

Westpac Securities NZ Limited
Annual report
For the year ended 30 September 2021

Westpac Securities NZ Limited

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This Annual Report covers Westpac Securities NZ Limited (the '**Company**') as an individual entity.

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

Westpac on Takutai Square
16 Takutai Square
Auckland

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

The members of the Board of Directors of the Company ('**Board**') at signing date of these financial statements are Carolyn Mary Kidd, Catherine Anne McGrath and Christopher Louis Hillier. Catherine Anne McGrath and Christopher Louis Hillier were appointed as Directors on 15 November 2021 and 30 November 2021 respectively, whilst David Alexander McLean, Mark Broughton Weenink, Simon James Power and Johanna Claire Sawden resigned as Directors on 25 June 2021, 1 October 2021, 15 November 2021 and 26 November 2021 respectively.

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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', 'outlook', 'forecast' or other similar words are used to identify forward-looking statements.

These forward-looking statements reflect the Company's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond the Company's control, and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with the Company's expectations or that the effect of future developments on the Company will be those anticipated. Actual results could differ materially from those expected, depending on the outcome of various factors, including, but not limited to:

- the effect of the global COVID-19 pandemic, which has had, and may continue to have, a negative impact on the business and global economic conditions, adversely affect a wide-range of WNZL's key suppliers, third-party contractors and customers, create increased volatility in financial markets and may result in increased impairments, defaults and write-offs;
- 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, reviews and other actions, inquiries, litigation, fines, penalties, restrictions or other regulator imposed conditions, including as a result of the Company or WNZL's actual or alleged failure to comply with laws (such as financial crime laws), regulations or regulatory policy;
- the failure to comply with financial crime obligations, which has had, and could further have, adverse effects on WNZL's business and reputation;
- internal and external events which may adversely impact WNZL's reputation;
- litigation and other legal proceedings and regulator investigations and enforcement actions;
- 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;
- adverse asset, credit or capital market conditions;
- the incidence of inadequate capital levels under stressed conditions;
- the risk that governments will default on their debt obligations or will be unable to refinance their debts as they fall due;
- changes to the credit ratings of WNZL or WBC or the methodology used by credit rating agencies;
- 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;
- levels of inflation, interest rates (including low or negative interest rates), exchange rates and market and monetary fluctuations;
- changes in political, social or economic conditions in any of the major markets in which WNZL or its customers or counterparties operate;
- changes in economic conditions, consumer spending, saving and borrowing habits in Australia, New Zealand and other countries (including as a result of tariffs and other protectionist trade measures) 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;
- an increase in defaults in credit exposures because of a deterioration in economic conditions;
- an increase in defaults, write-offs and provisions for credit impairments;
- 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;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- poor data quality or poor data retention;
- the effectiveness of WNZL's risk management governance, practices and policies, including internal processes, systems and employees, and operational risks resulting from ineffective processes and controls, as well as breakdowns in processes and procedures requiring remediation activity;
- 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 WNZL's critical accounting estimates and judgements and changes to the value of WNZL's intangible assets;
- strategic decisions including diversification, innovation, divestment, acquisitions or business expansion activity, including 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 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 2021

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 2021 was \$3,101,000 compared with \$3,643,000 for the year ended 30 September 2020, a decrease of 15%.

Interest income decreased by 64% to \$77,201,000 compared to the year ended 30 September 2020. The \$134,881,000 decrease was in line with the decrease in interest expense.

Interest expense decreased by 65% to \$72,950,000 compared to the year ended 30 September 2020. The \$134,109,000 decrease was in line with the decrease in interest income.

Net interest income decreased by 15% to \$4,251,000 compared to the year ended 30 September 2020.

Non-interest income of \$617,000 decreased with the year ended 30 September 2020.

Operating expenses of \$561,000 decreased with the year ended 30 September 2020.

Tax expense decreased by 18% to \$1,206,000 compared to the year ended 30 September 2020.

Total debt issues as at 30 September 2021 was \$12,841,672,000 which was an increase of \$681,750,000 or 6%, compared to \$12,159,922,000 as at 30 September 2020. This increase was predominately due to new issuances, partially offset by the repayments within the period.

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

Significant events during the year ended 30 September 2021

There were no significant events during the year ended 30 September 2021 not already disclosed in the WNZL disclosure statement dated 26 November 2021.

Risk factors

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

For information concerning the Company's exposure to credit risk, market risk and liquidity risk, please refer to Note 13 of the 'Notes to the financial statements' below

Risks relating to WNZL's business

COVID-19 has had, and may continue to have (and a pandemic like COVID-19 could in the future have), an adverse effect on WNZL

WNZL is vulnerable to the impacts of a communicable disease outbreak or a pandemic. The COVID-19 pandemic has had, and may continue to have, a negative impact on its customers, shareholders, employees, third party suppliers and financial performance, among other adverse effects. The COVID-19 pandemic also heightens other risks described in this 'Risk factors' section.

The COVID-19 pandemic has disrupted, and will continue to disrupt, numerous industries and global supply chains, while important measures to mitigate its impact have had, and may continue to have, a negative effect on economic activity.

There continues to be uncertainty associated with the COVID-19 pandemic, including the ultimate course, duration and severity of the disease, emergence of new variants and the availability and effectiveness of vaccination programs or other medical treatments. There is also uncertainty in relation to future actions that may be taken by governments, regulators and businesses to attempt to contain the virus or mitigate its impact and the effectiveness of such actions, as well as the timing and speed of economic recovery. Such uncertainty has the potential for longer term impacts on WNZL's customers, business and operations.

Reduction in economic activity over the latter half of 2021 due to these COVID-19 induced factors has affected, and may in the future affect, demand for WNZL's products and services. The associated financial stress on WNZL's customers remains at risk and impairments, defaults and write-offs could still increase. WNZL has COVID-19 related overlays to allow for the potential emergence of losses once the effect of support and stimulus measures reduces, however, further outlays may be required.

WNZL has supported customers by lowering interest rates on certain products, waiving certain fees and granting short term deferrals for certain loan repayments. These initiatives have had and may continue to have a negative impact on WNZL's financial performance and may see WNZL assume greater risk than it would have normally. There is also the potential for further government or regulator intervention to support the economy which may require banks (including WNZL) to support those interventions.

When outbreaks or pandemics occur, WNZL has adjusted and may need to adjust its risk appetite, policies or controls to respond to outbreaks or pandemics (like the COVID-19 pandemic) and protect the well-being of staff and customers who visit WNZL's premises. These changes could have unforeseen consequences and expose WNZL to increased regulatory oversight and/or regulatory focus, media scrutiny and an increased risk of litigation.

Further, to respond to the COVID-19 pandemic, WNZL has implemented (and may in the future implement) new measures in very short periods of time. Taking this type of action may increase the risk that an operational or compliance breakdown occurs, potentially leading to financial losses, impacts on customer service or regulatory and/or legal action.

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Management report (continued)

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

Regulatory change has the ability to adversely affect WNZL's financial performance and financial condition and could do so in the future.

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

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

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

WNZL expects that it will continue to invest significantly in compliance and the management and implementation of regulatory change. Significant management attention and resources may be required to update existing, or implement new, processes to comply with such new regulations.

WNZL's ability to manage regulatory change has been, and will in the future be, impacted by the COVID-19 pandemic or similar pandemics. The COVID-19 pandemic has caused significant disruptions and delays to regulatory change projects, increasing the risk that WNZL may not comply with new regulations when they come into effect. The governmental response to COVID-19 has also seen new legislation and regulation, which may increase compliance risks. WNZL may also incur costs responding to this new legislation and regulation. The failure of WNZL to appropriately manage and implement regulatory change, including by failing to implement effective processes to comply with new regulations, has, in some instances, resulted in, and could in the future result in, WNZL failing to meet a compliance obligation.

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

- **COVID-19 impacts**

In response to COVID-19, a number of laws have been enacted by the New Zealand Government to help reduce the economic impact and it has implemented a range of material restrictions on businesses, venues, travel and movement. Many of these new measures have impacted WNZL's operations.

Also in response to COVID-19, there have been a number of new guidance updates published and regulatory delays announced by New Zealand regulators, including the RBNZ, and the Commerce Commission ('the Commission'). The most significant of these updates or changes for WNZL are described in the relevant paragraphs below. On 2 April 2020, a decision was made by the RBNZ to freeze the distribution of dividends on ordinary shares by all locally incorporated banks in New Zealand (including WNZL) during the period of economic uncertainty caused by COVID-19. With effect from 29 April 2021, the dividend restrictions placed on locally incorporated banks at the height of the COVID-19 pandemic were eased to allow banks to pay up to a maximum of 50% of their earnings as dividends to shareholders. The 50% dividend restriction will remain in place until 1 July 2022.

- **RBNZ Capital Review**

On 5 December 2019, the RBNZ announced changes to the capital adequacy framework in New Zealand. The new framework includes the following key components:

- Increasing total capital requirements from 10.5% of risk weighted assets ('RWA') to 18% for systemically important banks (including WNZL) and 16% for all other banks;
- Setting a Tier 1 capital requirement of 16% of RWA for systemically important banks (including WNZL) and 14% for all other banks;
- Additional Tier 1 capital (AT1) can comprise no more than 2.5% of the 16% Tier 1 capital requirement;
- Eligible Tier 1 capital will comprise common equity and redeemable perpetual preference shares. Existing AT1 instruments will be phased out over a seven-year period;
- Maintaining the existing Tier 2 capital requirement of 2% of RWA; and
- Recalibrating RWA for internal rating based banks, such as WNZL, such that aggregate RWA will increase to 90% of standardised RWA.

Given current market conditions, the RBNZ delayed the start date of increases in capital until 1 July 2022, but the new definitions of eligible capital came into effect on 1 October 2021. Banks will be given up to seven years to comply with the new requirements.

The new processes for issuing Tier 2 instruments in the RBNZ's final Banking Prudential Requirements documents apply from 1 July 2021. Several further changes to WNZL's Conditions of Registration apply from 1 October 2021.

Westpac Securities NZ Limited

Management report (continued)

- **RBNZ – Reviews required under section 95 of the Reserve Bank of New Zealand Act 1989**

On 23 March 2021, the RBNZ issued two notices under section 95 of the Reserve Bank of New Zealand Act 1989 requiring WNZL to supply two external reviews to the RBNZ.

The first review, being undertaken by Deloitte Touche Tohmatsu, relates to the effectiveness of WNZL's actions to improve liquidity risk management and the associated risk culture, following previously identified breaches of the RBNZ's Liquidity Policy (BS13) and non-compliance identified through the RBNZ's liquidity thematic review. Deloitte's final report is due to the RBNZ by 29 April 2022.

From 31 March 2021, the RBNZ amended WNZL's conditions of registration, requiring WNZL to discount the value of its liquid assets by approximately 14% which at 30 September 2021 was NZ\$2.5 billion. This overlay will apply until the RBNZ is satisfied that:

- the RBNZ's concerns regarding liquidity risk controls have been resolved; and
- sufficient progress has been made to address risk culture issues in WNZL's Treasury and Market and Liquidity Risk functions.

The second review relates to the effectiveness of WNZL's risk governance, with a focus on the role played by the Board. This review was undertaken by Oliver Wyman Limited and completed in November 2021. The review identified deficiencies in WNZL's risk governance practices and operations which have impacted the Board's effectiveness in governing risk. These deficiencies are likely to have contributed to issues of non-compliance with some of the Bank's Conditions of Registration, and technology resiliency issues. The Bank has accepted the findings of the review, and is committed to implementing the recommendations identified. WNZL has a programme of work underway to address the issues raised, which is being overseen by WNZL's directors. The review has highlighted the need to make other improvements to WNZL's risk management practices, which will also be addressed through the programme of work that is underway.

Separate to the section 95 reviews, WNZL has also committed to the RBNZ and the Financial Markets Authority to address its technology issues, and to engage Deloitte to monitor progress. While work has been underway to address these areas for some time, more work is required to meet WNZL's expectations and those of the regulators.

- **CCCFA process review**

At the date of this Annual Report, WNZL is reviewing its processes for some products relating to the requirements of the New Zealand Credit Contracts and Consumer Finance Act ('CCCFA'). The outcome of this complex review is uncertain and could result in customer remediation, regulatory action, litigation and reputational damage.

All potential claims and other liabilities are assessed on a case-by-case basis. A provision will be recognised where WNZL has conducted an assessment which determines the likelihood of loss as probable and where its potential loss can be reliably estimated. Where a provision has not been recognised, a contingent liability exists in respect of actual or potential claims where the likely loss is not assessed as probable, where the law is uncertain or, in rare circumstances, where the potential liability cannot be determined accurately.

- **Review of New Zealand business**

Following a review of WNZL's business in 2021, WBC determined that a demerger was not in the best interests of shareholders and that it would retain its 100 per cent ownership of that business.

The review identified opportunities to improve service for customers and value across WNZL's business which will be progressed with the WNZL Board and management team.

WNZL has been and could be adversely affected by failing to comply with laws, regulations or regulatory policy

WNZL is responsible for ensuring that it complies with all applicable legal and regulatory requirements and industry codes of practice in the jurisdictions in which it operates or obtains funding, as well as meeting its ethical standards. It operates in a highly regulated environment and is subject to the oversight of a number of regulators.

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

WNZL's compliance management system is designed to identify, assess and manage compliance risk on an on-going basis to identify matters that potentially should be raised with regulators or may give rise to remediation claims or other liabilities. However, this system has not always been, and may not always be, effective. Breakdowns have occurred, and may in the future, occur due to flaws in the design of controls or processes. This has resulted in, and may in the future result in, potential breaches of compliance obligations as well as poor customer outcomes.

Conduct risk is the risk of failing to have behaviours and practices that deliver suitable, fair and clear outcomes for WNZL's customers and that support market integrity. Conduct risk could occur through the provision of products and services to customers that do not meet their needs or do not meet the expectations of the market, as well as the poor conduct of WNZL's employees, contractors, agents, authorised representatives and external services providers. This could occur through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), weakness in risk culture, corporate governance or organisational culture, poor product design and implementation, failure to adequately consider customer needs or selling products and services outside of customer target markets. This could include deliberate, reckless or negligent actions by such individuals that could result in the circumvention of WNZL's controls, processes and procedures. WNZL relies on its people to 'do the right thing' to meet its compliance obligations and abide by its Code of Conduct. Inappropriate or poor conduct by these individuals such as not following a policy or engaging in misconduct has resulted, and could result, in poor customer outcomes and a failure by WNZL to meet its compliance obligations. The large number of WNZL employees working remotely due to the COVID-19 pandemic may negatively affect WNZL's compliance controls and monitoring processes and there may be an increased risk that staff fail to follow internal policies or that customers may be adversely affected through privacy breaches.

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

WNZL's failure, or suspected failure, to comply with a compliance obligation has in the past and could in the future lead to a regulator commencing a review, claims brought by customers (including class actions), customer remediation, litigation, reputation damage and have an adverse effect on WNZL's ability to utilise its assets for funding or liquidity purposes. See also below under '*Reputational damage has harmed and could in the future harm WNZL's business and prospects*', '*WNZL has suffered and could suffer losses due to litigation (including class action proceedings)*', '*Operational risk, technology risk, conduct risk or compliance risk events could require WNZL to undertake customer remediation activity*' and '*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*'.

Westpac Securities NZ Limited

Management report (continued)

WNZL is currently subject to reviews by regulators, with the intensity of these increasing.

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

As described in 'CCCFA process review' under 'WNZL's businesses are highly regulated and WNZL could be adversely affected by changes in laws, regulations or regulatory policy' above, at the date of this Annual Report WNZL is reviewing its processes for some products relating to the requirements of the CCCFA. The outcome of this complex review is uncertain but, as described above, could result in customer remediation, regulatory action, litigation and reputational damage.

Disruptions to WNZL's business, operations, third party contractors and suppliers resulting from the COVID-19 pandemic have also increased and may continue to increase the risk that WNZL will not be able to satisfy commitments made to regulators about improving processes and/or resolving outstanding issues, potentially increasing the prospect of a regulator taking action against WNZL.

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

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

AML/CFT laws also require WNZL to report certain matters and transactions to regulators (including international funds transfer instructions, threshold transaction reports and suspicious matter reports) and ensure that certain information is not disclosed to third parties in a way that would contravene the 'tipping off' provisions in AML/CFT legislation. In recent years there has been, and there continues to be, increased focus on compliance with financial crime obligations, with regulators globally commencing large-scale investigations and taking enforcement action for identified non-compliance (often seeking significant penalties). Further, due to WNZL's large number of customers and transaction volumes, the undetected failure or the ineffective implementation, monitoring or remediation of a system, policy, process or control (including a regulatory reporting obligation) has resulted, and could in the future result, in a significant number of breaches of AML/CFT obligations. This in turn could lead to significant financial penalties and other adverse impacts for WNZL, such as reputational damage.

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

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

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

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

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

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

There are various potential sources of reputational damage. For example, where WNZL actions cause, or are perceived to cause, a negative outcome for customers, shareholders, stakeholders or the community. Reputational damage could also arise from the failure to effectively manage risks, failure to comply with legal and regulatory requirements, enforcement or supervisory action by regulators, adverse findings from regulatory reviews, failure or perceived failure to adequately respond to community, environmental, social and ethical issues, failure of information security systems, technology failures and security breaches and inadequate record keeping, which may prevent WNZL from demonstrating that or determining if a past decision was appropriate at the time it was made. The AUSTRAC proceedings brought against WBC in November 2019 illustrate a number of these risks.

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

WNZL may suffer reputational damage where its conduct, practices, behaviours or business activities do not align with the evolving standards and expectations of the community, WNZL's customers, regulators and/or other stakeholders. As these expectations may exceed the standard required in order to comply with the law, WNZL may incur reputational damage even where it has met its legal obligations.

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

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

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

Westpac Securities NZ Limited

Management report (continued)

In recent years there has been an increase in class action proceedings brought against financial services companies, many of which have resulted in significant monetary settlements. The risk of class actions has been heightened by a number of factors, including regulatory enforcement actions, an increase in the number of regulatory investigations and inquiries, more intense media scrutiny and the growth of third party litigation funding. Class actions commenced against a competitor could also lead to similar proceedings against WNZL. In September 2021, class actions were launched against two of WNZL's competitors in New Zealand, in relation to alleged breaches of the CCCFA. These proceedings are at a very early stage and it is not possible to predict their outcome.

The enforceability of relevant consumer credit contracts and related guarantees and, in some circumstances, the ability of the lender to recover costs of borrowing and other fees in relation to certain credit contracts could be affected if there was a finding that certain provisions of the CCCFA had been breached.

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

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

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

WNZL faces information security risks, including cyberattacks

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

- new technologies and increased digital service options;
- increased use of the internet and telecommunications to conduct financial transactions;
- the growing sophistication of attackers, and the global increase in cyber crime;
- the COVID-19 pandemic, which has resulted in many WNZL employees (and staff of service providers) and customers working remotely or from other sites; and
- other external events such as biological hazards, climate change, natural disasters or acts of terrorism, which could interrupt the usual operations of WNZL, its customer and suppliers, potentially providing increased opportunities for cyber threat actors to exploit.

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

While WNZL has systems in place to protect against, detect and respond to cyberattacks, these systems have not always been, and may not always be, effective. WNZL and its customers could suffer losses from cyberattacks, information security breaches or ineffective cyber resilience. WNZL may not be able to anticipate and prevent a cyberattack, effectively respond to a cyberattack and/or rectify or minimise damage resulting from a cyberattack. WNZL's external service providers, and other parties that facilitate WNZL's activities, financial platforms and infrastructure (such as payment systems and exchanges) are also subject to the risk of cyberattacks, which could in turn impact WNZL.

If WNZL is subject to a successful cyberattack, 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 confidentiality and integrity of its information, there is a risk that the computer systems, software and networks on which WNZL, or WNZL's service providers, 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.

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

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

All these potential consequences could negatively affect WNZL's business, prospects, reputation, financial performance or financial condition.

As cyber threats evolve, WNZL may need to spend significant resources to modify or enhance its systems or investigate and remediate any vulnerabilities or incidents.

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

Maintaining the reliability, integrity and security of WNZL's information and technology is crucial to WNZL's business.

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

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Management report (continued)

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

Following IT outages in 2020 WNZL has established a Technology Resilience Programme and other initiatives to address IT resiliency issues. More work is required to successfully implement WNZL's remediation programme and to meet WNZL's expectations and those of the regulator. This is expected to require significant ongoing resource, prioritisation and governance from WNZL, without which WNZL may not, and may not be able to, successfully address such issues. WNZL also needs to regularly renew and enhance its technology to deliver new products and services, comply with regulatory obligations and meet WNZL's customers' and regulators' expectations. Consequently, WNZL is constantly managing new technology projects. Failure to effectively implement these projects could result in cost overruns, reduced productivity, outages, operational instability, compliance failures, reputational damage and/or the loss of market share. This could place WNZL at a competitive disadvantage and adversely affect its business, prospects, financial performance or financial condition.

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, money markets and capital markets to fund its business and to source funding and liquidity and may in the future source regulatory capital. WNZL's liquidity and costs of obtaining funding and regulatory capital are related to funding market conditions.

Funding markets can be unpredictable and experience extended periods of extreme volatility, disruption and decreased liquidity. The main risks WNZL faces are damage to market confidence, changes to the access and cost of funding, a slowing in global economic activity, unexpected withdrawal of extraordinary central bank monetary policy stimulus and there may also be other or related impacts on customers or counterparties.

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

If market conditions deteriorate due to economic, financial, political or other reasons, there may also be a loss of confidence in bank deposits leading to unexpected withdrawals. This could increase funding costs and WNZL's liquidity, funding and lending activities may be constrained and WNZL's financial solvency threatened.

If WNZL's current sources of funding prove to be insufficient, WNZL may need to seek alternatives which will depend on factors such as market conditions, credit ratings and market capacity. Even if available, these alternatives may be more expensive or on unfavourable terms, which could adversely affect WNZL's financial performance, liquidity, capital resources or financial condition.

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

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

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

The risk of an inadequate level or composition of capital to support normal business activities and to meet regulatory capital requirements under normal operating environments or stressed conditions has been highlighted by the COVID-19 pandemic. Regulatory change has led banks to hold higher capital, specifically for the implementation of future capital and risk-weighted assets regulations coming into effect from 1 October 2021. Capital constraints could have an impact on WNZL's ability to pay future dividends or make capital distributions. Adverse conditions and/or adverse regulatory change could impact WNZL's capital adequacy, trigger capital distribution constraints, require us to make a highly dilutive capital raising or threaten financial viability.

Sovereign risk may destabilise financial markets adversely

Sovereign risk is the risk that governments will default on their debt obligations or will be unable to refinance their debts as they fall due. Potential sovereign debt defaults and the risk that governments will nationalise parts of their economy including assets of financial institutions such as WNZL could negatively impact the value of WNZL's holdings of liquid assets. Such an event could destabilise global financial markets, adversely affecting WNZL's liquidity, financial performance or financial condition. There may also be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the Global Financial Crisis.

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

Credit ratings are independent opinions on WNZL's creditworthiness. WNZL's credit ratings can affect the cost and availability of its funding and may be important to certain customers or counterparties when evaluating WNZL's products and services. Downgrades of WNZL's senior credit rating may impact funding programmes including by requiring additional operational activities, replacement of WNZL as a provider of certain services and may ultimately impact the rating of the securities issued by the Company.

Credit ratings assigned to WNZL by rating agencies are based on an evaluation of several factors, including the structure of New Zealand's financial system, the economy and New Zealand's Sovereign credit rating, as well as WNZL's financial strength, the quality of WNZL's governance and risk appetite, a change in the rating agency's assessment of the likelihood of support from its parent (WBC) and the rating of its parent. A rating downgrade could be driven by a downgrade to its parent, a of New Zealand's Sovereign credit rating, or one or more of the risks identified in this section or by other events including changes to the methodologies rating agencies use to determine credit ratings.

A credit rating or rating outlook could be downgraded or revised, where credit rating agencies believe there is a very high level of uncertainty on the impact to key rating factors from a significant event (such as a pandemic).

A downgrade to WNZL's credit ratings would likely have an adverse effect on its cost of funds, sourcing of regulatory capital, collateral requirements, liquidity, competitive position, its access to capital markets and its financial stability. The extent and nature of these impacts would depend on various factors, including the extent of any rating change, differences across agencies (split ratings) and whether competitors or the sector are also impacted.

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Management report (continued)

WNZL's business is substantially dependent on the New Zealand and Australian economies, and could be adversely affected by a shock to these economies or other financial systems

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

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

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

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

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

Potential declines in New Zealand residential and commercial property markets have adversely affected and could in the future adversely affect WNZL's operations and profitability.

Declining asset prices could also impact customers and counterparties and the value of security (including residential and commercial property) WNZL holds. This may impact its ability to recover amounts owing to it if customers or counterparties default. It may also affect WNZL's impairment charges and provisions, in turn impacting WNZL's financial performance and financial condition.

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

Loans secured by residential mortgages are important to WNZL's business. As at 30 September 2021, housing loans represented approximately 65% of WNZL's gross loans and advances (30 September 2020: 62%).

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.

The residential property market in New Zealand is subject to increased regulatory scrutiny.

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 and WNZL's expectations. If economic conditions deteriorate beyond WNZL's expectations, some customers and/or counterparties could experience higher financial stress leading to an increase in defaults and write-offs, and higher provisioning. Such events could adversely affect WNZL's liquidity, capital resources, financial performance or financial condition.

These risks have been heightened by the COVID-19 pandemic, which has negatively impacted economic activity and caused a range of customers to experience financial stress.

The long-term impact of the COVID-19 pandemic on customers and the magnitude of defaults or impairments is uncertain.

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

WNZL faces intense competition in all aspects of its business

The financial services industry is highly competitive. WNZL competes with a range of firms, including retail and commercial banks, investment banks, other financial service companies, fintech companies and businesses in other industries with financial services aspirations. This includes those competitors who are not subject to the same capital and regulatory requirements which may allow those competitors to operate more flexibly.

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

The competitive environment may also change as a result of increased scrutiny by regulators in the sector and legislative reforms such as 'Open Banking', which will stimulate competition, improve customer choice and likely give rise to increased competition from new and existing firms.

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

Deposits fund a significant portion of WNZL's balance sheet and have been a relatively stable source of funding. If WNZL is not able to successfully compete for deposits this could increase WNZL's cost of funding, lead WNZL to seek access to other types of funding or result in reducing WNZL's lending.

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

Westpac Securities NZ Limited

Management report (continued)

WNZL could suffer losses due to market volatility

WNZL is exposed to market risk due to its financial market activities, its businesses, its defined benefit plan and through asset and liability management. Market risk 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 low or negative interest rates and any resulting pressure placed on WNZL's interest margins). This includes interest rate risk in the banking book due to a mismatch between the duration of assets and liabilities arising from the normal course of business activities.

Changes in markets could be driven by numerous developments resulting in market volatility which could lead to substantial losses (including changes in the return on, value of or market for securities or other instruments). This may adversely affect WNZL's business, prospects, liquidity, capital resources, financial performance or financial condition.

The planned cessation of parts of the London Inter-bank Offered Rate ('LIBOR') regime from 1 January 2022, continuation of some U.S. Dollar LIBOR settings until 30 June 2023 and possible pre-cessation events will also continue to impact market pricing. Industry pressure to migrate to alternative reference rates is likely to occur earlier. Any future changes in the administration of LIBOR or other market benchmarks could have adverse consequences for the return on, value of and market for securities and other instruments linked to any such benchmark, including securities or other instruments issued by WNZL. While WNZL is monitoring its exposure to LIBOR, it remains dependent on market developments in relation to the LIBOR transition, which may have an impact on market pricing for, or valuations of, its LIBOR exposures and migrated alternative reference rate exposures. If WNZL were to suffer substantial losses due to 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.

WNZL has and could suffer losses due to operational risks

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

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

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

WNZL is also exposed to model risk, being the risk of loss arising from errors or inadequacies in data or a model, or in the control and use of a model.

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

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

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

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

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

In addition, poor data or poor data retention has affected, currently affects and may in the future continue to affect WNZL's ability to meet its compliance obligations (including its regulatory reporting obligations) which could lead to a regulator taking action against WNZL. Due to the importance of data, WNZL has incurred and will likely continue to incur substantial costs and devote significant effort to improving the quality of data and data frameworks and processes and remediating deficiencies where necessary.

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

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

Breakdowns in WNZL's processes, procedures and controls have led to, and could in the future lead to, adverse outcomes for customers, employees or other third parties which WNZL is required to remediate.

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

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

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Management report (continued)

Determining how to compensate customers, employees or third parties properly and fairly can also be complicated, involving numerous stakeholders. WNZL's proposed approach to a remediation may be affected by a number of events, such as affected customers commencing a class action, or a regulator requiring a remediation to be done in a specific way or within a specific timeframe. These factors could delay WNZL in completing the remediation and may lead to a regulator commencing enforcement action against WNZL. In turn, this could result in increased reputational risk, and WNZL could be challenged by regulators, affected customers, the media and other stakeholders. The significant challenges involved in scoping and executing remediations also create a risk that the remediation costs incurred will be higher than initially estimated. Further, delays in completing a remediation could result in WNZL incurring additional administration costs and making higher remediation payments to customers to reflect the time value of money.

If WNZL cannot effectively scope, quantify, implement or complete a remediation activity in a timely way, there could be an adverse impact on WNZL's business, prospects, reputation, financial performance or financial condition and could lead to further regulatory action and/or oversight.

WNZL could suffer losses and its business has been and could be adversely affected by the failure of, or failure to adopt and implement effective risk management

WNZL's risk management framework has not always been, or may not in the future prove to be, effective.

This could be because the design of the framework is inadequate or that key risk management policies, controls and processes may be ineffective, due to inadequacies in their design, technology failures or because of poor implementation or high execution risk. The potential for these types of failings is heightened if WNZL does not have enough appropriately skilled, trained and qualified employees in key positions.

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

The risk management framework may also prove ineffective because of weaknesses in risk culture or risk governance practices and policies, which may result in risks and control weaknesses not being identified, escalated and acted upon. Recent analysis and reviews, in addition to regulatory feedback, have highlighted that the framework is not operating satisfactorily in a number of respects and needs to be improved. WNZL has a number of risks which sit outside its risk appetite or do not meet the expectations of regulators. Further, the design or operation of WNZL's remuneration structures may not always encourage prudent risk management as intended, potentially resulting in staff engaging in excessive risk-taking behaviours.

As part of WNZL's risk management framework, WNZL measures and monitors risks against its risk appetite. If a risk is out-of-appetite, WNZL needs to take steps to bring this risk back into appetite in a timely manner. However, WNZL may not always be able to achieve this within proposed timeframes. This may occur because, for example, WNZL experiences delays in enhancing its information technology systems or in recruiting sufficient numbers of appropriately trained staff for required activities. It is also possible that due to external factors beyond WNZL's control, certain risks may be inherently outside of appetite for periods of time. WNZL is required to periodically review its risk management framework to determine if it remains appropriate.

If WNZL is unable to bring risks back into appetite, or if it is determined that WNZL's risk management framework or risk governance practices and policies are no longer appropriate, WNZL may incur unexpected losses and be required to undertake considerable remedial work, including incurring substantial costs. The failure to remedy this situation could result in increased scrutiny from regulators, who could require (amongst other things) that WNZL hold additional capital or direct WNZL to spend money to enhance its risk management systems and controls. Inadequacies in addressing risks or in WNZL's risk management framework could also result in WNZL failing to meet compliance obligations and/or financial losses. As detailed above in *WNZL's businesses are highly regulated and WNZL could be adversely affected by changes in laws, regulations or regulatory policy*, in March 2021 the RBNZ raised concerns in relation to WNZL's risk governance practices and policies and as a result, an external review of WNZL's risk governance has been conducted and an external review of WNZL's liquidity management is being conducted.

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

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

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

Climate change may have adverse effects on WNZL's business

WNZL, its customers, external suppliers and communities in which WNZL operates, 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 disruptions to business and economic activity, cost and availability of insurance or impacts on income and asset values.

Initiatives to mitigate or respond to climate change (transition risks) may impact market and asset prices, economic activity, and customer behaviour, particularly in emissions intensive industry sectors and geographies affected by these changes. Further, the failure or perceived failure to manage climate change appropriately may increase the risk that third parties commence litigation against WNZL, with this type of climate-related litigation becoming more common.

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

Failure to effectively manage and disclose these risks could adversely affect WNZL business, prospects, reputation, financial performance or financial condition.

In November 2020 WNZL voluntarily published its inaugural Climate Risk Report followed by an updated report in November 2021. These reports are based on the recommendations of the Taskforce for Climate-related Financial Disclosures and provide a more detailed outline of climate-related financial risks to WNZL.

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Management report (continued)

WNZL could suffer losses due to environmental factors or external events

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, outbreaks or pandemics of communicable diseases such as the COVID-19 pandemic, civil unrest or terrorism) in any of these locations has the potential to disrupt business activities, damage property and affect asset values 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.

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

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

WNZL is required to make estimates, assumptions and judgements when applying accounting policies and preparing its financial statements, particularly in connection with the calculation of provisions (including remediation and expected credit losses) and the determination of the fair value of financial instruments. A change in a critical accounting estimate, assumption and/or judgement resulting from new information or from changes in circumstances or experience could result in WNZL incurring losses greater than those anticipated or provided for.

If WNZL's actual and expected credit losses exceed those currently provided for, or if any of its other accounting judgements change in the future, there could be an adverse effect on WNZL's financial performance, financial condition and reputation. WNZL's financial performance and financial condition may also be impacted by changes to accounting standards or to generally accepted accounting principles.

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

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

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

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

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

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

Each of these activities can be complex and costly. For example, they may cause reputational damage, or WNZL may experience difficulties in completing certain transactions, separating or integrating businesses, disruptions to operations, diversion of management resources or higher than expected transaction costs. Multiple divestments and/or acquisitions at the same time may intensify these risks.

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

There are also risks involved in failing to appropriately respond to changes in the business environment (including changes related to economic, geopolitical, regulatory, technological, environmental, social and competitive factors). This could have a range of adverse effects on us, such as being unable to increase or maintain market share and placing pressure on margins and fees.

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 2021 Programme Type	Programme Limit	Issuer	30 September 2020 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 2021, which have been prepared in accordance with the Financial Reporting Act 2013 (New Zealand), Financial Markets Conduct Act 2013, applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the External Reporting Board ('**XRB**') as appropriate for for-profit entities, present fairly, the financial position, profit or loss, and assets and liabilities of the Company; and
2. the Management report includes a fair review of the information required by the Disclosure and Transparency Rules 4.1.8R to 4.1.11R of the United Kingdom Financial Conduct Authority.

Westpac Securities NZ Limited

Directors' report

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

Accordingly, there is no information to be included in the Annual Report other than the financial statements for the year ended 30 September 2021 and the independent auditor's report on those financial statements.

For and on behalf of the Board of Directors:



Director
30 November 2021



Director
30 November 2021

Westpac Securities NZ Limited

Statement of comprehensive income for the year ended 30 September 2021

	Note	2021 \$'000	2020 \$'000
Interest income - calculated using the effective interest rate method	2	69,194	175,157
Interest income - other	2	8,007	36,925
Interest expense		(72,950)	(207,059)
Net interest income	2	4,251	5,023
Non-interest income	3	617	1,085
Total non-interest income		617	1,085
Net operating income before operating expenses		4,868	6,108
Operating expenses	4	(561)	(987)
Profit before income tax		4,307	5,121
Income tax expense	6	(1,206)	(1,478)
Net profit for the year		3,101	3,643
Other comprehensive income (net of tax)		-	-
Total comprehensive income for the year		3,101	3,643

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

Balance sheet as at 30 September 2021

	Note	2021 \$'000	2020 \$'000
Assets			
Cash and cash equivalents	8	14,200	11,368
Receivables due from related entities	12	12,867,636	12,185,303
Current tax asset		513	570
Total assets		12,882,349	12,197,241
Liabilities			
Payables due to related entities	12	12,560	2,040
Debt issues	9	12,841,672	12,159,922
Other financial liabilities	10	14,229	24,492
Total liabilities		12,868,461	12,186,454
Net assets		13,888	10,787
Shareholder's equity			
Share capital	11	651	651
Retained profits		13,237	10,136
Total shareholder's equity		13,888	10,787

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

Statement of changes in equity for the year ended 30 September 2021

	Note	Attributable to owners of the Company		
		Share Capital \$'000	Retained Profits \$'000	Total \$'000
As at 1 October 2019		651	9,947	10,598
Year ended 30 September 2020				
Net profit for the year		-	3,643	3,643
Total comprehensive income for the year ended 30 September 2020		-	3,643	3,643
Transaction with the owners:				
Dividends paid on ordinary shares	11	-	(3,454)	(3,454)
As at 30 September 2020		651	10,136	10,787
Year ended 30 September 2021				
Net profit for the year		-	3,101	3,101
Total comprehensive income for the year ended 30 September 2021		-	3,101	3,101
As at 30 September 2021		651	13,237	13,888

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 2021

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Interest income received		85,970	232,865
Interest expense paid		(83,213)	(225,010)
Service fees received - related entities		617	1,773
Service fees paid - related entities		(1,348)	(985)
Operating expenses paid		(19)	(8)
Income tax received/(paid)		(1,149)	1,519
Net cash provided by/(used in) in operating activities	15	858	10,154
Cash flows from investing activities			
Net movement in receivables due from related entities		(1,219,399)	5,279,542
Net cash provided by/(used in) investing activities		(1,219,399)	5,279,542
Cash flows from financing activities			
Net movement in payables due to related entities		10,654	(2,681,675)
Proceeds from debt issues	9	8,879,363	4,592,056
Repayments of debt issues	9	(7,668,644)	(7,192,979)
Dividends paid to ordinary shareholder	11	-	(3,454)
Net cash provided by/(used in) financing activities		1,221,373	(5,286,052)
Net increase/(decrease) in cash and cash equivalents		2,832	3,644
Cash and cash equivalents at beginning of the year		11,368	7,724
Cash and cash equivalents at end of the year	8	14,200	11,368

The above statement of cash flows should be read in conjunction with the accompanying notes. Details of the reconciliation of net cash used in operating activities to net profit are provided in Note 15.

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 30 November 2021. The Board has the power to amend and reissue the financial statements.

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

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

a. Basis of preparation

(i) Basis of accounting

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

The COVID-19 pandemic and the measures put in place domestically and globally to control the spread of the virus continue to impact global economies and financial markets. As at 30 September 2021, there was no material impact on the Company's financial performance and financial position or its operations and cash flows.

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

(ii) Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and financial liabilities measured at fair value through profit or loss ('FVPL').

(iii) Foreign currency translation

Functional and presentational currency

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

Transactions and balances

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

b. Standards adopted during the year ended 30 September 2021

Revision to the Conceptual Framework

A revised Conceptual Framework ('Framework') was adopted by the Company on 1 October 2020. The Framework includes new definitions and recognition criteria for assets, liabilities, income and expenses and other relevant financial reporting concepts. These changes did not have a material impact on the Company.

Amendments to Interest Rate Benchmark Reform – Phase 2

Interest Rate Benchmark Reform ('IBOR reform') - Phase 2 was early adopted, as permitted by the standard, by the Company for the financial year ended 30 September 2021. IBOR reform - Phase 2 makes amendments to NZ IFRS 9 *Financial Instruments*, NZ IAS 39 *Financial Instruments: Recognition and Measurement*, and NZ IFRS 7 *Financial Instruments: Disclosures* resulting from IBOR reform. The amendments:

- allow the Company to account for a change in contractual cash flows of a financial instrument that are a direct result of the IBOR reform to be accounted for prospectively by updating the effective interest rate rather than recognising a modification gain or loss provided that the change is made on an economically equivalent basis;
- require additional disclosures including:
 - quantitative information regarding all financial instruments linked to London Inter-bank Offered Rate ('LIBOR') which have not been yet converted to Alternative Reference Rates ('ARR');
 - changes to the entity's risk management strategy arising from IBOR reform; and
 - the management of the Company's transition to ARR.

There was no impact on opening retained earnings due to the adoption of the standard. Comparative information is not required to be restated. Note 13 provides further information regarding the Company's exposure to IBOR reform.

c. Financial assets and financial liabilities

(i) Recognition

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 1. Financial statement preparation

(ii) Classification and measurement

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

Financial assets

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

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

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

Financial liabilities

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

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

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

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

The Company's policies for determining the fair value of financial assets and financial liabilities are set out in Note 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 and transferred substantially all the risks and rewards of ownership.

There may be situations where the Company has partially transferred the risks and rewards of ownership but has neither transferred nor retained substantially all the risks and rewards of ownership. In such situations, the asset continues to be recognised on the balance sheet to the extent of the Company's continuing involvement in the asset.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in the profit or loss.

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

(iv) Impairment of financial assets

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

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

d. Statement of cash flows

Operating, investing and financing activities

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

e. Critical accounting assumptions and estimates

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

- Note 14 Fair value of financial instruments

The Company has considered COVID-19 in its critical accounting judgements and estimates. The areas of judgement, estimates and assumptions in the financial statements are consistent with those in the financial statements for the year ended 30 September 2020.

Westpac Securities NZ Limited

Notes to the financial statements

Note 2. Net interest income

Accounting policy

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

	Note	2021 \$'000	2020 \$'000
Interest income			
Calculated using the effective interest rate method			
Receivables due from related entities ¹		69,194	175,157
Total interest income calculated using the effective interest rate method		69,194	175,157
Other			
Receivables due from related entities ¹		8,007	36,925
Total other		8,007	36,925
Total interest income	12	77,201	212,082
Interest expense			
Calculated using the effective interest rate method			
Debt issues		(55,395)	(143,379)
Payables due to related entities	12	(10,169)	(27,184)
Total interest expense calculated using the effective interest rate method		(65,564)	(170,563)
Other			
Debt issues		(7,386)	(36,496)
Total other		(7,386)	(36,496)
Total interest expense		(72,950)	(207,059)
Net interest income		4,251	5,023

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

Note 3. Non-interest income

Accounting policy

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

	Note	2021 \$'000	2020 \$'000
Fees and commissions			
Service fees received from related entities	12	617	1,085
Total non-interest income		617	1,085

Note 4. Operating expenses

	Note	2021 \$'000	2020 \$'000
Bank charges		7	2
Services provided - related entities	12	542	979
Purchased services		12	6
Total operating expenses		561	987

Note 5. Auditor's remuneration

The audit fees for the audit and review of financial statements for the year ended 30 September 2021 amounting to \$38,000 (30 September 2020: \$38,000) were borne by WNZL. The Company also incurred fees for assurance and other audit related services for the year ended 30 September 2021 amounting to \$55,783 (30 September 2020: \$54,345) which were borne by WNZL and related to agreed procedures reports obtained for updates to the debt issuance programmes. In addition, \$53,873 (30 September 2020: \$49,906) of assurance and other audit related services fees were paid to PwC Sydney for the year ended 30 September 2021 in relation to debt issuance programme updates.

Westpac Securities NZ Limited

Notes to the financial statements

Note 6. Income tax expense

Accounting policy

Income tax

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

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

Goods and services tax ('GST')

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

	2021 \$'000	2020 \$'000
Income tax expense		
Current tax:		
- Current year	1,206	1,478
- Prior year adjustments	-	-
Total income tax expense	1,206	1,478
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	4,307	5,121
Tax calculated at a rate of 28% (30 September 2020: 28%)	1,206	1,434
Tax effect of amounts which are not (assessable)/deductible in calculating taxable income:		
Prior year adjustment	-	44
Total income tax expense/(credit)	1,206	1,478

Note 7. Imputation credit account

	2021 \$'000	2020 \$'000
Imputation credits available for use in subsequent reporting periods	1,079,145	1,235,756

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.

	Note	2021 \$'000	2020 \$'000
Cash and cash equivalents - with external parties		97	100
Cash and cash equivalents - WNZL	12	14,103	11,268
Total cash and cash equivalents		14,200	11,368

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

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

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

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

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 original maturity of the underlying security.

	Note	2021 \$'000	2020 \$'000
Short-term debt			
Commercial papers		2,979,007	2,502,261
Total short-term debt		2,979,007	2,502,261
Long-term debt			
Euro medium-term notes		5,568,215	5,300,232
Covered Bonds		4,294,450	4,357,429
Total long-term debt		9,862,665	9,657,661
Total debt issues		12,841,672	12,159,922
Debt issues measured at amortised cost	14	9,862,665	9,657,661
Debt issues measured at fair value	14	2,979,007	2,502,261
Total debt issues		12,841,672	12,159,922
Amounts expected to be settled within 12 months		6,088,746	5,887,257
Amounts expected to be settled after 12 months		6,752,926	6,272,665
Total debt issues		12,841,672	12,159,922

Movement Reconciliation		2021 \$'000	2020 \$'000
Balance as at beginning of the year		12,159,922	14,749,184
Issuance		8,879,363	4,592,056
Maturities, repayments, buy backs and reductions		(7,668,644)	(7,192,979)
Total cash movements		1,210,719	(2,600,923)
FX translation impact		(537,790)	4,558
Fair value adjustments		255	(12)
Other ¹		8,566	7,115
Total non-cash movements		(528,969)	11,661
Balance as at end of the year		12,841,672	12,159,922

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

Note 10. Other financial liabilities

Accounting policy

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

	2021 \$'000	2020 \$'000
Accrued interest payable on debt issues	14,229	24,492
Total other financial liabilities	14,229	24,492

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

	2021 Number of authorised and Issued Shares	2020 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 2021, the Company paid no dividends in respect of the ordinary shares (2020: \$3,454,000).

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

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

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

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

Receivables due from related entities at FVPL

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

Receivables due from related entities at amortised cost

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

Payables due to related entities

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

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

Ultimate Parent Company

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

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 2021 (30 September 2020: 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 FVPL due from WNZL and loan to WNZL. As the proceeds of the debt issuances are immediately on-lent to WNZL, the aggregate amount guaranteed by WNZL is already reflected in WNZL's balance sheet as part of the amounts due to related entities.

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

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

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.

The Company paid no dividends in the current year and dividends of \$3,454,000 in the 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	2021 \$'000	2020 \$'000
Dividend paid			
Dividend paid to WNZOL	11	-	3,454
Income			
Interest income from WNZL ¹		62,893	194,994
Funding margin from WNZL ¹		4,251	5,023
Guarantee fees recovery from WNZL ¹		10,057	12,065
Service fees from WNZL ²	3	617	1,085
Total income		77,818	213,167
Expenses			
Interest expense on borrowings from WNZL ³	2	112	15,119
Guarantee fees to WNZCBL ³	2	10,057	12,065
Operating expenses to WNZL and WBC ⁴	4	542	979
Total expenses		10,711	28,163

¹ Included in interest income in the statement of comprehensive income (refer to Note 2).

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

³ Included in interest expense in the statement of comprehensive income.

⁴ Included in operating expenses in the statement of comprehensive income.

Due from and to related entities

		2021 \$'000	2020 \$'000
Cash and cash equivalents			
Deposits held with WNZL	8	14,103	11,268
Total cash and cash equivalents		14,103	11,268
Receivables due from related entities			
Accrued interest due from WNZL		15,982	24,603
Other receivables due from WNZL		1,608	1,085
Financial assets at fair value through profit or loss due from WNZL		2,976,907	2,501,949
Loan to WNZL	14	9,873,139	9,657,666
Total receivables due from related entities	13	12,867,636	12,185,303
Total receivables due from related entities including cash and cash equivalents		12,881,739	12,196,571
Settlement profile:			
Amounts expected to be settled within 12 months		6,024,678	5,912,936
Amounts expected to be settled after 12 months		6,842,958	6,272,367
Total receivables due from related entities		12,867,636	12,185,303
Payables due to related entities			
Due to WNZL and WBC		11,711	1,057
Due to WNZCBL		849	983
Total payables due to related entities		12,560	2,040
Settlement profile:			
Amounts expected to be settled within 12 months		12,560	2,040
Amounts expected to be settled after 12 months		-	-
Total payables due to related entities		12,560	2,040

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 ('BKBMM') or ARR plus margin is applied. Non-loan related amounts owing to related entities are normally settled within 90 days. Other amounts due are in relation to services provided and are settled in accordance with the terms of the transaction.

Key management personnel compensation

No compensation was paid by the Company to its key management personnel for the year ended 30 September 2021 (30 September 2020: nil).

Note 13. Financial risk

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

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk (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 FX 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 or counterparty fails to meet their financial obligations. This arises primarily from the Company's provision of offshore wholesale funding to WNZL.

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

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

(i) External Credit Rating

The Company is a wholly-owned, indirect subsidiary of WNZL. WNZL has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars as at 30 September 2021 and at the date the Directors signed these financial statements.

Credit ratings for WNZL

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

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

(ii) Fully performing

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

(iii) Concentration of credit exposure

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

	Note	2021 \$'000	2020 \$'000
On-balance sheet credit exposures consist of:			
Cash and cash equivalents	8	14,200	11,368
Receivables due from related entities	12	12,867,636	12,185,303
Total credit exposures		12,881,836	12,196,671

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

b. Market risk

Market risk is the risk of an adverse impact on earnings resulting from changes in market risk factors. The Company is primarily exposed to interest rate risk and foreign currency risk.

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk (continued)

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

30 September 2020							
	Up to 3 Months \$'000	Over 3 Months and Up to 6 Months \$'000	Over 6 Months and Up to 1 Year \$'000	Over 1 Year and Up to 2 Years \$'000	Over 2 Years \$'000	Non- Interest Bearing \$'000	Total \$'000
Financial assets							
Cash and cash equivalents	-	-	-	-	-	11,368	11,368
Receivables due from related entities	4,325,919	1,509,752	1,448,212	1,878,863	2,996,878	25,679	12,185,303
Total financial assets	4,325,919	1,509,752	1,448,212	1,878,863	2,996,878	37,047	12,196,671
Non-financial assets							570
Total assets							12,197,241
Financial liabilities							
Payables due to related entities	1,276	-	-	-	-	764	2,040
Debt issues	4,326,856	1,510,047	1,448,237	1,878,834	2,995,948	-	12,159,922
Other financial liabilities	-	-	-	-	-	24,492	24,492
Total financial liabilities	4,328,132	1,510,047	1,448,237	1,878,834	2,995,948	25,256	12,186,454
Total liabilities							12,186,454
Net financial (liabilities)/assets subject to interest rate risk	(2,213)	(295)	(25)	29	930		

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 FX risk

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

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

c. 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.

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk (continued)

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

30 September 2020								
	On Demand	Up to 1 Month	Over 1 Month to 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	No specific maturity	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Cash and cash equivalents	11,368	-	-	-	-	-	-	11,368
Receivables due from related entities	-	152,376	13,786	5,791,582	5,991,287	395,055	-	12,344,086
Total undiscounted financial assets	11,368	152,376	13,786	5,791,582	5,991,287	395,055	-	12,355,454
Financial liabilities								
Payables due to related entities	-	-	1,276	-	-	-	764	2,040
Debt issues	-	152,413	13,785	5,791,581	5,991,287	395,055	-	12,344,121
Other financial liabilities	-	687	6,181	17,624	-	-	-	24,492
Total undiscounted financial liabilities	-	153,100	21,242	5,809,205	5,991,287	395,055	764	12,370,653

(ii) Concentration of funding

	2021 \$'000	2020 \$'000
Funding consists of:		
Payables due to related entities	12,560	2,040
Debt issues	12,841,672	12,159,922
Other financial liabilities	14,229	24,492
Total funding	12,868,461	12,186,454
Analysis of funding by product:		
Commercial papers	2,979,007	2,502,261
Euro medium-term notes	5,568,215	5,300,232
Covered Bonds	4,294,450	4,357,429
Other financial liabilities	14,229	24,492
Payables due to related entities	12,560	2,040
Total funding	12,868,461	12,186,454
Analysis of funding by geographical areas:		
Within New Zealand	1,833	1,965
Overseas	12,866,628	12,184,489
Total funding	12,868,461	12,186,454
Analysis of funding by industry sector:		
Finance and insurance	12,868,461	12,186,454
Total funding	12,868,461	12,186,454

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk (continued)

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.

d. Interest Rate Benchmark Reform

Overview

Interbank Offered Rates ('IBORs') are interest rate benchmarks which are referenced in many financial instruments across various currencies and tenors. In recent years, financial regulators have reviewed the use of IBORs and recommended either a reform of the benchmark rate to reference market observable transactions (e.g. EURIBOR) or a transition of certain IBORs to more observable, risk-free ARR.

On 5 March 2021, the UK regulator the Financial Conduct Authority ('FCA') confirmed the transition date for LIBORs to ARR.

The transition dates can be summarised as follows:

- a cessation date of 31 December 2021 for most LIBORs;
- a cessation date of 30 June 2023 for certain settings of USD LIBOR (i.e. overnight and 12-months) and for synthetic benchmarks which use USD LIBOR in their calculation process including SGD SOR;
- a non-representative date of 31 December 2021 for both GBP LIBOR and JPY LIBOR for the 1-month, 3-month and 6-month settings; and
- a non-representative date of 30 June 2023 for USD LIBOR 1-month, 3-month and 6-month settings.

Risks

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

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

The Company does not expect material changes to its business-as-usual risk management frameworks and controls due to IBOR. The Company is a party to a wider working group in place to manage any transition related risks resulting from IBOR to ARR which is discussed further below.

Governance

The Company forms part of the Ultimate Parent Bank's enterprise-wide IBOR Transition Program to manage the impacts of IBOR reform. The scope of the program is to address the impact of transition from IBORs to ARRs including business, compliance, customer and technology impacts. The Governance structure of the program is well established to include a Steering Committee that includes senior executives from Finance, Legal, Technology, Compliance, Risk and all impacted business units.

Significant activities underway include development of ARR product variations, changes required for implementing the International Swaps and Derivatives Association ('ISDA') Protocol, customer outreach including management of conduct risk in customer transition and technology changes required to ensure the Company's systems can transact, value and perform the necessary accounting (including hedging) requirements once contracts transition from LIBOR to ARR.

These activities focus on two broad areas including:

- Developing new alternative risk-free rate products; and
- Amending existing LIBOR products to reference alternative risk-free rates.

The Company is actively engaging with customers and counterparties to transition or include appropriate fallback provisions. Fallback provisions refer to contractual provisions that lay out the process through which a replacement rate can be identified if a benchmark rate is not available.

Westpac Securities NZ Limited

Notes to the financial statements

Note 13. Financial risk (continued)

Financial instruments impacted by IBOR reform post transition date

Non-derivatives

The table below summarises the Company's non-derivative financial instrument exposure currently maturing after the relevant IBOR transition dates noted above that are yet to transition to ARR. The Company is engaging with customers and counterparties to transition or include appropriate fallback provisions. Due to the nature of these contracts, these fallback provisions will be determined bilaterally with the customer or counterparty.

30 September 2021

	Financial Assets	Financial liabilities
	Carrying amount	Carrying amount
	\$'000	\$'000
Benchmark		
USD LIBOR ¹	-	58,090
Impacted by IBOR reform post transition date	-	58,090

¹ The Company's primary exposure to USD LIBOR is to settings with a transition date of 30 June 2023. The Company has no material exposure to USD LIBOR that have a 31 December 2021 transition date (i.e. 1-week and 2-month settings).

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

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

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

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

Fair Valuation Control Framework

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

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

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

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 judgement.

There are no financial instruments included in the Level 1 category (30 September 2020: 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 FVPL due from WNZL	Receivables due from related entities	Loans	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of the Company.

Level 3 instruments

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

There are no financial instruments included in the Level 3 category (30 September 2020: 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 2020: 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.

		30 September 2021		30 September 2020	
	Note	Total Carrying Amount \$'000	Estimated Fair Value (Level 2) \$'000	Total Carrying Amount \$'000	Estimated Fair Value (Level 2) \$'000
Financial assets					
Loan included in receivables due from related entities - WNZL	12	9,873,139	9,935,384	9,657,666	9,808,330
Total financial assets carried at amortised cost		9,873,139	9,935,384	9,657,666	9,808,330
Financial liabilities					
Debt issues measured at amortised cost	9	9,862,665	9,984,924	9,657,661	9,838,614
Total financial liabilities carried at amortised cost		9,862,665	9,984,924	9,657,661	9,838,614

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

	2021 \$'000	2020 \$'000
Net profit for the year	3,101	3,643
<i>Adjustments:</i>		
Movement in accrued assets	8,769	21,471
Movement in accrued liabilities	(11,069)	(17,957)
Movement in tax balances	57	2,997
Net cash provided by operating activities	858	10,154

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 Westpac New Zealand Limited and its controlled entities ('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. For this reason, no additional operating segment disclosure is made.

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

Revenue from products and services

The Company does not generate any revenue from external customers.

Secondary reporting – geographic segments

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

Note 18. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2021 (30 September 2020: nil).



Independent auditor's report

To the shareholder of Westpac Securities NZ Limited

Our opinion

In our opinion, the accompanying financial statements of Westpac Securities NZ Limited (the Company) present fairly, in all material respects, the financial position of the Company as at 30 September 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The financial statements comprise:

- the balance sheet as at 30 September 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include principal accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

Key audit matters

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

Our audit approach

Overview



Overall materiality: \$128 million, which represents 1% of total assets, however this has been capped at \$54 million, the materiality level for the Westpac New Zealand Limited group audit.

We chose total assets as the benchmark because the entity's principal activity is to raise and manage offshore wholesale funding and on-lend this to Westpac New Zealand Limited. The costs of borrowing are met by Westpac New Zealand Limited. 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*.

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

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

Materiality

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

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

Other information

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

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



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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

A handwritten signature in cursive script, appearing to read 'PricewaterhouseCoopers', written in dark ink.

Chartered Accountants
30 November 2021

Auckland