

Westpac Securities NZ Limited
Annual report
For the year ended 30 September 2015

Westpac Securities NZ Limited

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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')
Cherise Barrie	Acting Chief Financial Officer, WNZL
Mark Weenink	General Manager, Regulatory Affairs, Compliance and Legal, WNZL

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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

These financial statements contain statements that constitute "forward-looking statements" within the meaning of section 21E of the United States Securities Exchange Act 1934.

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in these financial statements 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. We use words such as "will", "may", "expect", "intend", "seek", "would", "should", "could", "continue", "plan", "estimate", "anticipate", "believe", "probability", "risk", or other similar words 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 which the Company expects, 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;
- the stability of New Zealand, Australian and international financial systems and disruptions to financial markets and any losses or business impacts the Company, WNZL, 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 to the credit ratings of WNZL or Westpac Banking Corporation ("WBC");
- 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 and in other countries 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 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 its 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 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 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 by the Company in this annual report refer to the section on 'Principal risks and uncertainties' in the 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.

Westpac Securities NZ Limited

Management report

Review and results of the Company's operations during the year ended 30 September 2015

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 2015 was \$6,419,000 compared with the profit after tax of \$2,565,000 for the year ended 30 September 2014, an increase of 150%.

Interest income decreased by 2% to \$176,113,000 compared to the year ended 30 September 2014. The \$4,298,000 decrease was in line with the decrease in interest expense and a result of lower spreads on wholesale funding.

Interest expense decreased by 3% to \$172,627,000 compared to the year ended 30 September 2014. The \$4,568,000 decrease was in line with the decrease in interest income and a result of lower spreads on wholesale funding.

Net interest income increased by 8% to \$3,486,000 compared to the year ended 30 September 2014.

Non-interest income increased by 13% to \$1,105,000 compared to the year ended 30 September 2014.

Operating expenses increased by 9% to \$1,004,000 compared to the year ended 30 September 2014.

The Company had a tax credit of \$2,832,000, compared to an expense of \$714,000 for the year ended 30 September 2014, due to the dispute settlement between the New Zealand Inland Revenue Department ('NZ IRD') and the Company.

Total debt securities issued as at 30 September 2015 was \$11,625,002,000 which was an increase of \$2,355,671 or 25%, compared to \$9,269,331,000 as at 30 September 2014. This increase was largely due to Euro Medium-term Notes issuances coupled with the weakening 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 2015

In April 2015, following confirmation from the NZ IRD, the Company recognised \$4,149,000 of Foreign Tax Credits reflecting the settlement of a dispute between the NZ IRD and the Company.

Principal risks and uncertainties

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 we are unaware of, or that we currently deem 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, 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 operates or obtains funding including New Zealand, the United Kingdom, the United States, Switzerland and Asia. WNZL is also supervised by a number of different regulatory and supervisory authorities which have broad administrative power over its businesses. The Reserve Bank of New Zealand ('RBNZ') and the Financial Markets Authority 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, financial or reputational loss, arising from WNZL's failure to abide by 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 for example currently include industry wide investigations into potential manipulation in financial markets. During the year, WNZL has received notices and requests for information from its regulators. Regulatory investigations, fines, penalties or 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 trade sanctions. In December 2010 the Basel Committee on Banking Supervision announced a revised global regulatory framework, known as Basel III. Basel III, among other things, increases the required quality and quantity of capital held by banks and introduces new standards for the management of liquidity risk. The RBNZ and the Australian Prudential Regulation Authority have now incorporated much of the framework into their prudential standards.

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Management report (continued)

During the year ended 30 September 2015 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, global over-the-counter (OTC) derivatives reform and the US Dodd-Frank legislation, including the Volcker Rule promulgated thereunder. The latter is designed to reform the entire system for the supervision and regulation of financial firms that operate in or have a connection with the US, including non-US banks like WNZL. 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. In 2013, the Australian Government commissioned a Financial System Inquiry ('FSI') with broad terms of reference. The FSI's Final Report made 44 recommendations relating to a broad number of matters across the financial sector. On 20 October 2015, the Australian Government announced its final response to the FSI's recommendations. The Australian Government endorsed the overwhelming majority of the recommendations across the five key areas the FSI considered: Resilience; Superannuation; Innovation; Consumer Outcomes; and the Regulatory System. The Australian Government will establish a number of consultation processes to consider detailed implementation. The final impact of the FSI is difficult to predict but may result in substantial regulatory changes, including changes to capital requirements 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. Also, new consumer law reform legislation was passed in December 2013. Among the amendments introduced into the Fair Trading Act were prohibitions on unfair contract terms, which came into effect in March 2015. New prohibitions on making unsubstantiated representations about a product or service, and new provisions regulating uninvited direct sales came into effect in 2014.

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. Also with effect from 1 November 2015, the RBNZ has introduced changes to the loan-to-value ratio ('LVR') restrictions such that (i) there is a new limit of 5 percent on lending for residential property investment in the Auckland Council area where the LVR is greater than 70 percent, and (ii) there is now a limit of 15 percent on residential lending in areas outside of Auckland where the LVR is greater than 80 percent (previously the limit was 10 percent). The limit on loans to residential owner-occupiers in Auckland remains at 10 percent.

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.

Regulatory changes and the timing of their introduction continue to evolve and WNZL currently 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 is an increasingly important part of WNZL's strategic planning. 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 the 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 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 may significantly affect WNZL's ability to meet funding and liquidity needs and may increase its cost of funding

WNZL relies on 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 has become more volatile and 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 whom WNZL does business.

As of 30 September 2015, approximately 22% of WNZL's total funding originated from domestic and international wholesale markets (30 September 2014: 21%). Of this around 75% was sourced outside New Zealand (30 September 2014: 69%).

A shift in investment preferences of businesses and consumers away from bank deposits towards other asset or investment classes 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, WNZL's funding costs may be adversely affected and its liquidity and its 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, the cost of 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.

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.

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Management report (continued)

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.

Should one sovereign default, there could 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 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 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.

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 current 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 peers 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 and the negative outlook for global economic conditions. 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 2015, housing loans represented approximately 61% of WNZL's gross loans and advances (30 September 2014: 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.

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 countries in which WNZL operates.

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Management report (continued)

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 default WNZL's security would be eroded, causing WNZL to incur higher credit losses. The demand for WNZL's home lending products may also decline due to buyer concerns about decreases in values.

Adverse changes to the economic and business conditions in Australia and New Zealand and other countries such as China, India and Japan, could also adversely affect the New Zealand economy and WNZL's customers. In particular, due to the current relationship between Australia, New Zealand and China, a slowdown in China's economic growth could negatively impact the New Zealand and Australian economies. Changes in 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 and derivatives 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 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 activities 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, interest rates, commodity prices and equity prices. 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 conduct risk

Conduct risk is the risk arising from unfair or inappropriate behaviour or practices of WNZL or its staff. 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 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 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 loss 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.

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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 28 to the WNZL Disclosure Statement for the year ended 30 September 2015. 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 organised crime 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 (e.g. 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 continues to seek to strengthen and enhance its cybersecurity systems and investigate or remediate information security vulnerabilities, investing additional resources to endeavour to counter new and emerging threats as they continue to evolve.

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 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 the risks to which it is subject, including liquidity risk, credit risk, market risk (such as interest rate, foreign exchange and equity 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.

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 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.

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 to earnings or capital arising from negative public opinion resulting from the loss of reputation 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, 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 impairment to 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 2015, 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 that the cash flows generated by the asset do not support the carrying value, 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 as at 30 September 2015.

Markets	2015			2014		
	Issuer	Programme Type	Programme Limit	Issuer	Programme Type	Programme Limit
Euro market	WBC/Company ¹	Euro Commercial Paper and Certificate of Deposit Programme	US\$ 20 billion	WBC/Company ¹	Euro Commercial Paper and Certificate of Deposit Programme	US\$20 billion
Euro market	Company ¹	Programme for Issuance of Debt Instruments	US\$ 7.5 billion	Company ¹	Programme for Issuance of Debt Instruments	US\$7.5 billion ²
Euro market	Company ¹	Global Covered Bond Programme	€5 billion	Company ¹	Global Covered Bond Programme	€5 billion
United States	Company ¹	Section 4(2) US Commercial Paper Programme	US\$ 10 billion	Company ¹	Section 4(2) US Commercial Paper Programme	US\$ 10 billion
New Zealand	WNZL	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit	WNZL	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit

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

²On 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 2015, 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 2015.

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 1 December 2015.

For and on behalf of the Board.



Director

Auckland

Date: 1 December 2015



Director

Auckland

Date: 1 December 2015

Westpac Securities NZ Limited

Statement of comprehensive income for the year ended 30 September

	Note	2015 \$'000	2014 \$'000
Interest income		176,113	180,411
Interest expense		(172,627)	(177,195)
Net interest income	2	3,486	3,216
Non-interest income	3	1,105	981
Net operating income		4,591	4,197
Operating expenses	4	(1,004)	(918)
Profit before income tax expense		3,587	3,279
Income tax credit/(expense)	6	2,832	(714)
Profit after income tax expense		6,419	2,565
Other comprehensive income		-	-
Total comprehensive income, net of tax		6,419	2,565
Profit after income tax expense and total comprehensive income, net of tax, attributable to:			
Owners of the Company		6,419	2,565
		6,419	2,565

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

	Note	Attributable to owners of the Company		Total \$'000
		Share Capital \$'000	Retained Profits \$'000	
As at 1 October 2013		651	11,609	12,260
Year ended 30 September 2014				
Profit after income tax expense		-	2,565	2,565
Total comprehensive income for the year ended 30 September 2014		-	2,565	2,565
Transactions with owners:				
Dividends paid on ordinary shares	11	-	(5,000)	(5,000)
As at 30 September 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

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	2015 \$'000	2014 \$'000
Assets			
Cash and cash equivalents	8	12,865	5,299
Due from related entities	12	11,687,566	9,323,136
Current tax asset		1,464	1,278
Total assets		11,701,895	9,329,713
Liabilities			
Due to related entities	12	1,521	2,807
Debt issues	9	11,625,002	9,269,331
Other liabilities	10	61,628	47,750
Total liabilities		11,688,151	9,319,888
Net assets		13,744	9,825
Equity			
Share capital	11	651	651
Retained profits		13,093	9,174
Total equity attributable to owners of the Company		13,744	9,825

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	2015 \$'000	2014 \$'000
Cash flows from operating activities			
Interest income received		163,648	185,688
Service fees received - related entities		995	1,061
Interest expense paid		(158,749)	(182,048)
Income tax received/(paid)		3,369	(1,446)
Service fees paid - related entities		(974)	(67)
Operating expenses paid		(107)	(67)
Net cash provided by operating activities	15	8,182	2,571
Cash flows from investing activities			
Net increase in due from related entities		(889,582)	(1,336,995)
Net cash used in investing activities		(889,582)	(1,336,995)
Cash flows from financing activities			
Net decrease in due to related entities		(1,209)	(1,375)
Net increase from debt issues		892,675	1,339,011
Dividends paid		(2,500)	(5,000)
Net cash provided by financing activities		888,966	1,332,636
Net increase/(decrease) in cash and cash equivalents		7,566	(1,788)
Cash and cash equivalents at beginning of the year		5,299	7,087
Cash and cash equivalents at end of the year		12,865	5,299

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 1. Basis of preparation and critical accounting assumptions and estimates

These financial statements were authorised for issue by the Board on 1 December 2015. 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.

(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 adopted.

(iii) Rounding of amounts

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

(iv) Changes in accounting standards

To make the financial statements and notes easier to understand, the Company has changed the location of certain accounting policies within the notes, changed the order of certain notes and removed or aggregated certain immaterial disclosures.

In applying materiality to financial statement disclosures, we consider both the amount and nature of each item.

An amendment to NZ IAS 32 *Financial Instruments: Presentation* was applied by the Company from 1 October 2014. It clarified the conditions for applying the offsetting criteria of NZ IAS 32 including what constitutes a 'currently legally enforceable right of set-off' and the circumstances in which gross settlement systems may be considered the equivalent to net settlement. The application of NZ IAS 32 has not resulted in any material changes to the netting of balances presented on the Company's balance sheet.

(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 the statement of comprehensive income.

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.

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.

Westpac Securities NZ Limited

Notes to the financial statements

Note 1. Basis of preparation and critical accounting assumptions and estimates (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

The application of the Company's accounting policies necessarily requires the use of judgment, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values would change, impacting the net assets and income of the Company. The nature of significant assumptions and estimates used are noted below.

(i) Fair value of financial instruments

Financial instruments designated at fair value through profit or loss are recognised in the financial statements at fair value.

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 on the measurement date.

The best evidence of fair value is a quoted price in an active market. Wherever possible the Company determines the fair value of a financial instrument based on the quoted price.

Where no direct quoted price in an active market is available, the Company applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

The models used by the Company employ only observable market data as inputs.

Fair value is obtained from independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry and yield curves. The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics. These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in Note 14, as well as the mechanism by which fair value has been derived.

Income taxes

The Company is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax outcome is uncertain.

The Company estimates its tax liabilities based on the Company's understanding of the tax law. Where the final outcome of these matters is different from the amounts initially recorded, such differences impact the current and deferred tax provisions in the period when such determinations are made.

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 revised classification and measurement model, a forward looking 'expected loss' impairment model and modifies the approach to hedge accounting. Unless early adopted, the standard will be effective for the 30 September 2019 financial year. The major changes under the standard are:

- replaces the multiple classification and measurement models in NZ IAS 39 with a single model that has two measurement categories: amortised cost and fair value;
- a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;
- if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
- requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired a provision for full lifetime expected losses is required;

Westpac Securities NZ Limited

Notes to the financial statements

Note 1. Basis of preparation and critical accounting assumptions and estimates (continued)

- equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present the fair value changes on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however, dividends from such investments will continue to be recognised in profit or loss;
- interest is calculated on the gross carrying amount of a financial assets, except where the asset is credit impaired;
- there will be no separation of an embedded derivative where the instrument is a financial asset;
- if an entity holds an investment in asset-backed securities it must determine the classification of that investment by looking through to the underlying assets and assess the credit quality of the investment compared with the underlying portfolio of assets. If an entity is unable to look through to the underlying assets, then the investment must be measured at fair value;
- where the fair value option is used for valuing financial liabilities the change in fair value relating to the entity's own credit risk is presented in other comprehensive income, except where it would create an accounting mismatch. If such a mismatch is created or enlarged, all changes in fair value (including the effects of changes in the credit risk) is recognised in profit or loss. The Company early adopted this amendment from 1 October 2013; and
- aligns hedge accounting more closely with risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The application of NZ IFRS 9 is not expected to have a material impact on the Company.

NZ IFRS 15 *Revenue from Contracts with Customers* was issued in 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.

Note 2. Net interest income

Accounting policy

Net interest income

Interest income and expense for all interest bearing financial assets and financial liabilities (including those instruments measured at fair value) is recognised using the effective interest rate method. Interest expense also includes the net result of treasury's interest rate risk management activities including gains or losses of financial instruments at fair value.

The effective interest rate method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over its expected life. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (for example, prepayment options), but do not consider future credit losses. The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

	Year Ended 30 September 2015 \$'000	Year Ended 30 September 2014 \$'000
Interest income		
Due from related entities	176,113	180,411
Total interest income ¹	176,113	180,411
Interest expense		
Debt issues	164,693	170,875
Due to related entities - gurarantee fees	7,934	6,320
Total interest expense ²	172,627	177,195
Net interest income	3,486	3,216

¹ Total interest income for financial assets that are not at fair value through profit or loss is \$167,762,000 (30 September 2014: \$172,687,000).

² Total interest expense for financial liabilities that are not at fair value through profit or loss is \$164,069,000 (30 September 2014: \$169,216,000).

Westpac Securities NZ Limited

Notes to the financial statements

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.

	Year Ended 30 September 2015 \$'000	Year Ended 30 September 2014 \$'000
Fees and commissions		
Service fees received from related entities	1,105	981
Total non-interest income	1,105	981

Note 4. Operating expenses

Accounting policy

Fee expenses

Fees are recognised in the statement of comprehensive income over the period in which the related service is received.

Operating expenses

Operating expenses are recognised as the relevant service is rendered or asset is consumed or once a liability is incurred.

	Year Ended 30 September 2015 \$'000	Year Ended 30 September 2014 \$'000
Bank charges	12	29
Services provided - related entities	897	851
Purchased services	76	36
Travel expenses	19	2
Total operating expenses	1,004	918

Service fees were paid to WNZL and WBC for certain operating costs incurred on the Company's behalf.

Note 5. Auditors' remuneration

The audit fees for the year ended 30 September 2015 amounting to \$35,000 (30 September 2014: \$34,500) were borne by WNZL.

Note 6. Income tax expense

Accounting policy

Income tax

Income tax expense for the year comprises current tax and movement in deferred tax balances. Tax is recognised in the statement of comprehensive income, 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 other comprehensive income.

Current tax is the expected tax payable on the taxable income for the financial year using tax rates and laws that have been enacted or substantively enacted as at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted as at the balance date that are expected to apply when the liability is settled or the asset is realised.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

For presentation purposes deferred tax assets and deferred tax liabilities have been offset where they relate to income taxes levied by the same taxation authority on the Company.

Goods and services tax

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 6. Income tax expense (continued)

	Year Ended 30 September 2015 \$'000	Year Ended 30 September 2014 \$'000
Income tax expense		
Current tax:		
- Current year	1,004	714
- Prior year adjustments	(3,836)	-
Total income tax (credit)/expense	(2,832)	714
Reconciliation of income tax (credit)/expense to profit before income tax expense		
Profit before income tax expense	3,587	3,279
Tax calculated at tax rate of 28% (30 September 2014: 28%)	1,004	918
Tax effect of amounts which are not assessable in calculating taxable income:		
Adjustments for tax of prior years	(3,836)	(204)
Total income tax (credit)/expense	(2,832)	714

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.

Note 7. Imputation credit account

	2015 \$'000	2014 \$'000
Imputation credits available for use in subsequent reporting periods	134	1,172

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.

	2015 \$'000	2014 \$'000
Cash and cash equivalents - with external parties	89	112
Cash and cash equivalents - WNZL	12,776	5,187
Total cash and cash equivalents	12,865	5,299

Note 9. Debt issues

Accounting policy

Debt issues are bonds, notes and commercial paper that have been issued by the Company. They are either accounted for at amortised cost or designated at fair value through profit and loss.

Subsequent to initial recognition, debt issues are measured at either amortised cost using the effective interest rate method or at fair value through profit and loss where they are designated as such on initial recognition.

Debt issues are designated at fair value through profit or loss when they are managed on a fair value basis. These financial liabilities are measured at fair value with changes in fair value (except own credit) recognised through the statement of comprehensive income in the period in which they arise. The change in the portion of the fair value that is attributable to the 'Banking Group's (defined as WNZL and its controlled entities) own credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised through the statement of comprehensive income.

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 9. Debt issues (continued)

	2015 \$'000	2014 \$'000
Short-term debt		
Commercial paper	2,716,152	3,018,641
Total short-term debt	<u>2,716,152</u>	<u>3,018,641</u>
Long-term debt		
Non-domestic medium-term notes	8,908,850	6,250,690
Total long-term debt	<u>8,908,850</u>	<u>6,250,690</u>
Total debt issues	<u>11,625,002</u>	<u>9,269,331</u>
Debt issues measured at amortised cost	8,908,850	6,250,690
Debt issues measured at fair value	2,716,152	3,018,641
Total debt issues	<u>11,625,002</u>	<u>9,269,331</u>
Movement in debt issues		
Balance at beginning of the year	9,269,331	7,717,149
Issuances during the year	7,224,912	9,583,089
Repayments during the year	(6,332,237)	(8,244,078)
Effect of foreign exchange movements during the year	1,462,475	213,193
Effect of fair value movements during the year	521	(22)
Balance at end of the year	<u>11,625,002</u>	<u>9,269,331</u>
Amounts expected to be settled within 12 months	4,504,836	3,914,907
Amounts expected to be settled after 12 months	7,120,166	5,354,424
Total debt issues	<u>11,625,002</u>	<u>9,269,331</u>

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.

	2015 \$'000	2014 \$'000
Accrued interest payable on debt issues	61,325	47,750
Accrued fees payable	303	-
Total other liabilities	<u>61,628</u>	<u>47,750</u>

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

	2015 Number of Authorised and Issued Shares	2014 Number of Authorised and Issued Shares
Balance at beginning of the year	651,185	651,185
Balance at end of the year	<u>651,185</u>	<u>651,185</u>

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 2015, the Company paid dividends in respect of the ordinary shares amounting to \$2,500,000 (30 September 2014: \$5,000,000). The amount of dividends per share is \$3.84 (30 September 2014: \$7.68).

Westpac Securities NZ Limited

Notes to the financial statements

Note 12. Related entities

Accounting policies

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. The definition includes subsidiaries, associates, joint ventures and superannuation plans as well as key management personnel and persons connected with key management personnel.

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 2015 was \$11,705,594,000 (30 September 2014: \$9,335,112,000). 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.

Westpac Securities NZ Limited

Notes to the financial statements

Note 12. Related entities (continued)

Income from and expenses to related entities

	Year Ended 30 September 2015 \$'000	Year Ended 30 September 2014 \$'000
Income		
Interest income from WNZL ¹	164,603	170,901
Funding margin from WNZL ¹	3,576	3,190
Guarantee fees recovery from WNZL ¹	7,934	6,320
Service fees from WNZL ²	1,405	981
Total income	177,218	181,392
Expenses		
Interest expense on debt issues to WBC ³	88	-
Guarantee fees to WNZCBL ³	7,934	6,320
Operating expenses to WNZL and WBC ⁴	897	851
Total expenses	8,919	7,171

¹Included in interest income in the statement of comprehensive income

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

³Included in interest expense in the statement of comprehensive income

⁴Included in operating expenses in the statement of comprehensive income

Due from and to related entities

	2015 \$'000	2014 \$'000
Cash and cash equivalents		
Deposits held with WNZL	12,776	5,187
Total cash and cash equivalents	12,776	5,187
Due from related entities		
Accrued interest due from WNZL	61,422	48,808
Other receivables due from WNZL	417	4,148
Financial assets at fair value through profit or loss due from WNZL	2,716,054	3,017,492
Loan to WNZL	8,909,673	6,252,688
Total due from related entities	11,687,566	9,323,136
Total due from related entities including cash and cash equivalents	11,700,342	9,328,323
Settlement profile:		
Amounts expected to be recovered within 12 months	4,567,350	3,971,351
Amounts expected to be recovered after 12 months	7,120,246	5,356,972
Total due from related entities	11,687,566	9,328,323
Due to related entities		
Due to WNZL and WBC	903	2,112
Due to WNZCBL	618	695
Total due to related entities	1,521	2,807
Settlement profile:		
Amounts expected to be settled within 12 months	1,521	2,158
Amounts expected to be settled after 12 months	-	649
Total due to related entities	1,521	2,807

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.

Westpac Securities NZ Limited

Notes to the financial statements

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 framework that includes core risk principles as well as policies and processes for measuring and monitoring risk.

Categories of financial risk

The key financial risks that the Company is exposed to are discussed below:

- Credit risk - the risk of financial loss where a customer or counterparty fails to meet their financial obligations;
- Market risk - the risk of an adverse impact on earnings resulting from changes in market factors. Market risk includes the following risk factors:
 - Interest rate risk - the potential loss arising from the changes in the value of financial instruments due to changes in market interest rates or their implied volatilities; and
 - Currency risk - the potential loss arising from the changes in the value of financial instruments due to changes in foreign exchange rates or their implied volatilities; and
- Liquidity risk - the risk that the Company will not be able to fund assets and meet obligations as they come due.

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 2015 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	Stable
Standard & Poor's	AA-	Stable

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.

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk management (continued)

(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.

	2015 \$'000	2014 \$'000
On-balance sheet credit exposures consist of:		
Cash and cash equivalents	12,865	5,299
Due from related entities	11,687,566	9,323,136
Total credit exposures	11,700,431	9,328,435

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:

	30 September 2015						Non- Interest Bearing \$'000	Total \$'000
	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	Over 2 Years \$'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			

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk management (continued)

	30 September 2014						Non-Interest Bearing	Total
	Up to 3 Months	Over 3 Months and Up to 6 Months	Over 6 Months and Up to 1Year	Over 1Year and Up to 2 Years	Over 2 Years	Over 2 Years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial assets								
Cash and cash equivalents	-	-	-	-	-	5,299	5,299	
Due from related entities	3,156,847	1,226,209	498,891	1,641,549	2,746,684	52,956	9,323,136	
Total financial assets	3,156,847	1,226,209	498,891	1,641,549	2,746,684	58,255	9,328,435	
Non-financial assets							1,278	
Total assets							9,329,713	
Financial liabilities								
Due to related entities	-	-	-	-	-	2,807	2,807	
Debt issues	3,156,558	1,226,096	498,845	1,641,399	2,746,433	-	9,269,331	
Other liabilities	-	-	-	-	-	47,750	47,750	
Total financial liabilities	3,156,558	1,226,096	498,845	1,641,399	2,746,433	50,557	9,319,888	
Non-financial liabilities							-	
Total liabilities							9,319,888	
Net financial assets subject to interest rate risk	289	113	46	150	251			

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.

(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 2015							Total
	On Demand	Up to 1 Month	Over 1 Month to 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	No specific maturity	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk management (continued)

	On Demand \$'000	Up to 1 Month \$'000	30 September 2014			Over 5 Years \$'000	No specific maturity \$'000	Total \$'000
			Over 1 Month to 3 Months \$'000	Over 3 Months to 1 Year \$'000	Over 1 Year to 5 Years \$'000			
Financial assets								
Cash and cash equivalents	5,299	-	-	-	-	-	-	5,299
Due from related entities	-	322,919	1,057,717	2,672,020	5,265,029	318,270	2,057	9,638,012
Total undiscounted financial assets	5,299	322,919	1,057,717	2,672,020	5,265,029	318,270	2,057	9,643,311
Financial liabilities								
Due to related entities	-	1,097	193	868	649	-	-	2,807
Debt issues	-	320,695	1,057,415	2,653,945	5,236,081	317,998	-	9,586,134
Other liabilities	-	134	302	18,074	28,948	272	20	47,750
Total undiscounted financial liabilities	-	321,926	1,057,910	2,672,887	5,265,678	318,270	20	9,636,691

(ii) Concentration of funding

	2015 \$'000	2014 \$'000
Funding consists of:		
Due to related entities	1,521	2,807
Debt issues	11,625,002	9,269,331
Other liabilities	6,628	47,750
Total funding	11,688,151	9,319,888
Analysis of funding by product:		
US commercial paper	2,716,152	3,018,641
US & Euro medium-term notes	4,945,380	2,979,073
Covered bond	3,963,470	3,271,617
Other liabilities	6,628	47,750
Due to related entities	1,521	2,807
Total funding	11,688,151	9,319,888
Analysis of funding by geographical areas¹:		
Within New Zealand	656	2,827
Overseas	11,687,495	9,317,061
Total funding	11,688,151	9,319,888
Analysis of funding by industry sector:		
Finance and insurance	11,688,151	9,319,888
Total funding	11,688,151	9,319,888

¹ 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 available in an active market to the contrary. If fair value can be evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or is based on a valuation technique whose inputs include only data from observable markets, then the instrument is recognised at the fair value derived from such observable market data. The difference between the transaction price and fair value is recognised as a gain or loss (day one profit or loss) in the statement of comprehensive income. In cases where use is made of data which is not observable, day one profit or loss is only recognised in the statement of comprehensive income when the inputs become observable, or over the life of the instrument.

For financial liabilities measured at fair value, the carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data.

Subsequent measurement of the fair value of a financial instrument is, wherever possible, determined by reference to a quoted market price for that instrument. Where quoted prices are not available, the Company applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

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.

Westpac Securities NZ Limited

Notes to the financial statements

Note 14. Fair value of financial instruments (continued)

The determination of the fair value of financial assets and financial liabilities is one of the Company's critical accounting assumptions and estimates as detailed in Note 1c.

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

Fair value of financial instruments has been determined as follows:

Loans included in due from related entities

The fair value of loans is determined by discounting all future cash flows, including interest accruals. 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. These instruments are classified as Level 2 instruments.

Debt issues

The fair value of debt issues is based on market quoted prices, where available. The fair value of debt issues where a market quote is not available is based on discounted cash flows, using a discount rate appropriate to the instrument and the remaining term of the issue. These instruments are classified as Level 2 instruments.

Fair value hierarchy

The Company categorises all fair value measurements according to the following fair value hierarchy:

- Quoted market price ('Level 1')
Financial instruments valued using recent unadjusted quoted prices in active markets for identical assets or liabilities. An active market is one in which prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.
Valuation of Level 1 instruments requires little or no management judgment.
- Valuation technique using market observable inputs ('Level 2')
Valuation techniques utilising observable market prices applied to these assets or liabilities include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.
- Valuation technique with significant non-market observable inputs ('Level 3')
Financial instruments valued using at least one input that could have a significant effect on the instrument's valuation which is not based on observable market data (unobservable input). Unobservable inputs are those not readily available in an active market 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 historic transactions.

These valuations are calculated using a high degree of management judgment.

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

Attribution of financial instruments to the fair value hierarchy

The fair values of all financial instruments designated at fair value through profit or loss at 30 September 2015 were determined using Level 2 inputs.

None of the Company's financial assets or liabilities are classified as Level 3.

There have been no transfers between Levels 1 and 2 and no transfers into/out of Level 3 during the year ended 30 September 2015 (30 September 2014: nil).

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

The tables below summarises the financial instruments note measured at fair value for which the carrying amount in the balance sheet is different from the estimated fair value.

	30 September 2015		30 September 2014	
	Total Carrying Amount \$'000	Estimated Fair Value \$'000	Total Carrying Amount \$'000	Estimated Fair Value \$'000
Financial Assets				
Loans included in due from related entities	8,909,673	9,034,516	6,252,688	6,473,625
Total financial assets	8,909,673	9,034,516	6,252,688	6,473,625
Financial Liabilities				
Debt issues	8,908,850	9,034,513	6,250,690	6,473,555
Total financial Liabilities	8,908,850	9,034,513	6,250,690	6,473,555

The above estimated fair values were determined using Level 2 inputs.

For cash and cash equivalents, other receivables, interest receivable included in due from related parties and due to related entities which are carried at amortised cost and other types of short-term financial instruments recognised in the balance sheet under other liabilities, the carrying amount is equivalent to fair value. These items are either short-term in nature or repriced frequently, and are of a high credit rating.

Westpac Securities NZ Limited

Notes to the financial statements

Note 15. Reconciliation of profit after income tax expense to net cash provided by operating activities

	2015	2014
	\$'000	\$'000
Profit after income tax expense	6,419	2,565
<i>Adjustments:</i>		
Movement in accrued assets	(12,575)	5,357
Movement in accrued liabilities	13,801	(4,619)
Movement in tax balances	537	(732)
Net cash provided by operating activities	8,182	2,571

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 2015 (30 September 2014: 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 2015 (30 September 2014: nil).

Note 20. Subsequent events

As outlined on page 8, on 1 December 2015 the Board resolved to increase the limit of the Programme for Issuance of Debt Instruments from US\$7.5 billion to US\$10 billion.

Westpac Securities NZ Limited

Independent Auditors Report



Independent Auditors' Report to the shareholder of Westpac Securities NZ Limited

Report on the Financial Statements

We have audited the financial statements of Westpac Securities NZ Limited (the "Company") on pages 11 to 28, which comprise the balance sheet as at 30 September 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We are independent of the Company. Other than in our capacity as auditors we have no relationship with, or interests in, the Company.



Independent Auditors' Report

Westpac Securities NZ Limited

Opinion

In our opinion, the financial statements on pages 11 to 28 present fairly, in all material respects, the financial position of the Company as at 30 September 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholder, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' 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.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
1 December 2015

Auckland