

Westpac Securities NZ Limited
Interim Financial Report
For the six months ended 31 March 2022

Westpac Securities NZ Limited

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The Interim Financial Report does not include all of the notes of the type normally included in an Annual Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 September 2021 and any public announcements made by Westpac Securities NZ Limited during the interim reporting period in accordance with any relevant continuous disclosure obligations.

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

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

Westpac on Takutai Square
16 Takutai Square
Auckland

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

The members of the Board of Directors of the Company ('**Board**') at 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 Mark Broughton Weenink, Simon James Power and Johanna Claire Sawden resigned as Directors on 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 these interim financial statements do not form part of these interim financial statements unless we specifically state that such information is incorporated by reference and forms part of these interim financial statements. All references in these interim financial statements to websites are inactive textual references and are for information only.

Disclosure regarding forward-looking statements

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

Forward-looking statements are statements that are not historical facts. Forward-looking statements appear in a number of places in this Interim Report and include statements regarding the Company's intent, belief or current expectations on 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 statements reflect the Company's current views on 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 on management's expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will align with the Company's expectations or that future developments on the Company will be those anticipated. Actual results could differ materially from expected, depending on 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 Westpac New Zealand Limited's ('WNZL') 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 from WNZL's actual or alleged failure to comply with 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 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 be unable to refinance their debts;
- changes to WNZL's credit ratings or the methodology used by credit rating agencies;
- the stability of financial systems and disruptions to financial markets and any losses or business impacts WNZL or WNZL's customers or counterparties may experience;
- 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 New Zealand, Australia and other countries in which WNZL or its customers or counterparties operate and WNZL's ability to maintain or to increase market share, margins and fees, and control expenses;
- an increase in defaults because of a deterioration in economic conditions;
- an increase in defaults, write-offs and provisions for credit impairments;
- the effects of competition in the areas in which WNZL operate;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- levels of inflation, interest rates, exchange rates and market and monetary fluctuations and volatility;
- poor data quality, poor data retention or poor records management;
- the effectiveness of WNZL's risk management policies, including WNZL's processes, systems and employees, and operational risks resulting from ineffective processes and controls, as well as breakdowns in processes and procedures requiring remediation activity;
- environmental change (including from climate change) or external events or geopolitical risks in countries in which WNZL or its customers or counterparties operate;
- changes to our critical accounting estimates and judgements and changes to the value of the Company's intangible assets;
- strategic decisions including diversification, innovation, divestment, acquisitions, expansion activity and integration; 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 in this Interim Report, whether from new information, future events or otherwise, after the date of this Interim Report.

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Management report

Review and results of the Company's operations during the six months ended 31 March 2022

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

The loss after income tax benefit of the Company for the six months ended 31 March 2022 was \$2,851,000 compared with profit after income tax expense of \$1,513,000 for the six months ended 31 March 2021, a decrease of 288%.

Interest income increased by 16% to \$47,840,000 compared to the six months ended 31 March 2021. The \$6,610,000 increase was in line with the increase in interest expense.

Interest expense increased by 16% to \$45,326,000 compared to the six months ended 31 March 2021. The \$6,155,000 increase was in line with the increase in interest income.

Net interest income increased by 22% to \$2,514,000 compared to the six months ended 31 March 2021.

Non-interest income decreased by 22% to \$284,000 compared to the six months ended 31 March 2021.

Impairment charge increased to \$6,500,000 compared to the six months ended 31 March 2021.

Operating expenses decreased by 22% to \$258,000 compared to the six months ended 31 March 2021.

Tax expense decreased by 292% to a tax benefit of \$1,109,000 compared to the six months ended 31 March 2021.

Total debt issues as at 31 March 2022 was \$16,055,024,153 which was an increase of \$3,213,352,164 or 25%, compared to \$12,841,671,989 as at 30 September 2021. The increase was due to new issuances within the period, offset by maturities and strengthening of NZD foreign exchange translations during 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 six months ended 31 March 2022

There were no significant events during the six months ended 31 March 2022 not already disclosed in the WNZL disclosure statement dated 19 May 2022.

Risk factors

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

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 may continue to disrupt, numerous industries and global supply chains leading to shortages of materials and labour and/or cost increases.

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.

There continues to be uncertainty associated with the COVID-19 pandemic.

Some WNZL customers have, and may in the future have, associated financial stress which may increase impairments, defaults and write-offs. In addition, some of WNZL's suppliers have, and may in the future have, financial stress which could affect their ability to supply goods or services.

WNZL has supported customers through various initiatives that 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 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.

It is possible that the COVID-19 pandemic, or another communicable disease outbreak or pandemic, will negatively impact WNZL's performance or result in government or regulatory intervention, which could impact WNZL's ability to pay future dividends or make capital distributions. It could also impact WNZL's ability to raise capital and have an adverse impact on its financial position.

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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 and scrutiny of financial services providers.

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

Regulation impacting WNZL's business may not always be released in a timely manner and 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.

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

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

- **COVID-19 impacts**

The continued social and economic effects of COVID-19 over this half year have been shaped by the emergence and spread of new variants, the continued rollout of vaccines, including booster vaccinations, and the evolving approaches of governments to social and travel restrictions.

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.

WNZL has continued to assist customers affected by the ongoing economic impacts of the COVID-19 pandemic. Further information on the impacts of COVID-19 are set out in the 'Risk factors' section.

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

On 23 March 2021, the RBNZ issued two notices to WNZL under section 95 of the Reserve Bank of New Zealand Act 1989 (NZ) requiring WNZL to supply two external reviews to the RBNZ (the 'Risk Governance Review' and the 'Liquidity Review').

The Risk Governance Review related to the effectiveness of WNZL's risk governance, with a focus on the role played by the WNZL Board. This review was undertaken by Oliver Wyman Limited (Oliver Wyman) and completed in November 2021. The review identified deficiencies in WNZL's risk governance practices and operations which impacted the WNZL Board's effectiveness in governing risk. These deficiencies are likely to have contributed to issues of non-compliance with some of WNZL's Conditions of Registration, and technology resiliency issues. WNZL has a programme of work underway to address the issues raised, which is being overseen by the WNZL Board. WNZL has engaged Oliver Wyman to provide independent assurance that WNZL's remediation has been delivered to an appropriate standard.

The Liquidity Review related to the effectiveness of WNZL's actions to improve liquidity risk management and the associated risk culture. This followed previously identified breaches of the RBNZ's Liquidity Policy (BS13) and non-compliance with Condition of Registration 14 identified through the RBNZ's liquidity thematic review (which the RBNZ subsequently concluded constituted non-compliance with Condition of Registration 14 in a material respect, when considered collectively). This review was undertaken by Deloitte Touche Tohmatsu's and completed in May 2022. The review found that WNZL had improved its liquidity control environment; did not identify any material control gaps or issues and made some recommendations for improvements, which will be implemented as part of WNZL's continuous improvement activity. The review also found that the Bank had made improvements to its associated risk culture.

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 31 March 2022 was NZ\$3.1 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.

- **Commitments to regulators**

Separate to the section 95 reviews, WNZL has also committed to:

- the RBNZ and Financial Markets Authority to address its technology issues, and has engaged Deloitte to monitor progress; and
- review the programme delivery plan for compliance with the RBNZ's Outsourcing Policy.

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.

- **Deposit Takers Bill**

A Deposit Takers Bill is expected to be introduced to the House of Parliament in 2022 that will create a single regulatory regime for banks and non-bank deposit takers and introduce a depositor compensation scheme to protect up to \$100,000 per eligible depositor, per institution, if a payout event is triggered. Consultation on an exposure draft of the legislation closed on 21 February 2022. Initial implementation of the depositor compensation scheme is expected in early 2024.

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Management report (continued)

- **CCCFA process**

At the date of this Interim 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.

- **RBNZ review overseas bank branches**

On 20 October 2021, the RBNZ announced it is reviewing its policy for branches of overseas banks (including Westpac Banking Corporation's New Zealand branch), with a view to creating a simple, coherent and transparent policy framework for branches of overseas banks. The period for responding to the first consultation paper, which sought feedback on high level policy questions and the options for addressing the risks that branches present to the New Zealand financial system, has closed. A second consultation paper, setting out the RBNZ's proposed approach for the regulation of branches of overseas banks is expected in the first half of calendar year 2022.

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 WNZL operate or obtain funding. It operates in a highly regulated environment and is subject to the oversight of a number of regulators.

WNZL is subject to conduct and compliance risk. These risks are exacerbated by the increasing complexity and volume of regulation, including where it interprets its obligations and rights differently to 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 or implementation of controls or processes. This has resulted in, and may in the future result in, potential breaches of compliance obligations as well as poor customer outcomes which in turn have exposed, and may continue to expose, WNZL to litigation, penalties and remediation obligations. As reviews and change programs are progressed, compliance issues have been, and will likely continue to be, identified.

Compliance and conduct risk is the risk of failing to abide by WNZL's compliance obligations or otherwise failing to have behaviours and practices that deliver suitable, fair and clear outcomes for WNZL's customers and that support market integrity. Compliance and 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 depends on its people to 'do the right thing' to meet its compliance obligations and abide by its Code of Conduct. Inappropriate or poor conduct by these individuals such as not following a policy or engaging in misconduct has resulted, and could result, in poor customer outcomes and a failure by WNZL to meet its compliance obligations.

While WNZL has frameworks, policies, processes and controls that are designed to manage poor conduct outcomes, these frameworks, policies, processes and controls have been, and may be, ineffective. This has and 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*'. Past compliance failures may increase the likelihood or severity of regulatory action for subsequent failures. WNZL has devoted (and will likely need to continue to devote) significant resources and has incurred (and will continue to incur) costs for these reviews and investigations, which may adversely affect WNZL's business, operations, reputation and financial performance.

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.

Penalties can be (and have been) more significant where it has taken some time to identify contraventions, or to investigate, correct or remediate contraventions, where there are patterns of similar conduct, or where there has been awareness of contraventions. 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.

The political and regulatory environment that WNZL operates in has seen (and may in the future see) regulators (including any new regulator) receive new powers along with materially increased penalties for corporate and financial sector misconduct. WNZL may also face significant civil or criminal penalties for failing to comply with other obligations, and a failure by WNZL may result in multiple contraventions leading to large penalties. This could also result in reputational damage and impact the willingness of customers, investors and other stakeholders to deal with WNZL. The significance of, and regulatory response to, a failure may take some time to determine.

Regulatory action commenced against WNZL has exposed, and may in the future expose, WNZL to an increased risk of litigation brought by third parties (including through class action proceedings), which may require WNZL to pay compensation to third parties and/or undertake further remediation activities. In some cases, the amounts claimed and/or to be paid may be substantial.

Regulatory investigations, inquiries, litigation, fines, penalties, infringement notices, revocation, suspension or variation of conditions of regulatory licences or other enforcement or administrative action or agreements (such as enforceable undertakings) have and could, either individually or in aggregate with other regulatory action, adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

Westpac Securities NZ Limited

Management report (continued)

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, regulatory, operational and compliance risks are heightened.

AML/CFT laws require WNZL to report certain matters and transactions to regulators (such as international funds transfer instructions, threshold transaction reports and suspicious matter reports) and ensure that certain information is not disclosed to third parties in a way that would contravene the 'tipping off' provisions in AML/CFT legislation. The failure to comply with some of these laws could have adverse impacts for WNZL.

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

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

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

WNZL continues to progress a significant multi-year program of work to strengthen areas of control weakness in its financial crime risk management program and to seek to rectify the management of this risk. In recent years, WNZL has increased dedicated financial crime risk expertise and resources to deliver the financial crime program of work. With increased focus on financial crime, further issues requiring attention have been identified and may continue to be identified.

If WNZL fails to comply with these financial crime obligations, WNZL could face regulatory enforcement action such as formal warnings, litigation, significant fines and/or the revocation, suspension or variation of licence conditions.

Non-compliance or alleged non-compliance with WNZL's financial crime obligations could lead to regulatory investigations, reviews, inquiries, proceedings or other litigation commenced by third parties, and regulatory action in non-New Zealand jurisdictions where WNZL operate. Any such litigation or proceedings could cause significant financial and reputational damage to WNZL.

Reputational damage could result in the loss of customers or restrict WNZL's ability to efficiently access capital markets, which could have a material adverse effect on WNZL's business, reputation, prospects, financial performance and financial condition. Furthermore, any such effect could harm WNZL's credit ratings.

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

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

There are various potential sources of reputational damage. For example, where WNZL's actions cause, or are perceived to cause, a negative outcome for customers, shareholders, stakeholders or the community. Reputational damage could also arise from the failure to effectively manage risks, failure to comply with legal and regulatory requirements, enforcement or supervisory action by regulators, adverse findings from regulatory reviews, failure or perceived failure to adequately respond to community, environmental, social and ethical issues, 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.

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.

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

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

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

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

In recent years, there has been an increase in class action proceedings, 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 and other funding arrangements. 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 an 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 and that the consequence of such breach could be to prevent the lender from enforcing the contract or recovering the cost of borrowing and other fees.

Westpac Securities NZ Limited

Management report (continued)

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 in the future be required to comply with broad court orders, including compliance orders, enforcement orders or otherwise pay significant damages, fines, penalties or legal costs.

There is a risk that the actual penalty or damages paid following a settlement or determination by a Court for any legal proceedings may be materially higher or lower than any relevant provision (where applicable) or that any contingent liability may be larger than anticipated. There is also a risk that additional litigation or contingent liabilities arise, all of which could adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

WNZL 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;
- ongoing geo-political tensions associated with the Russia/Ukraine conflict; and
- other external events such as biological hazards, climate change, natural disasters or acts of terrorism, which could interrupt the usual operations of WNZL, its customers, suppliers, and counterparties, potentially providing increased opportunities for cyber threat actors to exploit.

These risks could result in information security risks such as cyberattacks, espionage and/or errors happening at an unprecedented pace, scale and reach. Cyberattacks have the potential to cause financial system instability and could result in serious disruption to customer banking services, or compromise data privacy of customers, shareholders, employees and others. While WNZL has systems in place to protect against, detect and respond to cyberattacks, these systems have not always been, and may not always be, effective. WNZL, its customers, shareholders, employees, suppliers, counterparties or others could suffer losses from cyberattacks, information security breaches or ineffective cyber resilience. WNZL may not be able to anticipate and prevent a cyberattack, effectively respond to a cyberattack and/or rectify or minimise damage resulting from a cyberattack. WNZL's suppliers and counterparties, and other parties that facilitate WNZL's activities, financial platforms and infrastructure (such as payment systems and exchanges) are also subject to the risk of cyberattacks, which could in turn impact WNZL.

If WNZL 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 implement 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 its customers, shareholders, employees, suppliers, counterparties or others rely, may be subject to security breaches, unauthorised access, malicious software, external attacks or internal breaches that could have an adverse impact on WNZL and their confidential information.

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 (including reporting obligations);
- increased vulnerability to fraud and scams; and
- litigation and adverse regulatory action including fines or penalties and increased regulatory scrutiny; and
- increased need for significant additional resources to modify or enhance WNZL's systems or to investigate and remediate any vulnerabilities or incidents.

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

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.

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 its 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 needs to regularly renew and enhance its technology to deliver new products and services, comply with regulatory obligations and meet its 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.

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Management report (continued)

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, geopolitical 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, its 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, WNZL 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

WNZL is subject to the risk of an inadequate level or composition of capital to support normal business activities and to meet regulatory capital requirements under normal operating environments or stressed conditions (for example the COVID-19 pandemic).

Management buffers have been built to assist in maintaining capital adequacy during stressed times. WNZL determines its internal management buffers taking into consideration various factors, including bank specific balance sheet, portfolio mix, implications of the transition to new RBNZ capital requirements, potential capital headwinds and stressed outcomes. 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. Such constraints could have an impact on WNZL's ability to pay future dividends or make capital distributions. Stressed conditions and/or regulatory change could impact WNZL's capital adequacy, trigger capital distribution constraints, threaten WNZL's financial viability and/or require it to make a highly dilutive capital raising.

Sovereign risk may destabilise financial markets adversely

Sovereign risk is the risk that governments will default on their debt obligations, fail to perform contractual obligations or be unable to refinance their debts as they fall due. Potential sovereign contractual defaults, sovereign debt defaults and the risk that governments will nationalise parts of their economy including assets of financial institutions such as WNZL 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's rating, its parent's sovereign credit rating, 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.

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 (including inflation), 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 to 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.

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

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

Declines in New Zealand residential and commercial property markets or other asset markets, have adversely affected, and potential future declines could 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 WNZL 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 31 March 2022, housing loans represented approximately 66% of WNZL's gross loans and advances (30 September 2021: 65%).

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 or may be heightened by the COVID-19 pandemic, global and domestic economic conditions (including inflation), external events, geopolitical instability, each which may negatively impact economic activity and cause 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 as WNZL, 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 its cost of funding, lead WNZL to seek access to other types of funding or result in WNZL reducing its 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.

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 WNZL's financial position 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

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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, ability to hedge exposures, capital resources, financial performance or financial condition.

Any future changes in the administration of the London Inter-bank Offered Rate ('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 has the potential, as a result of the way business objectives are pursued, to negatively impact WNZL's financial performance, customer service and/or reputation in the community or cause other damage to the business. 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, the business continually reviews control effectiveness to ensure that controls mitigate these risks as far as possible.

Ineffective processes and controls could result in adverse outcomes for WNZL's customers. For example, a process breakdown or a failure of key technology systems could result in banking services being unavailable to customers for a period of time, which in time could have an adverse effect on customer outcomes. Failed processes could also result in WNZL incurring losses because it cannot enforce its expected contractual rights. These types of operational failures may also result in financial losses, customer remediation, 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.

Financial services entities have been increasingly sharing data with third parties, such as suppliers and regulators, to conduct their business and meet regulatory obligations. Each third party can give rise to a variety of risks, including financial crime compliance, information security, cyber, privacy, regulatory compliance, reputation, environmental and business continuity risks.

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

WNZL is also exposed to change execution risk through delivery of regulatory and technology programs, being the risk that a change program fails to deliver the desired goals, or fails to reduce, pre-empt, mitigate and manage the challenges associated with transformation or leads to further regulatory scrutiny. WNZL has embarked on significant change program plans.

Driving improvements in risk culture and risk maturity may increase costs and absorb management attention while change is being embedded.

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, its systems, its risk management framework and its decision-making and strategic planning.

In some areas of WNZL's business, it 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 systems and processes. Any deficiency in, for example, 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 may in the future affect WNZL's ability to monitor its business, respond to regulatory notices and conduct remediation.

In addition, poor data or poor data retention, and control gaps and weaknesses, 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 could lead to adverse outcomes for customers, employees or other third parties which WNZL will then be required to remediate. WNZL has in the past incurred significant remediation costs (including compensation payments and costs of correcting the issue), and there is a risk that similar or new issues could 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 its records are inadequate. It may also be difficult and take significant time to properly quantify and scope a remediation activity.

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

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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.

WNZL has had, and may continue to have, issues in effectively scoping, quantifying, implementing or completing remediation activities in a timely way, and if this occurs 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. Remediation programs may not prevent regulatory action, litigation or other proceedings from being pursued, or sanctions being imposed.

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, and the resources WNZL have in place for identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating material risks, may not always be adequate.

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 appropriately skilled, trained and qualified people in key positions or does not have sufficient capacity, including people, process and technology, to appropriately manage risks.

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

WNZL is required to periodically review its risk management framework to determine if it remains appropriate. Past analysis and reviews, in addition to regulatory feedback, have highlighted that while there have been improvements the framework is still not operating satisfactorily in a number of respects and needs continued focus. WNZL has a number of risks which sit outside WNZL's risk appetite or do not meet the expectations of regulators, including, for example, change management, risk identification, issues and incident management, control identification and control assessment, the implementation of data governance as well as control weaknesses in respect of WNZL's liquidity risk management framework.

As part of WNZL's risk management framework, WNZL measures and monitors risks against its risk appetite. When a risk is out-of-appetite (as some risks are), WNZL needs to take steps to bring this risk back into appetite in a timely way. This may include steps to improve the design of WNZL's risk class frameworks and supporting policies. However, WNZL may not always be able to bring a risk back within appetite within proposed timeframes or institute effective improvements. 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.

If WNZL is unable to bring risks 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 further increased scrutiny from regulators, who could require (amongst other things) that WNZL hold additional capital or direct WNZL to spend money to enhance its risk management systems and controls. 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*. Weaknesses in risk management systems and controls may result in regulatory action.

In March 2021 the RBNZ raised concerns in relation to WNZL's risk governance practices and policies and as a result, external reviews are being conducted of WNZL's risk governance and liquidity management. The RBNZ also amended WNZL's Conditions of Registration in March 2021, requiring WNZL to discount the value of its liquid assets by approximately 14%.

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, imposition of capital requirements, 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. In addition, macro environmental factors such as low unemployment, restricted migration levels, on-shoring of work, new ways of working and the competitive talent market are all emerging risk factors. These factors can have an adverse impact on the attraction of specialist skills for WNZL.

Climate change may have adverse effects on WNZL's business

There are significant uncertainties inherent in accurately identifying and modelling climate-related risks over short-, medium- and long-term time horizons and in assessing their impact on WNZL's business.

WNZL, its customers, external suppliers and communities in which it operates, have been and may be adversely affected by the physical impact of climate change (physical risks), including, but not limited to, extreme temperatures, changes in precipitation patterns, rising sea levels, loss of biodiversity and ecosystem degradation and the frequency and severity of adverse natural events including fires, storms, floods and droughts. These effects, whether acute or chronic in nature, may directly impact WNZL and its customers through, for example, disruptions to business and economic activity, inability to access affordable insurance and/or impacts on income and asset values. Adverse impacts on WNZL's customers may lead to human rights risk, and negatively impact loan serviceability and security values, as well as WNZL's profitability.

WNZL is exposed to risk arising from initiatives and trends associated with the global shift towards a low emissions economy (transition risks). These include, but are not limited to, increasing cost of emissions (e.g. through NZ's Emissions Trading Scheme), shift in consumer preferences, or declining access to key markets or sources of capital, or litigation risk to customers failing to decarbonize. In addition, WNZL faces fast-evolving regulatory expectations around climate-related financial disclosures. Changes in supervisory expectations of banks, other regulatory changes and changes in investor appetite could directly impact WNZL, for example, by giving rise to higher compliance and/or funding costs and the contraction of revenue from sectors materially exposed to transition risk. Examples of regulatory change in this space include the EU's introduction of Sustainability Financial Disclosure Regulations and changes to Basel Pillar 3 disclosure obligations; international policy consideration of capital regulatory requirement updates to account for climate- and sustainability-related prudential risks; the International Sustainability Standards Board's proposed introduction of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures; the US SEC's proposed introduction of enhanced and standardised mandatory climate-related disclosures; and the introduction of legislation in New Zealand to require mandatory climate-risk reporting for the financial sector.

WNZL is also exposed to transition risk indirectly through its lending to higher risk sectors or regions. Technological developments, regulatory changes, stakeholder pressure, climate activism and shifting customer preferences may place additional pressure on certain customer sectors to reduce greenhouse gas emissions, which could in turn result in additional credit risk, or loss of revenues due to changes in markets. Conversely,

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WNZL may not be able to reduce its lending to higher risk sectors or regions, in line with any targets as a result of possible stakeholder requirements to continue to lend to certain customer sectors.

WNZL's commitment to managing its business in alignment with its support for the Paris Climate Agreement and the need to transition to a net zero emissions economy by 2050 may require ongoing changes to WNZL's lending policies, and present execution risk. A failure to adapt WNZL's strategy, governance, procedures, systems and controls to manage evolving climate- and sustainability-related risks and opportunities may present business, reputational and legal risks, including financial and credit risks that may impact on WNZL's profitability and outlooks.

WNZL may be subject, from time to time, to legal and business challenges due to actions instituted by activist shareholders or others. An example of areas which have attracted shareholder activism in New Zealand includes avoiding financing or interacting with businesses that are not perceived to demonstrate responsible management of environmental and social issues, and human risks or administrative law-based challenges to project proposals or expansions. Should WNZL be required to respond to these challenges, this could give rise to increased costs, reputational risk and additional disclosures associated with such matters. In addition, there could be heightened litigation risk due to varying shareholder expectations or additional disclosures or commitments made by WNZL to shareholders. Perceived uncertainties as to WNZL's future direction as a result of shareholder activism may lead to the perception of a change in the direction of the business or other instability.

Further, any failure or perceived failure by WNZL or its customers to proactively manage or disclose physical and/or transition risks associated with climate change appropriately (including for example, perceived failure to meet its commitments and/or targets) may in turn increase reputational, financial, legal and regulatory risk. Legal and regulatory risks include third party and shareholder litigation, or regulatory action, with these types of climate-related actions becoming more common in New Zealand and globally. Further, WNZL expects scrutiny from shareholders and regulators on the climate-related risk management practices and lending policies of banks and other financial institutions to remain high in New Zealand in coming years.

WNZL is also exposed to broader geopolitical and macro-economic impacts of climate change given its international portfolio. Climate change may remove stability from both domestic and international economic conditions and may impact customer confidence in these markets. Failure to effectively manage and disclose direct and indirect climate-related risks including nature-related risks such as biodiversity loss and ecosystem degradation could adversely affect WNZL's business, prospects, reputation, financial performance or financial condition.

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

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

The high dependency of the global economy on nature means loss of biodiversity and ecosystem degradation represent a risk to WNZL, primarily through its exposure to customers in sectors that are materially dependent on biodiversity and ecosystem services. Biodiversity loss and ecosystem degradation can also contribute to, and be accelerated by, climate change. Increasing recognition and market-based responses to this risk also create expectations on WNZL. WNZL acknowledges the goal of the Taskforce on Nature-related Financial Disclosures (TNFD) is to provide a framework for organisations to report on risks from biodiversity loss and ecosystem degradation. However, WNZL does not currently prepare explicit disclosures against the TNFD framework.

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

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

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

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

Westpac Securities NZ Limited

Management report (continued)

Wholesale funding

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

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

Markets	Issuer	31 March 2022 Programme Type	Programme Limit	Issuer	30 September 2021 Programme Type	Programme Limit
Euro market	WBC/ Company ¹	Euro Commercial Paper and Certificate of Deposit Programme	US\$20 billion	WBC/ Company ¹	Euro Commercial Paper and Certificate of Deposit Programme	US\$20 billion
Euro market	Company ¹	Programme for Issuance of Debt Instruments	US\$10 billion	Company ¹	Programme for Issuance of Debt Instruments	US\$10 billion
Euro market	Company ¹	Global Covered Bond Programme	€ 5 billion	Company ¹	Global Covered Bond Programme	€ 5 billion
United States	Company ¹	US Commercial Paper Programme	US\$10 billion	Company ¹	US Commercial Paper Programme	US\$10 billion
New Zealand	WNZL	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit	WNZL	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit

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

Westpac Securities NZ Limited

Responsibility statement

The Board confirms that to the best of their knowledge:

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

Westpac Securities NZ Limited

Directors' report

The Board is pleased to present the condensed interim financial statements of the Company comprising the interim management report, the condensed interim financial statements of the Company and the independent auditor's review report for the six months ended 31 March 2022.

The Board authorised these condensed interim financial statements on 24 May 2022.

For and on behalf of the Board:

A handwritten signature in black ink, appearing to be 'D. J.', written in a cursive style.

Director
24 May 2022

A handwritten signature in blue ink, reading 'Catherine A. O'Grady', written in a cursive style.

Director
24 May 2022

Westpac Securities NZ Limited

Statement of comprehensive income for the six months ended 31 March 2022

	Six months ended 31 March 2022 Unaudited \$'000	Six months ended 31 March 2021 Unaudited \$'000
Interest income - calculated using the effective interest rate method	41,279	37,725
Interest income - other	6,561	3,505
Interest expense	(45,326)	(39,171)
Net interest income	2,514	2,059
Non-interest income	284	364
Total non-interest income	284	364
Net operating income before operating expenses	2,798	2,423
Impairment charges	(6,500)	-
Operating expenses	(258)	(332)
Profit/(loss) before income tax	(3,960)	2,091
Income tax benefit/(expense)	1,109	(578)
Net profit/(loss) for the period	(2,851)	1,513
Other comprehensive income (net of tax)	-	-
Total comprehensive income/(loss) for the period	(2,851)	1,513

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

Balance sheet as at 31 March 2022

	Note	31 March 2022 Unaudited \$'000	30 September 2021 Audited \$'000
Assets			
Cash and cash equivalents		9,703	14,200
Receivables due from related entities		16,081,229	12,867,636
Current tax asset		392	513
Deferred tax assets		1,820	-
Total assets		16,093,144	12,882,349
Liabilities			
Payables due to related entities		16,704	12,560
Debt issues	2	16,055,024	12,841,672
Other financial liabilities		17,123	14,229
Total liabilities		16,088,851	12,868,461
Net assets		4,293	13,888
Shareholders' equity			
Share capital		651	651
Retained profits		3,642	13,237
Total shareholders' equity		4,293	13,888

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

Westpac Securities NZ Limited

Statement of changes in equity for the six months ended 31 March 2022

	Note	Attributable to owners of the Company		Total \$'000
		Share Capital \$'000	Retained Profits \$'000	
As at 30 September 2020 (Audited)		651	10,136	10,787
Six months ended 31 March 2021 (Unaudited)				
Net profit for the period		-	1,513	1,513
Total comprehensive income for the six months ended 31 March 2021		-	1,513	1,513
Transactions with owners:				
Dividends paid on ordinary shares	3	-	-	-
As at 31 March 2021 (Unaudited)		651	11,649	12,300
As at 30 September 2021 (Audited)		651	13,237	13,888
Six months ended 31 March 2022 (Unaudited)				
Net profit/(loss) for the period		-	(2,851)	(2,851)
Total comprehensive loss for the six months ended 31 March 2022		-	(2,851)	(2,851)
Transactions with owners:				
Dividends paid on ordinary shares	3	-	(6,744)	(6,744)
As at 31 March 2022 (Unaudited)		651	3,642	4,293

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 six months ended 31 March 2022

		Six months ended 31 March 2022 Unaudited \$'000	Six months ended 31 March 2021 Unaudited \$'000
	Note		
Cash flows from operating activities			
Interest income received		42,023	51,020
Interest expense paid		(42,063)	(49,233)
Service fees received - related entities		700	331
Service fees paid - related entities		(251)	(476)
Operating expenses paid		(348)	(201)
Income tax paid		(590)	(446)
Net cash provided by/(used in) operating activities		(529)	995
Cash flows from investing activities			
Net movement in receivables due from related entities		(3,731,973)	30,989
Net cash provided by/(used in) investing activities		(3,731,973)	30,989
Cash flows from financing activities			
Net movement in payables due to related entities		4,117	646
Proceeds from debt issues		7,155,890	2,497,333
Repayments of debt issues		(3,425,258)	(2,527,725)
Dividends paid to ordinary shareholders	3	(6,744)	-
Net cash provided by/(used in) financing activities		3,728,005	(29,746)
Net increase/(decrease) in cash and cash equivalents		(4,497)	2,238
Cash and cash equivalents at the beginning of the period		14,200	11,368
Cash and cash equivalents at the end of the period		9,703	13,606

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

Westpac Securities NZ Limited

Note 1. Statement of accounting policies

These condensed interim financial statements ('financial statements') are general purpose financial statements prepared in accordance with the UK Listing Authority Disclosure and Transparency Rules and Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit entities, and the New Zealand equivalent to International Accounting Standard 34 *Interim Financial Reporting*. These financial statements are also compliant with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

Financial statements preparation

These financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and financial liabilities measured at fair value through income statement ('FVIS'). The going concern concept has been applied.

The financial statements were authorised for issue by the Board of Directors on 24 May 2022.

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

The accounting policies adopted in the preparation of these financial statements are consistent with the financial statements for the year ended 30 September 2021.

Amendments to Accounting Standards effective this period

No new accounting standards have been adopted by the Company for the half-year ended 31 March 2022. There have been no amendments to existing accounting standards that have a material impact on the Company.

Note 2. Debt issues

		As at 31 March 2022 Unaudited \$'000	As at 30 September 2021 Audited \$'000
	Note		
Short-term debt			
Commercial paper		4,554,244	2,979,007
Total short-term debt		4,554,244	2,979,007
Long-term debt			
Euro medium-term notes		7,413,954	5,568,215
Covered Bonds		4,086,826	4,294,450
Total long-term debt		11,500,780	9,862,665
Total debt issues		16,055,024	12,841,672
Debt issues measured at amortised cost	4	11,500,780	9,862,665
Debt issues measured at fair value		4,554,244	2,979,007
Total debt issues		16,055,024	12,841,672

Note 3. Related entities

Related entities of the Company are set out in Note 12 to the financial statements for the year ended 30 September 2021. There have been no changes to the related entities during the period.

During the period ended 31 March 2022, the Company paid dividends on its ordinary shares to the Company's immediate parent, Westpac New Zealand Operations Limited amounting to \$6,744,000 (31 March 2021: nil).

In addition, \$3,208,191,000 in lending was provided to Westpac New Zealand Limited ('WNZL') by the Company.

During the year, the Company recognised an expected credit loss ('ECL') on the loan receivable from Westpac New Zealand Limited ('WNZL') of \$6,498,605. No provision for ECL was recognised previously on the basis of materiality. The increase in ECL on the loan receivable from WNZL from 30 September 2021 is primarily due to the increase in the balance of the loan receivable during the period.

There were no other significant related entity transactions in the six months ended 31 March 2022.

Note 4. Fair value of financial assets and financial liabilities

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.

Westpac Securities NZ Limited

Note 4. Fair value of financial assets and financial liabilities (continued)

A key element of the framework is the Revaluation Committee, comprising senior valuation specialists from within the Westpac Banking Corporation and its controlled entities. The Revaluation Committee reviews the application of the agreed policies and procedures to assess that a fair value measurement basis has been applied.

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

Fair value hierarchy

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

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

Valuation techniques

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

Financial instruments measured at fair value

Level 1 instruments

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

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

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

Level 2 instruments

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

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

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

Financial assets at fair value through profit or loss due from WNZL as at 31 March 2022 were \$4,542,020,000 (30 September 2021: \$2,976,907,000).

Level 3 instruments

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

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

Analysis of movements between fair value hierarchy levels

During the period, there were no transfers between levels of the fair value hierarchy (30 September 2021: no transfers between levels).

Financial instruments not measured at fair value

The detailed description of how fair value is derived for financial instruments not measured at fair value is set out in Note 14 to the financial statements for the year ended 30 September 2021.

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

	31 March 2022 (Unaudited)		30 September 2021 (Audited)	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
Financial assets not measured at fair value				
Loan included in receivables due from related entities - WNZL	11,516,217	11,056,119	9,873,139	9,935,384
Total financial assets not measured at fair value	11,516,217	11,056,119	9,873,139	9,935,384
Financial liabilities not measured at fair value				
Debt issues measured at amortised cost	11,500,780	11,134,707	9,862,665	9,984,924
Total financial liabilities not measured at fair value	11,500,780	11,134,707	9,862,665	9,984,924

For cash and cash equivalents, accrued interest included in due from related parties and due to related entities, other payables due to related entities, which are carried at amortised cost and other types of short-term, financial instruments, recognised in the balance sheet under other liabilities, the carrying amount is a reasonable approximation of fair value. These items are either short-term in nature or reprice frequently, and are of a high credit rating.

Westpac Securities NZ Limited

Note 5. Segment information

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

The chief operating decision makers of the Company (i.e. the person or group that allocates resources to and assesses the performance of the operating segments of an entity) are the Directors of the Company, as 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 6. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 31 March 2022 (30 September 2021: nil).



Independent auditor's review report

To the shareholder of Westpac Securities NZ Limited

Report on the interim financial statements

Our conclusion

We have reviewed the condensed interim financial statements (the financial statements) of Westpac Securities NZ Limited (the Company) on pages 16 to 21, which comprise the balance sheet as at 31 March 2022, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period ended on that date, and a statement of accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that these accompanying financial statements of the Company do not present fairly, in all material respects, the financial position of the Company as at 31 March 2022, and its financial performance and cash flows for the period then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial statements* section of our report.

We are independent of the Company in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Company as providers of agreed upon procedure reports for the Company's debt issuance programmes. The provision of these other services has not impaired our independence.

Directors' responsibilities for the financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the financial statements

Our responsibility is to express a conclusion on the financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34.

A review of financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these financial statements.

Who we report to

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

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

For and on behalf of:

Chartered Accountants
24 May 2022

Auckland