

Westpac Securities NZ Limited
Annual report
For the year ended 30 September 2018



Westpac Securities NZ Limited

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

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

Westpac on Takutai Square
16 Takutai Square
Auckland

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

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

Name	Principal activity outside the Company
David Alexander McLean	Chief Executive, Westpac New Zealand Limited ('WNZL')
Johanna Claire Sawden	Head of Tax, WNZL
Mark Broughton Weenink	General Manager Regulatory Affairs, Compliance and General Counsel, WNZL
Carolyn Mary Kidd	Chief Risk Officer, WNZL

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

Disclosure regarding forward-looking statements

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

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

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

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

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

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Management report

Review and results of the Company's operations during the year ended 30 September 2018

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

The profit after income tax expense of the Company for the year ended 30 September 2018 was \$3,329,000 compared with \$3,874,000 for the year ended 30 September 2017, a decrease of 14%.

Interest income increased by 3% to \$199,640,000 compared to the year ended 30 September 2017. The \$6,745,000 increase was in line with the increase in interest expense and higher interest rates throughout the period.

Interest expense increased by 4% to \$195,116,000 compared to the year ended 30 September 2017. The \$7,372,000 increase was in line with the increase in interest income and higher interest rates throughout the period.

Net interest income decreased by 12% to \$4,524,000 compared to the year ended 30 September 2017.

Non-interest income decreased by 3% to \$1,093,000 compared to year ended 30 September 2017.

Operating expenses decreased by 3% to \$994,000 compared to the year ended 30 September 2017.

Tax expense decreased by 6% to \$1,294,000 compared to the year ended 30 September 2017.

Total debt securities issued as at 30 September 2018 was \$11,718,616,000 which was a decrease of \$1,740,967,000 or 13%, compared to \$13,459,583,000 as at 30 September 2017. This decrease was predominately due to the maturities of commercial paper and no new issuances within the period.

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

Significant events during the year ended 30 September 2018

There were no significant events during the year ended 30 September 2018.

Risk factors

The Company's business is subject to risks that can adversely impact its financial performance, financial condition and future performance. As the Company is an indirect, wholly-owned subsidiary of WNZL, it is consequently affected by the same principal risks and uncertainties which affect WNZL. The principal risks and uncertainties that affect WNZL are set forth below. There are no additional material risk factors solely affecting the Company. If any of the following risks occur, the Company's business, prospects, reputation, financial performance or financial condition could be materially adversely affected, with the result that the trading price of the Company's securities could decline. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems to be immaterial, may also become important factors that affect the Company.

Risks relating to WNZL's business

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

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

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

As with other financial services providers, WNZL faces increasing supervision and regulation in most of the jurisdictions in which it operates or obtains funding particularly in the areas of funding, liquidity, capital adequacy, prudential regulation, tax, anti-money laundering and counter-terrorism financing, conduct, consumer protection (including in the design and distribution of financial products), remuneration, competition, privacy, data access, prudential regulation, anti-bribery and corruption, and economic and trade sanctions.

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

If regulatory change has any such effect, it could adversely affect one or more of WNZL's businesses, restrict its flexibility, require it to incur substantial costs and could impact the profitability of one or more of its business lines. Any such costs or restrictions could adversely affect WNZL's business, prospects, financial performance or financial condition.

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

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

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Management report (continued)

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

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

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

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

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

- RBNZ - Revised Outsourcing Policy

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

- RBNZ Capital Review

The RBNZ is undertaking a Bank Capital Adequacy Framework review on the makeup of bank capital. The RBNZ has now made "in principle" decisions on the risk weighted assets (RWAs) framework, including the introduction of dual reporting (i.e. reporting RWAs calculated using the standard methodology alongside reporting RWAs using the internal rating models), a standardised methodology for operational risk, and capital floors to internal rating models. These changes will be reflected in the revised framework which is scheduled to be released in Q4 2019. The RBNZ will progress the in principle decisions over 2018 and 2019, informed by a quantitative impact study and feedback on the minimum capital settings during Q4 2018.

Separately, the RBNZ completed its consultation on what type of financial instruments should qualify as bank capital in December 2017. It confirmed its "in principle" decision that contingent debt should not be part of the capital regime and that only common equity, and non-redeemable preference shares that have no contingent trigger, should qualify as Tier 1 capital.

- Reform of the regulation of financial advice

In July 2016, the New Zealand Government announced plans for changes to the regime regulating financial advice. The new regime is set out in the Financial Services Legislation Amendment Bill (FSLAB), which had its second reading in Parliament in September 2018. Under FSLAB, financial advice will be provided by licensed firms who will employ financial advisers and nominated representatives. A Code of Conduct will apply to all financial advice provided to retail clients and advisers and representatives will be subject to the same duties and ethical standards. Firms will be responsible for ensuring that their advisers and representatives comply with these duties. The reforms will also remove legislative barriers to the provision of robo-advice. A two stage transition is proposed. At this stage, the Code of Conduct is expected to be approved by Q2 2019. There will be a 9-month period from the Code's approval to initial implementation of the new regime, after which a 2-year safe harbour for competency requirements will apply.

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

On 10 February 2017, the RBNZ issued WNZL with a notice under section 95 of the Reserve Bank of New Zealand Act 1989, requiring WNZL to obtain an independent review of its compliance with advanced internal rating-based aspects of the RBNZ's 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B). WNZL has disclosed non-compliance with BS2B (compliance with which is a condition of registration for WNZL) in its quarterly disclosure statements. On 15 November 2017, the RBNZ advised WNZL of changes to its conditions of registration resulting from the review. The changes to WNZL's conditions of registration came into effect on 31 December 2017 and increase the minimum Total Capital ratio, Tier 1 Capital ratio and Common Equity Tier 1 Capital ratio of WNZL and its controlled entities by 2%. WNZL has also undertaken to the RBNZ to maintain the Total Capital ratio of WNZL and its controlled entities above 15.1% until the issues have been resolved. WNZL and its controlled entities retain an appropriate amount of capital to comply with the increased minimum ratios. The RBNZ requires WNZL to sufficiently address non-compliance issues by 30 June 2019. A remediation plan has been provided to the RBNZ. WNZL is providing regular updates on the scope of its remediation activity to the RBNZ to ensure compliance by 30 June 2019. These instances of non-compliance by WNZL have no impact on the compliance by WNZL with its regulatory requirements.

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Management report (continued)

- Review of the Reserve Bank of New Zealand Act

In November 2017, the New Zealand Government announced it will undertake a review of the Reserve Bank of New Zealand Act 1989 (Act) (RBNZ Review). The RBNZ Review aims to ensure the RBNZ's monetary and financial policy framework still provides the most efficient and effective model for New Zealand. The RBNZ Review will consist of two phases. Phase 1 focuses on whether the RBNZ's decision-making process for monetary policy is robust, and draft legislation for the proposed Phase 1 related changes to the Act has sought industry feedback on the parameters been published. The terms of reference for Phase 2 were released in June 2018 and will consider broader issues, including the macro prudential framework, the current prudential supervision model and trans-Tasman coordination. The first consultation on Phase 2 was issued on 1 November 2018.

- Residential Mortgage Bond Collateral Standard Review

When the RBNZ lends to banks and other counterparties it does so against 'eligible collateral' (mortgage bonds). In New Zealand, mortgage bonds are not generally traded. On 17 November 2017, the RBNZ published an issues paper proposing an enhanced mortgage bond standard aimed at supporting confidence and liquidity in the financial system. The RBNZ considers that a more standardised and transparent framework for mortgage bonds, which would improve their quality and make them more marketable. The RBNZ is also proposing a new format for mortgage bonds. Following further engagement with industry to develop the new mortgage bond standard, the RBNZ issued a further consultation paper on the new standard on 13 November 2018. The RBNZ expects to make its final decisions on the new mortgage bond standard in March 2019, and commence its implementation from June 2019. It is proposed that there is a 5 year transition period to the full implementation of the new standard.

- RBNZ/FMA – Financial Services Conduct & Culture Review

In May 2018, the RBNZ and FMA commenced a review in respect of New Zealand's 10 major banks & 15 life insurers, including WNZL and Westpac Life-NZ-Limited, to explain why conduct issues highlighted by the Australian Royal Commission are not present in New Zealand. WNZL and Westpac Life have provided the regulators with information in relation to this review. An industry thematic review report for the banks was released on 5 November 2018 and is expected to be released for the life insurers in December 2018.

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

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

WNZL is subject to compliance risk, which is the risk of legal or regulatory sanction or financial or reputational loss, arising from WNZL's failure to abide by the compliance obligations required of it. This risk is exacerbated by the increasing complexity and volume of domestic and global regulation. Compliance risk can also arise where WNZL interprets its regulatory obligations, compliance requirements and rights (including in relation to GST recoveries and tax incentives) differently to its regulators or a court. The potential for this to occur may be heightened in the period that follows the introduction of significant changes to regulation, particularly where that new regulation is untested and/or not subject to extensive regulatory guidance.

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

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

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

In many cases, WNZL's regulators have broad administrative and enforcement powers. An example of the broad administrative power available to regulatory authorities is the power available to the RBNZ in certain circumstances to investigate WNZL's affairs and/or issue a direction to WNZL (such as a direction to comply with a prudential requirement, to conduct an audit, to remove a Director, executive officer or employee or not to undertake transactions) or require WNZL to hold additional capital. Other regulators also have the power to investigate, including looking into past conduct.

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

In recent years, there have been significant increases in the nature and scale of regulatory investigations, enforcement actions and the quantum of fines issued by global regulators. The nature of regulatory activity can be wide ranging and may result in litigation fines, penalties, infringement notices, reputational damage, revocation, suspension or variation of conditions of relevant regulatory licences (including potentially requiring WNZL to change or adjust its business model) or other enforcement or administrative action or agreements (such as enforceable undertakings).

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

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Management report (continued)

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

WNZL is subject to anti-money laundering and counter-terrorism financing laws, anti-bribery and corruption laws and economic and trade sanctions laws in the jurisdictions in which it operates. These laws can be complex, and in some circumstances, impose a diverse range of obligations. For example, anti-money laundering and counter-terrorism financing laws require WNZL and other regulated institutions to (amongst other things) undertake customer identification and verification, conduct ongoing due diligence on certain classes of customer, maintain and comply with an AML/CTF program, undertake ongoing risk assessments and report certain matters and transactions to regulators. Furthermore, financial crime laws are also undergoing change in a number of jurisdictions.

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

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

Reputational damage could harm WNZL's business and prospects

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

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

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

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

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

WNZL could suffer information security risks, including cyberattacks

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

While WNZL has systems in place to protect against, detect and respond to cyberattacks, these systems may not always be effective and there can be no assurance that WNZL will not suffer losses from cyberattacks or other information security breaches in the future. If a cyberattack is successful, technology systems might fail to operate properly or become disabled and it could result in the unauthorised release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of WNZL, its employees, customers or third parties or otherwise adversely impact network access, business operations or availability of services.

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

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

Major banks in other jurisdictions have suffered security breaches from sophisticated cyberattacks. WNZL's external service providers or other parties that facilitate its business activities (such as vendors, exchanges, clearing houses, central depositories and financial intermediaries) are also subject to the risk of cyberattacks.

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Management report (continued)

Any such security breach could result in the loss of customers and business opportunities, significant disruption to WNZL's operations, misappropriation of WNZL's confidential information and/or that of its customers and damage to WNZL's computers or systems and/or those of its customers.

Such a security breach could also result in reputational damage, claims for compensation and regulatory investigations and penalties, which could adversely affect WNZL's business, prospects, financial performance, or financial condition.

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

WNZL could suffer losses due to technology failures

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

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

Further, in order to continue to deliver new products and services to customers, comply with WNZL's regulatory obligations and meet the ongoing expectations of WNZL's regulators, WNZL needs to regularly renew and enhance its technology. WNZL is constantly managing technology projects including projects to consolidate technology platforms, simplify and enhance its technology and operations environment, improve productivity and provide for a better customer experience.

Failure to implement these projects or manage associated change effectively could result in cost overruns, unrealised productivity, operational instability or reputational damage. In turn, this could place WNZL at a competitive disadvantage and adversely affect its financial performance.

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

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

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

As of 30 September 2018, approximately 18% of WNZL's total funding originated from domestic and international wholesale markets (30 September 2017: 21%). Of this, around 79% was sourced outside New Zealand (30 September 2017: 78%). As of 30 September 2018, WNZL's deposits provided around 76% of total funding (30 September 2017: 72%). Customer deposits held by WNZL are comprised of both term deposits which can be withdrawn after a certain period of time and at call deposits which can be withdrawn at any time.

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

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

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

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

WNZL enters into collateralised derivative obligations, which may require it to post additional collateral based on movements in market rates, which have the potential to adversely affect WNZL's liquidity or ability to use derivative obligations to hedge its interest rate, currency and other financial instrument risks.

Sovereign risk may destabilise financial markets adversely

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

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

Westpac Securities NZ Limited

Management report (continued)

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

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

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

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

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

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

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

During the past decade the financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility, global economic conditions, geopolitical instability (such as threats of or actual conflict occurring around the world) and political developments. In particular, there have been significant global political developments in recent times, including Brexit and the introduction of tariffs and other protectionist measures by various countries, such as the US and China. A shock to one of the major global economies could result in currency and interest rate fluctuations and operational disruptions that negatively impact WNZL.

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

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

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

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

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

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

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

Loans secured by residential mortgages are important to WNZL's business. As at 30 September 2018, housing loans represented approximately 61% of WNZL's gross loans and advances (30 September 2017: 60%).

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

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

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

Westpac Securities NZ Limited

Management report (continued)

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

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

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

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

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

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

WNZL faces intense competition in all aspects of its business

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

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

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

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

WNZL could suffer losses due to market volatility

WNZL is exposed to market risk as a consequence of its trading activities in financial markets, its defined benefit plan and through the asset and liability management of its financial position. This is the risk of an adverse impact on earnings resulting from changes in market factors such as foreign exchange rates, commodity prices, equity prices and interest rates including the potential for negative interest rates. This includes interest rate risk in the banking book, such as the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.

Changes in market factors could be driven by a number of developments. As an example, in July 2017, the FCA, which regulates the London Interbank Offered Rate ("LIBOR"), announced that it would not require panel banks to continue to submit rates for the calculation of the LIBOR benchmark after 2021. Accordingly, the continuation of LIBOR in its current form will not be guaranteed after 2021, and it appears likely that LIBOR will be discontinued or modified by 2021. Any such developments or future changes in the administration of LIBOR or any other benchmarks could result in adverse consequences to the return on, value of and market for, securities and other instruments whose returns are linked to any such benchmark, including those securities or other instruments issued by WNZL.

If WNZL were to suffer substantial losses due to any market volatility (including changes in the return on, value of or market for, securities or other instruments) it may adversely affect its business, prospects, liquidity, capital resources, financial performance or financial condition.

Westpac Securities NZ Limited

Management report (continued)

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, reputational risk, technology risk, model risk and outsourcing risk, as well as the risk of business disruption due to external events such as natural disasters, environmental hazard, damage to critical utilities, and targeted activism and protest activity. While WNZL has policies, processes and controls in place to manage these risks, these may not always be effective.

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

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

Accurate and complete data is critical to ensuring that WNZL's systems (both customer facing and back-office), risk management frameworks, and financial reporting processes operate effectively. Poor data quality could arise in the conduct of its business a number of ways, including through inadequacies in systems, processes and policies, which could lead to deficiencies or failings in customer service, risk management, financial reporting (including in the calculation of risk weighted assets) and result in poor decision making. In addition, WNZL is exposed to model risk, being the risk of loss arising from errors or inadequacies in data or a model, or in the control and use of a model.

WNZL is required to retain and access data and documentation for specific retention periods in order to satisfy its compliance obligations. In some cases, WNZL also retains data to enable it to demonstrate that a past decision was appropriate at the time it was made. Failings in systems, processes and policies could all adversely affect WNZL's ability to retain and access data.

In recent times, financial services entities have been increasingly sharing data with third parties, such as suppliers and regulators (both domestic and offshore), in order to conduct their business activities and meet regulatory obligations. A breakdown in a process or control related to the transfer, storage or protection of data transferred to a third party, or the failure of a third party to use and handle this data correctly, could result in WNZL failing to meet a compliance obligation and/or have an adverse impact on our customers and WNZL.

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

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

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

As WNZL relies on a large number of policies, processes, procedures, systems and people to conduct its business, a breakdown or deficiency in one of these areas (which could arise from one or more operational risk, technology risk, conduct risk or compliance risk events) could result in an adverse outcome for customers which WNZL would need to remediate. For example, a breakdown in a process may result in a customer not receiving all of the benefits they were entitled to receive in connection with a 'packaged account' product, or the poor conduct of a staff member in failing to properly follow internal policy could result in a customer not receiving the products or services that we had agreed to provide or receiving products or services that were not suitable for their needs.

These events could require WNZL to incur significant remediation costs (which may include compensation payments to customers and costs associated with correcting the underlying issue) and could result in reputational damage.

There are also significant challenges and risks involved in executing a customer remediation activity. For example, depending on the nature of the issue, particularly legacy issues spanning beyond our record retention period, it may be difficult to quantify and scope the remediation activity. Determining how to properly and fairly compensate customers can also be a complicated exercise involving numerous stakeholders, such as regulators and industry bodies. In some instances, these stakeholders may have the power to require that a particular approach to remediation is taken. These factors may impact the timeframe for completing the remediation activity with the potential for remediation costs actually incurred being higher than those initially estimated by WNZL.

If WNZL cannot effectively scope, quantify or implement a remediation activity in a timely way, there could be a negative impact on our business, prospects, reputation, financial performance or financial condition.

WNZL could suffer losses due to litigation

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

In recent years, there has been an increase in the number of class action proceedings brought against financial services companies (and other organisations more broadly), many of which have resulted in significant monetary settlements. The risk of class action proceedings being commenced is heightened by findings from regulatory investigations or inquiries, adverse media, an adverse judgment or the settlement of proceedings brought by a regulator. Furthermore, there is a risk that class action proceedings commenced against a competitor could lead to similar class action proceedings being commenced against WNZL.

Westpac Securities NZ Limited

Management report (continued)

WNZL could suffer losses due to conduct risk

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

Conduct risk could occur through the provision of products and services to WNZL's customers that do not meet their needs or do not support market integrity, as well as the poor conduct of our employees, contractors, agents, authorised representatives and external service providers. This could occur through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), poor product design and implementation, failure to adequately consider customer needs, or selling products and services outside of customer target markets. Conduct Risk may also arise where there has been a failure to adequately provide a product or services that WNZL had agreed to provide a customer.

While WNZL has frameworks, policies, processes and controls that are designed to manage poor conduct outcomes, these policies and processes may not always be effective. The failure of these policies and processes could result in financial losses and reputational damage and this could adversely affect WNZL's business, prospects, financial performance or financial condition.

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

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

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

WNZL is also required to periodically review its risk management framework to determine whether it remains appropriate having regard to the nature, size and complexity of our business. If it is determined that a risk framework, process or system is no longer appropriate, WNZL may be required to undertake considerable work to remedy this. The failure to do so could result in increased scrutiny from regulators, the failure to meet a compliance obligation and/or financial losses.

The effectiveness of risk management frameworks is also connected to the establishment and maintenance of a sound risk management culture. The development of appropriate remuneration structures can play an important role in supporting the establishment of, and contributing to the maintenance of a sound risk culture. However, if there is a deficiency in the design or operation of WNZL's remuneration structures, this could have a negative effect on WNZL's risk culture. This could occur in circumstances where variable reward structures encourage excessive risk taking or other conduct inconsistent with a sound risk culture. This, in turn, may have an adverse impact on the effectiveness of WNZL's risk management frameworks.

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

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

Directors, key executives and employees play an integral role in the operation of WNZL's business and its pursuit of its strategic objectives. The unexpected departure of an individual in a key role, or WNZL's failure to recruit and retain appropriately skilled and qualified persons into these roles, could each have an adverse effect on our business, prospects, reputation, financial performance or financial condition.

Climate change may have adverse effects on WNZL's business

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

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

WNZL could suffer losses due to environmental factors

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

Westpac Securities NZ Limited

Management report (continued)

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

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

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

In certain circumstances WNZL may be exposed to a reduction in the value of intangible assets. As at 30 September 2018, WNZL carried goodwill principally related to its investments in New Zealand, as well as intangible capitalised software balances.

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

In the event that an asset is no longer in use or its value has been reduced or that its estimated useful life has declined, an impairment will be recorded, adversely impacting WNZL's financial condition. The estimates and assumptions used in assessing the useful life of an asset can be affected by a range of factors including changes in strategy and the rate of external changes in technology and regulatory requirements.

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

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

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

WNZL, at times, evaluates and may implement strategic decisions and objectives including diversification, innovation, divestment or business expansion initiatives, including acquisitions of businesses. The expansion, or integration of a new business, or entry into a new business, can be complex and costly and may require WNZL to comply with additional local or foreign regulatory requirements which may carry additional risks. In addition, WNZL may be unable to successfully divest businesses or assets.

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

Wholesale Funding

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

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

Markets	Issuer	30 September 2018 Programme Type	Programme Limit	Issuer	30 September 2017 Programme Type	Programme Limit
Euro market	WBC/Company ¹	Euro Commercial Paper and Certificate of Deposit Programme	US\$20 billion	WBC/Company ¹	Euro Commercial Paper and Certificate of Deposit Programme	US\$20 billion
Euro market	Company ¹	Programme for Issuance of Debt Instruments	US\$10 billion	Company ¹	Programme for Issuance of Debt Instruments	US\$10 billion
Euro market	Company ¹	Global Covered Bond Programme	€ 5 billion	Company ¹	Global Covered Bond Programme	€ 5 billion
United States	Company ¹	US Commercial Paper Programme	US\$10 billion	Company ¹	US Commercial Paper Programme	US\$10 billion
New Zealand	WNZL	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit	WNZL	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit

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

Westpac Securities NZ Limited

Responsibility Statement

The Board confirms that to the best of their knowledge:

1. the financial statements for the year ended 30 September 2018, which have been prepared in accordance with the Financial Reporting Act 2013 (New Zealand), Financial Markets Conduct Act 2013, applicable New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other authoritative pronouncements of the External Reporting Board ('XRB') as appropriate for for-profit entities, present fairly, the financial position 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

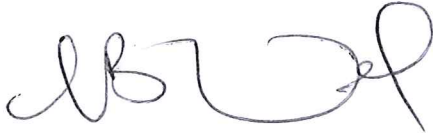
Directors' report

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

Accordingly, there is no information to be included in the Annual Report other than the financial statements for the year ended 30 September 2018 and the independent auditor's report on those financial statements.

For and on behalf of the Board of Directors:

Director
4 December 2018



Director
4 December 2018



Westpac Securities NZ Limited

Statement of comprehensive income for the year ended 30 September

	Note	2018 \$'000	2017 \$'000
Interest income		199,640	192,895
Interest expense		(195,116)	(187,744)
Net interest income	2	4,524	5,151
Non-interest income	3	1,093	1,122
Total non-interest income		1,093	1,122
Net operating income before operating expenses		5,617	6,273
Operating expenses	4	(994)	(1,020)
Profit before income tax		4,623	5,253
Income tax expense	6	(1,294)	(1,379)
Net profit for the year		3,329	3,874
Other comprehensive income (net of tax)		-	-
Total comprehensive income for the year		3,329	3,874

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

Balance sheet as at 30 September

	Note	2018 \$'000	2017 \$'000
Assets			
Cash and cash equivalents	8	7,551	8,259
Receivables due from related entities	12	11,769,075	13,495,715
Current tax asset		3,376	3,220
Total assets		11,780,002	13,507,194
Liabilities			
Payables due to related entities	12	11,855	2,042
Debt issues	9	11,718,616	13,459,583
Other liabilities	10	39,058	34,551
Total liabilities		11,769,529	13,496,176
Net assets		10,473	11,018
Shareholder's equity			
Share capital	11	651	651
Retained profits		9,822	10,367
Total shareholder's equity		10,473	11,018

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

Statement of changes in equity for the year ended 30 September

	Note	Attributable to owners of the Company		Total \$'000
		Share Capital \$'000	Retained Profits \$'000	
As at 1 October 2016		651	9,648	10,299
Year ended 30 September 2017				
Net profit for the year		-	3,874	3,874
Total comprehensive income for the year ended 30 September 2017		-	3,874	3,874
Transactions with owners:				
Dividends paid on ordinary shares	11	-	(3,155)	(3,155)
As at 30 September 2017		651	10,367	11,018
Year ended 30 September 2018				
Net profit for the year		-	3,329	3,329
Total comprehensive income for the year ended 30 September 2018		-	3,329	3,329
Transactions with owners:				
Dividends paid on ordinary shares	11	-	(3,874)	(3,874)
As at 30 September 2018		651	9,822	10,473

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

Westpac Securities NZ Limited

Statement of cash flows for the year ended 30 September

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Interest income received		195,408	211,492
Interest expense paid		(190,609)	(204,732)
Service fees received - related entities		1,079	1,123
Service fees paid - related entities		(963)	(645)
Operating expenses paid		(31)	(60)
Income tax paid		(1,450)	(2,296)
Net cash provided by operating activities	15	3,434	4,882
Cash flows from investing activities			
Net movement in receivables due from related entities		2,669,304	(1,787,715)
Net cash provided by/ (used in) investing activities		2,669,304	(1,787,715)
Cash flows from financing activities			
Net movement in payables due to related entities		9,813	467
Proceeds from debt issues		-	6,990,141
Repayments of debt issues		(2,679,385)	(5,205,342)
Dividends paid to ordinary shareholders	11	(3,874)	(3,155)
Net cash (used in)/ provided by financing activities		(2,673,446)	1,782,111
Net decrease in cash and cash equivalents		(708)	(722)
Cash and cash equivalents at beginning of the year		8,259	8,981
Cash and cash equivalents at end of the year	8	7,551	8,259

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. Financial statement preparation

These financial statements were authorised for issue by the Board on 4 December 2018. 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 Westpac New Zealand Limited ('WNZL'). The Company is a wholly-owned, indirect subsidiary of WNZL.

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

a. Basis of preparation

(i) Basis of accounting

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

The company is a Tier 1 entity. All amounts in these financial statements have been rounded in thousands of New Zealand dollars unless otherwise stated.

(ii) Historical cost

The financial statements have been prepared under the historical cost convention, except for applying fair value accounting to financial assets and financial liabilities measured at fair value through profit or loss. The going concern concept has been applied.

(iii) Changes in accounting standards

The Company has adopted the requirements of Disclosure Initiative: Amendments to NZ IAS 7 *Statement of Cash Flows* which require additional disclosures regarding both cash and non-cash changes in liabilities arising from financing activities. These disclosures have been made in Note 9. As permitted by the standard, comparatives are not required on first application.

(iv) Foreign currency

Functional and presentational currency

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

Transactions and balances

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

b. Financial assets and financial liabilities

(i) Recognition

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

(ii) Classification and measurement

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

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

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

The Company's policies for determining the fair value of financial assets and financial liabilities are set out in Note 14.

(iii) Derecognition

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

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Westpac Securities NZ Limited

Notes to the financial statements

Note 1. Financial statement preparation (continued)

(iv) Impairment of financial assets

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment charges are recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment on loans and receivables has been incurred, the amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

c. Statement of cash flows

Operating, investing and financing activities

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

d. Critical accounting assumptions and estimates

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

- Note 14 Fair value of financial instruments

e. Future developments in accounting standards

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

NZ IFRS 9 *Financial Instruments* ('NZ IFRS 9') will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* ('NZ IAS 39'). It includes a forward looking 'expected credit loss' impairment model, revised classification and measurement model and modifies the approach to hedge accounting. The standard is effective from 1 October 2018.

NZ IFRS 9 requires financial assets to be classified on the basis of the business model for managing financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measures the financial assets as either at amortised cost or fair value.

NZ IFRS 9 is not expected to have an impact on the classification of the intercompany loan as the contractual cash flows remain consistent with a basic lending arrangement and qualify as solely payments of principal and interest.

The requirements for classifying and measuring financial liabilities remain largely unchanged from NZ IAS 39.

NZ IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the incurred loss model in NZ IAS 39 which only recognises impairment if there is objective evidence that a loss has been incurred.

The new impairment model is expected to reduce retained earnings at 1 October 2018 by approximately \$1 million (net of tax) primarily due to the increase in impairment provision under the new standard.

As the Company does not apply hedge accounting, the NZ IFRS 9 hedge accounting related changes do not have an impact on the financial statements.

The Company will apply NZ IFRS 9 for the first time in the 30 September 2019 financial year.

NZ IFRS 15 *Revenue from Contracts with Customers* ('NZ IFRS 15') will replace NZ IAS 18 *Revenue* and related interpretations, and applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard is effective from 1 October 2018.

The standard provides a systematic approach to revenue recognition by introducing a five-step model governing revenue measurement and recognition. The core principle of this standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has assessed the impact of NZ IFRS 15 and has concluded that no changes to the current accounting treatment of service fee income is required.

The Company will apply NZ IFRS 15 for the first time in the 30 September 2019 financial year.

Note 2. Net interest income

Accounting policy

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 2. Net interest income (continued)

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

	Note	2018 \$'000	2017 \$'000
Interest income			
Receivables due from related entities ¹		199,640	192,895
Total interest income		199,640	192,895
Interest expense			
Debt issues		182,159	176,881
Payables due to related entities - guarantee fees	12	12,957	10,863
Total interest expense		195,116	187,744
Net interest income		4,524	5,151

¹Includes interest income, funding margin and guarantee fees recovery from related entities (refer to note 12).

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

	2018 \$'000	2017 \$'000
Interest income	187,751	163,775
Interest expense	(183,227)	158,624

Note 3. Non-interest income

Accounting policy

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

	Note	2018 \$'000	2017 \$'000
Fees and commissions			
Service fees received from related entities	12	1,093	1,122
Total non-interest income		1,093	1,122

Note 4. Operating expenses

	Note	2018 \$'000	2017 \$'000
Bank charges		8	10
Services provided - related entities	12	963	960
Purchased services		23	50
Total operating expenses		994	1,020

Note 5. Auditor's remuneration

The audit fees for the audit and review of financial statements for the year ended 30 September 2018 amounting to \$38,000 (30 September 2017: \$37,000) were borne by WNZL.

Note 6. Income tax expense

Accounting policy

Income tax

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

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

Goods and services tax ('GST')

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 6. Income tax expense (continued)

	2018 \$'000	2017 \$'000
Income tax expense		
Current tax:		
- Current year	1,294	1,470
- Prior year adjustments	-	(91)
Total income tax expense	1,294	1,379
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	4,623	5,253
Tax calculated at tax rate of 28% (30 September 2017: 28%)	1,294	1,470
Tax effect of amounts which are not (assessable)/deductible in calculating taxable income:		
Adjustments for tax of prior years	-	(91)
Total income tax expense/(credit)	1,294	1,379

Note 7. Imputation credit account

	2018 \$'000	2017 \$'000
Imputation credits available for use in subsequent reporting periods	768,625	612,791

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

Note 8. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash at bank and call money market deposits. Cash equivalents are short-term and highly liquid used in the day-to-day management of the Company that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. They are subsequently measured at amortised cost. They are accounted for as loans and receivables.

	Note	2018 \$'000	2017 \$'000
Cash and cash equivalents - with external parties		94	161
Cash and cash equivalents - WNZL	12	7,457	8,098
Total cash and cash equivalents		7,551	8,259

Note 9. Debt issues

Accounting policy

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

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

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

They are measured at fair value with changes in fair value (except those due to changes in credit risk) recognised as non-interest income.

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

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 9. Debt issues (continued)

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

	Note	2018 \$'000	2017 \$'000
Short-term debt			
Commercial papers		-	1,642,623
Total short-term debt		-	1,642,623
Long-term debt			
Euro medium-term notes		6,087,292	6,602,917
Covered bonds		5,631,324	5,214,043
Total long-term debt		11,718,616	11,816,960
Total debt issues		11,718,616	13,459,583
Debt issues measured at amortised cost	14	11,718,616	11,816,960
Debt issues measured at fair value	14	-	1,642,623
Total debt issues		11,718,616	13,459,583
Amounts expected to be settled within 12 months		1,322,137	2,618,236
Amounts expected to be settled after 12 months		10,396,479	10,841,347
Total debt issues		11,718,616	13,459,583

Movement Reconciliation

	2018 \$'000
Balance as at 1 October 2017	13,459,583
Issuance	-
Maturities, repayments, buy backs and reductions	(2,679,385)
Other cash movements	-
Total cash movements	(2,679,385)
Foreign exchange translation impact	933,430
Fair value adjustments	(873)
Amortisation of issue costs	5,861
Total non-cash movements	938,418
Balance as at 30 September 2018	11,718,616

Note 10. Other liabilities

Accounting policy

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

	2018 \$'000	2017 \$'000
Accrued interest payable on debt issues	39,058	34,551
Total other liabilities	39,058	34,551

The balance will be settled within 12 months.

Note 11. Shareholder's equity

Accounting policy

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

Ordinary shares fully paid

	2018 Number of Authorised and Issued Shares	2017 Number of Authorised and Issued Shares
Balance at beginning of the year	651,185	651,185
Balance at end of the year	651,185	651,185

Ordinary shares

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

Dividends paid

In the year ended 30 September 2018, the Company paid dividends in respect of the ordinary shares amounting to \$3,874,000 (30 September 2017: \$3,155,000).

Westpac Securities NZ Limited

Notes to the financial statements

Note 12. Related entities

Accounting policy

Related parties

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

Receivables due from related entities

Due from related entities include financial assets at fair value through profit or loss designated upon initial recognition, loans, accrued interest receivable and other receivables. Accrued interest receivable and other receivables are accounted for as loans and receivables and subsequently measured at amortised cost using the effective interest rate method.

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 an accounting mismatch.

Payables due to related entities

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

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

Ultimate Parent Company

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

Nature of Transactions

Current account banking facilities and other financial products are provided by WNZL and the WBC London Branch to the Company on normal commercial terms. This includes a \$500,000,000 borrowing facility with the WBC London Branch. This facility remains undrawn as at 30 September 2018 (30 September 2017: nil).

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 relating to the funding margin at year end is included in Other receivables due from WNZL.

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

WNZL guarantees the due and punctual payment of all sums payable to the holders of the debt securities issued by the Company, the proceeds of which are immediately on-lent to WNZL. The outstanding balances at year end are included in Financial assets at fair value through profit or loss due from WNZL and Loan to WNZL. As the proceeds of the debt issuances are immediately on-lent to WNZL, the aggregate amount guaranteed by WNZL is already reflected in WNZL's balance sheet as part of the amounts due to related entities.

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

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

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

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

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

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

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 12. Related entities (continued)

Transactions with related entities

	Note	2018 \$'000	2017 \$'000
Dividend paid			
Dividend paid to WNZOL	11	3,874	3,155
Income			
Interest income from WNZL ¹		182,159	176,881
Funding margin from WNZL ¹		4,524	5,151
Guarantee fees recovery from WNZL ¹	2	12,957	10,863
Service fees from WNZL ²	3	1,093	1,122
Total income		200,733	194,017
Expenses			
Interest expense on debt issues to WBC ³		70	82
Guarantee fees to WNZCBL ³		12,957	10,863
Operating expenses to WNZL and WBC ⁴	4	963	960
Total expenses		13,990	11,905

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

Due from and to related entities

	Note	2018 \$'000	2017 \$'000
Cash and cash equivalents			
Deposits held with WNZL	8	7,457	8,098
Total cash and cash equivalents		7,457	8,098
Receivables due from related entities			
Accrued interest due from WNZL		39,223	34,935
Other receivables due from WNZL		1,530	1,579
Financial assets at fair value through profit or loss due from WNZL		-	1,642,231
Loan to WNZL	14	11,728,322	11,816,970
Total receivables due from related entities	13	11,769,075	13,495,715
Total receivables due from related entities including cash and cash equivalents		11,776,532	13,503,813
Settlement profile:			
Amounts expected to be recovered within 12 months		1,361,877	2,654,164
Amounts expected to be recovered after 12 months		10,407,198	10,841,551
Total receivables due from related entities		11,769,075	13,495,715
Payables due to related entities			
Due to WNZL and WBC		10,799	986
Due to WNZCBL		1,056	1,056
Total payables due to related entities		11,855	2,042
Settlement profile:			
Amounts expected to be settled within 12 months		2,159	2,042
Amounts expected to be settled after 12 months		9,696	-
Total payables due to related entities		11,855	2,042

Loan advances comprises of fixed and variable rate loans, which are interest bearing and interest is charged on normal commercial terms. For variable loans, the Bank Bill Reference rate ('BKBM') or London Interbank Offered Rate ('LIBOR') plus margin is applied. Non-loan related amounts owing to related entities are normally settled within 90 days. Other amounts due are in relation to services provided and are settled in accordance with the terms of the transaction.

Key management personnel compensation

No compensation was paid by the Company to its key management personnel for the year ended 30 September 2018 (30 September 2017: nil).

Note 13. Financial risk management

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

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk management (continued)

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

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

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

Categories of financial risk

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

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

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

a. Credit risk

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

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

The Company's main exposure to risk arises as a consequence of the funding arrangement in place with WNZL. 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 2018 and at the date the Directors signed these financial statements.

Credit ratings for WNZL

Rating agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investor Service	A1	Stable
S&P Global Ratings	AA-	Negative

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

(ii) Fully performing

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

(iii) Concentration of credit exposure

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

	Note	2018 \$'000	2017 \$'000
On-balance sheet credit exposures consist of:			
Cash and cash equivalents	8	7,551	8,259
Receivables due from related entities	12	11,769,075	13,495,715
Total credit exposures		11,776,626	13,503,974

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. 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 instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The interest repricing profile of financial instruments is as follows:

	30 September 2018						Total \$'000
	Up to 3 Months \$'000	Over 3 Months and Up to 6 Months \$'000	Over 6 Months and Up to 1 Year \$'000	Over 1 Year and Up to 2 Years \$'000	Over 2 Years \$'000	Non- Interest Bearing \$'000	
Financial assets							
Cash and cash equivalents	-	-	-	-	-	7,551	7,551
Receivables due from related entities	4,102,238	-	1,321,386	588,337	5,716,361	40,753	11,769,075
Total financial assets	4,102,238	-	1,321,386	588,337	5,716,361	48,304	11,776,626
Non-financial assets							3,376
Total assets							<u>11,780,002</u>
Financial liabilities							
Payables due to related entities	-	-	-	-	9,696	2,159	11,855
Debt issues	4,102,496	-	1,321,364	588,267	5,706,489	-	11,718,616
Other liabilities	-	-	-	-	-	39,058	39,058
Total financial liabilities	4,102,496	-	1,321,364	588,267	5,716,185	41,217	11,769,529
Non-financial liabilities							-
Total liabilities							<u>11,769,529</u>
Net financial (liabilities)/assets subject to interest rate risk	(258)	-	22	70	176		

	30 September 2017						Total \$'000
	Up to 3 Months \$'000	Over 3 Months and Up to 6 Months \$'000	Over 6 Months and Up to 1 Year \$'000	Over 1 Year and Up to 2 Years \$'000	Over 2 Years \$'000	Non- Interest Bearing \$'000	
Financial assets							
Cash and cash equivalents	-	-	-	-	-	8,259	8,259
Receivables due from related entities	6,168,411	-	206,958	1,223,424	5,860,408	36,514	13,495,715
Total financial assets	6,168,411	-	206,958	1,223,424	5,860,408	44,773	13,503,974
Non-financial assets							3,220
Total assets							<u>13,507,194</u>
Financial liabilities							
Payables due to related entities	-	-	-	-	-	2,042	2,042
Debt issues	6,168,853	-	207,101	1,223,398	5,860,231	-	13,459,583
Other liabilities	-	-	-	-	-	34,551	34,551
Total financial liabilities	6,168,853	-	207,101	1,223,398	5,860,231	36,593	13,496,176
Non-financial liabilities							-
Total liabilities							<u>13,496,176</u>
Net financial (liabilities)/assets subject to interest rate risk	(442)	-	(143)	26	177		

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

(ii) Structural foreign exchange risk

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

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk management (continued)

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 2018							
	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	7,551	-	-	-	-	-	-	7,551
Receivables due from related entities	-	9,532	29,671	1,480,642	9,663,755	1,016,961	-	12,200,561
Total undiscounted financial assets	7,551	9,532	29,671	1,480,642	9,663,755	1,016,961	-	12,208,112
Financial liabilities								
Payables due to related entities	-	2,159	-	-	9,696	-	-	11,855
Debt issues	-	4	19,531	1,461,252	9,654,059	1,016,961	-	12,151,807
Other liabilities	-	9,528	10,140	19,390	-	-	-	39,058
Total undiscounted financial liabilities	-	11,691	29,671	1,480,642	9,663,755	1,016,961	-	12,202,720

	30 September 2017							
	On Demand \$'000	Up to 1 Month \$'000	Over 1 Month to 3 Months \$'000	Over 3 Months to 1 Year \$'000	Over 1 Year to 5 Years \$'000	Over 5 Years \$'000	No specific maturity \$'000	Total \$'000
Financial assets								
Cash and cash equivalents	8,259	-	-	-	-	-	-	8,259
Receivables due from related entities	-	845,457	665,375	1,258,364	10,036,807	1,189,282	-	13,995,285
Total undiscounted financial assets	8,259	845,457	665,375	1,258,364	10,036,807	1,189,282	-	14,003,544
Financial liabilities								
Payables due to related entities	-	2,042	-	-	-	-	-	2,042
Debt issues	-	842,880	659,796	1,231,973	10,036,809	1,189,282	-	13,960,740
Other liabilities	-	2,141	6,019	26,391	-	-	-	34,551
Total undiscounted financial liabilities	-	847,063	665,815	1,258,364	10,036,809	1,189,282	-	13,997,333

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk management (continued)

(ii) Concentration of funding

	2018 \$'000	2017 \$'000
Funding consists of:		
Payables due to related entities	11,855	2,042
Debt issues	11,718,616	13,459,583
Other liabilities	39,058	34,551
Total funding	11,769,529	13,496,176
Analysis of funding by product:		
Commercial papers	-	1,642,623
Euro medium-term notes	6,087,292	6,602,917
Covered bonds	5,631,324	5,214,043
Other liabilities	39,058	34,551
Payables due to related entities	11,855	2,042
Total funding	11,769,529	13,496,176
Analysis of funding by geographical areas:		
Within New Zealand	1,894	1,950
Overseas	11,767,635	13,494,226
Total funding	11,769,529	13,496,176
Analysis of funding by industry sector:		
Finance and insurance	11,769,529	13,496,176
Total funding	11,769,529	13,496,176

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

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

Note 14. Fair value of financial instruments

Accounting policy

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

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

Critical accounting assumptions and estimates

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

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

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

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

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

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

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

Fair Valuation Control Framework

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

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

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 14. Fair value of financial instruments (continued)

Fair value hierarchy

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

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

Valuation techniques

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

Financial instruments measured at fair value

Level 1 instruments

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

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

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

Level 2 instruments

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

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

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

Level 3 instruments

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

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

Analysis of movements between fair value hierarchy Levels

During the year, there were no transfers between levels of the fair value hierarchy (30 September 2017: no transfers between levels).

Financial instruments not measured at fair value

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

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 14. Fair value of financial instruments (continued)

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

	Note	30 September 2018		30 September 2017	
		Total Carrying Amount \$'000	Estimated Fair Value (Level 2) \$'000	Total Carrying Amount \$'000	Estimated Fair Value (Level 2) \$'000
Financial assets					
Loan included in receivables due from related entities - WNZL	12	11,728,322	11,777,024	11,816,970	11,932,114
Total financial assets carried at amortised cost		11,728,322	11,777,024	11,816,970	11,932,114
Financial liabilities					
Debt issues measured at amortised cost	9	11,718,616	11,832,342	11,816,960	11,970,403
Total financial liabilities carried at amortised cost		11,718,616	11,832,342	11,816,960	11,970,403

Note 15. Reconciliation of net cash provided by operating activities to net profit for the year

	2018 \$'000	2017 \$'000
Net profit for the year	3,329	3,874
<i>Adjustments:</i>		
Movement in accrued assets	(4,246)	18,598
Movement in accrued liabilities	4,507	(16,673)
Movement in tax balances	(156)	(917)
Net cash provided by operating activities	3,434	4,882

Note 16. Capital

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

Note 17. Segment information

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

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

Revenue from Products and Services

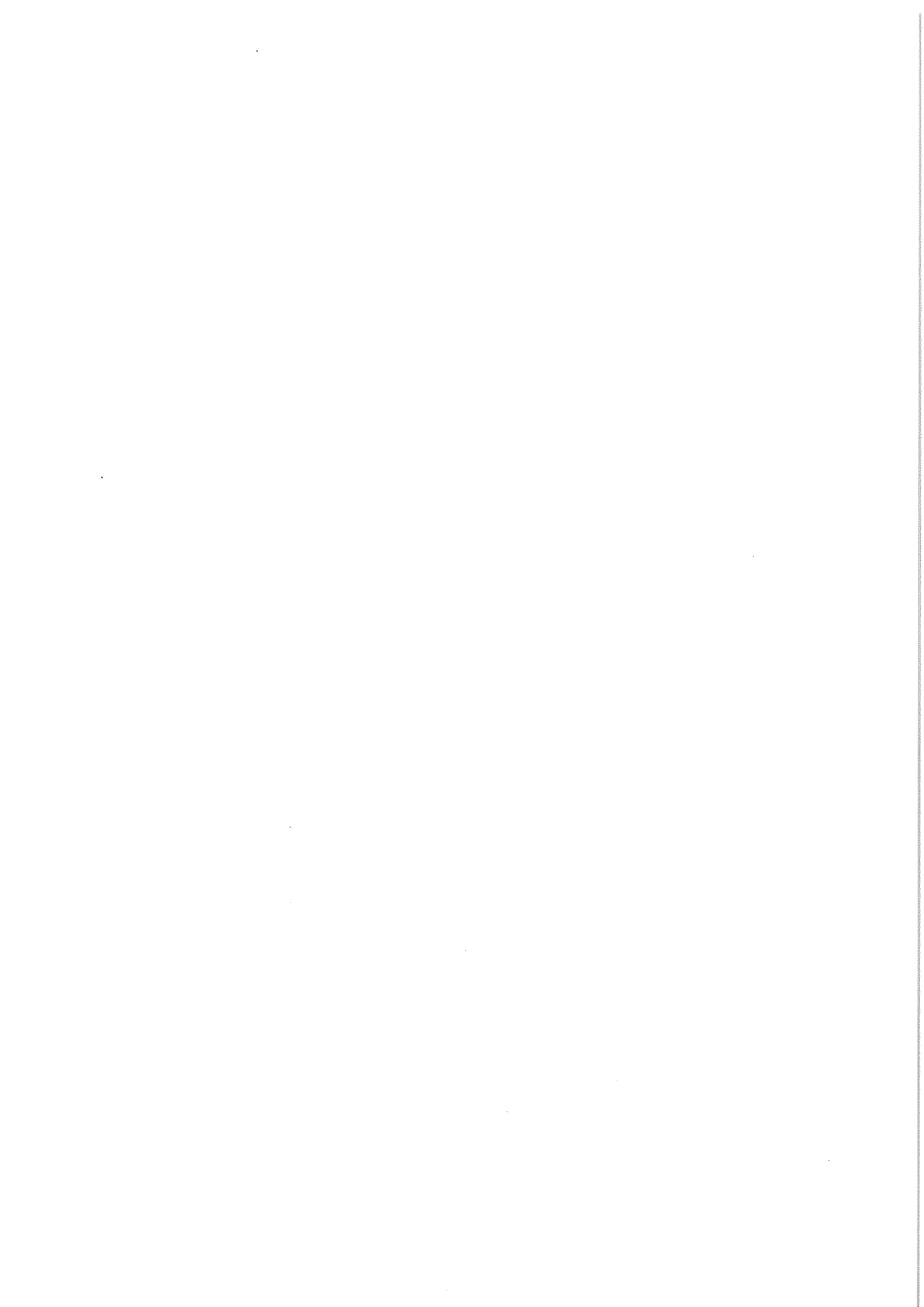
The Company does not generate any revenue from external customers.

Secondary reporting – geographic segments

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

Note 18. Contingent assets, contingent liabilities and commitments

Other than the guarantee requirements in Note 12, there were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2018 (30 September 2017: nil).





Independent auditor's report

To the shareholder of Westpac Securities NZ Limited

The financial statements comprise:

- the balance sheet as at 30 September 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements.

Our opinion

In our opinion, the financial statements of Westpac Securities NZ Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 September 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Company in the areas of other assurance services and agreed procedures relating to the issuance of comfort letters on debt issuance programmes and other regulatory and compliance matters. The provision of these other services has not impaired our independence as auditor of the Company.



Our audit approach

Overview



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

Overall materiality: Overall materiality has been calculated at \$118million, which represents approximately 1% of total assets, however this has been capped at \$64.4million.

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

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

Materiality

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

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

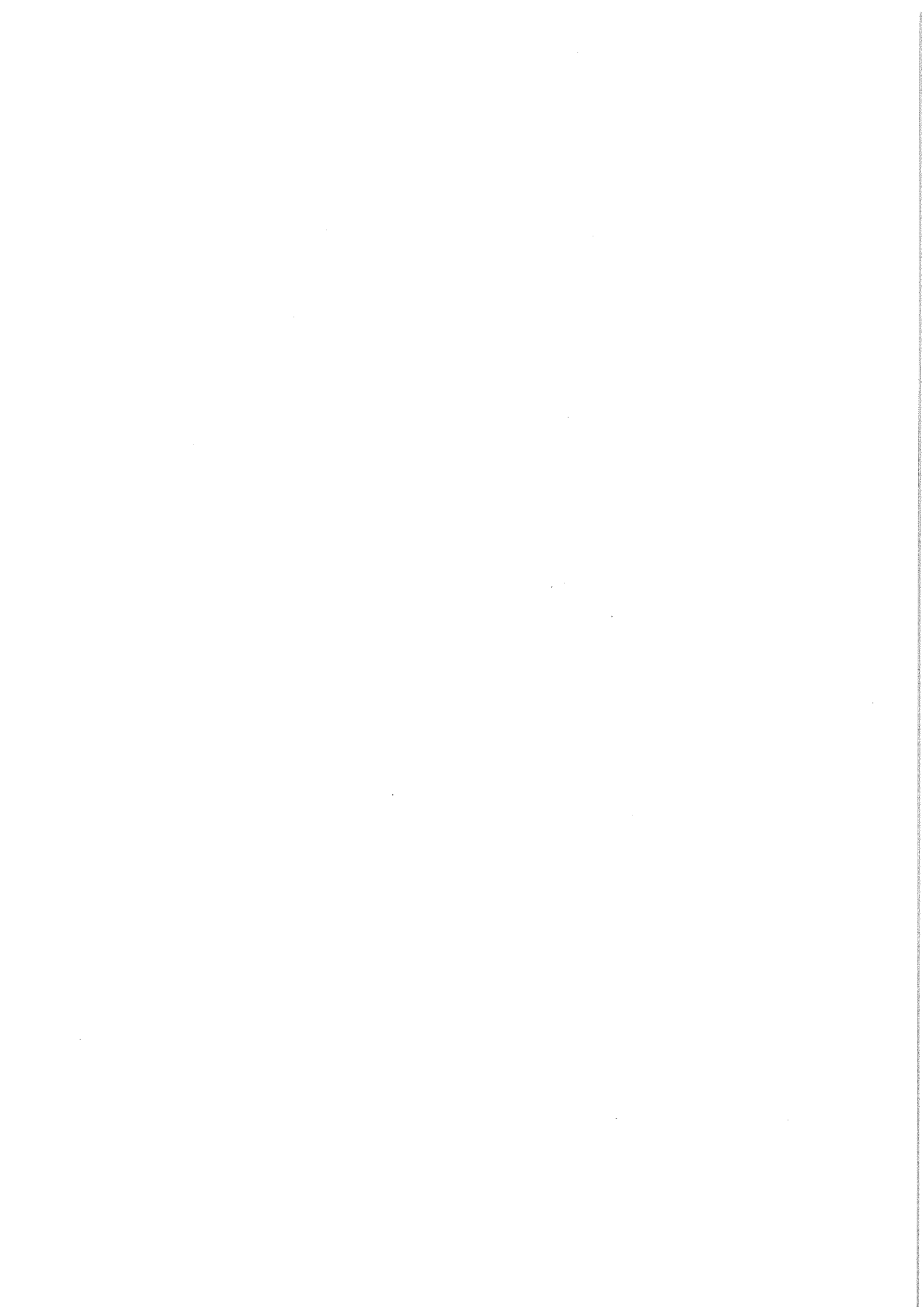
Audit scope

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

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

Key audit matters

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





Information other than the financial statements and auditor's report

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

This description forms part of our auditor's report.

Who we report to

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





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

For and on behalf of:

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants
4 December 2018

Auckland

