Global credit and capital markets can experience periods of extreme volatility, disruption and decreased liquidity as was demonstrated during the Global Financial Crisis. While there have now been extended periods of stability in these markets, the environment remains unpredictable. The main risks WNZL faces are damage to market confidence, changes to the access and cost of funding and a slowing in global activity or through other impacts on entities with which WNZL does business.

As of 30 September 2016, approximately 21% of WNZL's total funding originated from domestic and international wholesale markets (30 September 2015: 22%). Of this, around 72% was sourced outside New Zealand (30 September 2015: 75%). As of 30 September 2016, WNZL's deposits provided around 74% of total funding (30 September 2015: 72%). Customer deposits held by WNZL are comprised of both term deposits which can be withdrawn after a certain period of time and at call deposits which can be withdrawn at any time.

A shift in investment preferences could result in deposit withdrawals by customers which could increase WNZL's need for funding from other, potentially less stable or more expensive, forms of funding.

If market conditions deteriorate due to economic, financial, political or other reasons, there may also be a loss of confidence in bank deposits and WNZL could experience unexpected deposit withdrawals. In this situation WNZL's funding costs may be adversely affected and its liquidity, funding and lending activities may be constrained.

If WNZL's current sources of funding prove to be insufficient, WNZL may be forced to seek alternative financing. The availability of such alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, WNZL's credit ratings and credit market capacity. Even if available, these alternatives may be more expensive or on unfavourable terms, which could adversely affect WNZL's financial performance, liquidity, capital resources and financial condition. There is no assurance that WNZL will be able to obtain adequate funding and do so at acceptable prices, nor that it will be able to recover any additional costs.

Management report (continued)

If WNZL is unable to source appropriate funding, it may also be forced to reduce its lending or begin selling liquid securities. Such actions may adversely impact WNZL's business, prospects, liquidity, capital resources, financial performance or financial condition.

WNZL enters into collateralised derivative obligations, which may require it to post additional collateral based on movements in market rates, which have the potential to adversely affect WNZL's liquidity.

Sovereign risk may destabilise financial markets adversely

Sovereign risk is the risk that foreign governments will default on their debt obligations, will be unable to refinance their debts as they fall due, or will nationalise parts of their economy, including assets of financial institutions such as WNZL.

Sovereign defaults could negatively impact the value of WNZL's holdings of high quality liquid assets. There may also be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the Global Financial Crisis. Such an event could destabilise global financial markets adversely affecting WNZL's liquidity, financial performance or financial condition.

Failure to maintain credit ratings could adversely affect WNZL's cost of funds, liquidity, competitive position and access to capital markets

Credit ratings are independent opinions on WNZL's creditworthiness. WNZL's credit ratings can affect the cost and availability of its funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating WNZL's products and services. Therefore, maintaining high quality credit ratings is important.

The credit ratings assigned to WNZL by rating agencies are based on an evaluation of a number of factors, including WNZL's financial strength, WNZL's position as part of the Westpac Banking Corporation group (**'WBC Group'**), structural considerations regarding the New Zealand financial system and the credit rating of the New Zealand Government. A credit rating downgrade could be driven by a downgrade of the New Zealand Government, the occurrence of one or more of the other risks identified in this section or by other events including changes to the methodologies used by the rating agencies to determine ratings. Credit ratings agencies Standard & Poor's and Moody's both revised their outlook on New Zealand's major banks (including WNZL) from 'stable' to 'negative' during the year ended 30 September 2016.

The credit ratings of a subsidiary are generally linked to the credit ratings of its parent entity. Consequently, should the long-term issuer credit rating of WBC be downgraded, it is likely that WNZL's long-term issuer credit rating would also be downgraded which would adversely affect its cost of funds and related margins, collateral requirements, liquidity, competitive position and access to capital markets.

Failure to maintain WNZL's high 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 WNZL's ratings differ among agencies (split ratings) and whether any ratings changes also impact WNZL's competitors or the sector.

A systemic shock in relation to the New Zealand, Australian or other financial systems could have adverse consequences for WNZL or its customers or counterparties that would be difficult to predict and respond to

There is a risk that a major systemic shock could occur that causes an adverse impact on the New Zealand, Australian or other financial systems.

As outlined above, during the past decade the financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility, global economic conditions and political developments (such as Brexit). A shock to one of the major global economies could again result in currency and interest rate fluctuations and operational disruptions that negatively impact WNZL.

Any such market and economic disruptions could adversely affect financial institutions such as WNZL because consumer and business spending may decrease, unemployment may rise and demand for the products and services WNZL provides may decline, thereby reducing its earnings. These conditions may also affect the ability of WNZL's borrowers to repay their loans or WNZL's counterparties to meet their obligations, causing WNZL to incur higher credit losses. These events could also result in the undermining of confidence in the financial system, reducing liquidity, impairing WNZL's access to funding and impairing WNZL's customers and counterparties and their businesses. If this were to occur, WNZL's business, prospects, financial performance or financial condition could be adversely affected.

The nature and consequences of any such event are difficult to predict and there can be no certainty that WNZL could respond effectively to any such event.

WNZL is subject to contagion and reputation risk, which may adversely impact WNZL's financial conditions and financial performance

As part of a larger business group, WNZL is vulnerable to financial and reputational damage by virtue of its association with other members of the WBC Group, any of which may suffer the occurrence of a risk event, including financial stress or failure. In WNZL's case, the damage may be financial and may impact its financial condition and financial performance if the financial resources provided by WBC to support WNZL are withdrawn. Reputational consequences (including damage to the Westpac franchise), as a result of the occurrence of a risk event (for example, major operational failure), may exceed the direct cost of the risk event itself and may impact on WNZL's results.

Declines in asset markets could adversely affect WNZL's operations or profitability

Declines in New Zealand, Australian or other asset markets, including equity, residential and commercial property and other asset markets, could adversely affect WNZL's operations and profitability.

Declining asset prices also impact WNZL's wealth management business. Earnings in WNZL's wealth management business are, in part, dependent on asset values because it typically receives fees based on the value of securities and/or assets held or managed. A decline in asset prices could negatively impact the earnings of this business.

Declining asset prices could also impact customers and counterparties and the value of security (including residential and commercial property) WNZL holds against loans and derivatives which may impact its ability to recover amounts owing to it if customers or counterparties were to default. It may also affect WNZL's level of provisioning which in turn impacts its profitability and financial condition.

A weakening of the real estate market in New Zealand could adversely affect WNZL

Loans secured by residential mortgages are important to WNZL's business. As at 30 September 2016, housing loans represented approximately 60% of WNZL's gross loans and advances (30 September 2015: 61%).

A sustained decrease in property valuations in New Zealand could increase the losses WNZL may experience from its existing housing loans and decrease the amount of new housing loans WNZL is able to originate, which could materially and adversely affect WNZL's financial condition, financial performance and future performance.

Management report (continued)

WNZL's business is substantially dependent on the New Zealand and Australian economies

WNZL's revenues and earnings are dependent on economic activity and the level of financial services its customers require. In particular, lending is dependent on various factors including economic growth, business investment, business and consumer sentiment, levels of employment, interest rates and trade flows in the countries in which WNZL operates.

WNZL conducts the majority of its business in New Zealand and, consequently, its performance is influenced by the level and cyclical nature of lending in New Zealand. These factors are in turn impacted by both domestic and international economic conditions, natural disasters and political events. A significant decrease in New Zealand housing valuations could adversely impact WNZL's home lending activities because borrowers with loans in excess of their property value show a higher propensity to default and in the event of defaults WNZL's security would be eroded, causing it to incur higher credit losses. The demand for WNZL's home lending products may also decline due to adverse changes in taxation or buyer concerns about decreases in values.

Adverse changes to economic and business conditions in New Zealand and other countries such as Australia, China, India and Japan, could also adversely affect the New Zealand economy and WNZL's customers. In particular, due to the current economic relationship between New Zealand, Australia and China, a slowdown in the economic growth of China or Australia could negatively impact the New Zealand economy. Changes in commodity prices and broader economic conditions could, in turn, result in reduced demand for WNZL's products and services and affect the ability of its borrowers to repay their loans. If this were to occur, it could negatively impact WNZL's business, prospects, financial performance or financial condition.

An increase in defaults in credit exposures could adversely affect WNZL's liquidity, capital resources, financial performance or financial condition

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations to WNZL. It is a significant risk and arises primarily from WNZL's lending activities.

WNZL establishes provisions for credit impairment based on current information. If economic conditions deteriorate, some customers and/or counterparties could experience higher levels of financial stress and WNZL may experience a significant increase in defaults and write-offs, and be required to increase its provisioning. Such events would diminish available capital and could adversely affect WNZL's liquidity, capital resources, financial performance or financial condition.

Credit risk also arises from certain derivative, clearing and settlement contracts WNZL enters into, and from its dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies the financial conditions of which may be affected to varying degrees by economic conditions in global financial markets.

WNZL faces intense competition in all aspects of its business

The financial services industry is highly competitive. WNZL competes, both domestically and internationally, with retail and commercial banks, asset managers, investment banking firms, brokerage firms, other financial service firms and businesses in other industries with emerging financial services aspirations. This includes specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently. Digital technologies are changing consumer behaviour and the competitive environment. The use of digital channels by customers to conduct their banking continues to rise and emerging competitors are increasingly utilising new technologies and seeking to disrupt existing business models, including in relation to digital payment services. WNZL faces competition from established providers of financial services as well as the threat of competition from banking businesses developed by non-financial services companies.

If WNZL is unable to compete effectively in its various businesses and markets, its market share may decline. Increased competition may also adversely affect WNZL by diverting business to its competitors or creating pressure to lower margins.

Increased competition for deposits could also increase WNZL's cost of funding and lead it to access other types of funding or reduce lending. WNZL relies on bank deposits to fund a significant portion of its balance sheet and deposits have been a relatively stable source of funding. WNZL competes with banks and other financial services firms for such deposits. To the extent that WNZL is not able to successfully compete for deposits, it would be forced to rely more heavily on other, potentially less stable or more expensive forms of funding, or reduce lending.

WNZL is also dependent on its ability to offer products and services that match evolving customer preferences. If WNZL is not successful in developing or introducing new products and services or responding or adapting to changes in customer preferences and habits, it may lose customers to its competitors. This could adversely affect its business, prospects, financial performance or financial condition.

WNZL could suffer losses due to market volatility

WNZL is exposed to market risk through the asset and liability management of its financial position. This is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, commodity prices, interest rates including the potential for negative interest rates. This includes interest rate risk in the banking book, such as the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. If WNZL were to suffer substantial losses due to any market volatility it may adversely affect its business, prospects, liquidity, capital resources, financial performance or financial condition.

WNZL 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, model risk and outsourcing risk. While WNZL has policies and processes to manage the risk of human error these policies and processes may not always be effective.

WNZL could incur losses from fraudulent applications for loans or incorrect or fraudulent payments and settlements, particularly real-time payments. Fraudulent conduct can also emerge from external parties seeking to access WNZL's systems and customers' accounts. If systems, procedures and protocols for managing fraud fail, or are ineffective, they could lead to losses which could adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

As a financial services organisation, WNZL is heavily reliant on the use of data and models in the conduct of its business. WNZL is therefore exposed to model risk, being the risk of loss arising because of errors or inadequacies in data or a model, or in the control and use of the model.

WNZL relies on a number of suppliers, both in New Zealand and overseas, to provide services to it and its customers. Failure by these suppliers to deliver services as required could disrupt services and adversely impact WNZL's operations, profitability or reputation.

Management report (continued)

Operational risks could impact on WNZL's operations or adversely affect demand for its products and services.

Operational risks can directly impact WNZL's reputation and result in financial losses which would adversely affect its financial performance or financial condition.

WNZL may be involved from time to time in legal proceedings arising from the conduct of its business. WNZL's material contingent liabilities are described in Note 29 to the WNZL Disclosure Statement for the year ended 30 September 2016. There is a risk that these contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

WNZL could suffer information security risks, including cyberattacks

The proliferation of new technologies, the increasing use of the internet and telecommunications to conduct financial transactions and the growing sophistication and activities of attackers (including organised crime and state-sponsored actors) have resulted in increased information security risks for major financial institutions such as WNZL and its external service providers.

While WNZL has systems in place to detect and respond to cyberattacks, these systems may not always be effective and there can be no assurance that WNZL will not suffer losses from cyberattacks or other information security breaches in the future.

WNZL's operations rely on the secure processing, storage and transmission of information on its computer systems and networks, and the systems and networks of external suppliers. Although WNZL implements measures to protect the security, integrity and confidentiality of its information, there is a risk that the computer systems, software and networks on which WNZL relies may be subject to security breaches, unauthorised access, malicious software, external attacks or internal breaches that could have an adverse impact on WNZL's confidential information or that of its customers and counterparties.

Major banks in other jurisdictions have recently suffered security breaches from sophisticated cyberattacks. WNZL's external service providers or other parties that facilitate its business activities (such as vendors, exchanges, clearing houses, central depositories and financial intermediaries) are also subject to the risk of cyberattacks. Any such security breach could result in the loss of customers and business opportunities, significant disruption to WNZL's operations, misappropriation of WNZL's confidential information and/or that of its customers and damage to WNZL's computers or systems and/or those of its customers. Such a security breach could also result in reputational damage, claims for compensation and regulatory investigations and penalties, which could adversely affect WNZL's business, prospects, financial performance, or financial condition.

WNZL's risk and exposure to such threats remains heightened because of the evolving nature of technology, WNZL's prominence within the financial services industry, the prominence of its customers (including government) and its plans to continue to improve and expand its internet and mobile banking infrastructure.

WNZL could suffer losses due to technology failures

The reliability and security of WNZL's information and technology infrastructure are crucial in maintaining its banking applications and processes. There is a risk that WNZL's information and technology systems might fail to operate properly or become disabled as a result of events that are wholly or partially beyond its control.

Further, WNZL's ability to develop and deliver products and services to customers is dependent upon technology that requires periodic renewal. WNZL is constantly managing technology projects including projects to consolidate technology platforms, simplify and enhance its technology and operations environment, improve productivity and provide for a better customer experience. Failure to implement these projects or manage associated change effectively could result in cost overruns, a failure to achieve anticipated productivity, operational instability or reputational damage. In turn this could place WNZL at a competitive disadvantage and adversely affect its financial performance.

WNZL could suffer losses due to conduct risk

Conduct risk is the risk that provision of WNZL's services and products results in unsuitable or unfair outcomes for its stakeholders or undermines market integrity. WNZL is highly dependent on the conduct of its employees, contractors and external service providers. WNZL could, for example, be adversely affected in the event that an employee, contractor or external service provider engages in unfair or inappropriate conduct. This could include losses from a failure to meet a professional obligation to specific clients, including fiduciary and suitability requirements, or from the nature or design of a product. While WNZL has policies and processes to manage employee, contractor or external service provider misconduct, these policies and processes may not always be effective.

WNZL could suffer losses due to failures in governance or risk management strategies

WNZL has implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor and manage risks including liquidity risk, credit risk, market risk (such as interest rate and foreign exchange risk), compliance risk, conduct risk, insurance risk, sustainability risk, related entity (contagion) risk and operational risk, all of which may impact WNZL's reputation.

However, there are inherent limitations with any risk management framework as there may exist, or emerge in the future, risks that WNZL has not anticipated or identified.

If any of WNZL's governance or risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, WNZL could suffer unexpected losses and reputational damage which could adversely affect its business, prospects, financial performance or financial condition.

Reputational damage could harm WNZL's business and prospects

WNZL's ability to attract and retain customers and its prospects could be adversely affected if its reputation is damaged.

Reputation risk is the risk of loss of reputation, stakeholder confidence, or public trust and standing. It arises where there are differences between stakeholders' current and emerging perceptions, beliefs and expectations and WNZL's current and planned activities, performance and behaviours.

Westpac Securities NZ Limited

Management report (continued)

There are various potential sources of reputational damage including failure to effectively manage risks in accordance with WNZL's risk management frameworks, potential conflicts of interest, pricing policies, failure to comply with legal and regulatory requirements, failure to meet WNZL's market disclosure obligations, regulatory investigations into past conduct, making inaccurate public statements, environmental, social and ethical issues, engagement and conduct of external suppliers, failure to comply with anti-money laundering and anti-bribery and corruption laws, economic and trade sanctions and counter-terrorism finance legislation or privacy laws, litigation, failure of information security systems, improper sales and trading practices, failure to comply with personnel and supplier policies, improper conduct of companies in which WNZL holds strategic investments, technology failures and security breaches. WNZL's reputation could also be adversely affected by the actions of the financial services industry in general or from the actions of WNZL's customers, suppliers and other counterparties.

Failure, or perceived failure, to appropriately address issues that could or do give rise to reputational risk could also impact the regulatory change agenda, give rise to additional legal risk, subject WNZL to regulatory investigations, regulatory enforcement actions, fines and penalties, class actions or remediation costs, or harm WNZL's reputation among its customers, investors and the marketplace. This could lead to loss of business which could adversely affect WNZL's business, prospects, financial performance or financial condition.

WNZL could suffer losses due to environmental factors

WNZL and its customers operate businesses and hold assets in a diverse range of geographic locations. Any significant environmental change or external event (including fire, storm, flood, earthquake, pandemic, civil unrest or terrorism events) in any of these locations has the potential to disrupt business activities, impact on WNZL's operations, damage property and otherwise affect the value of assets held in the affected locations and WNZL's ability to recover amounts owing to it. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets.

WNZL could suffer losses due to impairment of capitalised software, goodwill and other intangible assets that may adversely affect its business, operations and financial condition

In certain circumstances WNZL may be exposed to a reduction in the value of intangible assets. As at 30 September 2016, WNZL carried goodwill principally related to its investments in New Zealand and capitalised software balances.

WNZL is required to assess the recoverability of the goodwill balances on at least an annual basis or wherever an indicator of impairment exists. For this purpose WNZL uses a discounted cash flow calculation. Changes in the methodology or assumptions upon which the calculation is based, together with expected changes in future cash flows, could materially impact this assessment, resulting in the potential write-off of part or all of the goodwill balances.

Capitalised software and other intangible assets are assessed for indicators of impairment at least annually or on indication of impairment. In the event that an asset is no longer in use, or its value has been reduced or that its estimated useful life has declined, an impairment will be recorded, adversely impacting WNZL's financial condition. The estimates and assumptions used in assessing the useful life of an asset can be affected by a range of factors including changes in strategy and the rate of external changes in technology and regulatory requirements.

WNZL could suffer losses if it fails to syndicate or sell down underwritten securities

As a financial intermediary WNZL underwrites listed and unlisted debt and equity securities. Underwriting activities include the development of solutions for corporate and institutional customers who need capital and investor customers who have an appetite for certain investment products. WNZL may guarantee the pricing and placement of these facilities. WNZL could suffer losses if it fails to syndicate or sell down its risk to other market participants. This risk is more pronounced in times of heightened market volatility.

Certain strategic decisions may have adverse effects on WNZL's business

WNZL, at times, evaluates and may implement strategic decisions and objectives including diversification, innovation, divestment or business expansion initiatives, including acquisitions of businesses. The expansion or integration of a new business, can be complex and costly and may require WNZL to comply with additional local or foreign regulatory requirements which may carry additional risks. These decisions may, for a variety of reasons, not deliver the anticipated positive business results and could have a negative impact on WNZL's business, prospects, engagement with regulators, financial performance or financial condition.

Wholesale Funding

The wholesale funding base is diversified with respect to term, investor base, currency and funding instrument. WNZL and the Company maintain funding programmes for both short and long-term debt in several jurisdictions including New Zealand, Europe and the United States.

The following table sets forth the wholesale funding programmes of WNZL and the Company.

Markets	Issuer	Programme Type	Programme Limit 30 September 2016	Programme Limit 30 September 2015
Euro market	WBC/Company [1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion	US$20 billion
Euro market	Company [1]	Programme for Issuance of Debt Instruments	US$10 billion [2]	US$7.5 billion
Euro market	Company [1]	Global Covered Bond Programme	€5 billion	€5 billion
United States	Company [1]	Section 4(2) US Commercial Paper Programme	US$10 billion	US$10 billion
New Zealand	WNZL	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit	No limit

[1]Notes issued by the Company (acting through its London branch) are guaranteed by WNZL.

[2]On 1 December 2015 the Board resolved to increase the limit of the Programme for Issuance of Debt Instruments to US$10 billion.

Westpac Securities NZ Limited

Responsibility Statement

The Board confirms that to the best of their knowledge:

1. the financial statements for the year ended 30 September 2016, which have been prepared in accordance with the Financial Reporting Act 2013 (New Zealand), Companies Act 1993 (New Zealand), applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the External Reporting Board ('**XRB**') as appropriate for profit-oriented entities, give a true and fair view of the financial position and profit or loss of the Company; and
2. the Management report includes a fair review of the information required by the Disclosure and Transparency Rules 4.1.8R to 4.1.11R of the United Kingdom Financial Conduct Authority.

Westpac Securities NZ Limited

Directors' report

The Board has pleasure in presenting the annual report of the Company comprising the Management report, the financial statements of the Company and the auditors' report for the year ended 30 September 2016.

The shareholder of the Company has exercised its rights under section 211(3) of the Companies Act 1993 (the '**Act**') and has agreed that this annual report need not comply with any of the paragraphs (a) and (e) to (j) of section 211(1) of the Act.

The Board authorised this annual report on 5 December 2016.

For and on behalf of the Board.

Director
Auckland
Date: 5 December 2016

Director
Auckland
Date: 5 December 2016

Westpac Securities NZ Limited

Statement of comprehensive income for the year ended 30 September

	Note	2016	2015
		$'000	$'000
Interest income		**195,743**	176,113
Interest expense		**(191,403)**	(172,627)
Net interest income	2	**4,340**	3,486
Non-interest income	3	**1,065**	1,105
Net operating income		**5,405**	4,591
Operating expenses	4	**(968)**	(1,004)
Profit before income tax expense		**4,437**	3,587
Income tax (expense)/credit	6	**(1,282)**	2,832
Profit after income tax expense		**3,155**	6,419
Other comprehensive income		**-**	-
Total comprehensive income, net of tax		**3,155**	6,419
Profit after income tax expense and total comprehensive income, net of tax, attributable to:			
Owners of the Company		**3,155**	6,419
		3,155	6,419

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Westpac Securities NZ Limited

Statement of changes in equity for the year ended 30 September

		Attributable to owners of the Company		
		Share Capital	Retained Profits	Total
	Note	$'000	$'000	$'000
As at 1 October 2014		651	9,174	9,825
Year ended 30 September 2015				
Profit after income tax expense		-	6,419	6,419
Total comprehensive income for the year ended 30 September 2015		-	6,419	6,419
Transactions with owners:				
Dividends paid on ordinary shares	11	-	(2,500)	(2,500)
As at 30 September 2015		651	13,093	13,744
Year ended 30 September 2016				
Profit after income tax expense		**-**	**3,155**	**3,155**
Total comprehensive income for the year ended 30 September 2016		**-**	**3,155**	**3,155**
Transactions with owners:				
Dividends paid on ordinary shares	11	**-**	**(6,600)**	**(6,600)**
As at 30 September 2016		**651**	**9,648**	**10,299**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Westpac Securities NZ Limited

Balance sheet as at 30 September

	Note	2016 $'000	2015 $'000
Assets			
Cash and cash equivalents	8	**8,981**	12,865
Due from related entities	12	**11,381,073**	11,687,566
Current tax asset		**2,303**	1,464
Total assets		**11,392,357**	11,701,895
Liabilities			
Due to related entities	12	**1,260**	1,521
Debt issues	9	**11,329,259**	11,625,002
Other liabilities	10	**51,539**	61,628
Total liabilities		**11,382,058**	11,688,151
Net assets		**10,299**	13,744
Equity			
Share capital	11	**651**	651
Retained profits		**9,648**	13,093
Total equity attributable to owners of the Company		**10,299**	13,744

The above balance sheet should be read in conjunction with the accompanying notes.

Westpac Securities NZ Limited

Statement of cash flows for the year ended 30 September

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Interest income received		**203,346**	163,648
Interest expense paid		**(201,189)**	(158,749)
Service fees received - related entities		**1,084**	995
Service fees paid - related entities		**(766)**	(974)
Operating expenses paid		**(382)**	(107)
Income tax (paid)/received		**(2,151)**	3,369
Net cash (used in)/provided by operating activities	15	**(58)**	8,182
Cash flows from investing activities			
Net increase in due from related entities		**(1,523,888)**	(889,582)
Net cash used in investing activities		**(1,523,888)**	(889,582)
Cash flows from financing activities			
Net decrease in due to related entities		**(384)**	(1,209)
Net increase from debt issues		**1,527,046**	892,675
Dividends paid		**(6,600)**	(2,500)
Net cash provided by financing activities	11	**1,520,062**	888,966
Net (decrease)/increase in cash and cash equivalents		**(3,884)**	7,566
Cash and cash equivalents at beginning of the year		**12,865**	5,299
Cash and cash equivalents at end of the year	8	**8,981**	12,865

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

Note 1. Basis of preparation

These financial statements were authorised for issue by the Board on 5 December 2016. The Board has the power to amend the financial statements after they are authorised for issue.

The principal activity of the Company (acting through its London branch) is to raise and manage offshore wholesale funding for WNZL. The Company is a wholly-owned, indirect subsidiary of WNZL.

The principal accounting policies adopted in the preparation of these financial statements are set out below and in the relevant notes to the financial statements. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

a. Basis of preparation

(i) Basis of accounting

These financial statements are general purpose financial statements prepared in accordance with the Companies Act 1993 (the '**Act**') and the Financial Reporting Act 2013. These financial statements comply with Generally Accepted Accounting Practice in New Zealand, applicable NZ IFRS and other authoritative pronouncements of the External Reporting Board, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

All amounts in these financial statements have been rounded to the nearest thousands of New Zealand dollars unless otherwise stated.

(ii) Accounting conventions

These financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting financial assets and financial liabilities classified at fair value through profit or loss. The going concern concept and the accrual basis of accounting have been applied.

(iii) Comparative revisions

No comparative information revisions have been made.

(iv) Changes in accounting standards

No new accounting standards or amendments have been adopted for the year ended 30 September 2016.

(v) Foreign currency translation

Functional and presentational currency

The financial statements are presented in New Zealand dollars which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

b. Financial assets and financial liabilities

(i) Recognition

Purchases and sales of financial assets, except for loans and receivables, are recognised on trade-date; the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognised on settlement date when cash is advanced to the borrowers.

Financial liabilities are recognised when an obligation arises.

(ii) Classification and measurement

The Company classifies its significant financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

The Company classifies significant financial liabilities into the following categories: financial liabilities at fair value through profit and loss and financial liabilities at amortised cost.

Financial assets and financial liabilities measured at fair value through profit or loss are recognised initially at fair value. All other financial assets and financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

The accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Company has either transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full under a 'pass through' arrangement together with the transfer of substantially all the risks and rewards of ownership.

Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership but has retained control, the asset continues to be recognised on the balance sheet to the extent of the Company's continuing involvement in the asset.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in profit or loss through the statement of comprehensive income.

Notes to the financial statements

Note 1. Basis of preparation (continued)

Statement of cash flows

Basis of presentation

The statement of cash flows has been presented in accordance with New Zealand equivalent to International Accounting Standard ('**NZ IAS**') 7 *Statement of Cash Flows* with the netting of certain items as disclosed below.

Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management of the Company, which are readily convertible to a known amount of cash at the Company's option.

Operating, investing and financing activities

Operating activities are the principal revenue-producing activities of the Company and other activities that are not investing or financing activities. Investing activities are the acquisition and disposal of long-term assets and other investments that are not included in cash equivalents. Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Company.

c. Critical accounting assumptions and estimates

Applying the Company's accounting policies requires the use of judgment, assumptions and estimates which impact the financial information. The significant assumptions and estimates used are discussed in the relevant notes below.

- Note 6 Income tax expense
- Note 14 Fair value of financial instruments

d. Future accounting developments

The following new standards and interpretations which may have a material impact on the Company have been issued, but are not yet effective and have not been early adopted by the Company:

NZ IFRS 9 *Financial Instruments* (September 2014) ('**NZ IFRS 9**') will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* ('**NZ IAS 39**'). It includes a forward looking 'expected loss' impairment model, revised classification and measurement model and modifies the approach to hedge accounting. Unless early adopted, the standard will be effective for the 30 September 2019 financial year. Whilst it is not yet practical to reliably estimate the financial impact on the financial statements, the major changes under the standard are outlined below:

Impairment

NZ IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the existing incurred loss model which only recognises impairment if there is objective evidence that a loss has been incurred.

Classification and measurement

NZ IFRS 9 replaces the classification and measurement model in NZ IAS 39 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument solely represent the payment of principle and interest. Financial assets will be measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principle and interest. Non - traded equity instruments can also be measured at fair value through other comprehensive income;
- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principle and interest. An entity can also elect to measure a financial asset at fair value through profit and loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

NZ IFRS 15 *Revenue from Contracts with Customers* was issued on 3 July 2014 and will be effective for the 30 September 2019 financial year. The standard provides a single comprehensive model for revenue recognition. It supersedes current recognition and related interpretations. The application of NZ IFRS 15 is not expected to have a material impact on the Company.

Disclosure Initiative: Amendments to *NZ IAS 7 Statement of Cash Flows* was issued on 12 May 2016 and will be effective for the 30 September 2018 year end unless early adopted. Comparatives are not required on first application. The standard requires additional disclosures regarding both cash and non - cash changes in liabilities arising from financing activities. The standard is not expected to have a material impact on the Company.

Westpac Securities NZ Limited

Notes to the financial statements

Note 2. Net interest income

Accounting policy

Net interest income

Interest income and expense for all interest earning financial assets and interest bearing financial liabilities, detailed within the table below, is recognised using the effective interest rate method.

The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the instrument, over its expected life.

	2016 $'000	2015 $'000
Interest income		
Due from related entities (refer to Note 12)	**195,743**	176,113
Total interest income	**195,743**	176,113
Interest expense		
Debt issues	**181,566**	164,693
Due to related entities - gurarantee fees	**9,837**	7,934
Total interest expense	**191,403**	172,627
Net interest income	**4,340**	3,486

Of the amounts noted in total interest income and total interest expense, the amounts related to financial instruments not measured at fair value through income statement were as follows:

	2016 $'000	2015 $'000
Interest income	**178,379**	167,762
Interest expense	**174,039**	164,069

Note 3. Non-interest income

Accounting policy

Fee income

Fees are generally recognised on an accrual basis over the period during which the service is performed.

	2016 $'000	2015 $'000
Fees and commissions		
Service fees received from related entities (refer to Note 12)	**1,065**	1,105
Total non-interest income	**1,065**	1,105

Note 4. Operating expenses

	2016 $'000	2015 $'000
Bank charges	**6**	12
Services provided - related entities (refer to Note 12)	**889**	897
Purchased services	**70**	76
Travel expenses	**3**	19
Total operating expenses	**968**	1,004

Note 5. Auditors' remuneration

The audit fees for the year ended 30 September 2016 amounting to $36,000 (30 September 2015: $35,000) were borne by WNZL.

Westpac Securities NZ Limited

Notes to the financial statements

Note 6. Income tax expense

Accounting policy

Income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the statement of comprehensive income.

Current tax is the expected tax payable for the year using enacted or substantively enacted tax rates and laws for each jurisdiction. Current tax also includes adjustments to tax payable for previous years.

Goods and services tax

Revenue, expenses and assets are recognised net of goods and services tax (**'GST'**) except to the extent that GST is not recoverable from the Inland Revenue. In these circumstances, GST is recognised as part of the expense or the cost of the asset.

Critical accounting assumptions and estimates

The Company operates in multiple tax jurisdictions and significant judgment is required in determining the worldwide current tax liability.

	2016 $'000	2015 $'000
Income tax expense		
Current tax:		
- Current year	1,243	1,004
- Prior year adjustments	39	(3,836)
Total income tax expense/(credit)	1,282	(2,832)
Reconciliation of income tax expense/(credit) to profit before income tax expense		
Profit before income tax expense	4,437	3,587
Tax calculated at tax rate of 28% (30 September 2015: 28%)	1,243	1,004
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
Adjustments for tax of prior years	39	(3,836)
Total income tax expense/(credit)	1,282	(2,832)

During the year ended 30 September 2015 the Company recognised $4,149,000 of Foreign Tax Credits reflecting the settlement of a dispute between the NZ IRD and the Company (2016: nil).

Note 7. Imputation credit account

	2016 $'000	2015 $'000
Imputation credits available for use in subsequent reporting periods	1,367	134

Note 8. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash and liquid assets. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate. They are accounted for as loans and receivables.

	2016 $'000	2015 $'000
Cash and cash equivalents - with external parties	87	89
Cash and cash equivalents - WNZL (refer to Note 12)	8,894	12,776
Total cash and cash equivalents	8,981	12,865

Note 9. Debt issues

Accounting policy

Debt issues are bonds, notes and commercial paper that have been issued by the Company.

Debt issues are initially measured at fair value and subsequently either measured at amortised cost using the effective interest rate method or at fair value.

Debt issues are designated at fair value through profit or loss when they are managed on a fair value basis. They are measured at fair value with changes in fair value (except credit risk) recognised as non-interest income.

The change in the portion of the fair value that is attributable to the **'Banking Group'**s (defined as WNZL and its controlled entities) credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised in the income statement.

Interest expense incurred is recognised within net interest income using the effective interest rate method.

Notes to the financial statements

Note 9. Debt issues (continued)

	2016 $'000	2015 $'000
Short-term debt		
Commercial papers	**2,410,249**	2,716,152
Total short-term debt	**2,410,249**	2,716,152
Long-term debt		
Euro medium-term notes	**5,533,029**	4,945,380
Covered bonds	**3,385,981**	3,963,470
Total long-term debt	**8,919,010**	8,908,850
Total debt issues	**11,329,259**	11,625,002
Debt issues measured at amortised cost (refer to Note 14)	**8,919,010**	8,908,850
Debt issues measured at fair value (refer to Note 14)	**2,410,249**	2,716,152
Total debt issues	**11,329,259**	11,625,002
Movement in debt issues		
Balance at beginning of the year	**11,625,002**	9,269,331
Issuances during the year	**7,140,415**	7,224,912
Repayments during the year	**(5,613,369)**	(6,332,237)
Effect of foreign exchange movements during the year	**(1,823,656)**	1,462,475
Effect of fair value movements during the year	**867**	521
Balance at end of the year	**11,329,259**	11,625,002
Amounts expected to be settled within 12 months	**5,205,997**	4,504,836
Amounts expected to be settled after 12 months	**6,123,262**	7,120,166
Total debt issues	**11,329,259**	11,625,002

Note 10. Other liabilities

Accounting policy

Other liabilities include accrued interest payable on debt issues and accrued fees payable. They are accounted for as financial liabilities at amortised cost.

	2016 $'000	2015 $'000
Accrued interest payable on debt issues	**51,539**	61,325
Accrued fees payable	**-**	303
Total other liabilities	**51,539**	61,628

The balance will be settled within 12 months.

Note 11. Equity

Accounting policy

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Ordinary shares fully paid

	2016 Number of Authorised and Issued Shares	2015 Number of Authorised and Issued Shares
Balance at begininng of the year	**651,185**	651,185
Balance at end of the year	**651,185**	651,185

Ordinary shares

The ordinary shares in the Company confer on their holders the rights described in section 36 of the Act, i.e. subject to the constitution of the Company each share carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Company and the right to an equal share in the distribution of the surplus assets of the Company in the event of liquidation.

The ordinary shares have no par value, as per section 38 of the Act.

Dividends paid

In the year ended 30 September 2016, the Company paid dividends in respect of the ordinary shares amounting to $6,600,000 (30 September 2015: $2,500,000). The amount of dividends per share is $10.13 (30 September 2015: $3.84).

Westpac Securities NZ Limited

Note 12. Related entities

Accounting policy

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions, or one other party controls both. Examples include subsidiaries, associates, joint ventures and superannuation plans as well as key management personnel and their related parties.

Due from related entities

Due from related entities include financial assets at fair value through profit or loss, loans, accrued interest receivable and other receivables.

Due from related entities balances are designated at fair value through profit or loss when the related liability from debt issuances have been designated at fair value through profit or loss in order to avoid accounting mismatch.

Due to related entities

This amount includes amounts due to other entities controlled by WBC.

Due to related entities includes borrowings, settlement account balances due to related entities and debt issues held by related entities. They are measured at amortised cost.

Ultimate Holding Company

The Company is a wholly-owned subsidiary of Westpac NZ Operations Limited ('**WNZOL**'). The Company is also an indirect, wholly-owned subsidiary of WNZL. WNZL's Disclosure Statement is available, free of charge, at www.westpac.co.nz. The ultimate parent company is WBC, which is incorporated in Australia and whose financial statements are available, free of charge, at www.westpac.com.au.

Nature of Transactions

Current account banking facilities and other financial products are provided by WNZL and the WBC London Branch to the Company on normal commercial terms.

The Company received interest income on the loan to WNZL. The outstanding balance at year end is included in Accrued interest due from WNZL.

The Company received a funding margin from WNZL. The Company raised offshore wholesale funding and on-lent all amounts raised or borrowed to WNZL. The outstanding balance at year end is included in Other receivables due from WNZL.

The Company received service fees from WNZL to recover operating expenses incurred by the Company. The outstanding balance at year end is included in Other receivables due from WNZL.

WNZL guarantees the due and punctual payment of all sums payable to the holders of the debt securities issued by the Company, the proceeds of which are immediately on-lent to WNZL. The outstanding balances at year end are included in Financial assets at fair value through profit or loss due from WNZL and Loan to WNZL. The aggregate amount of outstanding principal and interest of the debt securities issued as at 30 September 2016 was $11,399,201,000 (30 September 2015: $11,705,594,000). As the proceeds of the debt issuances are immediately on-lent to WNZL, the aggregate amount guaranteed by WNZL is already reflected in WNZL's balance sheet as part of the amounts due to related entities.

The Company paid WNZL and WBC for certain operating services provided to the Company. The outstanding balance at year end is included in Due to WNZL and WBC.

The Company issued bonds under WNZL's Global Covered Bond programme ('**CB Programme**'). Investors of debt securities issued by the Company under the CB Programme also have recourse: first, to WNZL as WNZL guarantees all the debt securities issued by the Company and second, to Westpac NZ Covered Bond Limited ('**WNZCBL**'). WNZCBL is a special purpose entity which was set up to hold housing loans and to provide a financial guarantee for the debt securities issued by the Company under the CB Programme. The financial guarantee is supported by WNZCBL granting security over the cover pool (comprising the housing loans and cash held). WNZL is considered to control WNZCBL based on certain contractual arrangements existing between WNZCBL and WNZL, and as such WNZCBL is consolidated in the financial statements of WNZL Group.

The Company paid guarantee fees to WNZCBL. The outstanding balance at year end is included in Due to WNZCBL.

The Company recovered from WNZL the guarantee fees paid to WNZCBL. The outstanding balance at year end is included in Other receivables due from WNZL.

The audit fees for the current year and prior year have been borne by WNZL, refer to Note 5.

Transactions with related entities are on an arm's length basis.

The Company paid dividends in both the current year and prior year to its parent entity, refer to Note 11.

Income from and expenses to related entities

	2016 $'000	2015 $'000
Income		
Interest income from WNZL[1]	**181,566**	164,693
Funding margin from WNZL[1]	**4,340**	3,486
Guarantee fees recovery from WNZL[1]	**9,837**	7,934
Service fees from WNZL[2]	**1,065**	1,105
Total income	**196,808**	177,218
Expenses		
Interest expense on debt issues to WBC[3]	**8**	88
Guarantee fees to WNZCBL[3]	**9,837**	7,934
Operating expenses to WNZL and WBC[4]	**889**	897
Total expenses	**10,734**	8,919

[1] Included in interest income in the statement of comprehensive income

[2] Included in non-interest income in the statement of comprehensive income

[3] Included in interest expense in the statement of comprehensive income

[4] Included in operating expenses in the statement of comprehensive income

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Westpac Securities NZ Limited

Notes to the financial statements

Note 12. Related entities (continued)

Due from and to related entities

	2016 $'000	2015 $'000
Cash and cash equivalents		
Deposits held with WNZL (refer to Note 8)	**8,894**	12,776
Total cash and cash equivalents	**8,894**	12,776
Due from related entities		
Accrued interest due from WNZL	**54,018**	61,422
Other receivables due from WNZL	**229**	417
Financial assets at fair value through profit or loss due from WNZL	**2,407,827**	2,716,054
Loan to WNZL	**8,918,999**	8,909,673
Total due from related entities	**11,381,073**	11,687,566
Total due from related entities including cash and cash equivalents	**11,389,967**	11,700,342
Settlement profile:		
Amounts expected to be recovered within 12 months	**5,257,700**	4,567,350
Amounts expected to be recovered after 12 months	**6,123,373**	7,120,216
Total due from related entities	**11,381,073**	11,687,566
Due to related entities		
Due to WNZL and WBC	**519**	903
Due to WNZCBL	**741**	618
Total due to related entities	**1,260**	1,521
Settlement profile:		
Amounts expected to be settled within 12 months	**1,260**	1,521
Amounts expected to be settled after 12 months	**-**	-
Total due to related entities	**1,260**	1,521

Deal related advances are interest bearing and interest is charged on normal commercial terms. Non-deal related amounts owing to related entities are normally settled within 90 days. Other amounts due are in relation to services provided and are settled in accordance with the terms of the transaction.

Note 13. Financial risk management

The principal activity of the Company is to raise and manage offshore wholesale funding for WNZL, in respect of which the Company is a wholly-owned, indirect subsidiary. The risk exposures of the Company arise as a consequence of its debt funding activities.

The Company's business activities are subject to risks that can adversely impact its future performance and financial condition. The Company is affected by the same principal risks and uncertainties which affect WNZL. This is because the Company is an indirect, wholly-owned subsidiary of WNZL, the Company's debt issuances are guaranteed by WNZL, and all proceeds of such debt issuance are on-lent to WNZL. The principal risks and uncertainties which affect WNZL are set forth in the section "Principal risks and uncertainties" in the Management report on page 3.

The principal risks and uncertainties are not the only ones the Company may face. Additional risks and uncertainties of which the Company may be unaware, or those that are deemed to be immaterial, may become important factors that affect the Company in the future. If any of the risks actually occur, the Company's business, results of operations or financial condition could be materially adversely affected.

Any risks arising from offshore wholesale funding is passed through under the principal terms of the loan to WNZL. The Company charges WNZL a service fee to cover day-to-day cost of operations.

As an indirect wholly-owned subsidiary of WNZL, the Company operates within the governance and risk management frameworks of WNZL. These frameworks support effective and efficient decision-making through established reporting obligations to the Board as well as measures of staff performance. The Company regards the management of risk to be a fundamental management activity. Supporting this approach is a risk management strategy that supports a holistic approach to risk management and sets out minimum standards for risk management across all risk types.

Categories of financial risk

The Company maintains a risk reward oriented approach to creating shareholder value utilising a range of supporting frameworks covering all material risk classes. The Company distinguishes between different risk types and takes an integrated approach to managing them. These key risks are:

- Credit risk: the risk of financial loss when a customer or counterparty fails to meet their financial obligations;
- Compliance risk: the risk of legal or regulatory sanction, financial loss or reputation loss arising from the Company's failure to abide by the compliance obligations required of the Company;
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal and regulatory risk but excluding strategic and reputation risk;
- Market risk: the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices; and
- Liquidity risk: the risk that the Company will be unable to fund assets and meet obligations as they come due.

Notes to the financial statements

Note 13. Financial risk management (continued)

Additional details surrounding the risk management activities relating to the management of the financial risks are discussed below.

a. Credit risk

Credit risk is the potential for financial loss where a customer or counterparty fails to meet their financial obligations. This arises primarily from the Company's provision of offshore wholesale funding to WNZL.

The Company is subject to WNZL's Risk Management Framework. This framework defines what constitutes credit risk for the Company and provides the Company with a framework for managing credit risk. Compliance with the framework policies is monitored and exposures and breaches are reported to the WBC Credit Risk Committee.

The Company's main exposure to risk arises as a consequence of the funding arrangement in place with WNZL. A guarantee is provided by WNZL over the notes issued by the Company. The Company, as noted above, is affected by the same principal risks that affect WNZL. WNZL's most significant risk is the risk of financial loss resulting from the failure of customers to honour fully the terms of their contract.

(i) External Credit Rating

The Company is a wholly-owned, indirect subsidiary of WNZL. WNZL has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars as at 30 September 2016 and at the date the Directors signed these financial statements.

Credit ratings for WNZL

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Service	Aa3	Negative
S&P Global Ratings	AA-	Negative

A credit rating is not a recommendation to buy, sell or hold securities of WNZL. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. Investors in WNZL's securities are cautioned to evaluate each rating independently of any other rating.

(ii) Fully performing

Contractual payments due from WNZL have been received by their contractual maturity date and are considered to be fully performing.

(iii) Concentration of credit exposure

This table below shows the Company's concentration of credit exposure which is also the Company's maximum exposure to credit risk. As discussed above, the Company is a wholly-owned, indirect subsidiary of WNZL and the principal activity of the Company is to raise and manage offshore wholesale funding for WNZL.

	Note	2016 $'000	2015 $'000
On-balance sheet credit exposures consist of:			
Cash and cash equivalents	8	**8,981**	12,865
Due from related entities	12	**11,381,073**	11,687,566
Total credit exposures		**11,390,054**	11,700,431

All credit exposures are within New Zealand and to the financial services industry and economic sector.

b. Market risk

Market risk is the risk of an adverse impact on earnings resulting from changes in market risk factors. The Company is primarily exposed to interest rate risk and foreign currency risk.

(i) Interest rate risk

Interest rate risk is the potential loss arising from the changes in the value of financial instruments due to changes in market interest rates or their implied volatility. Financial instruments with floating rate interest expose the Company to cash flow interest rate risk, whereas financial instruments with fixed rate interest expose the Company to fair value interest rate risk. The table below summarises the Company's exposure to interest rate risk. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The interest repricing profile of financial instruments is as follows:

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk management (continued)

30 September 2016	Up to 3 Months $'000	Over 3 Months and Up to 6 Months $'000	Over 6 Months and Up to 1 Year $'000	Over 1 Year and Up to 2 Years $'000	Over 2 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial assets							
Cash and cash equivalents	-	-	-	-	-	8,981	8,981
Due from related entities	4,521,559	1,746,514	-	137,713	4,921,040	54,247	11,381,073
Total financial assets	4,521,559	1,746,514	-	137,713	4,921,040	63,228	11,390,054
Non-financial assets							2,303
Total assets							11,392,357
Financial liabilities							
Due to related entities	-	-	-	-	-	1,260	1,260
Debt issues	4,523,343	1,747,270	-	137,713	4,920,933	-	11,329,259
Other liabilities	-	-	-	-	-	51,539	51,539
Total financial liabilities	4,523,343	1,747,270	-	137,713	4,920,933	52,799	11,382,058
Non-financial liabilities							-
Total liabilities							11,382,058
Net financial assets subject to interest rate risk	(1,784)	(756)	-	-	107		

30 September 2015	Up to 3 Months $'000	Over 3 Months and Up to 6 Months $'000	Over 6 Months and Up to 1 Year $'000	Over 1 Year and Up to 2 Years $'000	Over 2 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial assets							
Cash and cash equivalents	-	-	-	-	-	12,865	12,865
Due from related entities	5,582,373	-	1,764,484	1,320,668	2,958,202	61,839	11,687,566
Total financial assets	5,582,373	-	1,764,484	1,320,668	2,958,202	74,704	11,700,431
Non-financial assets							1,464
Total assets							11,701,895
Financial liabilities							
Due to related entities	-	-	-	-	-	1,521	1,521
Debt issues	5,582,024	-	1,764,374	1,320,586	2,958,018	-	11,625,002
Other liabilities	-	-	-	-	-	61,628	61,628
Total financial liabilities	5,582,024	-	1,764,374	1,320,586	2,958,018	63,149	11,688,151
Non-financial liabilities							-
Total liabilities							11,688,151
Net financial assets subject to interest rate risk	349	-	110	82	184		

The Company manages its exposure to interest rate risk by matching the market risk exposures on financial liabilities with financial assets due from WNZL, therefore there is no material unmatched interest rate risk in the Company, and any changes in market interest rates will not materially affect the statement of comprehensive income and equity of the Company.

(ii) Structural foreign exchange risk

The Company operates a London branch that gives rise to an immaterial amount of structural foreign exchange rate risk from translating foreign currency earnings and net assets into New Zealand dollars in the financial statements.

As with managing its exposure to interest rate risk, the Company mitigates its direct foreign exchange exposures by matching the currency of liabilities arising from wholesale funding with that of receivables from WNZL. This means any changes in the foreign currency rate associated with the debt issues will not materially affect the statement of comprehensive income and equity of the Company.

c. Liquidity risk

Liquidity risk is the risk that the Company will not be able to fund assets and meet obligations as they come due, without incurring unacceptable losses.

The liquidity risk within the Company is managed by matching the terms of funding with the terms of receivables from WNZL. There is no material payment mismatch between the Company's financial assets and financial liabilities.

WNZL's Treasury department is responsible for liquidity management, including for WNZL and the Company. WNZL Treasury is also responsible for monitoring WNZL's funding bases and ensuring it is prudentially maintained and adequately diversified.

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk management (continued)

(i) Maturity profile

The following liquidity analysis of financial assets and liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at balance date to the contractual maturity. The balances in the tables below may not agree to the balance sheet as the tables incorporate all cash flows on an undiscounted basis, including both principal and associated future interest income/ expense accruals.

30 September 2016	On Demand $'000	Up to 1 Month $'000	Over 1 Month to 3 Months $'000	Over 3 Months to 1 Year $'000	Over 1 Year to 5 Years $'000	Over 5 Years $'000	No specific maturity $'000	Total $'000
Financial assets								
Cash and cash equivalents	8,981	-	-	-	-	-	-	8,981
Due from related entities	-	283,653	1,104,939	3,934,969	5,445,514	931,996	-	11,701,071
Total undiscounted financial assets	8,981	283,653	1,104,939	3,934,969	5,445,514	931,996	-	11,710,052
Financial liabilities								
Due to related entities	-	1,260	-	-	-	-	-	1,260
Debt issues	-	283,644	1,104,853	3,934,953	5,445,148	931,232	-	11,699,830
Other liabilities	-	7,590	4,171	39,778	-	-	-	51,539
Total undiscounted financial liabilities	-	292,494	1,109,024	3,974,731	5,445,148	931,232	-	11,752,629

30 September 2015	On Demand $'000	Up to 1 Month $'000	Over 1 Month to 3 Months $'000	Over 3 Months to 1 Year $'000	Over 1 Year to 5 Years $'000	Over 5 Years $'000	No specific maturity $'000	Total $'000
Financial assets								
Cash and cash equivalents	12,865	-	-	-	-	-	-	12,865
Due from related entities	-	9,107	1,010,328	3,659,833	6,438,610	887,706	-	12,005,584
Total undiscounted financial assets	12,865	9,107	1,010,328	3,659,833	6,438,610	887,706	-	12,018,449
Financial liabilities								
Due to related entities	-	919	193	409				1,521
Debt issues	-	171	1,009,515	3,607,743	6,438,610	887,706	-	11,943,745
Other liabilities	-	8,809	812	52,007	-	-	-	61,628
Total undiscounted financial liabilities	-	9,899	1,010,520	3,660,159	6,438,610	887,706	-	12,006,894

(ii) Concentration of funding

	2016 $'000	2015 $'000
Funding consists of:		
Due to related entities	1,260	1,521
Debt issues	11,329,259	11,625,002
Other liabilities	51,539	61,628
Total funding	11,382,058	11,688,151
Analysis of funding by product:		
Commercial papers	2,410,249	2,716,152
Euro medium-term notes	5,533,029	4,945,380
Covered bonds	3,385,981	3,963,470
Other liabilities	51,539	61,628
Due to related entities	1,260	1,521
Total funding	11,382,058	11,688,151
Analysis of funding by geographical areas:		
Within New Zealand	784	656
Overseas	11,381,274	11,687,495
Total funding	11,382,058	11,688,151
Analysis of funding by industry sector:		
Finance and insurance	11,382,058	11,688,151
Total funding	11,382,058	11,688,151

Notes to the financial statements

Note 13. Financial risk management (continued)

The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programmes is used as a proxy for the location of the original purchaser. These instruments may have subsequently been on-sold.

Australian and New Zealand Standard Industrial Classifications have been used as the basis for disclosing industry sectors.

Note 14. Fair value of financial instruments

Accounting policy

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

On initial recognition, the transaction price generally represents the fair value of the financial instrument unless there is observable information from an active market to the contrary. Where unobservable information is used, the difference between the transaction price and the fair value (day one profit or loss) is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

Critical accounting assumptions and estimates

The majority of valuation models used by the Company employ only observable market data as inputs. However, for certain financial instruments, data may be employed which is not readily observable in current markets.

The availability of observable inputs is influenced by factors such as:

- Product type;
- Depth of market activity;
- Maturity of market models; and
- Complexity of the transaction.

Where unobservable market data is used, more judgment is required to determine fair value. The significance of these judgments depends on the significance of the unobservable input to the overall valuation. Unobservable inputs are generally derived from other relevant market data and adjusted against:

- Industry standards;
- Economic models; and
- Observed transaction prices.

In order to determine a reliable fair value for a financial instrument, management may apply adjustments to the techniques previously described. These adjustments reflect the Company's assessment of factors that market participants would consider in setting the fair value.

These adjustments incorporate bid/offer spreads, credit valuation adjustments and funding valuation adjustments.

Fair Valuation Control Framework

The Company uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

- the revaluation of financial instruments;
- independent price verification;
- fair value adjustments; and
- financial reporting.

The method of determining fair value differs depending on the information available.

Fair value hierarchy

A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement.

The Company categorises all fair value instruments according to the hierarchy described below.

Valuation techniques

The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category are outlined below:

Level 1 instruments

The fair value of financial instruments traded in active markets based on recent unadjusted quoted prices. These prices are based on actual arm's length basis transactions.

The valuations of Level 1 instruments require little or no management judgment.

There are no financial instruments included in the Level 1 category (30 September 2015: nil).

Westpac Securities NZ Limited

Notes to the financial statements

Note 14. Fair value of financial instruments (continued)

Level 2 instruments

The fair value for financial instruments that are not actively traded are determined using valuation techniques which maximise the use of observable market inputs. Valuation techniques include:

- the use of market standard discounting methodologies;
- option pricing models; and
- other valuation techniques widely used and accepted by market participants.

Instrument/balance sheet category	Valuation technique
Debt issues measured at fair value	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of the Company.

As at 30 September 2016, the Company held $2,410,249,000 of commercial papers classified as Level 2 (30 September 2015: $2,716,152,000).

Level 3 instruments

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historical transactions. These valuations are calculated using a high degree of management judgment.

There are no financial instruments included in the Level 3 category (30 September 2015: nil).

Analysis of movements between fair value hierarchy Levels

During the year there have been no transfers between levels of the fair value hierarchy (30 September 2015: nil).

Financial instruments not measured at fair value and their estimates of fair value

For financial instruments not carried at fair value on a recurring basis on the balance sheet, including amounts due from and due to related entities, fair value has been derived as follows:

Instrument	Valuation technique
Loans	Where available, the fair value of loans is based on observable market transactions; otherwise fair value is estimated using discounted cash flow models. For variable rate loans, the discount rate used is the current effective interest rate. The discount rate applied for fixed rate loans reflects the market rate for the maturity of the loan and the credit worthiness of the borrower.
Debt issues measured at amortised cost	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of the Company.
All other financial assets and financial liabilities	For all other financial assets and financial liabilities, the carrying amount is equivalent to fair value. These items are either short-term in nature or reprice frequently, and are of a high credit rating.

The table below summarises the estimated fair value and fair value hierarchy of the Company's financial instruments not measured at fair value.

	30 September 2016		30 September 2015	
	Total Carrying Amount	**Estimated Fair Value (Level 2)**	Total Carrying Amount	Estimated Fair Value (Level 2)
	$'000	**$'000**	$'000	$'000
Financial Assets				
Loan to WNZL (refer to Note 12)	**8,918,999**	**9,139,488**	8,909,673	9,034,516
Total financial assets carried at amortised cost	**8,918,999**	**9,139,488**	8,909,673	9,034,516
Financial Liabilities				
Debt issues measured at amortised cost (refer to Note 9)	**8,919,010**	**9,137,358**	8,908,850	9,034,513
Total financial liabilities carried at amortised cost	**8,919,010**	**9,137,358**	8,908,850	9,034,513

Note 15. Reconciliation of profit after income tax expense to net cash (used in)/provided by operating activities

	2016	2015
	$'000	$'000
Profit after income tax expense	**3,155**	6,419
Adjustments:		
Movement in accrued assets	**7,622**	(12,575)
Movement in accrued liabilities	**(9,966)**	13,801
Movement in tax balances	**(869)**	537
Net cash (used in)/provided by operating activities	**(58)**	8,182

Westpac Securities NZ Limited

Notes to the financial statements

Note 16. Capital

There are no externally imposed capital requirements on the Company. The Company is a wholly-owned subsidiary of WNZOL which itself is a part of the Banking group. Capital for the Company is managed as part of the Banking Group.

Note 17. Segment information

Operating segments are reported to the chief operating decision maker in a manner consistent with the financial statements disclosed in these financial statements. For this reason, no additional operating segment disclosure is made.

The chief operating decision maker of the Company (i.e. the person or group that allocates resources to and assesses the performance of the operating segments of an entity) is the Directors of the Company. The Directors of the Company are listed on page 1. This reflects that the Company is a wholly-owned, indirect subsidiary of WNZL and that the principal activity of the Company is to raise and manage offshore wholesale funding for WNZL.

Revenue from Products and Services

The Company does not generate any revenue from external customers.

Secondary reporting - geographic segments

All revenue is generated within New Zealand. On this basis, no geographical segment information is provided.

Note 18. Key management personnel compensation

No compensation was paid by the Company to its key management personnel for the year ended 30 September 2016 (30 September 2015: nil).

Note 19. Contingent assets, contingent liabilities and commitments

Other than the guarantee requirements in Note 12, there were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2016 (30 September 2015: nil).

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Independent auditor's report
to the shareholder of Westpac Securities NZ Limited

Westpac Securities NZ Limited's financial statements comprise:

- the balance sheet as at 30 September 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements.

Our opinion
In our opinion the financial statements of Westpac Securities NZ Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 September 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

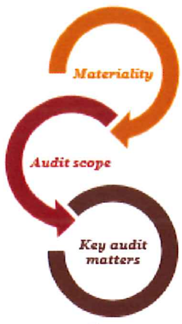
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Company in the areas of other assurance services and agreed procedures. These matters have not impaired our independence as auditor of the Company.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $58.9 million, which represents approximately 0.5% of total assets.

We chose total assets as the benchmark because the entity's primary activity is to obtain funding by issuing debt overseas and on-lend this to Westpac New Zealand Limited. The costs of borrowing are met by its parent. Therefore, users, in our view, are more likely to place emphasis on assets and the claims on those assets.

We have not identified any key audit matters from our audit given the nature of the entity. Refer to the section titled 'Key audit matters'.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. The entity primarily obtains wholesale funding from overseas and on-lends this to Westpac New Zealand Limited. There were no significant areas of judgement or individual areas where significant audit effort was expended. As a result, we have not identified any key audit matters.

Information other than the financial statements and auditor's report
The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements
The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page2.aspx

This description forms part of our auditor's report.

Who we report to
This report is made solely to the Company's shareholder, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Freeman.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
5 December 2016

Auckland