Westpac Securities NZ Limited

Annual report

For the year ended 30 September 2022

Westpac Securities NZ Limited

Contents

Disclosure regarding forward-looking statements 2
Management report 3
Responsibility statement 14
Directors' report 15
Statement of comprehensive income 16
Balance sheet 16
Statement of changes in equity 16
Statement of cash flows 17
Notes to the financial statements 18
Independent auditor's review report 34

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 signing date of these financial statements are Catherine Anne McGrath, Christopher Louis Hillier and Dirk Christopher McLiesh.

Mark Broughton Weenink, Simon James Power, Johanna Claire Sawden and Carolyn Mary Kidd resigned as Directors on 1 October 2021, 15 November 2021, 26 November 2021 and 27 May 2022 respectively. Catherine Anne McGrath, Christopher Louis Hillier and Dirk Christopher McLiesh were appointed as Directors on 15 November 2021, 30 November 2021 and 6 October 2022 respectively.

Westpac Securities NZ Limited

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

Disclosure regarding forward-looking statements

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

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Annual Report and include statements regarding the Company's intent, belief or current expectations with respect to its 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', 'outlook', 'forecast' 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:

- information security risks and breaches, including cyberattacks;
- adverse credit and capital market conditions or depositor preferences;
- the incidence of inadequate capital levels under stressed conditions;
- the risk that governments will default on their debt obligations, will fail to perform contractual obligations or will be unable to refinance their debts as they fall due;
- changes to Westpac New Zealand Limited's ('**WNZL**') credit ratings or the methodology used by credit rating agencies;
- WNZL's substantial dependence on the New Zealand economy, as well as New Zealand's economic relationships with Australia and China;
- declines in New Zealand or overseas asset markets, including equity, residential and commercial property markets;
- a weakening of the real estate market in New Zealand;
- an increase in defaults, write-offs and insufficient provisions for expected losses;
- the effects of competition, including from established providers of financial services and from non-financial services entities;
- levels of inflation, interest rates (including low or negative interest rates), exchange rates and market and monetary fluctuations and volatility;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- the effectiveness of WNZL's risk management policies, including internal processes, systems and employees, and operational risks resulting from ineffective processes and controls, as well as breakdowns in processes and procedures requiring remediation activity;
- poor data quality or poor data retention;
- failure to recruit or retain key personnel;
- the occurrence of environmental change (including as a result of climate change), geopolitical risks or external events in countries in which WNZL or its customers or counterparties conduct their operations;
- changes to WNZL's critical accounting estimates and judgements and changes to the value of WNZL's intangible assets;
- losses due to impairment of capitalised software, goodwill and other intangible assets;
- strategic decisions including diversification, innovation, divestment, acquisitions or business expansion activity, including the integration of new businesses;
- internal and external events which may adversely impact WNZL's reputation;
- reliability and security of WNZL's technology and risks associated with changes to technology systems;
- 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 failure to comply with laws, regulations or regulatory policy;
- regulatory investigations, reviews and other actions, inquiries, litigation and other legal proceedings (including class actions), enforcement actions, fines, penalties, restrictions or other regulator imposed conditions, including as a result of WNZL's actual or alleged failure to comply with laws (such as Financial Crime Laws (as defined below)), regulations or regulatory policy;
- the failure to comply with financial crime obligations, which has had, and could further have, adverse effects on WNZL's business and reputation;
- WNZL's ability to incur additional indebtedness and any limitations contained in the agreements governing such indebtedness;
- the inability to syndicate or sell down underwritten securities, particularly during times of heightened market volatility; 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, refer to the section 'Risk factors' in this management report. When relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and events.

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

Westpac Securities NZ Limited

Management report

Review and results of the Company's operations during the year ended 30 September 2022

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 2022 was $518,000 compared with $3,101,000 for the year ended 30 September 2021, a decrease of 83%.

Interest income increased by 69% to $130,091,000 compared to the year ended 30 September 2021. The $52,890,000 increase was in line with the increase in interest expense.

Interest expense increased by 71% to $124,926,000 compared to the year ended 30 September 2021. The $51,976,000 increase was in line with the increase in interest income.

Net interest income increased by 22% to $5,165,000 compared to the year ended 30 September 2021.

Non-interest income decreased by 8% to $566,000 compared to the year ended 30 September 2021.

Operating expenses decreased by 8% to $515,000 compared to the year ended 30 September 2021.

Impairment charges increased by $3,237,000 compared to nil balance in the year ended 30 September 2021.

Tax expense increased by 21% to $1,461,000 compared to the year ended 30 September 2021.

Total debt issues as at 30 September 2022 was $17,619,103,000 which was an increase of $4,777,431,000 or 37%, compared to $12,841,672,000 as at 30 September 2021. This increase was predominately due to new issuances, partially offset by the repayments within the period.

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 2022

There were no significant events during the year ended 30 September 2022 not already disclosed in the WNZL disclosure statement dated 25 November 2022.

Risk factors

The Company's business is subject to risks that can adversely impact its financial performance, financial condition and future performance. As the Company is an indirect, wholly-owned subsidiary of WNZL, it is consequently affected by the same principal risks and uncertainties which affect WNZL. The principal risks and uncertainties that affect WNZL are set forth below. There are no additional material risk factors solely affecting the Company. If any of the following risks occur, the Company's business, prospects, reputation, financial performance or financial condition could be materially adversely affected, with the result being that the trading price of the Company's securities could decline. 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.

For information concerning the Company's exposure to credit risk, market risk and liquidity risk, please refer to Note 9 and Note 15 of the 'Notes to the financial statements' below

Risks relating to WNZL's business and industry

WNZL faces information security risks and breaches, including cyberattacks

WNZL (and its external service providers) is subject to information security risks. These risks are heightened by:

- new technologies and increased digital service options;
- increased use of the internet and telecommunications to conduct financial transactions;
- the growing sophistication of attackers, and the global increase in cyber crime;
- the shift to flexible working from home arrangements, which have resulted in many WNZL employees (and staff of service providers) and customers working remotely or from other sites;
- ongoing geopolitical tensions associated with the Russia-Ukraine conflict; and
- other external events such as biological hazards, climate change, natural disasters or acts of terrorism which could interrupt the usual operations of WNZL, its customers, suppliers and counterparties, potentially providing increased opportunities for cyber threat actors to exploit.

These risks could result in information security risks such as cyberattacks, espionage and/or errors happening at an unprecedented pace, scale and reach. Cyberattacks have the potential to cause financial system instability and could result in serious disruption to customer banking services, or compromise data privacy of customers, employees and others.

While WNZL has systems in place to protect against, detect and respond to cyberattacks, these systems have not always been, and may not always be, effective. For example, the Log4j cybersecurity breach was a serious, worldwide event, with significant implications on servers if a cyber attacker were to breach WNZL's systems, or those of a key supplier. WNZL, its customers, employees, suppliers, counterparties or others could suffer losses from cyberattacks, information security breaches or ineffective cyber resilience.

WNZL may not be able to anticipate and prevent a cyberattack, effectively respond to a cyberattack and/or rectify or minimise damage resulting from a cyberattack. WNZL's suppliers and counterparties, and other parties that facilitate WNZL's activities, financial platforms and infrastructure (such as payment systems and exchanges) are also subject to the risk of cyberattacks, which could in turn impact WNZL.

If WNZL or a key supplier is subject to a successful cyberattack, technology systems might fail to operate properly or become disabled, which could result in the unauthorised release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of WNZL, its employees, customers or third parties or otherwise adversely impact WNZL's network access, business operations or availability of services.

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 confidentiality and integrity of its information, there is no guarantee that these measures will be effective. The computer systems, software and networks on which WNZL and WNZL's customers, employees, suppliers, counterparties or others rely may be subject to security breaches, unauthorised access, malicious software, external attacks or internal breaches which could have an adverse impact on WNZL's and the aforementioned parties' confidential information.

Management report (continued)

A range of potential consequences could arise for WNZL from a successful cyberattack, such as:

- damage to technology infrastructure;
- disruptions or other adverse impacts to network access, operations or availability of services;
- loss of customers and market share or reputational damage;
- loss of data or information;
- customer remediation and/or claims for compensation;
- breach of applicable privacy laws or data protection regulations (including reporting obligations);
- increased vulnerability to fraud and scams;
- litigation and adverse regulatory action including fines or penalties and increased regulatory scrutiny; and
- increased need for significant additional resources to modify or enhance WNZL's systems or to investigate and remediate any vulnerabilities or incidents.

All these potential consequences could have regulatory impacts and negatively affect WNZL's business, prospects, reputation, financial performance or financial condition. As cyber threats evolve, WNZL may need to spend significant resources to modify or enhance its systems or investigate and remediate any vulnerabilities or incidents.

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 doing so

WNZL relies on deposits, money markets and credit and capital markets to fund its business, including to source funding and liquidity. WNZL may also need to rely on such sources of funding in the future to comply with regulatory capital requirements. The price of and availability to WNZL of funding, liquidity and regulatory capital are related to funding market conditions.

Funding markets can be unpredictable and experience extended periods of extreme volatility, disruption and decreased liquidity. Economic risks facing WNZL include damage to market confidence, changes to the access and cost of funding, a slowing in global economic activity, unexpected withdrawal or lack of availability of extraordinary central bank monetary policy stimulus and other or related impacts on customers or counterparties. High inflation and related interest rate increases have increased and could further increase funding costs and may lead to counterparties defaulting on their debt obligations, countries re-denominating their currencies and/or introducing capital controls and/or significant economic disruption in one or more major economies. While difficult to predict, such events could destabilise global financial markets, adversely affecting all participants, including WNZL.

A shift in investment preferences could result in deposit withdrawals or a reduction in new deposit volumes which may increase WNZL's need for funding from other, potentially less stable, or more expensive sources. If market conditions deteriorate due to economic, financial, political, geopolitical or other reasons, there may be a loss of confidence in bank deposits leading to deposit withdrawals or a reduction in new deposit volumes which may increase WNZL's need for funding from other, potentially less stable, or more expensive sources. WNZL's liquidity, funding and lending activities may be constrained and WNZL's financial solvency threatened.

If WNZL's current sources of funding prove to be insufficient, WNZL may need to seek alternatives which will depend on factors such as market conditions, credit ratings and 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.

If WNZL is unable to source appropriate funding, it may be forced to reduce lending or liquidity. This may adversely impact WNZL's business, prospects, liquidity, capital resources, financial performance and financial condition. If WNZL is unable to source appropriate funding for an extended period, or if it can no longer realise liquidity, WNZL may not be able to pay its debts as and when they fall due, meet regulatory requirements or meet other contractual obligations.

WNZL enters into collateralised derivative obligations, which may require WNZL to post additional collateral based on market movements, which has 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.

WNZL could be adversely affected by inadequate capital levels under stressed conditions

WNZL is subject to the risk of an inadequate level or composition of capital to support normal business activities and to meet regulatory capital requirements under normal operating environments or stressed conditions.

The implementation of updated capital and risk-weighted assets ('**RWA**') regulations which came into effect on 1 October 2021 has led banks in New Zealand to hold increased amounts of capital. Banks in New Zealand are also required to increase the amounts of capital held over time. Capital constraints could have an adverse impact on WNZL's ability to pay future dividends or make capital distributions. Adverse conditions and/or adverse regulatory changes could impact WNZL's capital adequacy and/or trigger capital distribution constraints, require WNZL to raise more capital or threaten its financial viability.

Sovereign risk may destabilise financial markets adversely

Sovereign risk is the risk that governments will default on their debt obligations, fail to perform contractual obligations or be unable to refinance their debts as they fall due. Potential sovereign contractual defaults, sovereign debt defaults and the risk that governments will nationalise parts of their economy including assets of financial institutions such as WNZL may negatively impact the value of WNZL's holdings of liquid and other assets, including loans. Such an event could destabilise global financial markets, adversely affecting WNZL's liquidity, financial performance or financial condition. 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.

WNZL could be adversely affected by the failure to maintain its credit ratings

Credit ratings are independent opinions on WNZL's creditworthiness. WNZL's credit ratings can affect the cost and availability of its funding and may be important to certain customers or counterparties when evaluating WNZL's products and services.

Credit ratings assigned to WNZL by rating agencies are based on an evaluation of several factors; macro factors (such as the structure of New Zealand's financial system, the economy and New Zealand's sovereign credit rating), WNZL specific factors (such as its financial strength, the quality of its governance and management of risk), and factors related to Westpac Banking Corporation ('**WBC**'), including a change in a rating agency's assessment of the likelihood of WNZL receiving support from WBC, and the credit rating of WBC. WNZL's issuer credit rating receives an uplift from the rating agency's assessment of the likelihood of WNZL receiving support from WBC and therefore WBC's credit rating. As a subsidiary of WBC, WNZL's credit rating cannot exceed that of WBC. It may, however, be equal to (as currently the case with S&P Global Ratings and Fitch Ratings) or lower than (as currently the case with Moody's Investor Services) WBC's rating. A rating downgrade could be driven by a downgrade of New Zealand's sovereign credit rating, a downgrade of WBC's credit rating, an assessment that support from WBC has weakened due to one or more of the risks identified in this section, by a deterioration in WNZL's financial position or by other events including the sale or disposal of WNZL by WBC, or changes to credit rating methodologies. A credit rating or rating outlook may also be downgraded or revised if a credit rating agency believes there is a high probability that a company's key rating factors could be impacted by significant events (such as a pandemic).

Management report (continued)

A downgrade to WNZL's credit ratings would likely have an adverse effect on its cost of funds, sourcing of regulatory capital, collateral requirements, liquidity, competitive position, its access to capital markets and its financial stability. Any such downgrade may also impact WNZL's funding programs by requiring WNZL to carry out additional operational activities or could result in the replacement of WNZL as a provider of certain services, which may ultimately impact the ratings of the securities issued by WNZL under such programs.

The extent and nature of these impacts would depend on various factors, including the extent of any rating change, differences across agencies (split ratings) and whether competitors or the sector are also impacted.

WNZL's business is substantially dependent on the New Zealand, Chinese and Australian economies, and could be adversely affected by a shock to these economies, including as a result of the Russia-Ukraine conflict, deteriorating international relations with China, or by changes in monetary policies

WNZL's revenues and earnings are dependent on domestic and international economic activity, business conditions and the level of financial services its customers require. Most of WNZL's business is conducted in New Zealand, and therefore its performance is influenced by the level and cyclical nature of activity in New Zealand. The financial services industry and capital markets have been, and may continue to be, adversely affected by volatility, global economic conditions (including inflation and rising interest rates), the COVID-19 pandemic, external events, geopolitical instability, political developments or a major systemic shock.

The Russia-Ukraine conflict is ongoing and fluid, and is expected to continue to have significant ramifications on the geopolitical and economic landscape, with commodity prices, in particular energy, food and metals, already impacted and the future impacts and duration of the conflict remain uncertain. The extent and duration of the conflict and any corresponding economic sanctions, export controls and similar restrictions in addition to those already imposed and resulting market disruptions are difficult to predict. Although WNZL does not operate in Russia or Ukraine, the conflict has the potential to adversely impact the markets in which WNZL does operate, or on the financial position of its customers who transact in Russia or Ukraine, especially if the conflict escalates. Any prolonged market volatility, inflationary pressure or economic uncertainty resulting from the Russia-Ukraine conflict could adversely impact WNZL's financial condition and performance.

Market and economic disruptions may cause consumer and business spending to decrease, unemployment to rise and demand for WNZL's products and services to decrease, thereby reducing its earnings. These events could also undermine confidence in the financial system, reduce liquidity, impair access to funding and adversely affect WNZL's customers and counterparties. If any such event were to occur, WNZL's business, prospects, financial performance or financial condition may be adversely affected. In addition, any significant decrease in housing and commercial property valuations may adversely impact lending activities, possibly leading to higher credit losses.

Due to the economic relationship between New Zealand/Australia and China, particularly in the mining, resources and agricultural sectors, a slowdown in China's economic growth or changes in government policies (including the adoption of protectionist trade measures or sanctions, or an escalation of international conflicts) could negatively impact the New Zealand economy. This could result in a reduced demand for WNZL's products and services and affect the level of economic activity and the ability of WNZL's borrowers to repay their loans.

Monetary policy can significantly impact WNZL and the economic conditions of the jurisdictions WNZL operates or obtains funding in. Interest rate settings (including low or negative rates or increasing interest rates) and other actions taken by central banks (such as quantitative easing and tightening) may adversely affect WNZL's cost of funds, the value of WNZL's lending and investments and WNZL's margins. These policies may affect demand for WNZL's products and services and/or have a negative impact on WNZL's customers and counterparties, potentially increasing the risk that it will default.

All these factors may adversely affect WNZL's business, prospects, financial performance or financial condition. The nature and consequences of any such event are difficult to predict and there is a risk that WNZL's response may be ineffective.

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

Potential declines in New Zealand residential and commercial property markets, or other asset markets, including equity, have adversely affected, and could in the future adversely affect, WNZL's operations and profitability.

Declining asset prices could also impact customers and counterparties and the value of security (including residential and commercial property) WNZL holds. This may impact its ability to recover amounts owing to it if customers or counterparties default. It may also affect WNZL's impairment charges and provisions, in turn impacting WNZL's financial performance 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 2022, housing loans represented approximately 66% of WNZL's gross loans (as defined herein) and advances (30 September 2021: 65% and 30 September 2020: 62%).

WNZL's housing loan business previously has been, and in the future may be, affected by decreasing property values. A significant or sustained decrease in property valuations in New Zealand may cause losses in WNZL's existing portfolio of housing loans and/or decrease the amount of new housing loans WNZL is able to originate, which could materially and adversely affect WNZL's financial condition and performance. The demand for property may also be impacted by inflation and rising interest rates, which may also adversely impact property valuations. The RBNZ has stated that while a gradual decline in house prices to more sustainable levels may be desirable from a financial stability perspective, a sharp correction remains a plausible outcome that would have broad economic implications. Recent buyers with limited equity are particularly vulnerable to house price declines. Furthermore, a large fall in house prices would significantly reduce housing wealth and could lead to a contraction in consumer spending, especially when combined with borrowers cutting back discretionary spending due to rising interest rates and higher living costs.

The faster than expected rebound in domestic economic activity, along with disruptions to global supply chains and capacity constraints resulting from COVID-19, have led to a significant rise in inflation pressures. Consumer prices rose 7.2% over the twelve months to September 2022, and the inflation rate is expected to remain above the RBNZ's target range of 1 to 3% over the following year. COVID-19 disruptions to global production and transport have increased prices for imported goods, and the Russia-Ukraine conflict has led to further increases in oil and other commodity prices. Some of these price pressures are expected to be temporary, but when combined with historically low unemployment and capacity constraints, there is a risk that they could lead to more persistent increases in domestic wages and prices which could exacerbate consumer price inflation. The RBNZ has warned that if high inflation becomes embedded in expectations and pricing behavior, this could put pressure on central banks to raise interest rates more than currently anticipated. In this environment, higher interest rates than currently anticipated could make it even harder for households to service their mortgages.

After reducing the Official Cash Rate (the '**OCR**') to 0.25% in March 2020, the RBNZ began to increase it from October 2021 and by October 2022, it had risen to 3.50%. In its most recent forecasts (August 2022), the RBNZ signaled further increases in the OCR, to a projected peak of 4.10% in June 2023. Higher interest rates and lower house prices are expected to dampen consumer demand over 2023.

Management report (continued)

The residential property market in New Zealand is subject to increased regulatory scrutiny. For example, after directions from the New Zealand Government to the RBNZ to consider the impact of its actions on the Government's policy of supporting more sustainable house prices, the RBNZ reinstated loan-to-value ratio ('**LVR**') restrictions on both owner-occupiers and investors in March 2021, with a further tightening for new investor loans occurring in May 2021 (to limit new loans of more than 60% of the property's value to no more than 5% of each bank's new lending) and for new owner-occupier loans occurring in November 2021 (to limit new loans of more than 80% of the property's value to no more than 10% of each bank's new lending). The RBNZ also consulted on the imposition of debt-to-income ('**DTI**') restrictions in November 2021, and in March 2022 announced that it intends to proceed with designing a framework for operationalizing DTI restrictions, in consultation with the industry and other stakeholders. The RBNZ is now seeking feedback on the technical design aspects of the regulatory framework for DTI restrictions. The LVR restrictions currently in place and the potential DTI restrictions, which remain subject to implementation, may result in a decrease in demand for and approval of WNZL's residential loan products, and adversely impact the property values.

A weakening real estate market also exposes us to the following risks:

- commercial property assets could be impacted by weakening tenancy credit profiles and increasingly volatile property cash flows from lease renewals at lower rates, rental abatements, increased incentives and tenancy defaults impacting serviceability and increasing refinance risk, particularly as financial incentives provided by the New Zealand Government in response to the COVID-19 pandemic end.
- declining asset prices could impact customers, counterparties and the value of the security (including residential, commercial and rural property) WNZL holds against these loans, impacting WNZL's ability to recover amounts owed if customers or counterparties were to default. Valuations could be impacted by the combined effect of reductions in rental income and softening in yields (risk adjusted returns and implicit rental growth);
- declining demand for WNZL's residential lending products due to buyer concerns about decreases in values may make its lending products less attractive to potential homeowners and investors. In the case of residential loans, customers with high levels of leverage could show a higher propensity to default, and in the event of such defaults the decrease in security values may cause WNZL to incur higher credit losses, which may adversely affect WNZL's financial condition;
- liquidity concerns as existing loans are refinanced or new loans are financed within existing senior lending risk appetite parameters but against lower valuations, creating a need for additional equity contributions from owners or developers or alternative sources of funding. This creates an additional cash flow risk for borrowers and the potential for non-bank financiers to disintermediate; and
- a material decline in residential housing prices may also cause losses in WNZL's residential development portfolio if purchasers who pre-committed to purchase these properties from WNZL customers are unable or unwilling to complete their contracts, the WNZL customer defaults and WNZL re-sells these properties at less than the contracted price.

An increase in credit defaults 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 and WNZL's expectations. If economic conditions deteriorate, including, without limitation, as a result of inflation and increases in market interest rates, some customers and/or counterparties could experience higher financial stress leading to an increase in defaults and write-offs, and a need for higher provisioning. Such events could adversely affect WNZL's liquidity, capital resources, financial performance or financial condition.

These risks have been heightened by the COVID-19 pandemic which has negatively impacted economic activity and caused a range of customers to experience financial stress. The long-term impact of the COVID-19 pandemic on WNZL's customers and the magnitude of related defaults or impairments remain uncertain.

Credit risk also arises from certain derivative, clearing and settlement contracts WNZL enters into, and from its dealings in, and holdings of, debt securities issued by other institutions, 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 in New Zealand is highly competitive. WNZL competes with a range of firms, including retail and commercial banks, investment banks, other financial service companies, fintech companies and businesses in other industries with financial services aspirations. This includes some competitors who are not subject to the same capital and regulatory requirements as WNZL, which may allow those competitors to operate differently.

Emerging competitors are increasingly altering the competitive environment by adopting new business models or seeking to use new technologies to disrupt existing business models.

The competitive environment may also change as a result of increased scrutiny by regulators in the sector, and legislative reforms such as 'Open Banking' (proposals to create a standardised and secure framework for sharing bank customer data with trusted financial service providers, such as technology companies), which will stimulate competition, improve customer choice and likely give rise to increased competition from new and existing firms.

Competition in the various markets in which WNZL operates has led and may continue to lead to a decline in WNZL's margins or market share.

Deposits fund a significant portion of WNZL's balance sheet and have been a relatively stable source of funding. If WNZL is not able to successfully compete for deposits, this could increase WNZL's cost of funding, thereby requiring WNZL to use other types of funding or reduce its lending.

WNZL's ability to compete depends on its ability to offer products and services that meet evolving customer preferences and expectations. Not responding to changes in customer preferences and expectations could cause WNZL to lose customers. This could adversely affect WNZL's business, prospects, financial performance or financial condition.

WNZL could suffer losses due to market risks, including volatility

Market risk 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 ('**IRRBB**'), the risk to interest income due to a mismatch between the duration of assets and liabilities arising from the normal course of business activities. WNZL is exposed to market risk through asset and liability management.

Changes in markets could be driven by numerous developments resulting in market volatility which may lead to substantial losses. This may adversely affect WNZL's business, prospects, liquidity, ability to hedge exposures, capital resources, financial performance or financial condition.

The cessation of parts of the London Interbank Offered Rate ('**LIBOR**') regime from 1 January 2022, continuation of some US Dollar LIBOR settings until 30 June 2023 and possible pre-cessation events will also continue to impact market pricing. Industry pressure to migrate to alternative reference rates is likely to occur earlier. Any future changes in the administration of LIBOR or other market benchmarks could have adverse consequences for the return on, value of and market for securities and other instruments linked to any such benchmark, including securities or other instruments issued by WNZL.

Management report (continued)

WNZL has suffered and could suffer losses due to operational risks

Operational risk 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, or outbreaks of communicable diseases, environmental hazards, damage to critical utilities and targeted activism and protest activity. While WNZL has policies, processes and controls in place to manage these risks, these have not always been, or may not currently be effective.

Ineffective processes and controls have resulted in, and could result in, adverse outcomes for WNZL's customers. For example, a process breakdown or a failure to have appropriate product governance and monitoring processes in place could result in a customer not receiving a product on the terms, conditions, or pricing they agreed to, potentially to the detriment of the customer. Failed processes could also result in WNZL incurring losses because it cannot enforce its expected contractual rights, which could occur if WNZL does not correctly document its rights or fails to perfect a security interest. These types of operational failures may result in financial losses, customer remediation, increased regulatory scrutiny and intervention and, depending on the nature of the failure, result in class action proceedings or regulatory investigations and/or other actions.

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

WNZL is also exposed to model risk, being the risk of loss if the models used by WNZL produce incorrect outputs or that WNZL applies a fundamentally sound model to an ill-suited domain.

Financial services entities have been increasingly sharing data with third parties, such as suppliers and regulators, to conduct their business and meet regulatory obligations. Such third parties can give rise to, and are themselves subject to, a variety of risks, including financial crime compliance, information security, cyber, privacy, regulatory compliance, reputation, environmental and business continuity risks. Failures by these third parties to manage these risks could by extension have a material adverse effect on WNZL's reputation, operations and financial condition.

WNZL also relies on third-party contractors and suppliers, both in New Zealand and overseas, to provide services to it and its customers. A failure by WNZL to manage and oversee the services these third-party contractors and suppliers should provide as required could disrupt WNZL's ability to provide its products and services and adversely impact its operations, financial performance or reputation.

WNZL is also exposed to risk through delivery of regulatory and technology programs, including the risk that such programs fail to deliver the desired goals, or fail to reduce, preempt, mitigate and manage the challenges associated with transformation or lead to further regulatory scrutiny.

WNZL could also experience operational disruption if central banks were to adopt negative interest rates as the technology systems used by WNZL, its counterparties and/or financial infrastructure providers may not operate correctly, which could cause loss or damage to WNZL and/or its counterparties.

Poor data quality and records management could adversely affect WNZL's business and operations

Accurate, complete and reliable data, along with appropriate data control, retention and access frameworks and processes, are critical to WNZL's business. Data plays a key role in how WNZL provides products and services to customers, WNZL's systems, WNZL's risk management framework and WNZL's decision-making and strategic planning.

In some areas of WNZL's business, WNZL is affected by poor data quality. This has occurred and could arise in the future in a number of ways, including through inadequacies in systems, processes and policies, or the ineffective implementation of data management frameworks.

Poor data quality may lead to poor customer service, negative risk management outcomes, and deficiencies in credit systems and processes. Any deficiency in credit systems and processes could, in turn, have a negative impact on WNZL's decision making in the provision of credit and the terms on which it is provided. WNZL also needs accurate data for financial, regulatory and other reporting.

Poor data or poor records management has affected, currently affects and may in the future continue to affect WNZL's ability to monitor its business, comply with production notices, respond to regulatory notices and conduct remediation.

In addition, poor data or poor data retention, and control gaps and weaknesses have affected, currently affects and may in the future continue to affect WNZL's ability to meet its compliance obligations (including its regulatory reporting obligations) which could lead to a regulator taking action against WNZL.

Due to the importance of data, WNZL has incurred and will likely continue to incur substantial costs and devote significant effort to improving the quality of data, data frameworks and processes and remediating deficiencies where necessary.

The consequences and effects arising from poor data quality or poor data retention could have an adverse impact on WNZL's business, operations, prospects, reputation, financial performance and/or financial condition.

Operational risk, technology risk, conduct risk or compliance risk events could require WNZL to undertake customer remediation activity

Breakdowns in WNZL's processes, procedures and controls have led to, and could in the future lead to, adverse outcomes for customers, employees or other third parties which WNZL has been, or will be, required to remediate. These breakdowns may result from the realization of operational, technology, conduct or compliance risks.

WNZL has, on a number of occasions, incurred significant remediation costs (including compensation payments and costs of correcting the issue) and there is a risk that similar or new issues will arise or be identified in the future requiring remediation.

There are significant challenges and risks involved in customer remediation activities. WNZL's ability to investigate the underlying issue could be impeded if the issue is old and occurred beyond WNZL's record retention period, or WNZL records are inadequate. It may also be difficult and take significant time to properly quantify and design a remediation activity.

Determining how to compensate customers, employees or third parties properly and fairly can also be complicated, involving numerous stakeholders. WNZL's proposed approach to a remediation may be affected by a number of events, such as affected customers commencing a class action, or a regulator requiring a remediation to be done in a specific way or within a specific timeframe. These factors could delay WNZL in completing the remediation and may lead to a regulator commencing enforcement action against WNZL. In turn, this could result in increased reputational risk, and WNZL could be challenged by regulators, affected customers, the media and other stakeholders.

The significant challenges involved in designing and executing remediations also create a risk that the remediation costs incurred will be higher than initially estimated. Further, delays in completing a remediation could result in WNZL incurring additional administration costs and making higher remediation payments to customers to reflect the time value of money. If WNZL cannot effectively design, quantify, implement or complete a remediation activity in a timely way, there could be an adverse impact on WNZL's business, prospects, reputation, financial performance or financial condition which could lead to further regulatory action and/or oversight. Remediation programs may not prevent regulatory action, litigation (including class actions) or other proceedings from being pursued, or sanctions being imposed.

Management report (continued)

WNZL has suffered, and in the future could suffer losses and be adversely affected by the failure to implement effective risk management

WNZL's risk management framework has not always been, or may not in the future prove to be, effective, and the resources WNZL has in place for identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating material risks may not always be adequate.

There is a risk that WNZL's risk management framework and key risk management policies, controls and processes may be ineffective or inadequately designed, or suffer from technology failures or incomplete implementation or embedment. The potential for these types of failings is heightened if WNZL does not have or cannot obtain enough appropriately skilled, trained and qualified people in key positions or does not have sufficient capacity, including people, processes and technology, to appropriately manage risks.

There are also inherent limitations with any risk management framework, as risks may exist, or emerge in the future, that WNZL has not anticipated or identified, and its controls may not be effective.

The risk management framework may also prove ineffective because of weaknesses in risk culture or risk governance practices and policies, which may result in risks and control weaknesses not being identified, escalated and acted upon. Recent analysis and reviews, in addition to regulatory feedback, have highlighted that the framework is not operating satisfactorily in a number of respects and needs to be improved. WNZL has a number of risks which currently sit outside its risk appetite or do not meet the expectations of regulators, including, for example, change management, technology, issues and incident management and control identification and control assessment.

Further, the design or operation of WNZL's remuneration structures may not always encourage prudent risk management as intended, potentially resulting in staff engaging in excessive risk-taking behaviors.

As part of WNZL's risk management framework, WNZL measures and monitors risks against its risk appetite. If a risk exceeds acceptable levels, WNZL may not always be able to achieve mitigation or institute effective improvements within proposed timeframes. This may occur because, for example, WNZL experiences delays in enhancing its information technology systems or in recruiting sufficient numbers of appropriately trained staff for required activities. It is also possible that due to external factors beyond WNZL's control, certain risks may necessarily exceed WNZL's acceptable limits for periods of time. WNZL is required to periodically review its risk management framework to determine if it remains appropriate.

If WNZL is unable to sufficiently mitigate risks, or if it is determined that WNZL's risk management framework or risk governance practices and policies are no longer appropriate, WNZL may incur unexpected losses and be required to undertake considerable remedial work, including incurring substantial costs. The failure to remedy this situation could result in further increased scrutiny from regulators, who could require (amongst other things) that WNZL hold additional capital or direct WNZL to spend money to enhance its risk management systems and controls.

In March 2021, the RBNZ raised concerns in relation to WNZL's risk governance practices and policies and liquidity risk management. As a result, an external review of WNZL's risk governance and an external review of WNZL's liquidity management was conducted.

Weaknesses in risk management systems and controls may result in regulatory action. Banks registered under the Banking (Prudential Supervision) Act 1989 of New Zealand (the '**Prudential Supervision Act**') operating under the supervision of the RBNZ, are subject to certain conditions of registration imposed by the RBNZ. In this Management report, 'Conditions of Registration' refers specifically to WNZL's Conditions of Registration. For further information, please see the Conditions of Registration in the 2022 Disclosure Statement.

With effect from 31 March 2021, as a result of WNZL's non-compliance with the RBNZ's liquidity policy ('**BS13**'), the RBNZ amended WNZL's Conditions of Registration to apply an overlay to WNZL's mismatch ratios which will remain in place until the RBNZ is satisfied that its concerns regarding liquidity risk controls have been resolved and sufficient progress has been made to address the risk culture issues. Effective 31 March 2021, the overlay was specified by the RBNZ as an adjustment to liquid assets calculated by dividing the total liquid asset balance by 114%. Effective 15 August 2022, the RBNZ reduced the adjustment to liquid assets to 107% (requiring WNZL to discount the value of its liquid assets by approximately 7%, which is $1.5 billion as of 30 September 2022), reducing the overlay by 50%, reflecting the Liquidity Review findings that there had been improvements in the liquidity control environment and the associated risk culture. The overlay will remain in place until the RBNZ has received confirmation from the WNZL Board that the liquidity control assurance work is complete. This is expected by 31 March 2023.

If any of WNZL's governance or risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, as has occurred, WNZL could be exposed to higher levels of risk than expected which may result in unexpected losses, breaches of compliance obligations, imposition of further capital requirements, and reputational damage, each of which could adversely affect WNZL's business, prospects, financial performance or financial condition.

WNZL's failure to recruit and retain key executives, employees and Directors may have adverse effects on its business

Key executives, employees and Directors play an integral role in the operation of WNZL's business and its pursuit of its strategic objectives. The unexpected departure of an individual in a key role, or WNZL's failure to recruit and retain appropriately skilled and qualified persons into these roles at all or in a timely manner, could each have an adverse effect on WNZL's business, prospects, reputation, financial performance or financial condition. In addition, macro environmental factors such as low unemployment, limited migration levels due to pandemic border restrictions, on-shoring of work, new ways of working and the competitive talent market are all emerging risk factors, which may have a material adverse impact on WNZL.

Climate change may have adverse effects on WNZL's business

There are significant uncertainties inherent in accurately identifying and modelling climate-related risks over short-, medium- and long-term time horizons and in assessing their impact on WNZL's business. WNZL, its customers, suppliers and communities in which WNZL operates have been and may be adversely affected by the physical risks of climate change, including increases and variability in temperatures, changes in precipitation patterns, rising sea levels, loss of biodiversity and ecosystem degradation 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, its suppliers and its customers through, for example disruptions to business and economic activity, inability to access insurance and impacts on income and asset values. Adverse impacts on WNZL's customers may negatively impact loan serviceability and security values, as well as WNZL's profitability. Adverse impacts on WNZL's suppliers may adversely affect WNZL's ability to conduct WNZL's business or the profitability of that business.

Initiatives to mitigate or respond to climate change may impact market and asset prices, economic activity, and customer behavior, particularly in emissions intensive industry sectors and geographies affected by these changes.

Further, climate-related litigation has become more common in recent years. Any failure or perceived failure by WNZL to manage climate change appropriately may increase this risk. Should WNZL be required to respond to these challenges, it could give rise to increased costs, reputational risk and additional disclosure requirements associated with such matters.

Changes in supervisory expectations of banks and other regulatory changes could directly impact WNZL. This includes the introduction of mandatory climate risk reporting for the financial sector in New Zealand from 2023 onwards. In addition, the RBNZ is committed to working directly with regulated entities on climate-related risk management, including stress testing and supervisory frameworks. The RBNZ is currently expected to follow approaches taken by other appropriate regulators, for instance, the Australian Prudential Regulation Authority ('**APRA**'), which issued a draft Prudential Practice Guide and is undertaking a Climate Vulnerability Assessment involving major Australian banks.

Failure to effectively manage and disclose direct and indirect climate-related risks including nature-related risks such as biodiversity loss and ecosystem degradation could adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

Management report (continued)

WNZL's most material climate-related risks result from its lending to customers, including credit-related losses incurred as a result of a customer being unable or unwilling to repay debt, or impacting the value and liquidity of security interests, which may adversely affect WNZL's financial condition. The risk to WNZL from credit-related issues with its customers could result directly from climate-related events, and indirectly from changes to laws, regulations, or other policies such as carbon pricing and climate risk adaptation or mitigation policies, which may adversely impact the customer's ability or willingness to meet their obligations to WNZL.

Additionally, the price of insurance for properties perceived to be at high risk from earthquake damage or susceptible to climate change risks, such as rising sea levels and coastal inundation and bushfires, is increasing. An increase in the price of insurance could result in a property owner not renewing a policy or additional exclusions from the policy, for example, natural hazard cover. Where either the premium cost is considered prohibitive or a property cannot be insured, this could result in a reduction in the security value of properties that WNZL holds as collateral and may give rise to credit related losses due to customers being unable or unwilling to repay debt following damage to their property, which may adversely affect WNZL's financial condition.

WNZL could suffer losses due to geopolitical risks, environmental factors or external events

WNZL, its suppliers and its customers operate businesses and hold assets in a diverse range of geographic locations. Geopolitical risks, including those arising from conflicts, strategic competition, trade tension and/or the imposition of trade tariffs, sanctions, terrorist activity and acts of civil or international hostility, are increasing. Any significant environmental change or external event (including climate change, biodiversity loss and ecosystem degradation, drought, fire, storm, flood, earthquake, outbreaks or pandemics of communicable diseases such as the COVID-19 pandemic, civil unrest, war, heightened tension, terrorism or other geopolitical risks) in any of these locations has the potential to disrupt business activities and supply chains, damage property, affect asset values and impact WNZL's ability to receive goods or services from its suppliers or to recover amounts owing to it. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, price volatility in metals and other commodities, or the levels of volatility in financial markets, all of which could adversely affect WNZL's business, prospects, financial performance or financial condition.

The high dependency of New Zealand's and the global economy on nature means a loss of biodiversity and ecosystem degradation present risks to WNZL, primarily through its exposure to customers in sectors and other industries that are materially dependent on biodiversity and ecosystem services. Biodiversity loss and ecosystem degradation can also contribute to, and be accelerated by, climate change.

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 remediation and expected 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.

If WNZL's actual and future credit losses exceed those currently provided for (as represented by expected credit losses ('**ECL**')), it could cause 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 to impairment of capitalised software, goodwill and other intangible assets that may adversely affect its business, operations or financial condition

In certain circumstances, WNZL may incur a reduction in the value of intangible assets. As at the balance date, WNZL's intangible assets principally relate to goodwill recognised on acquisition, capitalised software and other capitalised expenses.

WNZL is required to assess the recoverability of goodwill and other intangible asset balances at least annually or wherever an indicator of impairment exists. For this purpose, WNZL uses a discounted cash flow calculation. Changes in the methodology or assumptions in calculations together with changes in expected cash flows, could materially impact this assessment. Estimates and assumptions used in assessing the useful life of an asset can also be affected by a range of factors including changes in strategy, changes in technology and regulatory requirements.

In the event that an asset is no longer in use, or its value has been reduced or its estimated useful life has declined, an impairment will be recorded, adversely impacting WNZL's financial performance.

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

WNZL routinely evaluates and implements strategic decisions and objectives including diversification, innovation, divestment, acquisitions or business expansion initiatives.

Each of these activities can be complex, costly and may not proceed in a timely manner. For example, they may cause reputational damage, or WNZL may experience difficulties in completing certain transactions, separating or integrating businesses in the scheduled timeframe or at all, disruptions to operations, diversion of management resources or higher than expected transaction costs. Multiple divestments and/or acquisitions at the same time may intensify these risks.

Furthermore, approvals may be required from shareholders, regulators or other stakeholders in order to divest businesses and assets, and there is a risk that these approvals may not be received, or that the purchaser does not complete these transactions for other reasons. In addition, any failure by WNZL to successfully divest businesses or assets could result in interested parties taking action against WNZL. As a result, WNZL may not receive the anticipated business benefits or cost saving and WNZL could otherwise be adversely affected.

WNZL also acquires and invests in businesses. These transactions involve a number of risks and costs. A business WNZL invests in may not perform as anticipated or may ultimately prove to have been overvalued when the transaction was entered into. Operational, cultural, governance, compliance and risk appetite differences between WNZL and an acquired business may lead to lengthier and more costly integration exercises.

There are also risks involved in failing to identify, understand or respond effectively to changes in WNZL's internal factors or external business environment (including changes related to economic, geopolitical, inflationary regulatory, technological, environmental, social and competitive factors). The realisation of such risks may have a range of adverse effects on WNZL, such as being unable to increase or maintain market share and placing pressure on margins and fees.

Any of these risks could have a negative impact on WNZL's business, prospects, reputation, engagement with regulators, financial performance or financial condition.

Reputational damage has harmed and could in the future harm WNZL's business and prospects

Reputational risk arises where there are differences between stakeholders' current and emerging perceptions, beliefs and expectations and WNZL's past, current and planned activities, processes, performance and behaviours.

There are various potential sources of reputational damage, for example, where WNZL's actions cause, or are perceived to cause, a negative outcome for customers, shareholders, stakeholders or the community. Reputational damage could also arise from the failure to effectively manage risks, failure to comply with legal and regulatory requirements, enforcement or supervisory action by regulators, adverse findings from regulatory reviews, failure or perceived failure to adequately respond to community, environmental, social and ethical issues, inadequate record keeping, failure of information security systems, technology failures and security breaches and inadequate record keeping, any of which may prevent WNZL from demonstrating that, or determining if, a past decision was appropriate at the time it was made.

Management report (continued)

WNZL's reputation may also be adversely impacted by the conduct of WBC, and any adverse impacts on WBC's reputation.

WNZL also recognises the potential reputational consequences (together with other potential commercial and operational consequences) of failing to appropriately identify, assess and manage environmental, social and governance-related risks such as climate change risk, human rights risk including customer vulnerability, modern slavery and child safety risk, or respond effectively to evolving standards and stakeholder expectations.

WNZL may suffer reputational damage where its conduct, practices, behaviours or business activities (or those of its staff) do not align with the evolving standards and expectations of the public or WNZL's customers, counterparties, regulators and/or other stakeholders. 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.

WNZL's reputation could also be adversely affected by the actions of customers, suppliers, joint-venture partners, strategic partners or other counterparties.

Failure, or perceived failure, to address issues that could or do give rise to reputational risk has created, and could in the future create, additional legal risk, subject WNZL to regulatory investigations, regulatory enforcement actions, fines and penalties or litigation or other actions brought by third parties (including class actions) and the requirement to remediate and compensate customers and incur remediation costs or harm its reputation among customers, including prospective customers, investors and the market. This could adversely affect WNZL's business, prospects, financial performance or financial condition.

WNZL has suffered and could suffer further losses due to litigation (including class action proceedings)

WNZL has been and may, from time to time, be involved in legal proceedings (including class actions), regulatory actions or arbitration. Such litigation has been and could in the future be commenced by a range of plaintiffs, such as customers, employees, suppliers, counterparties and regulators.

In recent years, there has been an increase in class action proceedings brought against financial services companies, many of which have resulted in significant monetary settlements. The risk of class actions has been heightened by a number of factors, including regulatory enforcement, an increase in the number of regulatory investigations and inquiries, a greater willingness on the part of regulators to commence court proceedings, more intense media scrutiny and the growth of third-party litigation funding and other funding arrangements. Class actions commenced against peer banks could also lead to similar proceedings against WNZL.

As of the date of this Management report, WNZL is reviewing the adequacy of its New Zealand Credit Contracts and Consumer Finance Act 2003 ('**CCCFA**') compliance processes for some products. While compliance issues have been identified, the final outcome is uncertain and could result in customer remediation, regulatory action, litigation (including class actions) and reputational damage. The consequences of non-compliance with the CCCFA are uncertain but may include an inability to enforce relevant consumer credit contracts and related guarantees and, in some circumstances, the ability of WNZL to recover or retain costs of borrowing and other fees in relation to certain credit contracts could be affected. At present it is not possible for WNZL to reliably estimate the financial impact of these consequences. WNZL has in the past failed to comply with CCCFA and may do so in the future. In September 2021, class actions were launched against two of WNZL's competitors in New Zealand, in relation to alleged breaches of the CCCFA. These proceedings are at an early stage and it is not possible to predict their outcomes or whether they will lead to further proceedings, including against WNZL.

Litigation (including class actions) may, either individually or in aggregate, adversely affect WNZL's business, operations, prospects, reputation or financial condition. This risk is heightened by increases in the severity of penalties for certain breaches of the law. Such matters are subject to many uncertainties and the outcome may not be predicted accurately. Furthermore, WNZL's ability to respond to and defend litigation may be adversely affected by inadequate record keeping.

Depending on the outcome of any litigation, WNZL has been, and may in the future be, required to comply with broad court orders, including compliance orders, enforcement orders or otherwise pay significant damages, fines, penalties or legal costs.

There is a risk that the actual penalty or damages paid following a settlement or determination by a Court for any legal proceedings may be materially higher or lower than any relevant provision (where applicable) therefore or that any contingent liability may be larger than anticipated. This may occur in a range of situations including, for example, where the scope of litigation against WNZL is expanded by further claims or causes of action. There is also a risk that additional litigation or contingent liabilities arise, all of which could adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

WNZL could suffer losses due to technology failures or its inability to appropriately manage and upgrade its technology

Maintaining the reliability, integrity and security of WNZL's information and technology is crucial to WNZL's business. While WNZL has a number of processes in place to preserve and monitor the availability and recovery of its information and technology systems, there is a risk that WNZL's information and technology systems might fail to operate properly or result in outages, including from events wholly or partially beyond WNZL's control.

If WNZL incurs a technology failure, it may fail to meet a compliance obligation (such as retaining records and data for a certain period), or WNZL's customers may be adversely affected, including through the inability for them to access WNZL's products and services, privacy breaches or the loss of personal data. This could result in reputational damage, remediation costs and a regulator commencing an investigation and/or taking action against WNZL. The use of legacy systems, as well as the work underway to upgrade WNZL's technological capabilities, may heighten the risk of a technology failure.

Following IT outages in 2020, WNZL engaged Deloitte Touche Tohmatsu ('**Deloitte**') to review and assess the outages and, using Deloitte's findings, established a technology resilience program and other initiatives to address technology resilience issues. However, more work is required to successfully implement the program and to meet WNZL's expectations and those of the RBNZ and Financial Markets Authority New Zealand ('**FMA**'). This is expected to require significant ongoing resources, prioritisation and governance from WNZL, without which WNZL may not, and may not be able to, successfully address such issues. This may result in additional regulatory oversight in relation to technology if these issues are not addressed.

WNZL also needs to regularly renew and enhance its technology to deliver new products and services, comply with regulatory obligations and meet WNZL's customers' and regulators' expectations. Consequently, WNZL is constantly managing new technology projects. Failure to effectively implement any of these projects could result in cost overruns, reduced productivity, outages, operational instability, compliance failures, customer dissatisfaction, reputational damage and/or the loss of market share. This could place WNZL at a competitive disadvantage and adversely affect its business, prospects, financial performance or financial condition.

Management report (continued)

Legal and Regulatory Risks

WNZL's businesses are highly regulated and WNZL has been and could in the future be adversely affected by legal or regulatory change

As a financial institution, WNZL is subject to detailed laws and regulations in each of the jurisdictions in which it operates or obtains funding. WNZL is also supervised by a number of different regulatory and supervisory authorities, including the RBNZ and the FMA, which have broad powers and oversight over WNZL's businesses and operations. WNZL is a subsidiary of WBC, which is subject to extensive prudential regulation (including in relation to its New Zealand business).

WNZL's business, prospects, reputation, financial performance and financial condition have been, and could in the future be, adversely affected by changes to or to the interpretation of law, regulation or policies, by supervisory activities and the expectations of its regulators. WNZL operates in an environment where there is increased regulation and scrutiny of financial services providers.

Regulatory change has in the past adversely affected, and has the ability to adversely affect in the future. WNZL's financial performance and financial condition.

Regulatory changes may also affect how WNZL operates and has altered the way it provides its products and services, for example, by requiring WNZL to change or discontinue certain offerings. Regulation could also limit WNZL's flexibility, require it to incur substantial costs, impact the profitability of its businesses, require WNZL to retain additional capital, result in it being unable to increase or maintain market share and/or create pressure on margins and fees.

Regulation impacting WNZL's business may not always be released in a timely manner before its date of implementation. Similarly, early announcements of regulatory change may not be specific and significantly differ from the final regulation. In those cases, WNZL may not be able to effectively manage its compliance design in the timeframes available. Further, increases in the volume of regulatory change being managed simultaneously has and will continue to create risk through challenging WNZL's ability to access required subject matter expertise and the execution risks associated with implementing simultaneous change.

Relevant governments or regulators could also revise their application or interpretation of regulatory policies, thereby impacting WNZL's business (such as macro-prudential limits on lending).

It is critical that WNZL manages regulatory change effectively. The failure to do so has resulted, and could in the future result, in WNZL not meeting its compliance obligations, the risks of which are set out below under 'WNZL has been and could be adversely affected by failing to comply with laws, regulations or regulatory policy.'

A failure to appropriately manage and implement regulatory change effectively, including by failure to implement effective processes to comply with new regulations, has resulted in, and could in the future result in, WNZL not meeting its compliance obligations. WNZL expects that it will continue to invest significantly in compliance and the management and implementation of regulatory change. Significant management attention, costs and resources may be required to update existing, or implement new, processes to comply with such regulatory changes. The availability of skilled personnel required to implement changes may be limited.

WNZL has been 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 and binding industry codes of practice in the jurisdictions in which it operates or obtains funding, as well as meeting its ethical standards. WNZL is also supervised by a number of different regulatory and supervisory authorities, including the RBNZ and the FMA, which have broad powers and oversight over WNZL's businesses and operations. As a result, there may at any time be matters which may amount to failures to comply with laws, regulations or regulatory policy in the process of being reported to a regulator, under consideration by a regulator for materiality or liability assessment, or under consideration by a regulator to determine the appropriate regulatory response. The regulatory responses available in respect of a particular non-compliance will depend on the applicable regulatory framework and any response will, in most cases, involve the exercise of the regulator's discretion within the bounds of the applicable regulatory framework. Where available, regulatory and supervisory authorities may apply self-imposed enforcement guidelines or policies in its decision-making, which tend to include (amongst other matters) the use of enforcement in a manner that is proportionate to the seriousness of the non-compliance. For example, the RBNZ publication 'Enforcement Principles and Criteria' (which is not incorporated in this Management report by reference) provides that the application of its enforcement discretion should be risk-based, proportionate and transparent, and should include consideration of the seriousness of the conduct and efficacy of response.

WNZL is subject to compliance and conduct risks. These risks are exacerbated by the increasing complexity and volume of regulation, including where WNZL interprets its obligations and rights differently to its regulators or a Court, tribunal or other body. The potential for this is heightened when regulation is new, untested or is not accompanied by extensive regulatory guidance.

WNZL's compliance management system is designed to identify, assess and manage compliance risk on an ongoing basis. However, this system has not always been, and may not always be, effective. Breakdowns have occurred, and may in the future occur, due to flaws in the design or implementation of controls or processes. This has resulted in, and may in the future result in, potential breaches of compliance obligations as well as poor customer outcomes which in turn have exposed, and may continue to expose, WNZL to litigation, penalties and remediation obligations. As reviews and change programs are progressed, compliance issues have been, and will likely continue to be, identified.

Conduct risk is the risk of failing to have behaviors and practices that deliver suitable, fair and clear outcomes for WNZL's customers and that support market integrity. Conduct risk could occur through the provision of products and services to customers that do not meet their needs or do not meet the expectations of the market, as well as the poor conduct of WNZL's employees, contractors, agents, authorised representatives and external services providers. This could occur through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), weaknesses in risk culture, corporate governance or organisational culture, poor product design and implementation and a failure to adequately consider customer needs or selling products and services outside of customer target markets. Conduct risk may include deliberate, reckless or negligent actions by such individuals that may result in the circumvention of WNZL's controls, processes and procedures. WNZL relies on its people to 'do the right thing' to meet its compliance obligations and abide by its Code of Conduct. Inappropriate or poor conduct by these individuals, such as not following a policy or engaging in misconduct, has resulted, and could result, in poor customer outcomes and a failure by WNZL to meet its compliance obligations.

While WNZL has frameworks, policies, processes and controls that are designed to manage the risks of poor conduct outcomes, these frameworks, policies, processes and controls have from time to time been, and may be, ineffective. This could result in financial losses (including incurring substantial remediation costs as a result of litigation by regulators and customers) and reputational damage, which could adversely affect WNZL's business, prospects, financial performance or financial condition.

WNZL's failure, or suspected failure, to comply with a compliance obligation has, in the past and may in the future, lead to regulatory review, claims brought by customers (including class actions), customer remediation, supervisory and enforcement action by regulators, litigation and reputational damage and could have an adverse effect on WNZL's ability to utilise its assets for funding or liquidity purposes.

Management report (continued)

WNZL has been and is currently subject to reviews by regulators, which are increasing in intensity

Depending on the circumstances, regulatory reviews and investigations have in the past and may in the future result in a regulator taking administrative or enforcement action against WNZL and/or its representatives. Regulators have broad powers, and in certain circumstances, can issue directions to WNZL (such as a direction to take remedial action). Regulators could also pursue civil or criminal proceedings, seek substantial fines civil penalties or initiate other enforcement outcomes. In addition, regulatory investigations may lead to adverse findings against Directors and management, including potential disqualification. For more on the administrative and enforcement powers and other remedial actions that could be taken by regulators.

Recent major events such as the COVID-19 pandemic and the conflict between Russia and Ukraine, have placed increased expectations on organisations such as WNZL to be well prepared in the event of future, similar disruptions in the future. As a result, regulators globally are expecting firms to enhance and maintain their resilience across their value chains so that customers and all stakeholders are protected when disruption occurs. WNZL's failure to ensure that it meets such increased demands, and other commitments made to regulators, could increase the risk of a regulator taking action against WNZL.

The failure to comply with financial crime obligations has had and could have further adverse effects on WNZL's business and reputation

WNZL is subject to anti-money laundering and counter-terrorism financing ('**AML/CFT**') laws, anti-bribery and corruption laws, economic and trade sanctions laws and tax transparency laws in the jurisdictions in which it operates (collectively, '**Financial Crime Laws**'). These laws can be complex, and, in some circumstances, impose a diverse range of obligations. As a result, regulatory, operational and compliance risks are heightened. For example, AML/CFT laws require WNZL and other regulated institutions to (amongst other things) undertake customer identification procedures, conduct ongoing and enhanced due diligence on customers, maintain and comply with an AML/CFT program and undertake ongoing risk assessments.

Financial Crime Laws also require WNZL to report certain matters and transactions to regulators (such as international funds transfer instructions, threshold transaction reports and suspicious matter reports) and ensure that certain information is not disclosed to third parties in a way that would contravene the 'tipping off' provisions in AML/CFT legislation. The failure to comply with some of these laws has had, and in the future could have, adverse impacts for WNZL. Potential or confirmed material breaches follow WNZL's internal disclosure process with WNZL's AML Compliance Officer as primary contact.

WNZL operates within a landscape that is constantly changing, particularly with the emergence of new payment technologies, increased regulatory focus on digital assets (e.g. cryptocurrency) and increasing reliance on economic and trade sanctions to manage issues of international concern. These developments bring with them new financial crime risks for WNZL (as well as other risks discussed in this Risk Factors section), which may require adjustments to WNZL's systems, policies, processes and controls.

In recent years there has been, and there continues to be, increased focus on compliance with financial crime obligations, with regulators globally commencing large-scale investigations and taking enforcement action for identified non-compliance (often seeking significant penalties). Further, due to WNZL's large number of customers and transaction volumes, the undetected failure or the ineffective implementation, monitoring or remediation of a system, policy, process or control (including a regulatory reporting obligation) has resulted, and could in the future result, in a significant number of breaches of AML/CFT or other financial crime obligations. This in turn could lead to significant financial penalties and other adverse impacts for WNZL, such as reputational damage.

While WNZL has systems, policies, processes and controls in place designed to manage its financial crime obligations (including reporting obligations), these have not always been, and may not in the future always be effective. This could be for a range of reasons, including, for example, a deficiency in the design of a control or a technology failure or a change in financial crime risks or types. WNZL's analysis and reviews, in addition to regulator feedback, have highlighted that WNZL's systems, policies, processes and controls are not always operating satisfactorily in a number of respects and require improvement.

WNZL continues to progress a significant multi-year program of work to strengthen areas of control weaknesses in its financial crime risk management program and to seek to rectify the management of this risk. In recent years, WNZL has increased dedicated financial crime risk expertise and resources to deliver the financial crime program of work.

With increased focus on financial crime, further issues requiring attention have been identified and may continue to be identified.

If WNZL fails to comply with these financial crime obligations, it could face regulatory enforcement action such as public formal warnings, litigation, significant fines, penalties and/or enhanced regulatory oversight. For example, previous enforcement action by the RBNZ against WBC has resulted in a public formal warning issued in August 2021 for WBC failing to meet its reporting obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the '**AML/CFT Act**'). The warning notes that WBC could face further action including civil or criminal financial penalties if it continues to engage in conduct which is non-compliant with the AML/CFT Act or fails to take the actions required by the RBNZ under the formal warning. Failure to comply with financial crime obligations or meet the financial crime related expectations of international institutions providing funding or transactional services to WNZL, could result in such institutions ceasing the provision of such services to WNZL.

As a result of the current conflict between Russia and Ukraine, there is an unprecedented volume of sanctions being applied to Russia, and potentially other governments, by regulators around the globe. While many governments across the United States, Europe, Australia and New Zealand are largely united with regard to the intended sanctions targets, the nuances and specific restrictions are not fully aligned. Furthermore, many corporate institutions around the world are assessing their risk appetite regarding ongoing business activity with or in Russia or with Russian-owned entities. This has heightened the operational and compliance risks in navigating those transactions and dealings that are considered lawful, or within other counterparties' risk appetite. This situation is expected to continue for the medium term and to increase as the conflict in the region persists.

Westpac Securities NZ Limited

Management report (continued)

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	30 September 2022 Programme Type	Programme Limit	Issuer	30 September 2021 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
United States	WNZL	US Medium-Term Notes	US$10 billion	N/A	N/A	N/A

(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 financial statements for the year ended 30 September 2022, which have been prepared in accordance with the Financial Reporting Act 2013 (New Zealand), Financial Markets Conduct Act 2013, applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the External Reporting Board ('**XRB**') as appropriate for for-profit entities, present fairly, the financial position, profit or loss, and assets and liabilities 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

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Company has agreed that the Annual Report of the Company need not comply with the requirements of paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be included in the Annual Report other than the financial statements for the year ended 30 September 2022 and the independent auditor's report on those financial statements.

For and on behalf of the Board of Directors:

Director
14 December 2022

Director
14 December 2022

Westpac Securities NZ Limited

Statement of comprehensive income for the year ended 30 September 2022

	Note	2022 $'000	2021 $'000
Interest income - calculated using the effective interest rate method	2	**89,357**	69,194
interest income - other	2	**40,734**	8,007
Interest expense		**(124,926)**	(72,950)
Net interest income	2	**5,165**	4,251
Non-interest income	3	**566**	617
Total non-interest income		**566**	617
Net operating income before operating expenses and impairment charges		**5,731**	4,868
Impairment (charges)/benefits	6	**(3,237)**	-
Operating expenses	4	**(515)**	(561)
Profit before income tax		**1,979**	4,307
Income tax expense	7	**(1,461)**	(1,206)
Net profit for the year		**518**	3,101
Other comprehensive income (net of tax)		-	-
Total comprehensive income for the year		**518**	3,101

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

Balance sheet as at 30 September 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	10	**10,830**	14,200
Receivables due from related entities	14	**17,673,963**	12,867,636
Current tax asset		**441**	513
Total assets		**17,685,234**	12,882,349
Liabilities			
Payables due to related entities	14	**25,890**	12,560
Debt issues	11	**17,619,103**	12,841,672
Other financial liabilities	12	**32,579**	14,229
Total liabilities		**17,677,572**	12,868,461
Net assets		**7,662**	13,888
Shareholder's equity			
Share capital	13	**651**	651
Retained profits		**7,011**	13,237
Total shareholder's equity		**7,662**	13,888

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

Statement of changes in equity for the year ended 30 September 2022

		Attributable to owners of the Company		
	Note	Share Capital $'000	Retained Profits $'000	Total $'000
As at 1 October 2020		651	10,136	10,787
Year ended 30 September 2021				
Net profit for the year		-	3,101	3,101
Total comprehensive income for the year ended 30 September 2021		-	3,101	3,101
Transaction with the owners:				
Dividends paid on ordinary shares	13	-	-	-
As at 30 September 2021		651	13,237	13,888
Year ended 30 September 2022				
Net profit for the year		-	**518**	**518**
Total comprehensive income for the year ended 30 September 2022		-	**518**	**518**
Transaction with the owners:				
Dividends paid on ordinary shares	13	-	**(6,744)**	**(6,744)**
As at 30 September 2022		**651**	**7,011**	**7,662**

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

Westpac Securities NZ Limited

Statement of cash flows for the year ended 30 September 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Interest income received		**84,456**	85,970
Interest expense paid		**(106,576)**	(83,213)
Service fees received - related entities		**566**	617
Service fees paid - related entities		**(525)**	(1,348)
Operating expenses paid		**(9)**	(19)
Income tax received/(paid)		**(1,389)**	(1,149)
Net cash provided by/(used in) in operating activities	17	**(23,477)**	858
Cash flows from investing activities			
Net movement in receivables due from related entities		**(3,335,415)**	(1,219,399)
Net cash provided by/(used in) investing activities		**(3,335,415)**	(1,219,399)
Cash flows from financing activities			
Net movement in payables due to related entities		**13,391**	10,654
Proceeds from debt issues	11	**12,746,346**	8,879,363
Repayments of debt issues	11	**(9,397,471)**	(7,668,644)
Dividends paid to ordinary shareholder	13	**(6,744)**	-
Net cash provided by/(used in) financing activities		**3,355,522**	1,221,373
Net increase/(decrease) in cash and cash equivalents		**(3,370)**	2,832
Cash and cash equivalents at beginning of the year		**14,200**	11,368
Cash and cash equivalents at end of the year	10	**10,830**	14,200

The above statement of cash flows should be read in conjunction with the accompanying notes. Details of the reconciliation of net cash used in operating activities to net profit are provided in Note 17.

Notes to the financial statements

Note 1. Financial statement preparation

These financial statements were authorised for issue by the Board on 14 December 2022. The Board has the power to amend and reissue the financial statements.

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

The principal accounting policies 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 UK Listing Authority Disclosure and Transparency Rules. These financial statements comply with Generally Accepted Accounting Practice, applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the External Reporting Board, as appropriate for for-profit entities. These financial statements also comply with International Financial Reporting Standards ('**IFRS**'), as issued by the International Accounting Standards Board.

The Company has considered COVID-19 in the preparation of its financial statements. As at 30 September 2022, there was no material impact on the Company's financial performance and financial position or its operations and cash flows.

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

(ii) Historical cost convention

The 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 profit or loss ('**FVPL**').

(iii) 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 ('**FX**') gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

b. Standards adopted during the year ended 30 September 2022

No new accounting standards have been adopted by the Company for the year ended 30 September 2022. There have been no amendments to existing accounting standards that have a material impact on the Company.

c. Financial assets and financial liabilities

(i) Recognition

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial liabilities are recognised when an obligation arises.

(ii) Classification and measurement

The Company classifies its financial assets into the following categories: financial assets at FVPL and financial assets at amortised cost. Financial assets at FVPL relate to receivables due from related entities. Due from related entities balances are designated at FVPL when the related liability from debt issuances have been designated at FVPL in order to avoid an accounting mismatch. Financial assets at amortised cost include cash and cash equivalents and receivables due from related entities.

<u>Financial assets</u>

Financial assets are classified based on a) the business model within which the assets are managed, and b) whether the contractual cash flows of the instrument represent solely payments of principal and interest ('**SPPI**').

The Company determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the Company considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for, sales in previous periods and expectations of sales in future periods.

When assessing whether contractual cash flows are SPPI, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that they may not meet the SPPI criteria include contingent and leverage features, non-recourse arrangements, and features that could modify the time value of money.

<u>Financial liabilities</u>

The Company classifies its financial liabilities as follows: payables due to related entities, debt issues and other financial liabilities.

Financial liabilities are measured at amortised cost if they are not held for trading or designated at FVPL, otherwise they are measured at FVPL.

Financial assets and financial liabilities measured at FVPL are recognised initially at fair value. All other financial assets and financial liabilities are recognised initially at fair value plus or minus directly attributable transaction costs respectively.

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

The Company's policies for determining the fair value of financial assets and financial liabilities are set out in Note 16.

Notes to the financial statements

Note 1. Financial statement preparation

(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 and transferred substantially all the risks and rewards of ownership.

There may be situations where the Company has partially transferred the risks and rewards of ownership but has neither transferred nor retained substantially all the risks and rewards of ownership. In such situations, 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 the profit or loss.

The terms are deemed to be substantially different if the discounted present value of the cash flows under the new terms (discounted using the original effective interest rate) is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Qualitative factors such as a change in the currency the instrument is denominated in, a change in the interest rate from fixed to floating and conversion features are also considered.

(iv) Impairment of financial assets

Impairment charges are based on an expected loss model which measures the difference between the current carrying amount and the present value of expected future cash flows taking into account past experience, current conditions and multiple probability-weighted macroeconomic scenarios for reasonably supportable future economic conditions.

Impairment charges are recognised in profit or loss, with a corresponding amount recognised as a reduction of the carrying value of the financial asset through an offsetting provision account.

d. Statement of cash flows

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.

e. Critical accounting assumptions and estimates

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

- Note 16 Fair value of financial instruments

The Company has considered COVID-19 in its critical accounting judgements and estimates. The areas of judgement, estimates and assumptions in the financial statements are consistent with those in the financial statements for the year ended 30 September 2021.

f. Future developments in accounting standards

Amendments to existing standards that are not yet effective are not expected to have a material impact on the Company.

Westpac Securities NZ Limited

Notes to the financial statements

Note 2. Net interest income

Accounting policy

Interest income and expense for all interest earning financial assets and interest-bearing financial liabilities at amortised cost, detailed within the table below, are recognised using the effective interest rate method. The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the instrument, over its expected life.

	Note	2022 $'000	2021 $'000
Interest income			
Calculated using the effective interest rate method			
Receivables due from related entities[1]		**89,357**	69,194
Total interest income calculated using the effective interest rate method		**89,357**	69,194
Other			
Receivables due from related entities[1]		**40,734**	8,007
Total other		**40,734**	8,007
Total interest income	14	**130,091**	77,201
Interest expense			
Calculated using the effective interest rate method			
Debt issues		**(75,807)**	(55,395)
Payables due to related entities	14	**(9,256)**	(10,169)
Total interest expense calculated using the effective interest rate method		**(85,063)**	(65,564)
Other			
Debt issues		**(39,863)**	(7,386)
Total other		**(39,863)**	(7,386)
Total interest expense		**(124,926)**	(72,950)
Net interest income		**5,165**	4,251

[1]Includes interest income, funding margin and guarantee fees recovery from related entities (refer to Note 14).

Note 3. Non-interest income

Accounting policy

Service fee income which arises from treasury services provided to WNZL is recognised in profit or loss when the performance obligation is satisfied when the related services are completed.

	Note	2022 $'000	2021 $'000
Fees and commissions			
Service fees received from related entities	14	**566**	617
Total non-interest income		**566**	617

Note 4. Operating expenses

	Note	2022 $'000	2021 $'000
Bank charges		**7**	7
Services provided - related entities	14	**506**	542
Purchased services		**2**	12
Total operating expenses		**515**	561

Note 5. Auditor's remuneration

The audit fees for the audit and review of financial statements for the year ended 30 September 2022 amounting to $38,000 (30 September 2021: $38,000) were borne by WNZL. The Company also incurred fees for assurance and other audit related services for the year ended 30 September 2022 amounting to $34,538 (30 September 2021: $55,783) which were borne by WNZL and related to agreed procedures reports obtained for updates to the debt issuance programmes. In addition, $81,522 (30 September 2021: $53,873) of assurance and other audit related services fees were paid to PwC Sydney for the year ended 30 September 2022 in relation to debt issuance programme updates.

Note 6. Impairment charges/(benefits)

	2022 $'000	2021 $'000
Provisions raised/(released):		
Performing	**3,237**	-
Non-performing	**-**	-
Total impairment charges	**3,237**	-

Refer to Note 14 for information on expected credit losses ('**ECL**') provisions raised by the Company in the current and prior year.

Note 7. Income tax expense

Accounting policy

Income tax

The income tax expense for the year comprises current tax. Tax is recognised through profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income.

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

Goods and services tax ('GST')

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

	2022 $'000	2021 $'000
Income tax expense		
Current tax:		
- Current year	**1,414**	1,206
- Prior year adjustments	**47**	-
Total income tax expense	**1,461**	1,206
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	**1,979**	4,307
Tax calculated at a rate of 28% (30 September 2021: 28%)	**554**	1,206
Tax effect of amounts which are not (assessable)/deductible in calculating taxable income:		
Non-taxable income	**(47)**	-
Non-deductible impairment charges	**907**	-
Prior year adjustment	**47**	-
Total income tax expense/(credit)	**1,461**	1,206

Note 8. Imputation credit account

	2022 $'000	2021 $'000
Imputation credits available for use in subsequent reporting periods	**957,805**	1,079,145

The Company is a member of the WNZL - Westpac Banking Corporation ('**WBC**') Trans-Tasman Imputation Group. The imputation credit account balance represents the imputation credits available to all members of the Imputation Group including the Company.

Notes to the financial statements

Note 9. Credit risk management

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

The Company's main exposure to risk arises as a consequence of the funding arrangement in place with WNZL and WNZL's guarantee of the Company's obligations. 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. Refer to Note 14 for information on ECL provisions raised by the Company in the current and prior year.

WNZL maintains a Credit Risk Management Framework. This framework defines what constitutes credit risk and provides WNZL with a framework for managing credit risk. Compliance with the framework policies is monitored and exposures and breaches are reported to the WNZL Board Risk and Compliance Committee.

(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 2022 and at the date the Directors signed these financial statements.

Credit ratings for WNZL

Rating agency	Current Credit Rating	Rating Outlook
Fitch Ratings	A+	Stable
Moody's Investor Service	A1	Stable
S&P Global Ratings	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.

(iii) Concentration of credit exposure

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

	Note	2022 $'000	2021 $'000
On-balance sheet credit exposures consist of:			
Cash and cash equivalents	10	**10,830**	14,200
Receivables due from related entities	14	**17,673,963**	12,867,636
Total credit exposures		**17,684,793**	12,881,836

All credit exposures are within New Zealand and to the finance and insurance sector.

Note 10. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash at bank and call money market deposits.

	Note	2022 $'000	2021 $'000
Cash and cash equivalents - with external parties		**100**	97
Cash and cash equivalents - WNZL	14	**10,730**	14,103
Total cash and cash equivalents		**10,830**	14,200

Westpac Securities NZ Limited

Notes to the financial statements

Note 11. Debt issues

Accounting policy

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

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

Debt issues are designated at fair value if they reduce or eliminate an accounting mismatch.

The change in the fair value that is due to credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised in non-interest income.

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

In the table below, the distinction between short-term (less than 12 months) and long-term (greater than 12 months) debt is based on original maturity of the underlying security.

	Note	2022 $'000	2021 $'000
Short-term debt			
Commercial papers		**5,489,471**	2,979,007
Total short-term debt		**5,489,471**	2,979,007
Long-term debt			
Euro medium-term notes		**8,192,491**	5,568,215
Covered Bonds		**3,937,141**	4,294,450
Total long-term debt		**12,129,632**	9,862,665
Total debt issues		**17,619,103**	12,841,672
Debt issues measured at amortised cost	16	**12,129,632**	9,862,665
Debt issues measured at fair value	16	**5,489,471**	2,979,007
Total debt issues		**17,619,103**	12,841,672
Amounts expected to be settled within 12 months		**5,863,105**	6,088,746
Amounts expected to be settled after 12 months		**11,755,998**	6,752,926
Total debt issues		**17,619,103**	12,841,672

Movement Reconciliation	2022 $'000	2021 $'000
Balance as at beginning of the year	**12,841,672**	12,159,922
Issuance	**12,746,346**	8,879,363
Maturities, repayments, buy backs and reductions	**(9,397,471)**	(7,668,644)
Total cash movements	**3,348,875**	1,210,719
FX translation impact	**1,393,509**	(537,790)
Fair value adjustments	**(9,632)**	255
Other[1]	**44,679**	8,566
Total non-cash movements	**1,428,556**	(528,969)
Balance as at end of the year	**17,619,103**	12,841,672

[1]Includes items such as capitalisation and amortisation of issue costs.

Notes to the financial statements

Note 12. Other financial liabilities

Accounting policy

Other financial liabilities include accrued interest payable on debt issues and are measured at amortised cost.

	2022	2021
	$'000	$'000
Accrued interest payable on debt issues	**32,579**	14,229
Total other financial liabilities	**32,579**	14,229

The balance will be settled within 12 months.

Note 13. Shareholder's 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

	2022	2021
	Number of authorised and Issued Shares	Number of authorised and Issued Shares
Balance at beginning of the year	**651,185**	651,185
Balance at end of the year	**651,185**	651,185

Ordinary shares

The ordinary shares have no par value. Ordinary shares entitle the holder to participate in dividends and in the event of the Company winding up, to a share of the proceeds in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote, either in person or by proxy, at a shareholder meeting.

Dividends paid

In the year ended 30 September 2022, the Company paid dividends in respect of the ordinary shares amounting to $6,744,000 (2021: nil).

Note 14. Related entities

Accounting policy

Related parties

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

Receivables due from related entities

If receivables due from related entities have contractual cash flows which represent SPPI on the principal balance outstanding, they are classified at amortised cost if they are held with a business model which is achieved through holding the financial asset to collect these cash flows.

However, receivables due from related entities are measured at FVPL whereby doing so eliminates or reduces an accounting mismatch.

Due from related entities include financial assets at FVPL and loans, accrued interest receivable and other receivables measured at amortised cost.

Receivables due from related entities at FVPL

Initially measured at fair value with subsequent changes in fair value recognised in the profit or loss section of the statement of comprehensive income. Due from related entities balances are designated at FVPL when the related liability from debt issuances have been designated at FVPL in order to avoid an accounting mismatch.

Receivables due from related entities at amortised cost

Initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. They are presented net of provisions for ECL determined using the ECL model.

Payables 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 Parent 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.

Notes to the financial statements

Note 14. Related entities (continued)

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. This includes a $500,000,000 borrowing facility with the WBC London Branch. This facility remains undrawn as at 30 September 2022 (30 September 2021: undrawn).

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 raised offshore wholesale funding and on-lent all amounts raised or borrowed to WNZL on the same terms as the external debt issues plus a funding margin. The outstanding balance relating to the funding margin 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 FVPL due from WNZL and loan to WNZL. 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 the 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.

Certain debt instruments issued by the Company are held by WBC and are recorded as a payable to WBC.

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

During the year ended 30 September 2022, the Company recognised an ECL on the loan receivable from WNZL of $3,236,899. No provision for ECL was recognised previously on the basis of materiality.

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

Refer to Note 13 for information on dividends paid by the Company to its parent entity in the current and prior year.

Transactions with related entities

	Note	2022 $'000	2021 $'000
Dividend paid			
Dividend paid to WNZOL	13	**6,744**	-
Income			
Interest income from WNZL[1]		**115,786**	62,893
Funding margin from WNZL[1]		**5,165**	4,251
Guarantee fees recovery from WNZL[1]		**9,140**	10,057
Service fees from WNZL[2]	3	**566**	617
Total income		**130,657**	77,818
Expenses			
Interest expense on borrowings from WNZL[3]		**116**	112
Guarantee fees to WNZCBL[3]		**9,140**	10,057
Operating expenses to WNZL and WBC[4]	4	**506**	542
Total expenses		**9,762**	10,711

[1] Included in interest income in the statement of comprehensive income (refer to Note 2).
[2] Included in non-interest income in the statement of comprehensive income.
[3] Included in interest expense in the statement of comprehensive income.
[4] Included in operating expenses in the statement of comprehensive income.

Notes to the financial statements

Note 14. Related entities (continued)

Due from and to related entities

	Note	2022 $'000	2021 $'000
Cash and cash equivalents			
Deposits held with WNZL	10	**10,730**	14,103
Total cash and cash equivalents		**10,730**	14,103
Receivables due from related entities			
Accrued interest due from WNZL		**61,594**	15,982
Other receivables due from WNZL		**2,083**	1,608
Financial assets at fair value through profit or loss due from WNZL		**5,460,050**	2,976,907
Loan to WNZL	16	**12,153,473**	9,873,139
Provision for impairment charges on loans - WNZL		**(3,237)**	-
Total receivables due from related entities	15	**17,673,963**	12,867,636
Total receivables due from related entities including cash and cash equivalents		**17,684,693**	12,881,739
Settlement profile:			
Amounts expected to be settled within 12 months		**5,824,056**	6,024,678
Amounts expected to be settled after 12 months		**11,849,907**	6,842,958
Total receivables due from related entities		**17,673,963**	12,867,636
Payables due to related entities			
Due to WNZL and WBC		**25,102**	11,711
Due to WNZCBL		**788**	849
Total payables due to related entities		**25,890**	12,560
Settlement profile:			
Amounts expected to be settled within 12 months		**25,890**	12,560
Amounts expected to be settled after 12 months		**-**	-
Total payables due to related entities		**25,890**	12,560

Loan advances comprises of fixed and variable rate loans, which are interest bearing and interest is charged on normal commercial terms. For variable loans, the Bank Bill Reference rate (‘**BKBM**’) or ARR plus margin is applied. Non-loan 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.

Key management personnel compensation

No compensation was paid by the Company to its key management personnel for the year ended 30 September 2022 (30 September 2021: nil).

Notes to the financial statements

Note 15. Risk management, liquidity risk and market risk

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 'Risks relating to WNZL's business and industry' in the Management report on page 3.

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

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

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

Categories of financial risk

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

- Credit risk: the risk of financial loss when a customer or counterparty fails to meet their financial obligations. Refer to Note 9 Credit risk management;
- Liquidity risk: the risk that the Company will be unable to fund assets and meet its payment obligations as they come due;
- Market risk: the risk of an adverse impact on earnings resulting from changes in market factors, such as FX rates and interest rates.

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

a. 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.

Notes to the financial statements

Note 15. Risk management, liquidity risk and market risk (continued)

(i) Maturity profile

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

	30 September 2022							
	On Demand $'000	Up to 1 Month $'000	Over 1 Month to 3 Months $'000	Over 3 Months to 1 Year $'000	Over 1 Year to 5 Years $'000	Over 5 Years $'000	No specific maturity $'000	Total $'000
Financial assets								
Cash and cash equivalents	10,830	-	-	-	-	-	-	10,830
Receivables due from related entities	-	670,334	2,611,585	2,656,468	10,199,229	1,957,509	-	18,095,125
Total undiscounted financial assets	10,830	670,334	2,611,585	2,656,468	10,199,229	1,957,509	-	18,105,955
Financial liabilities								
Payables due to related entities	-	1,129	-	23,832	-	-	929	25,890
Debt issues	-	669,873	2,601,804	2,644,034	10,187,687	1,943,692	-	18,047,090
Other financial liabilities	-	487	8,925	23,167	-	-	-	32,579
Total undiscounted financial liabilities	-	671,489	2,610,729	2,691,033	10,187,687	1,943,692	929	18,105,559

	30 September 2021							
	On Demand $'000	Up to 1 Month $'000	Over 1 Month to 3 Months $'000	Over 3 Months to 1 Year $'000	Over 1 Year to 5 Years $'000	Over 5 Years $'000	No specific maturity $'000	Total $'000
Financial assets								
Cash and cash equivalents	14,200	-	-	-	-	-	-	14,200
Receivables due from related entities	-	709,093	712,427	4,630,448	3,895,985	3,068,388	-	13,016,341
Total undiscounted financial assets	14,200	709,093	712,427	4,630,448	3,895,985	3,068,388	-	13,030,541
Financial liabilities								
Payables due to related entities	-	1,317	-	10,466	-	-	776	12,559
Debt issues	-	709,093	712,427	4,630,288	3,895,635	3,068,388	-	13,015,831
Other financial liabilities	-	383	4,749	9,097	-	-	-	14,229
Total undiscounted financial liabilities	-	710,793	717,176	4,649,851	3,895,635	3,068,388	776	13,042,619

(ii) Concentration of funding

	2022 $'000	2021 $'000
Funding consists of:		
Payables due to related entities	25,890	12,560
Debt issues	17,619,103	12,841,672
Other financial liabilities	32,579	14,229
Total funding	17,677,572	12,868,461
Analysis of funding by product:		
Commercial papers	5,489,471	2,979,007
Euro medium-term notes	8,192,491	5,568,215
Covered Bonds	3,937,141	4,294,450
Other financial liabilities	32,579	14,229
Payables due to related entities	25,890	12,560
Total funding	17,677,572	12,868,461
Analysis of funding by geographical areas:		
Within New Zealand	2,456	1,833
Overseas	17,675,116	12,866,628
Total funding	17,677,572	12,868,461
Analysis of funding by industry sector:		
Finance and insurance	17,677,572	12,868,461
Total funding	17,677,572	12,868,461

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.

Notes to the financial statements

Note 15. Risk management, liquidity risk and market risk (continued)

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 2022	Up to 3 Months $'000	Over 3 Months and Up to 6 Months $'000	Over 6 Months and Up to 1 Year $'000	Over 1 Year and Up to 2 Years $'000	Over 2 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial assets							
Cash and cash equivalents	-	-	-	-	-	10,830	10,830
Receivables due from related entities	3,341,451	1,542,970	945,903	3,869,500	7,910,463	63,676	17,673,963
Total financial assets	3,341,451	1,542,970	945,903	3,869,500	7,910,463	74,506	17,684,793
Non-financial assets							441
Total assets							17,685,234
Financial liabilities							
Payables due to related entities	1,129	-	23,832	-	-	929	25,890
Debt issues	3,361,809	1,552,405	925,059	3,869,439	7,910,391	-	17,619,103
Other financial liabilities	-	-	-	-	-	32,579	32,579
Total financial liabilities	3,362,938	1,552,405	948,891	3,869,439	7,910,391	33,508	17,677,572
Total liabilities							17,677,572
Net financial (liabilities)/assets subject to interest rate risk	(21,487)	(9,435)	(2,988)	61	72		

30 September 2021	Up to 3 Months $'000	Over 3 Months and Up to 6 Months $'000	Over 6 Months and Up to 1 Year $'000	Over 1 Year and Up to 2 Years $'000	Over 2 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial assets							
Cash and cash equivalents	-	-	-	-	-	14,200	14,200
Receivables due from related entities	2,852,756	653,212	2,588,266	233,490	6,522,323	17,589	12,867,636
Total financial assets	2,852,756	653,212	2,588,266	233,490	6,522,323	31,789	12,881,836
Non-financial assets							521
Total assets							12,882,357
Financial liabilities							
Payables due to related entities	1,317	-	10,466	-	-	777	12,560
Debt issues	2,846,593	653,544	2,588,609	233,490	6,519,436	-	12,841,672
Other financial liabilities	-	-	-	-	-	14,229	14,229
Total financial liabilities	2,847,910	653,544	2,599,075	233,490	6,519,436	15,006	12,868,461
Total liabilities							12,868,461
Net financial (liabilities)/assets subject to interest rate risk	4,846	(332)	(10,809)	-	2,887		

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.

Notes to the financial statements

Note 15. Risk management, liquidity risk and market risk (continued)

(ii) Structural FX risk

The Company operates a London branch that gives rise to an immaterial amount of structural FX 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 FX 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. Interest rate benchmark reform

Overview

In recent years, financial regulators have reviewed the use of Interbank Offered Rates ('**IBORs**') and recommended either a reform of the benchmark rate to reference market observable transactions (e.g. EURIBOR) or a transition of certain IBORs to more observable, risk-free alternative reference rates ('**ARR**').

On 5 March 2021, the UK regulator the Financial Conduct Authority ('**FCA**') confirmed the transition date for LIBORs to ARR. The cessation date for most LIBORs and the non-representative date for both GBP LIBOR and JPY LIBOR for the 1-month, 3-month and 6-month settings was 31 December 2021.

The cessation date for certain settings of USD LIBOR (i.e. overnight and 12-months) is 30 June 2023. This is also the non-representative date for USD LIBOR 1-month, 3-month and 6-month settings. The Company's exposure to new contracts referencing these rates is limited to transactions entered into to raise and manage offshore wholesale funding for WNZL.

Risks

These IBOR reforms result in various risks to the Company including:

- Operational risk: relating to any adverse impacts from the implementation of the IBOR reform on the business, compliance and technology;
- Market risk: including adverse impacts to the Company and its customers if the markets are disrupted by the IBOR reform; and
- Accounting risk: as current IBOR becomes less observable due to the transition to ARR, consideration will need to be given to the appropriate fair valuation hierarchy level used to classify impacted financial instruments.

The Company does not expect material changes to its business-as-usual risk management frameworks and controls due to IBOR.

Governance

The Company forms part of the Ultimate Parent Bank's IBOR transition activities which are now included as part of business-as-usual functions. The Ultimate Parent Bank's systems have been enhanced to include transition and ARR capabilities and updated valuation models. The Company is subject to WNZL's control framework which has monitoring controls in place to assess USD LIBOR exposures on a regular basis. This includes assessing counterparties for readiness to transition or the inclusion of fallback provisions as well as compliance with an overall objective to transition away from USD LIBOR transactions.

Financial instruments impacted by IBOR reform post transition date

Non-derivatives

The following table summarises the Company's non-derivative financial instrument exposures that are impacted by IBOR reform that are yet to transition to ARR. The Company is engaging with its counterparties to transition or include appropriate fallback provisions. Due to the nature of these contracts, these fallback provisions will be determined bilaterally with the counterparty.

	30 September 2022		30 September 2021	
	Financial assets	**Financial liabilities**	Financial assets	Financial liabilities
	Carrying amount	**Carrying amount**	Carrying amount	Carrying amount
	$'000	**$'000**	$'000	$'000
Benchmark				
USD LIBOR[1]	-	**69,940**	-	58,090
Impacted by IBOR reform post transition date	-	**69,940**	-	58,090

[1] The Company's primary exposure to USD LIBOR as of 30 September 2022 and 30 September 2021 was to settings with a transition date of 30 June 2023.

Notes to the financial statements

Note 16. Fair value of financial instruments

Accounting policy

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

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

Critical accounting assumptions and estimates

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

The availability of observable inputs is influenced by factors such as:
- Product type;
- Depth of market activity;
- Maturity of market models; and
- Complexity of the transaction.

Where unobservable market data is used, more judgement is required to determine fair value. The significance of these judgements depends on the significance of the unobservable input to the overall valuation. Unobservable inputs are generally derived from other relevant market data and adjusted against:
- Industry standards;
- Economic models; and
- Observed transaction prices.

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

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

Fair Valuation Control Framework

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

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

Fair value hierarchy

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

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

Valuation techniques

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

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 judgement.

There are no financial instruments included in the Level 1 category (30 September 2021: nil).

Notes to the financial statements

Note 16. Fair value of financial instruments (continued)

Level 2 instruments

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

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

Instrument	Balance sheet category	Includes	Valuation
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. If consensus prices are not available, these are classified as Level 3 instruments.
Financial assets at FVPL 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 the Company.

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 judgement.

There are no financial instruments included in the Level 3 category (30 September 2021: nil).

Analysis of movements between fair value hierarchy levels

During the year, there were no transfers between levels of the fair value hierarchy (30 September 2021: no 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	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 below summarises the estimated fair value of the Company's financial instruments not measured at fair value.

		30 September 2022		30 September 2021	
	Note	**Total Carrying Amount $'000**	**Estimated Fair Value (Level 2) $'000**	Total Carrying Amount $'000	Estimated Fair Value (Level 2) $'000
Financial assets					
Loan included in receivables due from related entities - WNZL	14	**12,153,473**	**10,990,639**	9,873,139	9,935,384
Total financial assets carried at amortised cost		**12,153,473**	**10,990,639**	9,873,139	9,935,384
Financial liabilities					
Debt issues measured at amortised cost	11	**12,129,632**	**11,100,903**	9,862,665	9,984,924
Total financial liabilities carried at amortised cost		**12,129,632**	**11,100,903**	9,862,665	9,984,924

Notes to the financial statements

Note 17. Reconciliation of net cash provided by operating activities to net profit for the year

	2022 $'000	2021 $'000
Net profit for the year	**518**	3,101
Adjustments:		
Impairment charges/(benefits) on loans	**3,237**	-
Movement in accrued assets	**(45,635)**	8,769
Movement in accrued liabilities	**18,331**	(11,069)
Movement in tax balances	**72**	57
Net cash provided by operating activities	**(23,477)**	858

Note 18. 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 Westpac New Zealand Limited and its controlled entities (‘**Banking Group**’). Capital for the Company is managed as part of the Banking Group.

Note 19. Segment information

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

The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Company has determined that the group of Directors of the Company is its chief operating decision maker. 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 20. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2022 (30 September 2021: nil).

Independent auditor's report

To the shareholder of Westpac Securities NZ Limited (the Company)

Our opinion

In our opinion, the accompanying financial statements of Westpac Securities NZ Limited (the Company) present fairly, in all material respects, the financial position of the Company as at 30 September 2022, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The financial statements comprise:

- the balance sheet as at 30 September 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include principal accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Our firm carries out other audit-related services for the Company, including the issue of comfort letters and agreed procedures reports in relation to debt issuance programmes. The provision of these other services has not impaired our independence as auditor of the Company.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. The entity's principal activity is to raise and manage offshore wholesale funding and on-lend this to Westpac New Zealand Limited (WNZL). There were no significant areas of judgement or individual areas where significant audit effort was expended. As a result, we have not identified any key audit matters.

Our audit approach

Overview

Materiality	Overall materiality: $176.9 million, which represents 1% of total assets, however this has been capped at $54 million, which is the component materiality level allocated to this entity for the purposes of the WNZL group audit (a lower level than the WNZL group materiality level). We chose total assets as the benchmark because the entity's principal activity is to raise and manage offshore wholesale funding and on-lend this to WNZL. The costs of borrowing are met by WNZL. Therefore, users, in our view, are more likely to place emphasis on assets and the claims on those assets.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
14 December 2022

Auckland