Westpac Securities NZ Limited

Interim financial report

For the six months ended 31 March 2018

Westpac Securities NZ Limited

Contents

The interim financial report does not set out all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 September 2017 and any public announcements made by Westpac Securities NZ Limited during the interim reporting period in accordance with any relevant continuous disclosure obligations.

The interim financial 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 interim 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**')
Johanna Sawden	Head of Tax, WNZL
Mark Weenink	General Manager Regulatory Affairs, Compliance and General Counsel, WNZL
Carolyn Kidd	Chief Risk Officer, WNZL

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

Disclosure regarding forward-looking statements

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

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

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

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

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

Westpac Securities NZ Limited

Interim management report

Review and results of the Company's operations during the six months ended 31 March 2018

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 six months ended 31 March 2018 was $1,693,000 compared with the profit after tax of $1,864,000 for the six months ended 31 March 2017, a decrease of 9%.

Interest income decreased by 4% to $94,774,000 compared to the six months ended 31 March 2017. The $3,500,000 decrease was in line with the decrease in interest expense.

Interest expense decreased by 3% to $92,467,000 compared to the six months ended 31 March 2017. The $3,268,000 decrease was in line with the decrease in interest income.

Net interest income decreased by 9% to $2,307,000 compared to the six months ended 31 March 2017.

Non-interest income decreased by 9% to $498,000 compared to the six months ended 31 March 2017.

Operating expenses decreased by 9% to $453,000 compared to the six months ended 31 March 2017.

Tax expense decreased by 9% to $659,000 compared to the six months ended 31 March 2017. The decrease was in line with the decrease in profit before income tax.

Total debt securities issued as at 31 March 2018 was $11,880,927,000 which was a decrease of $1,578,656,000 or 12%, compared to $13,459,583,000 as at 30 September 2017. This decrease was due to the repayment of Euro Medium-term Notes (**'EMTN'**) and US Commercial Paper.

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 six months ended 31 March 2018

There were no significant events during the six months ended 31 March 2018.

Risk factor

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, reputation, financial performance or financial condition could be materially adversely affected, with the result that the trading price of the Company's securities could decline and as a security holder you could lose all, or part, of your investment. You should carefully consider the risks described and the other information in this annual report before investing in the Company's securities. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems to be immaterial, may also become important factors that affect the Company.

Risks relating to WNZL's business

WNZL's businesses are highly regulated and WNZL could be adversely affected by 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 it or the Company operates or obtains funding including New Zealand, the United Kingdom, the United States, Switzerland and various jurisdictions in Asia. WNZL is also supervised by a number of different regulatory and supervisory authorities which have broad administrative powers over its businesses. The Reserve Bank of New Zealand (**'RBNZ'**) and the Financial Markets Authority (**'FMA'**) have supervisory oversight of WNZL's operations. As a subsidiary of WBC, WNZL is also subject to certain regulations imported by the Australian Prudential Regulation Authority (APRA).

WNZL's business, reputation, prospects, financial performance and financial condition could all be affected by changes to law and regulation, changes to policies and changes in the supervisory activities and expectations of its regulators.

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, prudential regulation, tax, anti-money laundering and counter-terrorism financing, conduct, consumer protection (including in the design and distribution of financial products), remuneration, competition, privacy, data access, prudential regulation, anti-bribery and corruption, and economic and trade sanctions.

Regulatory changes could impact WNZL in a number of ways. For example, new regulation could require WNZL to have increased levels of liquidity and higher levels of, and better quality, capital and funding. Regulatory change could also result in restrictions on how WNZL operates its business by imposing restrictions on the types of businesses WNZL can conduct, require WNZL or its competitors to change their business models or require WNZL to amend its corporate structure.

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 could 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.

Regulation may also affect how WNZL provides products and services to its customers. New laws and regulations could restrict WNZL's ability to provide products and services to certain customers (including by imposing regulatory limits on certain types of lending and on lending to certain customer segments), require WNZL to alter its product and service offerings , restrict its ability to set prices for certain products and services or require us to alter the pricing that applies to products and services provided to new and existing customers. These types of changes could affect WNZL's profitability by adversely affecting its ability to maintain or increase margins and fees. This could occur because a regulation seeks to place a cap on the price of a product or service WNZL provides, or because, in response to new regulation, WNZL increases the price it charges for a product or service.

This price increase could lead to customers seeking out alternative products or services with a competitor.

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There are numerous sources of regulatory change that could affect WNZL's business. In some cases, changes to regulation are driven by international bodies. For example, in December 2010, the Basel Committee on Banking Supervision (BCBS) announced a revised global regulatory framework known as Basel III. Basel III, among other things, increased the required quality and quantity of capital held by banks and introduced new standards for the management of liquidity risk. The BCBS announced the finalisation of this framework in December 2017. In July 2017, APRA took steps to implement the next wave of capital requirements for Australian banks by clarifying its expectations for banks to hold 'unquestionably strong' levels of capital. In other cases, authorities in the various jurisdictions in which WNZL operates or obtains funding may propose regulatory change for financial institutions. Examples of proposed regulatory change that could impact WNZL include changes to capital adequacy standards, financial adviser obligations, privacy obligations, banking executive accountability obligations, accounting and reporting standards and changes to tax legislation.

Further changes may occur driven by policy, prudential or political factors. In addition, legislation introduced in one jurisdiction may lead to other governments seeking to introduce similar legislation in their jurisdiction.

It is also possible that governments or regulators in jurisdictions in which WNZL operates or obtains funding might revise their application of existing regulatory policies that apply to, or impact, WNZL's business (including by instituting macro-prudential limits on lending). Regulators or governments may take this action for a variety of reasons, including for reasons relating to national interest and/or systemic stability.

Regulatory changes and the timing of their introduction continue to evolve and WNZL manages its businesses in the context of regulatory uncertainty and complexity. The nature and impact of future changes are not predictable and are beyond WNZL's control. Regulatory compliance and the management of regulatory change are an important part of WNZL's planning processes. WNZL expects that it will be required to continue to invest significantly in compliance and the management and implementation of regulatory change and, at the same time, significant management attention and resources will be required to update existing, or implement new, processes to comply with new regulations. Furthermore, the challenge in managing regulatory change may be heightened by multiple jurisdictions seeking to adopt a coordinated approach to the introduction of new regulations. Where these jurisdictions elect not to adopt regulation in a uniform manner across each jurisdiction, this may result in conflicts between the specific requirements of the different jurisdictions in which WNZL operates.

Current or recent regulatory reforms and significant developments in New Zealand include:

- RBNZ -Revised Outsourcing Policy

On 19 September 2017, the RBNZ advised Westpac New Zealand Limited (WNZL) of changes to its conditions of registration that will give effect to the RBNZ's revised Outsourcing Policy (BS11) (Revised Outsourcing Policy). Both the changes to the conditions of registration and the Revised Outsourcing Policy came into effect on 1 October 2017. The Revised Outsourcing Policy sets out requirements that banks need to meet when outsourcing particular functions and services, especially if the service provider is a related party of the bank. WNZL will have two years before it must fully comply with the requirement to maintain a compendium of outsourcing arrangements and five years to fully comply with other aspects of the Revised Outsourcing Policy.

- RBNZ Capital Review

In March 2017, the RBNZ outlined its plans for its review of bank capital requirements. The RBNZ's aim is to agree a capital regime that ensures a very high level of confidence in the solvency of the banking system while avoiding economic inefficiency. The review will look at the three key components of the regulatory capital regime:

- the definition of eligible capital instruments;
- the measurement of risk, in particular the risk weights attached to credit exposures; and
- the minimum capital ratio and buffers.

The RBNZ has said that the outcomes of the review will be heavily influenced by the international regulatory context, the risk characteristics of the New Zealand system, and the RBNZ's regulatory capital approach. The RBNZ released a high-level Issues Paper in May 2017 and a consultation paper considering what type of financial instruments should qualify as bank capital in July 2017. On 21 December 2017, the RBNZ released its issues paper on the capital ratio denominator. Based on the high level information released to date, the expectation is that the RBNZ will likely propose increasing capital ratios and certain risk weights, with internal ratings-based (IRB) banks having fewer models to use (to reduce the difference between standardised and IRB banks).

- RBNZ – Relaxation of restrictions on high Loan-to-Value Ratio (LVR) mortgage lending

On 29 November 2017 the RBNZ announced it would ease LVR restrictions. From 1 January 2018, the revised LVR restrictions are that:

- no more than 15 percent (previously 10 percent) of each bank's new mortgage lending to owner occupiers can be at LVRs of more than 80 percent; and
- no more than 5 percent of each bank's new mortgage lending to residential property investors can be at LVRs of more than 65 percent (previously 60 percent).

- Reform of the regulation of financial advice

The New Zealand Government announced plans for changes to the regime regulating financial advice in July 2016. In December 2017, the Financial Services Legislation Amendment Bill had its first reading in Parliament and was referred to Select Committee. Under the proposed new regime, financial advice will be provided by licensed firms who will employ financial advisers and nominated representatives. A Code of Conduct will apply to all advice and advisers and representatives will be subject to the same duties and ethical standards, including a duty to give priority to the client's interests. Firms will be responsible for ensuring their advisers and representatives comply with these duties. The reforms will also remove legislative barriers to the provision of robo-advice.

A two-stage transition is proposed. All industry participants will be required to hold a transitional licence by April 2019, to comply with the new regime by October 2019, and to hold a full licence by May 2021.

RBNZ – Review under section 95 of the Reserve Bank of New Zealand Act 1989

On 10 February 2017, the RBNZ issued WNZL with a notice under section 95 of the Reserve Bank of New Zealand Act 1989, requiring WNZL to obtain an independent review of its compliance with advanced internal rating-based aspects of the RBNZ's 'Capital Adequacy Framework (Internal Models Based Approach) (BS2B)' (BS2B). WNZL has disclosed non-compliance with BS2B (compliance with which is a condition of registration for WNZL) in its quarterly disclosure statements. On 15 November 2017, the RBNZ advised WNZL of changes to its conditions of registration resulting from the review. The changes to WNZL's conditions of registration came into effect on 31 December 2017 and increase the minimum Total Capital ratio, Tier 1 Capital ratio and Common Equity Tier 1 Capital ratio of WNZL and its controlled entities by 2%.

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WNZL has also undertaken to the RBNZ to maintain the Total Capital ratio of WNZL and its controlled entities above 15.1%. WNZL and its controlled entities retain an appropriate amount of capital to comply with the increased minimum ratios. The RBNZ requires WNZL to sufficiently address non-compliance issues by 30 June 2019.

A remediation plan has been provided to the RBNZ. These instances of non-compliance by WNZL have no impact on the compliance by WSNZL with its regulatory requirements.

- Review of the Reserve Bank of New Zealand Act

In November 2017, the New Zealand Government announced it will undertake a review of the Reserve Bank of New Zealand Act 1989. In December 2017, the Minister of Finance appointed an Independent Expert Advisory Panel to provide input into and support the Review. The Review aims to ensure the RBNZ's monetary and financial policy framework still provides the most efficient and effective model for New Zealand. The Review will consist of two phases. Phase 1 focuses on whether the RBNZ's decision-making process for monetary policy is robust. Policy decisions on Phase 1 of the review were announced by the Government on 16 March 2018. New Zealand Treasury has sought industry feedback on the parameters of Phase 2, which will consider broader issues, including the macro prudential framework and the current prudential supervision model.

- Residential Mortgage Bond Collateral Standard Review

When the RBNZ lends to banks and other counterparties it does so against 'eligible collateral' (mortgage bonds). In New Zealand, mortgage bonds are not generally traded. On 17 December 2017, the RBNZ published an issues paper proposing an enhanced mortgage bond standard aimed at supporting confidence and liquidity in the financial system, and a more standardised and transparent framework for mortgage bonds, which would improve their quality and make them more marketable and a new format for mortgage bonds. The RBNZ is engaging with industry to develop its proposals.

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

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.

WNZL is subject to compliance risk, which is the risk of legal or regulatory sanction or financial or reputational loss, arising from WNZL's failure to abide by the compliance obligations required of it. This risk is exacerbated by the increasing complexity and volume of domestic and global regulation. Compliance risk can also arise where WNZL interprets its regulatory obligations, compliance requirements and rights (including in relation to GST recoveries and tax incentives) differently to its regulators or a court.

WNZL employs a compliance management system which is designed to identify, assess and manage compliance risk. This system includes (amongst other things) frameworks, policies, procedures, controls and assurance oversight. While this system is currently in place, it may not always be effective. Breakdowns may occur in this compliance management system due, for example, to flaws in the design of controls or underlying processes. This could result in potential breaches of WNZL's compliance obligations, as well as poor customer outcomes.

WNZL also depends on its employees, contractors and external service providers to 'do the right thing' in order for it to meet its compliance obligations. If an employee, contractor or external service provider fails to act in an appropriate manner, such as by neglecting to follow a policy or by engaging in misconduct, these actions could result in poor customer outcomes and a failure by WNZL to comply with its compliance obligations,

WNZL's failure, or suspected failure, to comply with a compliance obligation could lead to a regulator commencing surveillance or an investigation, which may, depending on the circumstances, result in the regulator taking administrative or enforcement action against it. In addition, the failure or alleged failure of its competitors to comply with their compliance obligations could lead to increased regulatory scrutiny across the financial services sector.

In many cases, WNZL's regulators have broad administrative and enforcement powers. 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.

The powers exercisable by WNZL's regulators may also be expanded in the future. Changes may also occur in the oversight approach of regulators which could result in a regulator exercising its enforcement powers rather than adopting a more consultative approach.

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 regulatory activity can be wide ranging and may result in litigation fines, penalties, reputational damage, revocation, suspension or variation of conditions of relevant regulatory licences (including potentially requiring WNZL to change or adjust its business model) or other enforcement or administrative action or agreements (such as enforceable undertakings).

Furthermore, regulatory action may result in WNZL being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of such litigation (including class action proceedings) may be payment of compensation to third parties and/or further remediation activities. In addition, action taken in one jurisdiction may prompt similar action to be taken in another jurisdiction.

The failure to comply with financial crime obligations could have an adverse effect on WNZL's business and reputation

WNZL is subject to anti-money laundering and counter-terrorism financing laws, anti-bribery and corruption laws and economic and trade sanctions laws in the jurisdictions in which it operates. These laws can be complex, and are undergoing change in a number of jurisdictions.

In recent years there has been increased focus on compliance with financial crime obligations, with regulators around the globe commencing large-scale investigations and taking enforcement action where they have identified non-compliance (often seeking significant monetary penalties).

While WNZL has systems, policies, processes and controls in place that are designed to manage its financial crime obligations, these may not always be effective. If WNZL fails to comply with these obligations, it could face regulatory action such as litigation, fines, penalties and the revocation, suspension or variation of licence conditions. Non-compliance could also lead to litigation commenced by third parties (including class action proceedings) and cause reputational damage. These actions could, either individually or in aggregate, adversely affect WNZL's business, reputation, prospects, financial performance or financial condition.

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Interim management report (continued)

Reputational damage could harm WNZL's business and prospects

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

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

There are various potential sources of reputational damage. WNZL's reputation may be damaged where any of its policies, processes, practices or behaviours results in a negative outcome for a customer or a class of customers. Other potential sources of reputational damage include the failure to effectively manage risks in accordance with WNZL's risk management frameworks, potential conflicts of interest, failure to comply with legal and regulatory requirements, failure to meet WNZL's market disclosure obligations, regulatory investigations into past conduct, adverse findings from regulatory reviews (including WNZL specific and industry wide reviews), making inaccurate public statements, environmental, social and ethical issues, engagement and conduct of external suppliers, failure to comply with anti-money laundering and counter-terrorism financing laws, anti-bribery and corruption laws, economic and trade sanctions 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 and inadequate record keeping which may prevent Westpac from demonstrating that a past decision was appropriate at the time it was made.

WNZL may incur reputational damage where its conduct, practices, behaviour or business activities falls below evolving community standards and expectations. As these expectations may exceed the standard required in order to comply with the law, WNZL may incur reputational damage even where it has met its legal obligations. A divergence between community expectations and WNZL's practices could arise in a number of ways, including in relation to its product and services disclosure practices, the features and benefits available under its products, lending practices, remuneration structures, pricing policies and the use and protection of data. WNZL's reputation could also be adversely affected by the actions of the financial services industry in general or from the actions of related companies (including WBC), its competitors, customers, suppliers, strategic partners and other counterparties. Furthermore, the risk of reputational damage may be heightened by the increasing use of social media.

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 or litigation brought by third parties (including class actions), require it to remediate and compensate customers and incur remediation costs or harm its reputation among 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 information security risks, including cyberattacks

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

While WNZL has systems in place to protect against, 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. In addition, as cyber threats continue to evolve, WNZL may be required to expend significant additional resources to modify or enhance its systems or to investigate and remediate any vulnerabilities or incidents.

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

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

WNZL could suffer losses due to technology failures

The reliability, integrity and security of WNZL's information and technology is crucial in supporting its customers' banking requirements and meeting its compliance obligations and regulators' expectations.

While WNZL has a number of processes in place to provide for and monitor the availability and recovery of its systems, there is a risk that its 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. If WNZL incurs a technology failure it may fail to meet a compliance obligation, or its customers may be adversely affected (such as where they are unable to access online banking services for an extended period of time or where an underlying technology issue results in a customer not receiving a product or service on the terms and conditions they agreed to). This could potentially result in reputational damage, remediation costs and a regulator commencing an investigation and/or taking administrative or enforcement action against WNZL.

Further, in order to continue to deliver new products and services to customers and comply with WNZL's regulatory obligations, WNZL needs to regularly renew and enhance its technology. 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, unrealised productivity, operational instability or reputational damage. In turn, this could place WNZL at a competitive disadvantage and adversely affect its financial performance.

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

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

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

As of 31 March 2018, approximately 19% of WNZL's total funding originated from domestic and international wholesale markets (30 September 2017: 21%). Of this, around 80% was sourced outside New Zealand (30 September 2017: 78%). As of 31 March 2018, WNZL's deposits provided around 75% of total funding (30 September 2017: 72%). Customer deposits held by WNZL are comprised of both term deposits which can be withdrawn after a certain period of time and at call deposits which can be withdrawn at any time.

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

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

If WNZL's current sources of funding prove to be insufficient, WNZL may be forced to seek alternative financing. The availability of such alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, WNZL's credit ratings and credit market capacity. Even if available, these alternatives may be more expensive or on unfavourable terms, which could adversely affect WNZL's financial performance, liquidity, capital resources or 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 or ability to use derivative obligations to hedge its interest rate, currency and other financial instrument risks.

Sovereign risk may destabilise financial markets adversely

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

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

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

Credit ratings are independent opinions on WNZL's creditworthiness. WNZL's credit ratings can affect the cost and availability of its funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating WNZL's products and services. Therefore, maintaining high 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 WBC Group, the quality of WNZL's governance, structural considerations regarding the New Zealand financial system and the credit rating of the New Zealand Government. A credit rating downgrade could be driven by a downgrade of the New Zealand Government, the occurrence of one or more of the other risks identified in this section or by other events including changes to the methodologies used by the rating agencies to determine ratings.

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.

A downgrade or series of downgrades to WNZL's credit ratings could have an adverse effect on its cost of funds and related margins, collateral requirements, liquidity, competitive position and its access to capital markets. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether WNZL's ratings differ among agencies (split ratings) and whether any ratings changes also impact WNZL's competitors or the sector.

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

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

As outlined above, during the past decade the financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility, global economic conditions, geopolitical instability (such as threats of or actual conflict occurring around the world) and political developments (such as Brexit and the introduction of tariffs and other trade barriers by various countries). 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 and affect investor's willingness to invest in WNZL. 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.

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. This 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 31 March 2018, housing loans represented approximately 60% of WNZL's gross loans and advances (31 March 2017: 60%).

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, asset prices and trade flows in the countries in which WNZL operates.

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

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

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

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

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

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

WNZL faces intense competition in all aspects of its business

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

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

WNZL could suffer losses due to operational risks

Operational risk is the risk of loss resulting from inadequacies or failures of processes, systems or people or from external events. It also includes, among other things, technology risk, model risk and outsourcing risk, as well as the risk of business disruption due to external events such as natural disasters, environmental hazard, damage to critical utilities, and targeted activism and protest activity. While WNZL has policies, processes and controls in place to manage these risks, these may not always be effective.

If a process or control is ineffective, it could result in an adverse outcome for WNZL's customers. For example, a process breakdown could result in a customer not receiving a product on the terms and conditions, or at the pricing, they agreed to. In addition, inadequate record keeping may prevent WNZL from demonstrating that a past decision was appropriate at the time it was made. If this was to occur, WNZL may incur significant costs in paying refunds and compensation to customers, as well as remediating any underlying process breakdown. These types of failure may also result in increased regulatory scrutiny, with a regulator potentially commencing an investigation and/or taking other enforcement, administrative or supervisory action.

WNZL could incur losses from fraudulent applications for loans or 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 losses which could adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

As a financial services organisation, WNZL is heavily reliant on the use of data and models in the conduct of its business (including in the calculation of risk-weighted assets). It 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 also 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.

Operational risks can directly impact WNZL's reputation and result in financial losses (including through decreased demand for its products and services) which would adversely affect its financial performance or financial condition.

WNZL could suffer losses due to litigation

WNZL may from time to time, be involved in legal proceedings (including class action proceedings), regulatory actions or arbitration arising from the conduct of its business and the performance of its legal and regulatory obligations. These may, either individually or in aggregate, adversely affect the WNZL's business, operations, prospects or financial condition. Such matters are subject to many uncertainties (for example, the outcome may not be able to be predicted accurately) and WNZL may be required to pay money such as damages, fines, penalties or legal costs. 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 losses due to conduct risk

Conduct risk is the risk that WNZL's provision of services and products results in unsuitable or unfair outcomes for its stakeholders or undermines market integrity.

This risk can arise through the poor conduct of WNZL's employees, contractors and external service providers. In addition, conduct risk could occur through the provision of products and services to WNZL's customers that do not meet their needs or do not support market integrity. This could occur through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), poor product design and implementation, failing to adequately consider customer needs, or selling products and services outside of customer target markets or a failure to adequately provide the products or services WNZL had agreed to provide a customer. While WNZL has frameworks, policies, processes and controls that are designed to manage poor conduct outcomes, these policies and processes may not always be effective. The failure of these policies and processes could result in financial losses and reputational damage and this could adversely affect WNZL's business, prospects, financial performance or financial condition.

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

WNZL has implemented risk management strategies, frameworks and internal controls involving processes and procedures intended to identify, monitor and manage risks including liquidity risk, credit risk, equity risk, market risk, (such as interest rate and foreign exchange risk), compliance risk, conduct 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. The effectiveness of risk management frameworks is also connected to the establishment and maintenance of a sound risk management culture. Furthermore, the development of appropriate remuneration structures can support the establishment of and contribute to the maintenance of a sound risk culture.

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.

Climate change may have adverse effects on WNZL's business

WNZL, its customers and external suppliers may be adversely affected by the physical risks of climate change, including increases in temperatures, sea levels, and the frequency and severity of adverse climatic events including fires, storms, floods, and droughts. These effects, whether acute or chronic in nature, may directly impact WNZL and its customers through reputational damage, environmental factors, business disruption, insurance risk, and an increase in defaults in credit exposures.

Initiatives to mitigate or respond to adverse impacts of climate change may in turn impact market and asset prices, economic activity, and customer behaviour, particularly in geographic locations and industry sectors adversely affected by these changes. Failure to effectively manage these transition risks could adversely affect WNZL's reputation, business, prospects, financial performance or financial condition.

WNZL could suffer losses due to environmental factors

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

Changes in critical accounting estimates and judgements could expose WNZL to losses

WNZL is required to make estimates, assumptions and judgements when applying accounting policies and preparing its financial statements, particularly in connection with the calculation of provisions (including those related to credit losses) and the determination of the fair value of financial instruments. A change in a critical accounting estimate, assumption and/or judgement resulting from new information or from changes in circumstances or experience could result in WNZL incurring losses greater than those anticipated or provided for. This may have an adverse effect on WNZL's financial performance, financial condition and reputation. WNZL's financial performance and financial condition may also be impacted by changes to accounting standards or to generally accepted accounting principles.

WNZL could suffer losses due of 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 31 March 2018, WNZL carried goodwill principally related to its investments in New Zealand, as well as intangible capitalised software balances.

WNZL is required to assess the recoverability of the goodwill and other intangible asset 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 intangible assets.

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

Westpac Securities NZ Limited

Interim management report (continued)

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

As a financial intermediary WNZL underwrites listed and unlisted debt 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, or entry into 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. In addition, WNZL may be unable to successfully divest businesses or assets.

These activities may, for a variety of reasons, not deliver the anticipated positive business results and could have a negative impact on WNZL's business, prospects, engagement with regulators, financial performance or financial condition.

Wholesale Funding

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

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

Markets	Issuer	31 March 2018 Programme Type	Programme Limit	Issuer	30 September 2017 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$10 billion	Company [1]	Programme for Issuance of Debt Instruments	US$10 billion
Euro market	Company [1]	Global Covered Bond Programme	€ 5 billion	Company [1]	Global Covered Bond Programme	€ 5 billion
United States	Company [1]	US Commercial Paper Programme	US$10 billion	Company [1]	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

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

Westpac Securities NZ Limited

Responsibility statement

The Board confirms that to the best of their knowledge:

1. the condensed interim financial statements have been prepared in accordance with New Zealand Equivalent to International Accounting Standard ('**IAS**') 34 *Interim Financial Reporting* and also comply with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board; and
2. the interim management report includes a fair review of the information required by the Disclosure and Transparency Rules 4.2.7R of the United Kingdom Financial Conduct Authority.

Westpac Securities NZ Limited

Directors' report

The Board are pleased to present the condensed interim financial statements of the Company comprising the interim management report, the condensed interim financial statements of the Company and the independent auditor's review report for the six months ended 31 March 2018.

The Board authorised these condensed interim financial statements on 21 May 2018.

For and on behalf of the Board:

Director
21 May 2018

Director
21 May 2018

Westpac Securities NZ Limited

Statement of comprehensive income for the six months ended 31 March

	Six months ended 31 March 2018 Unaudited $'000	Six months ended 31 March 2017 Unaudited $'000	Year ended 30 September 2017 Audited $'000
Interest income	**94,774**	98,274	192,895
Interest expense	**(92,467)**	(95,735)	(187,744)
Net interest income	**2,307**	2,539	5,151
Non-interest income	**498**	545	1,122
Total non-interest income	**498**	545	1,122
Net operating income before operating expenses	**2,805**	3,084	6,273
Operating expenses	**(453)**	(496)	(1,020)
Profit before income tax	**2,352**	2,588	5,253
Income tax expense	**(659)**	(724)	(1,379)
Net profit for the period/year	**1,693**	1,864	3,874
Total comprehensive income for the period/year	**1,693**	1,864	3,874

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

Balance sheet as at 31 March

	Note	31 March 2018 Unaudited $'000	31 March 2017 Unaudited $'000	30 September 2017 Audited $'000
Assets				
Cash and cash equivalents		**5,677**	6,665	8,259
Receivables due from related entities		**11,921,818**	12,656,016	13,495,715
Current tax asset		**3,580**	2,748	3,220
Total assets		**11,931,075**	12,665,429	13,507,194
Liabilities				
Payables due to related entities		**2,363**	1,970	2,042
Debt issues	2	**11,880,927**	12,623,255	13,459,583
Other liabilities		**38,948**	31,196	34,551
Total liabilities		**11,922,238**	12,656,421	13,496,176
Net assets		**8,837**	9,008	11,018
Shareholder's equity				
Share capital		**651**	651	651
Retained profits		**8,186**	8,357	10,367
Total shareholder's equity		**8,837**	9,008	11,018

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

Westpac Securities NZ Limited

Statement of changes in equity for the six months ended 31 March

	Note	Share Capital $'000	Retained Profits $'000	Total $'000
As at 1 October 2016 (Audited)		651	9,648	10,299
Six months ended 31 March 2017 (Unaudited)				
Net profit for the period		-	1,864	1,864
Total comprehensive income for the six months ended 31 March 2017		-	1,864	1,864
Transactions with owners:				
Dividends paid on ordinary shares	3	-	(3,155)	(3,155)
As at 31 March 2017 (Unaudited)		651	8,357	9,008
Year ended 30 September 2017 (Audited)				
Net profit for the year		-	3,874	3,874
Total comprehensive income for the year ended 30 September 2017		-	3,874	3,874
Transactions with owners:				
Dividends paid on ordinary shares	3	-	(3,155)	(3,155)
As at 30 September 2017 (Audited)		651	10,367	11,018
Six months ended 31 March 2018 (Unaudited)				
Net profit for the period		**-**	**1,693**	**1,693**
Total comprehensive income for the six months ended 31 March 2018		**-**	**1,693**	**1,693**
Transactions with owners:				
Dividends paid on ordinary shares	3	**-**	**(3,874)**	**(3,874)**
As at 31 March 2018 (Unaudited)		**651**	**8,186**	**8,837**

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

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Westpac Securities NZ Limited

Statement of cash flows for the six months ended 31 March

	Note	Six months ended 31 March 2018 Unaudited $'000	Six months ended 31 March 2017 Unaudited $'000	Year ended 30 September 2017 Audited $'000
Cash flows from operating activities				
Interest income received		**89,725**	119,929	211,492
Interest expense paid		**(88,048)**	(116,050)	(204,732)
Service fees received - related entities		**481**	516	1,123
Service fees paid - related entities		**(435)**	(491)	(645)
Operating expenses paid		**(4)**	(8)	(60)
Income tax paid		**(1,019)**	(1,169)	(2,296)
Net cash provided by operating activities		**700**	2,727	4,882
Cash flows from investing activities				
Net movement in receivables due from related entities		**1,902,720**	(1,103,574)	(1,787,715)
Net cash provided by/(used in) investing activities		**1,902,720**	(1,103,574)	(1,787,715)
Cash flows from financing activities				
Net movement in payables due to related entities		**286**	685	467
Proceeds from debt issues		**-**	5,644,281	6,990,141
Repayment of debt issues		**(1,902,414)**	(4,543,280)	(5,205,342)
Dividends paid to ordinary shareholders	3	**(3,874)**	(3,155)	(3,155)
Net cash (used in)/provided by financing activities		**(1,906,002)**	1,098,531	1,782,111
Net decrease in cash and cash equivalents		**(2,582)**	(2,316)	(722)
Cash and cash equivalents at beginning of the period/year		**8,259**	8,981	8,981
Cash and cash equivalents at end of the period/year		**5,677**	6,665	8,259

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

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Westpac Securities NZ Limited

Notes to the financial statements

Note 1. Financial statement preparation

These condensed interim financial statements (**'financial statements'**) are general purpose financial statements prepared in accordance with the UK Listing Authority Disclosure and Transparency Rules. These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit entities, and the New Zealand equivalent to International Accounting Standard (**'IAS'**) 34 *Interim Financial Reporting* and should be read in conjunction with the financial statements for the year ended 30 September 2017. These financial statements comply with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

These financial statements were authorised for issue by the Board of Directors (**the 'Board'**) on 21 May 2018. The Board has the power to amend the financial statements after they are authorised for issue.

a. Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and financial liabilities measured at fair value through the statement of comprehensive income. The going concern concept and the accrual basis of accounting have been applied.

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

Comparative information has been revised where appropriate to conform to changes in presentation in the current year and to enhance comparability. Where there has been a material misstatement of comparative information the nature of and the reason for, the restatement is disclosed.

There were no amendments to the New Zealand Accounting Standards adopted during the reporting period that had a material impact on the Company.

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the financial statements for the year ended 30 September 2017.

The areas of judgement, estimates and assumptions in the financial statements, including the key sources of estimation uncertainty, are consistent with those in the annual financial statements for the year ended 30 September 2017.

Note 2. Debt issues

	Note	**As at 31 March 2018 Unaudited $'000**	As at 31 March 2017 Unaudited $'000	As at 30 September 2017 Audited $'000
Short-term debt				
Commercial paper		**590,007**	2,397,862	1,642,623
Total short-term debt		**590,007**	2,397,862	1,642,623
Long-term debt				
Euro medium-term notes		**5,820,636**	6,872,362	6,602,917
Covered bonds		**5,470,284**	3,353,031	5,214,043
Total long-term debt		**11,290,920**	10,225,393	11,816,960
Total debt issues		**11,880,927**	12,623,255	13,459,583
Debt issues measured at amortised cost	4	**11,290,920**	10,225,393	11,816,960
Debt issues measured at fair value		**590,007**	2,397,862	1,642,623
Total debt issues		**11,880,927**	12,623,255	13,459,583

Note 3. Related entities

During the period ended 31 March 2018, the Company paid dividends in respect of the ordinary shares to its immediate parent Westpac New Zealand Operations Limited amounting to $3,874,000 (period ended 31 March 2017: $3,155,000, year ended 30 September 2017: $3,155,000).

In addition, $1,578,946,000 in lending was repaid by Westpac New Zealand Limited (**'WNZL'**) to the Company (refer to Note 4).

There were no other significant related entity transactions in the six months ended 31 March 2018.

Westpac Securities NZ Limited

Notes to the financial statements

Note 4. Fair value of financial instruments

Fair value control framework

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

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

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

Fair value hierarchy

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

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

Valuation techniques

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

Financial instruments measured at fair value

Level 1 instruments

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

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

There are no financial instruments included in the Level 1 category (31 March 2017: nil, 30 September 2017: nil).

Level 2 instruments

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

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

Instrument	Balance sheet category	Includes	Valuation technique
Non-asset backed debt instruments	Debt issues	Commercial paper	Valued using observable market prices which are sourced from consensus pricing services, broker quotes or inter-dealer prices.
Financial assets at fair value through profit or loss due from WNZL	Receivables due from related entities	Loans	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of WNZL.

Level 3 instruments

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

There are no financial instruments included in the Level 3 category (31 March 2017: nil and 30 September 2017: nil).

Westpac Securities NZ Limited

Notes to the financial statements

Note 4. Fair value of financial instruments (continued)

Analysis of movements between fair value hierarchy levels

During the period, there were no transfers between levels of the fair value hierarchy (31 March 2017: no material transfers between levels, and 30 September 2017: no material transfers between levels).

Financial instruments not measured at fair value

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

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

The following table summarises the estimated fair value of the Company's financial instruments not measured at fair value where the carrying amount is not equivalent to fair value:

		31 March 2018 (Unaudited)		31 March 2017 (Unaudited)		30 September 2017 (Audited)	
		Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
	Note	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets							
Loan included in receivables due from related entities - WNZL		11,290,935	11,370,951	10,225,419	10,342,785	11,816,970	11,932,114
Total		11,290,935	11,370,951	10,225,419	10,342,785	11,816,970	11,932,114
Financial liabilities							
Debt issues measured at amortised cost	2	11,290,920	11,423,574	10,225,393	10,371,603	11,816,960	11,970,403
Total		11,290,920	11,423,574	10,225,393	10,371,603	11,816,960	11,970,403

For cash and cash equivalents, accrued interest 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 reprice frequently, and are of a high credit rating.

The detailed description of how fair value is derived for financial instruments not measured at fair value is set out in Note 14 to the financial statements for the year ended 30 September 2017.

Note 5. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 31 March 2018 (31 March 2017: nil and 30 September 2017: nil).

Independent review report

to the shareholder of Westpac Securities NZ Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Westpac Securities NZ Limited (the Company) on pages 14 to 19, which comprise the condensed statement of financial position as at 31 March 2018, and the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

Directors' responsibility for the interim financial statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these interim financial statements.

We are independent of the Company. Other than in our capacity as auditor and provider of other related assurance services we have no relationship with, or interests in, the Company. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Company are not prepared, in all material respects, in accordance with IAS 34 and NZ IAS 34.

Who we report to

This report is made solely to the Company's shareholder, as a body. Our review work has been undertaken so that we might state to the Company's shareholder those matters which we are required to state to them in our review 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 review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
21 May 2018

Auckland