# Westpac Securities NZ Limited

## Financial statements

## For the year ended 30 September 2014

# Westpac Securities NZ Limited

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These financial statements cover Westpac Securities NZ Limited ('**Company**') as an individual entity.

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

Westpac on Takutai Square
16 Takutai Square
Auckland

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

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

| **Name** | **Principal activity outside the Company** |
|---|---|
| Leigh James Bartlett | Chief Financial Officer, Westpac New Zealand Limited ('**WNZL**') |
| Mariette Maria Bernadette van Ryn | General Manager, Regulatory Affairs, Corporate Services & General Counsel NZ, WNZL |
| William David Malcolm | Chief Risk Officer, WNZL |

# Westpac Securities NZ Limited

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

## Disclosure regarding forward-looking statements

These financial statements contain statements that constitute "forward-looking statements" within the meaning of section 21E of the United States Securities Exchange Act 1934. Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in these financial statements and include statements regarding the Company's intent, belief or current expectations with respect to the Company's business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. We use words such as "will", "may", "expect", "intend", "seek", "would", "should", "could", "continue", "plan", "estimate", "anticipate", "believe", "probability", "risk", or other similar words to identify forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond the Company's control and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with the Company's expectations or that the effect of future developments on the Company will be those anticipated. Actual results could differ materially from those which the Company expects, depending on the outcome of various factors including but not limited to:

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

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

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

# Westpac Securities NZ Limited

## Management report

**Review and results of the Company's operations during the year ended 30 September 2014**

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 2014 was $2,565,000 compared with the profit after tax of $2,293,000 for the year ended 30 September 2013, an increase of 12%.

Interest income decreased by 8% to $180,411,000 compared to the year ended 30 September 2013. The $16,397,000 decrease was in line with the decrease in interest expense and a result of lower spreads on wholesale funding.

Interest expense decreased by 9% to $177,195,000 compared to the year ended 30 September 2013. The $16,483,000 decrease was in line with the decrease in interest income and a result of lower spreads on wholesale funding.

Net interest income increased by 3% to $3,216,000 compared to the year ended 30 September 2013.

Non-interest income increased by 9% to $981,000 compared to year ended 30 September 2013.

Operating expenses increased by 9% to $918,000 compared to the year ended 30 September 2013.

Income tax expense of $714,000 decreased by 20% due to the utilisation of UK tax credits in the year ended 30 September 2014.

Total debt issues as at 30 September 2014 was $9,269,331,000 which was an increase of $1,552,182,000 or 20%, compared to $7,717,149,000 as at 30 September 2013. This increase was due to a covered bond issuance and weakening of the New Zealand dollar against the currencies of the United States, Singapore, Hong Kong and Switzerland.

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 2014**

There were no significant events during the year ended 30 September 2014.

**Principal risks and uncertainties**

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

**Risks relating to our business**

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

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

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

Compliance risk arises from these legal and regulatory requirements. If WNZL fails to comply, it may be subject to fines, penalties or restrictions on its ability to do business. At a domestic level, an example of the broad administrative power available to regulatory authorities is the power available to the RBNZ in certain circumstances to investigate WNZL's affairs, and/or issue a direction to WNZL (such as a direction to comply with a prudential requirement, to conduct an audit, to remove a Director, executive officer or employee or not to undertake transactions). In recent years, there have been significant increases in the quantum of fines issued by global regulators. Any such fines, costs and restrictions could adversely affect WNZL's business, reputation, prospects, financial performance or financial condition.

As with other financial services providers, WNZL faces increasing supervision and regulation in most of the jurisdictions in which it operates or obtains funding, particularly in the areas of funding, liquidity, capital adequacy, conduct and prudential regulation, anti-bribery and corruption, anti-money laundering and counter-terrorism financing and trade sanctions. In December 2010 the Basel Committee on Banking Supervision announced a revised global regulatory framework, known as Basel III. Basel III, among other things, increases the required quality and quantity of capital held by banks and introduces new standards for the management of liquidity risk.

During the year ended 30 September 2014 there were also a series of other regulatory releases from authorities in the various jurisdictions in which WNZL operates or obtains funding proposing significant regulatory change for financial institutions. This includes new accounting and reporting standards which have been finalised, global OTC derivatives reform and the US Foreign Account Tax Compliance Act as well as the Dodd-Frank legislation, including the Volcker Rule promulgated thereunder. The latter is designed to reform the entire system for the supervision and regulation of financial firms that operate in or have a connection with the US, including non-US banks like WNZL. Other New Zealand reforms include the Reserve Bank of New Zealand (Covered Bonds) Amendment Act 2013 which was passed in December 2013 and provides a legislative framework for covered bonds and the Financial Markets Conduct Act 2013 which was passed in September 2013 and overhauls the securities law regime in New Zealand. The Credit Contracts and Consumer Finance Amendment Act, which amends the entire suite of legislation that governs credit contracts, received Royal Assent in June 2014 and is due to come into full effect in June 2015. New consumer law reform legislation was also passed in December 2013. Other areas of proposed or potential change that could impact WNZL include changes to tax legislation, regulation relating to remuneration, consumer protection and competition legislation, privacy and data protection, anti-bribery and corruption, anti-money laundering, counter-terrorism financing laws and trade sanctions. In addition, further changes may occur driven by policy, prudential or political factors.

## Management report (continued)

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

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

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

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

For further information refer to Changes in accounting standards and future accounting developments and Critical accounting estimates, judgments and assumptions in Note 2 to the financial statements.

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

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

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

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

A shift in investment preferences of businesses and consumers away from bank deposits towards other asset or investment classes could increase WNZL's need for funding from other, potentially less stable or more expensive forms of funding.

If market conditions deteriorate due to economic, financial, political or other reasons, WNZL's funding costs may be adversely affected and its liquidity and its funding and lending activities may be constrained.

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

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

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

For a more detailed description of liquidity risk, refer to Liquidity risk in Note 14 to the financial statements.

***Sovereign risk may destabilise financial markets adversely***

Sovereign risk is the risk that foreign governments will default on their debt obligations, will be unable to refinance their debts as they fall due or will nationalise parts of their economy. Should one sovereign default, there could be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the global financial crisis. Such an event could destabilise global financial markets adversely affecting WNZL's liquidity, financial performance or financial condition.

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

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

The credit ratings assigned to WNZL by rating agencies are based on an evaluation of a number of factors, including WNZL's financial strength, WNZL's position as part of the WBC Group structural considerations regarding the New Zealand financial system and the credit rating of the New Zealand government. A credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events including changes to the methodologies used by the rating agencies to determine ratings.

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

Failure to maintain WNZL's current credit ratings could adversely affect its cost of funds and related margins, collateral requirements, liquidity, competitive position and its access to capital markets. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether WNZL's ratings differ among agencies (split ratings) and whether any ratings changes also impact WNZL's peers or the sector.

## Management report (continued)

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

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

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

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

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

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

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

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

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

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

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

***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 2014, housing loans represented approximately 61% of WNZL's gross loans and advances (30 September 2013: 60%).

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

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

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

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

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

## Management report (continued)

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

Credit risk is a significant risk and arises primarily from WNZL's lending and derivatives activities. The risk arises from the possibility that some customers and counterparties will be unable to honour their obligations to WNZL, including the repayment of loan principal and interest.

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

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

For a discussion of our risk management procedures, including the management of credit risk, refer to Note 14 to the financial statements.

***WNZL faces intense competition in all aspects of its business***

The financial services industry is highly competitive. WNZL competes, both domestically and internationally, with retail and commercial banks, asset managers, investment banking firms, brokerage firms, other financial service firms and businesses in other industries with emerging financial services aspirations. This includes specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently. Emerging competitors are increasingly utilising new technologies and seek to disrupt existing business models, including in relation to digital payment services.

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

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

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

***WNZL could suffer losses due to market volatility***

WNZL is exposed to market risk through the asset and liability management of its financial position. WNZL is also exposed to losses arising from adverse movements in levels and volatility of interest rates, foreign exchange rates, commodity prices, credit prices and equity prices. If WNZL were to suffer substantial losses due to any market volatility it may adversely affect its business, prospects, liquidity, capital resources, financial performance or financial condition.

***WNZL could suffer losses due to operational risks***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes, among other things, technology risk, model risk and outsourcing risk.

WNZL is also highly dependent on the conduct of its employees, contractors and external service providers. WNZL could, for example, be adversely affected in the event of human error, inadequate or failed processes or if an employee, contractor or external service provider engages in fraudulent conduct. WNZL could incur losses from incorrect or fraudulent payments and settlements, particularly real-time payments. WNZL could also incur losses from an unintentional or negligent failure to meet a professional obligation to specific clients, including fiduciary and suitability requirements, or from the nature or design of a product. These may include client, product and business practice risks such as product defects and unsuitability, market manipulation, insider trading, misleading or deceptive conduct, and inadequate or defective financial advice. While WNZL has policies and processes to manage the risk of human error and employee, contractor or external service provider misconduct, these policies and processes may not always be effective.

Fraudulent conduct can also emerge from external parties seeking to access WNZL's systems and customers' accounts. If systems, procedures and protocols for managing fraud fail, or are ineffective, they could lead to loss which could adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

Entities within WNZL's group may be involved from time to time in legal proceedings arising from the conduct of their business. WNZL's material contingent liabilities are described in Note 28 to the WNZL Disclosure Statement for the year ended 30 September 2014. There is a risk that these contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

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

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

Operational risks could impact on WNZL's operations or adversely affect demand for its products and services. Operational risks can directly impact WNZL's reputation and result in financial losses which would adversely affect its financial performance or financial condition.

# Westpac Securities NZ Limited

## Management report (continued)

***WNZL could suffer information security risks, including cyberattacks.***

The proliferation of new technologies, the increasing use of the internet and telecommunications to conduct financial transactions and the growing sophistication and activities of organised crime have resulted in increased information security risks for major financial institutions such as WNZL and our external service providers.

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

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

Major banks in other jurisdictions have recently suffered security breaches from sophisticated cyberattacks. Our external service providers or other parties that facilitate our business activities (e.g. vendors, exchanges, clearing houses, central depositories and financial intermediaries) are also subject to the risk of cyberattacks.

Any such security breach could result in the loss of customers and business opportunities, significant disruption to Westpac's operations, misappropriation of Westpac's confidential information and/or that of our customers and damage to Westpac's computers or systems and/or those of our customers. Such a security breach could also result in reputational damage, claims for compensation and regulatory investigations and penalties, which could adversely affect our business, prospects, financial performance, or financial condition. WNZL's risk and exposure to such threats remains heightened because of the evolving nature of technology, WNZL's prominence within the financial services industry and its plans to continue to improve and expand its internet and mobile banking infrastructure.

WNZL continues to seek to strengthen and enhance its cybersecurity systems and investigate or remediate any information security vulnerabilities, investing additional resources as required to counter new and emerging threats as they continue to evolve.

***WNZL could suffer losses due to technology failures***

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

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

***WNZL could suffer losses due to failures in risk management strategies***

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

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

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

***The Christchurch earthquakes could adversely affect WNZL's business, financial performance or financial condition***

On 22 February 2011 Christchurch, New Zealand experienced a 6.3 magnitude earthquake which resulted in significant damage in the region. The extent of the damage was greater than that resulting from the earlier earthquake which affected Christchurch on 4 September 2010.

The precise financial impact of the earthquakes remains difficult to quantify accurately as, amongst other things, responses by local and central governments are still being developed and insurance recoveries are still being worked through. A provision of $15,500,000 is held in WNZL's financial statements to reflect the impact of earthquakes (30 September 2013: $30,000,000).

If the impact on WNZL, its customers or counterparties is greater than that currently estimated, WNZL's losses could be higher than currently anticipated which could adversely affect WNZL's business, financial performance or financial condition.

***WNZL could suffer losses due to environmental factors***

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

The risk of loss due to environmental factors is also relevant to our insurance business. The frequency and severity of external events such as natural disasters is difficult to predict and it is possible that the amounts we reserve for such events may not be adequate to cover actual claims that may arise, which could adversely affect WNZL's business, prospects, financial performance or financial condition.

## Management report (continued)

***Reputational damage could harm WNZL's business and prospects***

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

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

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

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

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

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

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

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

# 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 as at 30 September 2014.

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| **Markets** | **Issuer** | **Programme Type** | **Programme Limit** | Issuer | Programme Type | Programme Limit |
| **Euro market** | **WBC/Company [1]** | **Euro Commercial Paper and Certificate of Deposit Programme** | **US$20 billion** | WBC/Company [1] | Euro Commercial Paper and Certificate of Deposit Programme | US$20 billion |
| **Euro market** | **Company [1]** | **Programme for Issuance of Debt Instruments** | **US$7.5 billion** | Company [1] | Programme for Issuance of Debt Instruments | US$7.5 billion |
| **Euro market** | **Company [1]** | **Global Covered Bond Programme** | **€5 billion** | Company [1] | Global Covered Bond Programme | €5 billion |
| **United States** | **Company [1]** | **Section 4(2) US Commercial Paper Programme** | **US$10 billion** | Company [1] | Section 4(2) US Commercial Paper Programme | US$10 billion |
| **New Zealand** | **WNZL** | **Medium-term Note Programme and Registered Certificate of Deposit Programme** | **No limit** | WNZL | Medium-term Note Programme and Registered Certificate of Deposit Programme | No limit |

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

## Responsibility statement

The Board confirms that to the best of their knowledge:

1. the financial statements for the year ended 30 September 2014, which have been prepared in accordance with the Financial Reporting Act 1993 (New Zealand), Companies Act 1993 (New Zealand), applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the External Reporting Board ('**XRB**') as appropriate for profit-oriented entities, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
2. the Management report includes a fair review of the information required by the Disclosure and Transparency Rules 4.1.8R to 4.1.11R of the United Kingdom Financial Conduct Authority.

# Westpac Securities NZ Limited

## Directors' report

The Board has pleasure in presenting the financial statements of the Company and the auditors' report for the year ended 30 September 2014.

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

The Board authorised these financial statements on 2 December 2014.

For and on behalf of the Board.

Director
Auckland
Date: 2 December 2014

Director
Auckland
Date: 2 December 2014

# Westpac Securities NZ Limited

## Statement of comprehensive income for the year ended 30 September

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | $'000 | $'000 |
| Interest income | | 180,411 | 196,808 |
| Interest expense | | (177,195) | (193,678) |
| **Net interest income** | 3 | 3,216 | 3,130 |
| Non-interest income | 4 | 981 | 900 |
| **Net operating income** | | 4,197 | 4,030 |
| Operating expenses | 5 | (918) | (845) |
| **Profit before income tax expense** | | 3,279 | 3,185 |
| Income tax expense | 7 | (714) | (892) |
| **Profit after income tax expense** | | 2,565 | 2,293 |
| Other comprehensive income | | - | - |
| **Total comprehensive income, net of tax** | | 2,565 | 2,293 |
| **Profit after income tax expense and total comprehensive income, net of tax, attributable to:** | | | |
| Owners of the Company | | 2,565 | 2,293 |
| | | 2,565 | 2,293 |

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

# Westpac Securities NZ Limited

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

| | Note | Share Capital $'000 | Retained Profits $'000 | Total $'000 |
|---|---|---|---|---|
| | | Attributable to owners of the Company | | |
| **As at 1 October 2012** | | 651 | 9,316 | 9,967 |
| **Year ended 30 September 2013** | | | | |
| Profit after income tax expense | | - | 2,293 | 2,293 |
| **Total comprehensive income for the year ended 30 September 2013** | | - | 2,293 | 2,293 |
| Transactions with owners: | | | | |
| Dividends paid on ordinary shares | 12 | - | - | - |
| **As at 30 September 2013** | | 651 | 11,609 | 12,260 |
| **Year ended 30 September 2014** | | | | |
| Profit after income tax expense | | **-** | **2,565** | **2,565** |
| **Total comprehensive income for the year ended 30 September 2014** | | **-** | **2,565** | **2,565** |
| Transactions with owners: | | | | |
| Dividends paid on ordinary shares | 12 | **-** | **(5,000)** | **(5,000)** |
| **As at 30 September 2014** | | **651** | **9,174** | **9,825** |

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

# Westpac Securities NZ Limited

## Balance sheet as at 30 September

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 9 | **5,299** | 7,087 |
| Due from related entities | 13 | **9,323,136** | 7,777,604 |
| Current tax asset | | **1,278** | 1,269 |
| **Total assets** | | **9,329,713** | 7,785,960 |
| **Liabilities** | | | |
| Due to related entities | 13 | **2,807** | 3,948 |
| Debt issues | 10 | **9,269,331** | 7,717,149 |
| Other liabilities | 11 | **47,750** | 52,603 |
| **Total liabilities** | | **9,319,888** | 7,773,700 |
| **Net assets** | | **9,825** | 12,260 |
| **Equity** | | | |
| Share capital | 12 | **651** | 651 |
| Retained profits | | **9,174** | 11,609 |
| **Total equity attributable to owners of the Company** | | **9,825** | 12,260 |

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

# Westpac Securities NZ Limited

## Statement of cash flows for the year ended 30 September

| | Note | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest income received | | 185,688 | 199,917 |
| Service fees received - related entities | | 1,061 | 1,269 |
| Interest expense paid | | (182,048) | (196,940) |
| Income tax paid | | (1,446) | (1,778) |
| Service fees paid - related entities | | (617) | (796) |
| Operating expenses paid | | (67) | (94) |
| **Net cash provided by operating activities** | 16 | 2,571 | 1,578 |
| **Cash flows from investing activities** | | | |
| Net (increase)/decrease in due from related entities | | (1,336,995) | 2,538,209 |
| **Net cash (used in)/provided by investing activities** | | (1,336,995) | 2,538,209 |
| **Cash flows from financing activities** | | | |
| Net decrease in due to related entities | | (1,375) | (1,999) |
| Net increase/(decrease) from debt issues | | 1,339,011 | (2,535,578) |
| Dividends paid | | (5,000) | - |
| **Net cash provided by/(used in) financing activities** | | 1,332,636 | (2,537,577) |
| **Net (decrease)/increase in cash and cash equivalents** | | (1,788) | 2,210 |
| Cash and cash equivalents at beginning of the year | | 7,087 | 4,877 |
| **Cash and cash equivalents at end of the year** | | 5,299 | 7,087 |

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 1. General information

These financial statements were authorised for issue by the Board on 2 December 2014. The Board has the power to amend the financial statements after they are authorised for issue.

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

### Note 2. Summary of significant accounting policies

### a. Statutory base

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993. These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice, applicable New Zealand equivalents to NZ IFRS and other authoritative pronouncements of the XRB, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

The Company has adopted XRB A1 *Accounting Standards Framework (For-profit Entities Update)* ('**XRB A1**'). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Company is a Tier 1 entity. There is no impact on the current or prior year financial statements of transitioning to XRB A1.

### b. Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by the fair value accounting for financial assets and financial liabilities at fair value through profit or loss. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2013, except those disclosed in Note 2(f).

Certain comparative information has been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative information, the nature of, and the reason for, the restatement is disclosed in the relevant note.

### c. Rounding of amounts

Amounts in these financial statements have been rounded to the nearest thousand dollars unless otherwise stated.

### d. Foreign currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the '**functional currency**'). The financial statements of the Company are presented in New Zealand dollars, which is the Company's functional and presentation currency.

Foreign currency monetary assets and liabilities have been translated into New Zealand dollars at the rate of foreign exchange prevailing as at the balance date. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction.

Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Company have been included in the statement of comprehensive income.

### e. Particular accounting policies

### Revenue recognition

***Interest income***

Interest income for all interest earning financial assets including those at fair value is recognised in the statement of comprehensive income using the effective interest method.

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

***Fee income***

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

***Gain or loss on financial assets and liabilities at fair value***

Realised gains or losses, and unrealised gains or losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are recognised as gains or losses on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income in the period in which they arise. They are included as part of net interest income. Interest income and expense on financial assets and liabilities at fair value through profit or loss are recognised as part of net interest income.

# Notes to the financial statements

## Note 2. Summary of significant accounting policies (continued)

### Expense recognition

*Interest expense*

Interest expense, including premiums or discounts and associated expenses, incurred on the issue of financial liabilities is recognised in the statement of comprehensive income using the effective interest method.

*Fee expenses*

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

*Operating expenses*

Operating expenses are recognised on an accrual basis.

### Taxation

*Income tax*

Income tax expense on the profit for the year comprises current tax and movement in deferred tax balances.

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

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

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

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

*Goods and services tax*

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

### Assets

*Financial assets*

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its financial assets at initial recognition.

- ***Financial assets at fair value through profit or loss***

  This category has two sub-categories: first, financial assets held for trading and second, those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term, if it is part of a portfolio of financial assets that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management. This designation may only be made if the financial asset contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy or if designating it at fair value reduces an accounting mismatch.

- ***Loans and receivables***

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable.

*Recognition and measurement of financial assets*

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrower. Financial assets at fair value through profit or loss are recognised initially at fair value. Loans and receivables are recognised initially at fair value plus directly attributable transaction costs.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise. Loans and receivables are carried at amortised cost using the effective interest method.

If the market for a financial asset is not active, the Company establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

# Notes to the financial statements

## Note 2. Summary of significant accounting policies (continued)

*Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and cannot sell or re-pledge the asset other than to the transferee; and
- either the Company has transferred substantially all the risks and rewards of the asset, or the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A situation may arise where the Company transfers its right to receive cashflows from an asset or has entered into a pass-through arrangement. In some such cases the Company would have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of these assets. Should this occur to the extent that the Company has continuing involvement in the asset, the asset continues to be recognised on the balance sheet.

*Cash and cash equivalents*

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

*Due from related entities*

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

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

### Liabilities

*Financial liabilities*

The Company classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

- ***Financial liabilities at fair value through profit or loss***
  This category has two sub-categories: first, financial liabilities held for trading and second, those designated at fair value through profit or loss at inception. A financial liability is classified in this category if incurred principally for repurchasing it in the near term, if it is part of a portfolio of financial liabilities that are managed together and for which there is evidence of a recent pattern of short-term profit taking or if so designated on initial recognition by management. This designation may only be made if the financial liability contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy or if designating it at fair value reduces an accounting mismatch.
- ***Financial liabilities at amortised cost***
  This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost.

*Recognition, measurement and derecognition of financial liabilities*

Financial liabilities are initially recognised at fair value less transaction costs except where they are designated at fair value, in which case transaction costs are expensed as incurred. They are subsequently measured at amortised cost except for financial liabilities at fair value, which are held at fair value through profit or loss. Financial liabilities are recognised when an obligation arises and derecognised when they are discharged, cancelled or expire.

*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.

*Debt issues*

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

Debt issues are designated at fair value through profit or loss when they are managed on a fair value basis.

These liabilities are measured at fair value with changes in fair value (except own credit) recognised through the income statement in the period in which they arise. The change in the portion of the fair value that is attributable to the Company's own credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised through the income statement.

*Other Liabilities*

Other liabilities include accrued interest payable on debt issues.

### Equity

*Ordinary shares*

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

# Notes to the financial statements

## Note 2. Summary of significant accounting policies (continued)

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. 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.

### Statement of cash flows

***Basis of presentation***

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

***Cash and cash equivalents***

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

***Operating, investing and financing activities***

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

### f. Changes in accounting standards and future accounting developments

The following new standards and amendments to standards have been adopted in the reporting period commencing 1 October 2013:

- NZ IFRS 13 *Fair Value Measurement* - This standard provides a single unified definition of fair value and a framework for measuring and disclosing fair value. The standard does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by that NZ IFRS. Its adoption has not had a material impact on the Company's reported results or financial position. The additional disclosures required by NZ IFRS 13 are included in Note 15.
- *Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*) requires additional disclosure of the effect or potential effect of netting arrangements, including rights of set-off associated with recognised financial assets and liabilities on the Company's financial position. The adoption of the amendments has not had a material impact on the Company's reported results or financial position.

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

- NZ IFRS 9 *Financial Instruments* was issued in September 2014. Unless early adopted, the standard will be effective for the 30 September 2019 financial year. The major changes under the standard are that:
  - the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* are replaced with a single model that has two measurement categories: amortised cost and fair value;
  - a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;
  - if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
  - an embedded derivative will not be separated where the instrument is a financial asset;
  - equity instruments must be measured at fair value however, an entity can elect on initial recognition to present the fair value changes on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss;
  - if an entity holds an investment in asset-backed securities it must determine the classification of that investment by looking through to the underlying assets and assess the credit quality of the investment compared with the underlying portfolio of assets. If an entity is unable to look through to the underlying assets, then the investment must be measured at fair value;
  - the portion of a change of fair value relating to the entity's own credit risk for financial liabilities designated at fair value is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, all changes in fair value (including the effects of changes in the credit risk) is recognised in profit or loss. The Company early adopted this amendment from 1 October 2013;
  - hedge accounting is more closely aligned with risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness; and
  - it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition, and, consequently, more timely information is provided about expected credit losses.

The IASB has a separate active project on accounting for macro hedging which it continues to work on.

NZ IFRS 9 will impact the classification and measurement of the Company's financial instruments and the amount of impairments recognised in the income statement when the remainder of the standard is adopted.

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 2. Summary of significant accounting policies (continued)

- *Offsetting Financial Assets and Financial Liabilities* (Amendments to NZ IAS 32 *Financial Instruments: Presentation* (**'NZ IAS 32'**)) was issued in February 2012 and will be effective for the 30 September 2015 financial year. The amendment provides application guidance to addressing inconsistencies applied to offsetting criteria provided in NZ IAS 32, including clarifying the meaning of current legal enforceable right of set-off and that some gross settlement systems may be considered as the equivalent to net settlement. The amendment is not expected to have a material impact on the Company's reported results or financial position.
- NZ IFRS 15 *Revenue from Contracts with Customers* was issued in July 2014 and will be effective for the 30 September 2018 financial year. The standard provides a single comprehensive model for revenue recognition. It supersedes current recognition and related interpretations. The application of NZ IFRS 15 is not expected to have a material impact on the Company.

### g. Critical accounting estimates, judgments and assumptions

The application of the Company's accounting policies necessarily requires the use of estimates, judgments and assumptions. Should different estimates, judgments and assumptions be applied, the resulting values would change, impacting the net assets and income of the Company.

Estimates, judgments and assumptions are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates

***Fair value of financial instruments***

Financial instruments classified as held-for-trading or designated at fair value through profit or loss are recognised in the financial statements at fair value.

Fair value 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.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation technique. Where the fair value is calculated using a valuation technique, the methodology used is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use independently sourced market parameters. Most market parameters are either directly observable or are implied from instrument prices. However, profits or losses are recognised upon initial recognition only when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs. In the event that inputs into valuation techniques are non-market observable any day-one profit or loss is amortised over the life of the transaction.

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used) or to reflect hedging costs not captured in pricing models (to the extent they would be taken into account by a market participant in determining a price). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics.

These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in Note 15.

The fair value of substantially all financial instruments carried at fair value is determined using valuation techniques with market observable inputs.

### Critical accounting judgments

The judgments, apart from those involving estimations, that management has made in applying the Company's accounting policies and that have the most significant impact on the amounts recognised in the financial statements are as follows:

***Income taxes***

The Company is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company estimates its tax liabilities based on the Company's understanding of the tax law. Where the final outcome of these matters is different from the amounts initially recorded, such differences impact the current and deferred tax provisions in the period when such determinations are made.

### Note 3. Net interest income

| | **Year Ended 30 September 2014 $'000** | Year Ended 30 September 2013 $'000 |
|---|---|---|
| **Interest income** | | |
| Due from related entities | **180,411** | 196,808 |
| **Total interest income**[1] | **180,411** | 196,808 |
| **Interest expense** | | |
| Debt issues | **170,875** | 188,149 |
| Due to related entities | **6,320** | 5,529 |
| **Total interest expense**[2] | **177,195** | 193,678 |
| **Net interest income** | **3,216** | 3,130 |

[1] Total interest income for financial assets that are not at fair value through profit or loss is $172,687,000 (30 September 2013: $183,011,000).
[2] Total interest expense for financial liabilities that are not at fair value through profit or loss is $169,216,000 (30 September 2013: $179,791,000).

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 4. Non-interest income

| | Year Ended 30 September 2014 $'000 | Year Ended 30 September 2013 $'000 |
|---|---|---|
| **Fees and commissions** | | |
| Service fees received from related entities | 981 | 900 |
| **Total non-interest income** | 981 | 900 |

### Note 5. Operating expenses

| | Year Ended 30 September 2014 $'000 | Year Ended 30 September 2013 $'000 |
|---|---|---|
| Bank charges | 29 | 28 |
| Services provided - related entities | 851 | 751 |
| Purchased services | 36 | 38 |
| Travel expenses | 2 | 28 |
| **Total operating expenses** | 918 | 845 |

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

### Note 6. Auditors' remuneration

The audit fees for the year ended 30 September 2014 amounting to $34,500 (30 September 2013: $34,500) were borne by WNZL.

### Note 7. Income tax expense

| | Year Ended 30 September 2014 $'000 | Year Ended 30 September 2013 $'000 |
|---|---|---|
| **Income tax expense** | | |
| Current tax: | | |
| - Current year | 714 | 892 |
| **Total income tax expense** | 714 | 892 |
| **Reconciliation of income tax expense to profit before income tax expense** | | |
| Profit before income tax expense | 3,279 | 3,185 |
| Tax calculated at tax rate of 28% (30 September 2013: 28%) | 918 | 892 |
| **Tax effect of amounts which are not assessable in calculating taxable income:** | | |
| Adjustments for tax of prior years | (204) | - |
| **Total income tax expense** | 714 | 892 |

### Note 8. Imputation credit account

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Imputation credits available for use in subsequent reporting periods | 1,172 | 2,231 |

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 9 Cash and cash equivalents

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Cash and cash equivalents - with external parties | 112 | 85 |
| Cash and cash equivalents - WNZL | 5,187 | 7,002 |
| **Total cash and cash equivalents** | **5,299** | 7,087 |

### Note 10. Debt issues

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Short-term debt** | | |
| Commercial paper | 3,018,641 | 2,776,475 |
| **Total short-term debt** | **3,018,641** | 2,776,475 |
| **Long-term debt** | | |
| Non-domestic medium-term notes | 6,250,690 | 4,940,674 |
| **Total long-term debt** | **6,250,690** | 4,940,674 |
| **Total debt issues** | **9,269,331** | 7,717,149 |
| Debt issues measured at amortised cost | 6,250,690 | 4,940,674 |
| Debt issues measured at fair value | 3,018,641 | 2,776,475 |
| **Total debt issues** | **9,269,331** | 7,717,149 |
| **Movement in debt issues** | | |
| Balance at beginning of the year | 7,717,149 | 9,962,452 |
| Issuances during the year | 9,583,089 | 6,421,817 |
| Repayments during the year | (8,244,078) | (8,957,395) |
| Effect of foreign exchange movements during the year | 213,193 | 292,420 |
| Effect of fair value movements during the year | (22) | (2,145) |
| **Balance at end of the year** | **9,269,331** | 7,717,149 |
| Amounts expected to be settled within 12 months | 3,914,907 | 3,973,263 |
| Amounts expected to be settled after 12 months | 5,354,424 | 3,743,886 |
| **Total debt issues** | **9,269,331** | 7,717,149 |

### Note 11. Other liabilities

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Accrued Interest payable on debt issues | 47,750 | 52,603 |
| **Total other liabilities** | **47,750** | 52,603 |

The balance represents interest payable to be settled within 12 months.

### Note 12. Equity

***Ordinary shares fully paid***

| | 2014 Number of Authorised and Issued Shares | 2013 Number of Authorised and Issued Shares |
|---|---|---|
| Balance at begininng of the year | 651,185 | 651,185 |
| **Balance at end of the year** | **651,185** | 651,185 |

***Ordinary shares***

The ordinary shares in the Company confer on their holders the rights described in section 36 of the Companies Act 1993, i.e. subject to the constitution of the Company each share carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Company and the right to an equal share in the distribution of the surplus assets of the Company in the event of liquidation.

The ordinary shares have no par value, as per section 38 of the Companies Act 1993.

***Dividends paid***

In the year ended 30 September 2014, the Company paid dividends in respect of the ordinary shares amounting to $5,000,000 (30 September 2013: nil). The amount of dividends per share is $7.68 (30 September 2013: nil).

## Notes to the financial statements

### Note 13. Related entities

***Ultimate Holding Company***

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

***Nature of Transactions***

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

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

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

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

WNZL guarantees the due and punctual payment of all sums payable to the holders of the debt securities issued by the Company, the proceeds of which are immediately on-lent to WNZL. The outstanding balances at year end are included in Financial assets at fair value through profit or loss due from WNZL and Loan to WNZL. The aggregate amount of outstanding principal and interest of the debt securities issued as at 30 September 2014 was $9,335,112,000 (30 September 2013: $7,784,026,000). As the proceeds of the debt issuances are immediately on-lent to WNZL, the aggregate amount guaranteed by WNZL is already reflected in WNZL's balance sheet as part of the amounts due to related entities.

The Company paid interest expense on bonds held by WBC. There are no balances outstanding with WBC at year end.

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

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

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

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

The audit fees for the current year and prior year have been borne by WNZL, refer to Note 6.

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

The Company paid dividends in the current year to its parent entity, refer to Note 12.

***Income from and expenses to related entities***

| | **Year Ended 30 September 2014 $'000** | Year Ended 30 September 2013 $'000 |
|---|---|---|
| **Income** | | |
| Interest income from WNZL[1] | **170,901** | 188,111 |
| Funding margin from WNZL[1] | **3,190** | 3,174 |
| Guarantee fees recovery from WNZL[1] | **6,320** | 5,523 |
| Service fees from WNZL[2] | **981** | 900 |
| **Total income** | **181,392** | 197,708 |
| **Expenses** | | |
| Interest expense on bonds to WBC[3] | **-** | 6 |
| Guarantee fees to WNZCBL[3] | **6,320** | 5,523 |
| Operating expenses to WNZL and WBC[4] | **851** | 751 |
| **Total expenses** | **7,171** | 6,280 |

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

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

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

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

# Notes to the financial statements

## Note 13. Related entities (continued)

*Due from and to related entities*

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Deposits held with WNZL | 5,187 | 7,002 |
| **Total cash and cash equivalents** | 5,187 | 7,002 |
| **Due from related entities** | | |
| Accrued interest due from WNZL | 48,808 | 52,831 |
| Other receivables due from WNZL | 4,148 | 5,005 |
| Financial assets at fair value through profit or loss due from WNZL | 3,017,492 | 2,776,009 |
| Loan to WNZL | 6,252,688 | 4,943,759 |
| **Total due from related entities** | 9,323,136 | 7,777,604 |
| **Total due from related entities including cash and cash equivalents** | 9,328,323 | 7,784,606 |
| **Settlement profile:** | | |
| Amounts expected to be recovered within 12 months | 3,971,351 | 4,037,635 |
| Amounts expected to be recovered after 12 months | 5,356,972 | 3,746,971 |
| **Total due from related entities** | 9,328,323 | 7,784,606 |
| **Due to related entities** | | |
| Due to WNZL and WBC | 2,112 | 3,487 |
| Due to WNZCBL | 695 | 461 |
| **Total due to related entities** | 2,807 | 3,948 |
| **Settlement profile:** | | |
| Amounts expected to be settled within 12 months | 2,158 | 2,143 |
| Amounts expected to be settled after 12 months | 649 | 1,805 |
| **Total due to related entities** | 2,807 | 3,948 |

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

## Note 14. Financial risk management

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

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

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

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

As an indirect wholly-owned subsidiary of WNZL, the Company operates within the governance and risk management frameworks of WNZL. These frameworks support effective and efficient decision-making through established reporting obligations to the Board as well as measures of staff performance. The Company regards the management of risk to be a fundamental management activity. Supporting this approach is a risk management framework that includes core risk principles as well as policies and processes for measuring and monitoring risk.

# Notes to the financial statements

## Note 14. Financial risk management (continued)

### Categories of financial risk

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

- Credit risk - the potential for financial loss where a customer or counterparty fails to meet their financial obligations;
- Market risk - the risk of an adverse impact on earnings resulting from changes in market factors. Market risk includes the following risk factors:
  - Interest rate risk - the potential loss arising from the changes in the value of financial instruments due to changes in market interest rates or their implied volatilities; and
  - Currency risk - the potential loss arising from the changes in the value of financial instruments due to changes in foreign exchange rates or their implied volatilities; and
- Liquidity risk - the risk that the Company will not be able to fund assets and meet obligations as they come due, without incurring unacceptable losses.

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

**a. Credit risk**

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

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

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

***(i) External Credit Rating***

The Company is a wholly-owned, indirect subsidiary of WNZL. WNZL has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars as at 30 September 2014 and at the date the Directors signed WNZL's 30 September 2014 financial statements.

**Credit ratings for WNZL**

| Rating Agency | Current Credit Rating | Rating Outlook |
|---|---|---|
| Fitch Ratings | AA- | Stable |
| Moody's Investors Service | Aa3 | Stable |
| Standard & Poor's | AA- | Stable |

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

***(ii) Fully performing***

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

***(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.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **On-balance sheet credit exposures consist of:** | | |
| Cash and cash equivalents | 5,299 | 7,087 |
| Due from related entities | 9,323,136 | 7,777,604 |
| **Total credit exposures** | 9,328,435 | 7,784,691 |
| **Analysis of credit exposures by geographical area:** | | |
| Within New Zealand | 9,328,435 | 7,784,691 |
| **Total credit exposures** | 9,328,435 | 7,784,691 |
| **Analysis of credit exposures by industry sector:** | | |
| Finance and insurance | 9,328,435 | 7,784,691 |
| **Total credit exposures** | 9,328,435 | 7,784,691 |

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 14. Financial risk management (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 intruments 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 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | - | - | - | - | - | 5,299 | 5,299 |
| Due from related entities | 3,156,847 | 1,226,209 | 498,891 | 1,641,549 | 2,746,684 | 52,956 | 9,323,136 |
| **Total financial assets** | 3,156,847 | 1,226,209 | 498,891 | 1,641,549 | 2,746,684 | 58,255 | 9,328,435 |
| Non-financial assets | | | | | | | 1,278 |
| **Total assets** | | | | | | | 9,329,713 |
| **Financial liabilities** | | | | | | | |
| Due to related entities | - | - | - | - | - | 2,807 | 2,807 |
| Debt issues | 3,156,558 | 1,226,096 | 498,845 | 1,641,399 | 2,746,433 | - | 9,269,331 |
| Other liabilities | - | - | - | - | - | 47,750 | 47,750 |
| **Total financial liabilities** | 3,156,558 | 1,226,096 | 498,845 | 1,641,399 | 2,746,433 | 50,557 | 9,319,888 |
| Non-financial liabilities | | | | | | | - |
| **Total liabilities** | | | | | | | 9,319,888 |
| **Net financial assets subject to interest rate risk** | 289 | 113 | 46 | 150 | 251 | 7,698 | |

| | 30 September 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | - | - | - | - | - | 7,087 | 7,087 |
| Due from related entities | 2,305,578 | 905,281 | 1,197,194 | 452,729 | 2,858,986 | 57,836 | 7,777,604 |
| **Total financial assets** | 2,305,578 | 905,281 | 1,197,194 | 452,729 | 2,858,986 | 64,923 | 7,784,691 |
| Non-financial assets | | | | | | | 1,269 |
| **Total assets** | | | | | | | 7,785,960 |
| **Financial liabilities** | | | | | | | |
| Due to related entities | - | - | - | - | - | 3,948 | 3,948 |
| Debt issues | 2,304,795 | 904,974 | 1,196,788 | 452,575 | 2,858,017 | - | 7,717,149 |
| Other liabilities | - | - | - | - | - | 52,603 | 52,603 |
| **Total financial liabilities** | 2,304,795 | 904,974 | 1,196,788 | 452,575 | 2,858,017 | 56,551 | 7,773,700 |
| Non-financial liabilities | | | | | | | - |
| **Total liabilities** | | | | | | | 7,773,700 |
| **Net financial assets subject to interest rate risk** | 783 | 307 | 406 | 154 | 969 | 8,372 | |

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.

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 14. Financial risk management (continued)

*(ii) Structural foreign exchange risk*

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

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

**c. Liquidity risk**

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

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

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

*(i) Maturity profile*

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

| 30 September 2014 | 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 | 5,299 | - | - | - | - | - | - | 5,299 |
| Due from related entities | - | 322,919 | 1,057,717 | 2,672,020 | 5,265,029 | 318,270 | 2,057 | 9,638,012 |
| **Total undiscounted financial assets** | 5,299 | 322,919 | 1,057,717 | 2,672,020 | 5,265,029 | 318,270 | 2,057 | 9,643,311 |
| **Financial liabilities** | | | | | | | | |
| Due to related entities | - | 1,097 | 193 | 868 | 649 | - | - | 2,807 |
| Debt issues | - | 320,695 | 1,057,415 | 2,653,945 | 5,236,081 | 317,998 | - | 9,586,134 |
| Other liabilities | - | 134 | 302 | 18,074 | 28,948 | 272 | 20 | 47,750 |
| **Total undiscounted financial liabilities** | - | 321,926 | 1,057,910 | 2,672,887 | 5,265,678 | 318,270 | 20 | 9,636,691 |

| 30 September 2013 | 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 | 7,087 | - | - | - | - | - | - | 7,087 |
| Due from related entities | - | 426,996 | 966,778 | 2,744,115 | 4,024,853 | - | 2,200 | 8,164,942 |
| **Total undiscounted financial assets** | 7,087 | 426,996 | 966,778 | 2,744,115 | 4,024,853 | - | 2,200 | 8,172,029 |
| **Financial liabilities** | | | | | | | | |
| Due to related entities | - | 1,082 | 193 | 868 | 1,805 | - | - | 3,948 |
| Debt issues | - | 423,517 | 965,426 | 2,693,781 | 4,024,853 | - | - | 8,107,577 |
| Other liabilities | - | 910 | 1,352 | 50,341 | - | - | - | 52,603 |
| **Total undiscounted financial liabilities** | - | 425,509 | 966,971 | 2,744,990 | 4,026,658 | - | - | 8,164,128 |

# Notes to the financial statements

## Note 14. Financial risk management (continued)

*(ii) Concentration of funding*

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Funding consists of:** | | |
| Due to related entities | **2,807** | 3,948 |
| Debt issues | **9,269,331** | 7,717,149 |
| Other liabilities | **47,750** | 52,603 |
| **Total funding** | **9,319,888** | 7,773,700 |
| **Analysis of funding by product:** | | |
| US commercial paper | **3,018,641** | 2,776,475 |
| US & Euro medium-term notes | **2,979,073** | 2,884,247 |
| Covered bond | **3,271,617** | 2,056,427 |
| Other liabilities | **47,750** | 52,603 |
| Due to related entities | **2,807** | 3,948 |
| **Total funding** | **9,319,888** | 7,773,700 |
| **Analysis of funding by geographical areas[1]:** | | |
| Within New Zealand | **2,827** | 3,942 |
| Overseas | **9,317,061** | 7,769,758 |
| **Total funding** | **9,319,888** | 7,773,700 |
| **Analysis of funding by industry sector:** | | |
| Finance and insurance | **9,319,888** | 7,773,700 |
| **Total funding** | **9,319,888** | 7,773,700 |

[1] The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programmes is used as a proxy for the location of the original purchaser. Where the nature of the debt programme does not necessarily represent an appropriate proxy, the debt issues are classified as 'Other.' These instruments may have subsequently been on-sold.

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

## Note 15. Fair value of financial instruments

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

### Valuation techniques

Quoted market prices, when available, are used as the measure of fair values. Where quoted market prices do not exist, fair values presented are estimated using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

Fair value of financial instruments has been determined as follows:

***Loans included in due from related entities***

The fair value of loans is determined by discounting all future cash flows, including interest accruals. For variable rate loans, the discount rate used is the current effective interest rate. The discount rate applied for fixed rate loans reflects the market rate for the maturity of the loan. These instruments are classified as Level 2 instruments.

***Debt issues***

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

### Fair value hierarchy

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

- Quoted market price ('**Level 1**')

  This valuation technique uses recent unadjusted quoted prices for identical assets or liabilities in active markets where the price represents actual and regularly occurring market transactions on an arm's length basis.

## Notes to the financial statements

### Note 15. Fair value of financial instruments (continued)

- Valuation technique using market observable inputs ('**Level 2**')

  This valuation technique is used for financial instruments where quoted market prices are not available, so prices are derived from standard valuation models, and inputs to these models are directly observable. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The interest rates used to discount estimated cash flows are based on the wholesale markets yield curve at the reporting date plus an appropriate constant credit spread.

- Valuation technique with significant non-market observable inputs ('**Level 3**')

  This valuation technique is used where at least one significant input is not observable and reliance is placed on reasonable assumptions based on market conditions. These estimates are calibrated against industry standards, economic models and observable transaction prices where possible.

  Financial instruments included in this category show illiquidity in the market. Some validations rely on estimates from related markets or proxies.

***Attribution of financial instruments to the fair value hierarchy***

The fair values of all financial instruments designated at fair value through profit or loss at 30 September 2014 were determined using Level 2 inputs.

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

As at 30 September 2014 there were no amounts of financial assets and financial liabilities in the Company where the fair value had been derived using valuation techniques with non-market observable inputs (30 September 2013: nil).

There have been no transfers between Levels 1 and 2 and no transfers into/out of Level 3 during the year ended 30 September 2014 (30 September 2013: nil).

***Classification of financial instruments and estimates of fair value***

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost in the balance sheet. Fair value 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. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective such as income taxes and intangible assets.

The tables below summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Company.

| | 30 September 2014 | | | | |
|---|---|---|---|---|---|
| | Classified at Fair Value through Profit or Loss | | | | |
| | Designated Upon Initial Recognition $'000 | Loans and Receivable $'000 | Financial Liabilities at Amortised Cost $'000 | Total Carrying Amount $'000 | Estimated Fair Value $'000 |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | - | 5,299 | - | 5,299 | 5,299 |
| Due from related entities | 3,017,492 | 6,305,644 | - | 9,323,136 | 9,544,073 |
| **Total financial assets** | 3,017,492 | 6,310,943 | - | 9,328,435 | 9,549,372 |
| **Financial Liabilities** | | | | | |
| Due to related entities | - | - | 2,807 | 2,807 | 2,807 |
| Debt issues | 3,018,641 | - | 6,250,690 | 9,269,331 | 9,492,196 |
| Other liabilities | - | - | 47,750 | 47,750 | 47,750 |
| **Total financial liabilities** | 3,018,641 | - | 6,301,247 | 9,319,888 | 9,542,753 |

For cash and cash equivalents, non-deal related balances included in due from and due to related entities and other liabilities which are carried at amortised cost, the carrying amount is equivalent to fair value. These items are either short term in nature or reprice frequently, and are of a high credit rating.

## Notes to the financial statements

### Note 15. Fair value of financial instruments (continued)

| | 30 September 2013 | | | | |
|---|---|---|---|---|---|
| | Classified at Fair Value through Profit or Loss Designated Upon Initial Recognition $'000 | Loans and Receivable $'000 | Financial Liabilities at Amortised Cost $'000 | Total Carrying Amount $'000 | Estimated Fair Value $'000 |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | - | 7,087 | - | 7,087 | 7,087 |
| Due from related entities | 2,776,009 | 5,001,595 | - | 7,777,604 | 8,051,526 |
| **Total financial assets** | 2,776,009 | 5,008,682 | - | 7,784,691 | 8,058,613 |
| **Financial Liabilities** | | | | | |
| Due to related entities | - | - | 3,948 | 3,948 | 3,948 |
| Debt issues | 2,776,475 | - | 4,940,674 | 7,717,149 | 7,994,155 |
| Other liabilities | - | - | 52,603 | 52,603 | 52,603 |
| **Total financial liabilities** | 2,776,475 | - | 4,997,225 | 7,773,700 | 8,050,706 |

### Note 16. Reconciliation of profit after income tax expense to net cash provided by operating activities

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Profit after income tax expense | **2,565** | 2,293 |
| *Adjustments:* | | |
| Movement in accrued assets | **5,357** | 3,478 |
| Movement in accrued liabilities | **(4,619)** | (3,307) |
| Movement in deferred tax assets and current tax liabilities | **(732)** | (886) |
| **Net cash provided by operating activities** | **2,571** | 1,578 |

### Note 17. Capital

There are no externally imposed capital requirements on the Company. The Company is a wholly-owned subsidiary of WNZOL which itself is a part of the banking group made up of WNZL and its controlled entities (referred to in WNZL's Disclosure Statement as the 'Banking Group'). Capital for the Company is managed as part of the Banking Group.

### Note 18. Segment information

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

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

***Revenue from Products and Services***

The Company does not generate any revenue from external customers.

***Secondary reporting - geographic segments***

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

### Note 19. Key management personnel compensation

No compensation was paid by the Company to its key management personnel for the year ended 30 September 2014 (30 September 2013: nil).

### Note 20. Contingent assets, contingent liabilities and commitments

Other than the guarantee requirements in Note 13, there were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2014 (30 September 2013: nil).

### Note 21. Events after the reporting date

On 2 December 2014, the Directors resolved to pay a fully imputed dividend of $2,500,000 on ordinary shares.

# *Independent Auditors' Report*

to the shareholders of Westpac Securities NZ Limited

## *Report on the Financial Statements*

We have audited the financial statements of Westpac Securities NZ Limited on pages 11 to 29, which comprise the balance sheet as at 30 September 2014, the statement of comprehensive income and the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

### *Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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

Other than in our capacity as auditors we have no relationship with, or interests in, Westpac Securities NZ Limited.

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*T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz*

# *Independent Auditors' Report*

Westpac Securities NZ Limited

### *Opinion*

In our opinion, the financial statements on pages 11 to 29:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company as at 30 September 2014, and its financial performance and cash flows for the year then ended.

## *Report on Other Legal and Regulatory Requirements*

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

## *Restriction on Use of our Report*

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
2 December 2014

Auckland