

# **Westpac Securities NZ Limited**

**Annual report**  
**For the year ended 30 September 2019**

# Westpac Securities NZ Limited

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The Annual Report covers Westpac Securities NZ Limited (the 'Company') as an individual entity.  
Westpac Securities NZ Limited is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is:  
Westpac on Takutai Square  
16 Takutai Square  
Auckland

A description of the nature of the Company's operations and its principal activities is included in the management report on page 3.  
The members of the Board of Directors of the Company ('Board') at the date of these financial statements are:

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

# Westpac Securities NZ Limited

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

## Disclosure regarding forward-looking statements

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

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

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

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

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

# Westpac Securities NZ Limited

## Management report

### Review and results of the Company's operations during the year ended 30 September 2019

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

The profit after income tax expense of the Company for the year ended 30 September 2019 was \$3,454,000 compared with \$3,329,000 for the year ended 30 September 2018, an increase of 4%.

Interest income increased by 28% to \$256,163,000 compared to the year ended 30 September 2018. The \$56,523,000 increase was in line with the increase in interest expense and higher interest rates throughout the period.

Interest expense increased by 29% to \$251,467,000 compared to the year ended 30 September 2018. The \$56,351,000 increase was in line with the increase in interest income and higher interest rates throughout the period.

Net interest income increased by 4% to \$4,696,000 compared to the year ended 30 September 2018.

Non-interest income of \$1,095,000 is consistent with the year ended 30 September 2018.

Operating expenses of \$995,000 is consistent with the year ended 30 September 2018.

Tax expense increased by 4% to \$1,342,000 compared to the year ended 30 September 2018.

Total debt issues as at 30 September 2019 was \$14,749,184,000 which was an increase of \$3,030,568,000 or 26%, compared to \$11,718,616,000 as at 30 September 2018. This increase was predominately due to the new issuances within the period.

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

### Significant events during the year ended 30 September 2019

There were no significant events during the year ended 30 September 2019.

### Risk factors

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

### Risks relating to WNZL's business

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

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

WNZL's business, reputation, prospects, financial performance and financial condition could all be affected by changes to law and regulation, changes to policies and changes in the supervisory activities and expectations of its regulators. WNZL is operating in an environment where there is currently increased scrutiny of the financial services sector and specifically, increased scrutiny of financial services providers from regulators. In this environment, WNZL faces increasing supervision and regulation in the jurisdictions in which it operates and obtains funding. This environment has also served to increase the pace and scope of regulatory change.

Regulatory change could directly and adversely affect WNZL's financial condition and financial position. In recent years, new laws have required WNZL to maintain increased levels of liquidity and hold higher levels of, and better quality, capital and funding. Regulatory change may continue in this area. Regulation also affects the way WNZL operates its business. New regulation could require WNZL to change its existing business models (including by imposing restrictions on the types of businesses WNZL can conduct or amend its corporate structure).

Regulatory changes of this type could adversely affect one or more of WNZL's businesses, restrict its flexibility, require it to incur substantial costs, impact the profitability of one or more of its business lines, result in WNZL being unable to increase or maintain market share and/or create pressure on its margins and fees, any of which could adversely affect WNZL's business, prospects, financial performance or financial condition.

There are numerous sources of regulatory change that could affect WNZL's business. In some cases, changes to regulation are driven by international bodies.

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

Regulatory changes and the timing of their introduction continue to evolve and WNZL manages its businesses in the context of regulatory uncertainty and complexity. The nature and impact of future changes are not predictable and are beyond WNZL's control. Regulatory compliance and the management of regulatory change are an important part of WNZL's planning processes. WNZL expects that it will be required to continue to invest significantly in compliance and the management and implementation of regulatory change and, at the same time, significant management attention and resources will be required to update existing, or implement new, processes to comply with new regulations (such as obligations to provide certain data and information to regulators) or new interpretations of existing laws or regulations. The failure of WNZL to appropriately manage and implement regulatory change, including by failing to implement effective processes to comply with new regulations, has, in some instances, resulted in, and could in the future result in, WNZL failing to meet a compliance obligation. Further information about the consequences of failing to meet a compliance obligation is set out in the section titled 'WNZL's businesses are highly regulated and could be adversely affected by failing to comply with laws, regulations or regulatory policy' below.

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## Management report (continued)

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

- RBNZ - Revised Outsourcing Policy

As at 30 September 2019, WNZL is continuing to work towards compliance with the Outsourcing Policy ('BS11') ('Revised Outsourcing Policy') by 30 September 2022 in line with the regulatory timeline. As a result of complying with the Revised Outsourcing Policy, the ongoing cost of operating the WNZL business is expected to increase, in addition to the costs of implementing the changes.

- RBNZ Capital Review

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

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

WNZL is already strongly capitalised with a Tier 1 capital ratio of 13.9% at 30 September 2019 based on the current RBNZ rules. On a pro forma basis, (including the new RWA and capital requirements) at 30 September 2019 and assuming a Tier 1 capital ratio of 16-17%, WNZL would require a further NZ\$2.3-\$2.9 billion of Tier 1 capital to meet the new requirements that are fully effective in 2027.

The RBNZ's new capital regime will take effect from 1 July 2020, and banks will be given up to seven years to comply.

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

In June 2019, in response to a review under section 95 of the Reserve Bank of New Zealand Act 1989 of WNZL's compliance with advanced internal rating based aspects of the RBNZ's 'Capital Adequacy Framework (Internal Models Based Approach)' ('BS2B'), WNZL presented the RBNZ with a submission providing an overview of its credit risk rating system and activities undertaken to address compliance issues and enhance risk management practices.

On 30 October 2019, the RBNZ informed WNZL that it had accepted the submission and measures undertaken by WNZL to achieve satisfactory compliance with BS2B, and that WNZL would retain its accreditation to use internal models for credit risk in the calculation of its regulatory capital requirements. It also advised WNZL that, with effect from 31 December 2019, the RBNZ will remove the requirement imposed on WNZL since 31 December 2017 to maintain minimum regulatory capital ratios which are two percentage points higher than the ratios applying to other locally incorporated banks.

- Review of the Reserve Bank of New Zealand Act

In November 2017, the New Zealand Government announced it would undertake a review of the Reserve Bank of New Zealand Act 1989 ('RBNZ Review'). The RBNZ Review will consist of two phases. The legislation for the recommended Phase 1 related changes to New Zealand's monetary policy framework received royal assent on 20 December 2018, and came into force on 1 April 2019.

The terms of reference for Phase 2 were released in June 2018 and will consider the overarching objectives of the RBNZ's institutional governance and decision-making, the macro-prudential framework, the current prudential supervision model, trans-Tasman coordination, supervision and enforcement and resolution and crisis management. Final policy decisions on all components of the review are expected to be made in 2020.

- RBNZ/FMA - Financial Services Conduct and Culture Review

In May 2018, the RBNZ and FMA commenced a review in respect of New Zealand's 10 major banks and 15 life insurers, including WNZL and Westpac Life-NZ-Limited ('Westpac Life'), to explain why conduct issues highlighted by the Australian Royal Commission are not present in New Zealand. An industry thematic review report for the banks was released on 5 November 2018. WNZL submitted a plan responding to recommendations in the review report and in WNZL's individual feedback letters to the regulators on 29 March 2019.

The industry thematic review report into life insurers, including Westpac Life, was released on 29 January 2019. The report identified extensive weaknesses in life insurers' systems and controls, governance and management of conduct risks. Westpac Life provided its plan to address the findings to the regulators in June 2019.

- Conduct of Financial Institutions Review

Following the developments and findings of the Financial Services Conduct and Culture Review and the Australian Royal Commission, the Minister of Commerce announced a proposal to introduce a conduct licensing regime for banks, insurers and non-bank deposit takers in respect of their conduct in relation to retail customers. The regime will require licensed institutions to meet a fair treatment standard, and implement effective policies, processes, systems and controls to meet this standard. The regime will also create obligations relating to remuneration and sales incentives. Legislation is expected to be introduced to parliament by the end of 2019.

- Reform of Credit Contracts and Consumer Finance Legislation

In April 2019, the Credit Contracts Legislation Amendment Bill was introduced to parliament and was reported back by the select committee in November 2019. The Bill introduces a number of changes to the Credit Contracts and Consumer Finance Act, including new duties for directors and senior managers and increased penalties and statutory damages. The Bill also introduces stricter requirements around suitability and affordability assessments as well as a cap for interest and fees of 'high cost' loans (being loans with annualised interest exceeding 50%). The proposals are expected to be enacted in late 2019 and come into force at various times between enactment and April 2021.

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

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

WNZL is subject to compliance risk, which is the risk of legal or regulatory sanction or financial or reputational loss, arising from WNZL's failure to abide by the compliance obligations required of it. This risk is exacerbated by the increasing complexity and volume of regulation and can also arise where WNZL interprets its obligations and rights differently to its regulators or a Court. The potential for this to occur may be heightened in circumstances where regulation is untested and/or not accompanied by extensive regulatory guidance.

WNZL employs a compliance management system which is designed to identify, assess and manage compliance risk. While this system is currently in place, it may not always have been or continue to be effective. Breakdowns may occur in this system due, for example, to flaws in the design of controls or processes. This could result in, potential breaches of WNZL's compliance obligations, as well as poor customer outcomes.

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## Management report (continued)

WNZL also depends on its employees, contractors, agents, authorised representatives and external service providers to 'do the right thing' for it to meet its compliance obligations. Inappropriate conduct by these individuals, such as neglecting to follow a policy or engaging in misconduct, could result in poor customer outcomes and a failure by WNZL to comply with compliance obligations.

WNZL's failure, or suspected failure, to comply with a compliance obligation could lead to a regulator commencing surveillance or an investigation. This may, depending on the circumstances, result in the regulator taking administrative or enforcement action against WNZL and/or its representatives. Regulators could seek to pursue civil or criminal proceedings, seeking substantial fines, civil penalties or other enforcement outcomes. In addition, the failure or alleged failure of its competitors to comply with their obligations could lead to increased regulatory scrutiny across the financial services sector.

In many cases, WNZL's regulators have broad powers. An example is the power available to the RBNZ in certain circumstances to issue a direction to WNZL (such as a direction to comply with a prudential requirement, to conduct an audit, to remove a Director, executive officer or employee, to take remedial action or not to undertake transactions) or require WNZL to hold additional capital. The powers exercisable and penalties that can be imposed by WNZL's regulators may also be expanded in the future. Changes may also occur in the oversight approach of regulators, which could result in a regulator preferring its enforcement powers over a more consultative approach.

In recent years, there have been significant increases in the nature and scale of regulatory investigations, enforcement actions and the quantum of fines issued by global regulators.

The provision of new powers to regulators, coupled with the increasingly active supervisory and enforcement approaches adopted by them, may increase the prospect of adverse regulatory action being brought against WNZL.

Regulatory action brought against WNZL may 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.

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

WNZL is subject to anti-money laundering and counter 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. For example, AML/CFT laws require WNZL and other regulated institutions to (amongst other things) undertake customer identification and verification, conduct ongoing due diligence on customers, maintain and comply with an AML/CFT program and undertake ongoing risk assessments. AML/CFT laws also require WNZL to report certain matters and transactions to regulators and ensure that certain information is not disclosed to third parties in a way that would contravene the 'tipping off' provisions in AML/CFT legislation.

In recent years there has been increased focus on compliance with financial crime obligations, with regulators around the globe commencing large-scale investigations and taking enforcement action where they have identified non-compliance (often seeking significant monetary penalties). Further, due to the large volume of transactions that WNZL processes, the undetected failure or the ineffective implementation, monitoring or remediation of a system, policy, process or control (including in relation to a regulatory reporting obligation) could result in a significant number of breaches of AML/CFT obligations. This in turn could lead to significant monetary penalties.

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

Refer to page 12 for details regarding the Australian money-laundering regulator (AUSTRAC) issuing proceedings against WBC subsequent to the end of the financial year.

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

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

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

There are various potential sources of reputational damage. WNZL's reputation may be damaged where any of its policies, processes, practices or behaviours result in a negative outcome for a customer or a class of customers. Other potential sources of reputational damage include the failure to effectively manage risks in accordance with WNZL's risk management frameworks, failure to comply with legal and regulatory requirements, adverse findings from regulatory reviews (including WNZL specific and industry wide reviews), environmental, social and ethical issues, failure of information security systems, technology failures, security breaches and inadequate record keeping which may prevent WNZL from demonstrating that a past decision was appropriate at the time it was made.

WNZL may 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 regulators 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 the financial services industry in general or from the actions of related companies (including WBC), its competitors, customers, suppliers, strategic partners and other counterparties. Refer to page 12 for details regarding the AUSTRAC issuing proceedings against WBC subsequent to the end of the financial year.

Furthermore, the risk of reputational damage may be heightened by factors such as the increasing use of social media or the increasing prevalence of groups which seek to publicly challenge WNZL's strategy or approach to aspects of its business.

# Westpac Securities NZ Limited

## Management report (continued)

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

### ***WNZL could suffer losses due to litigation (including class action proceedings)***

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

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

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

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

While WNZL has systems in place to protect against, detect and respond to cyberattacks, these systems have not always been, and may not in the future always be effective. There can be no assurance that WNZL will not suffer losses from cyberattacks or other information security breaches. WNZL may not be able to anticipate and prevent a cyberattack, or it may not be able to implement effective measures to respond to a cyberattack in progress. Further, there is a risk that WNZL will not be able to rectify or minimise the damage resulting from a cyberattack.

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

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

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

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

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

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

WNZL's risk and exposure to such threats remains heightened because of the evolving nature of technology, WNZL's prominence within the financial services industry, the prominence of its customers (including those in the government sector) increasing obligations to make data and information available to external third parties and its plans to continue to improve and expand its internet and mobile banking infrastructure.

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

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

While WNZL has a number of processes in place to provide for and monitor the availability and recovery of its systems, there is a risk that its information and technology systems might fail to operate properly or become disabled, including as a result of events that are wholly or partially beyond its control. If WNZL incurs a technology failure it may fail to meet a compliance obligation. This could potentially result in reputational damage, remediation costs and a regulator commencing an investigation and/or taking administrative or enforcement action against WNZL. The overuse or overreliance on legacy or outdated systems may heighten the risk of a technology failure occurring.

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

Failure to implement these projects or manage associated change effectively could result in cost overruns, unrealised productivity, operational instability, failure to meet compliance obligations, reputational damage and/or result in the loss of market share to competitors. In turn, this could place WNZL at a competitive disadvantage and adversely affect its financial performance.

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

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

As of 30 September 2019, approximately 22% of WNZL's total funding originated from domestic and international wholesale markets (30 September 2018: 18%). Of this, around 79% was sourced outside New Zealand (30 September 2018: 79%). As of 30 September 2019, WNZL's deposits provided around 74% of total funding (30 September 2018: 76%). Customer deposits held by WNZL are comprised of both term deposits which can be withdrawn after a certain period of time and at call deposits which can be withdrawn at any time.

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

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

If WNZL's current sources of funding prove to be insufficient, WNZL may be forced to seek alternative financing. The availability of such alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, WNZL's credit ratings and credit market capacity. Even if available, these alternatives may be more expensive or on unfavourable terms, which could adversely affect WNZL's financial performance, liquidity, capital resources or financial condition. There is no assurance that WNZL will be able to obtain adequate funding, do so at acceptable prices, or that it will be able to recover any additional costs.

If WNZL is unable to source appropriate funding, it may also be forced to reduce its lending or begin selling liquid securities. Such actions may adversely impact WNZL's business, prospects, liquidity, capital resources, financial performance or financial condition. If WNZL is unable to source appropriate funding for an extended period, or if it can no longer sell liquid securities, there is a risk that WNZL will be unable to pay its debts as and when they become due and payable.

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

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

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

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

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

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

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

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

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

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

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

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



# Westpac Securities NZ Limited

## Management report (continued)

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

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

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

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

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

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

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

Loans secured by residential mortgages are important to WNZL's business. As at 30 September 2019, housing loans represented approximately 61% of WNZL's gross loans and advances (30 September 2018: 61%).

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

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

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

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

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

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

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

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

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

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

# Westpac Securities NZ Limited

## Management report (continued)

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

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

If WNZL is unable to compete effectively in the increasingly competitive environment in which its various businesses operate, its market share may decline. This may adversely affect WNZL by diverting business to its competitors or creating pressure to lower margins and fees.

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

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

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

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

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

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

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

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes, among other things, reputational risk, technology risk, model risk and outsourcing risk, as well as the risk of business disruption due to external events such as natural disasters, environmental hazard, damage to critical utilities, and targeted activism and protest activity. While WNZL has policies, processes and controls in place to manage these risks, these may not always have been, or continue to be, effective.

Ineffective processes and controls could result in an adverse outcome for WNZL's customers. For example, an ineffective process or a process breakdown could result in a customer not receiving a product on the terms and conditions, or at the pricing, they agreed to. In addition, inadequate record keeping may prevent WNZL from demonstrating that a past decision was appropriate at the time it was made or that a particular action or activity was undertaken. If this was to occur, WNZL may incur significant costs in paying refunds and compensation to customers, as well as remediating any underlying process breakdown. Failed or ineffective processes could also result in WNZL incurring losses because it is not able to enforce its contractual rights. This could arise in circumstances where WNZL did not correctly document its rights or failed to perfect a security interest. These types of operational failures, may also result in increased regulatory scrutiny and depending on the nature of the failure and its impact, result in a regulator potentially commencing an investigation and/or taking other enforcement, administrative or supervisory action.

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

Accurate and complete data is critical to ensure that WNZL's systems (both customer facing and back-office) and financial reporting processes operate effectively. In some areas of its business and operations, WNZL is affected by poor data quality. This has arisen and could in the future arise in a number of ways, including through inadequacies in systems, processes and policies. This could lead to deficiencies or failings in customer service, risk management, financial reporting (including in the calculation of risk weighted assets), credit systems and processes, compliance with legal obligations (including obligations to provide data to regulators) and also result in poor decision making, including in relation to the provision of credit and the terms on which it is provided. Poor data quality could affect the ability of WNZL to improve systems and processes. 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.

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

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

# Westpac Securities NZ Limited

## Management report (continued)

WNZL also relies on a number of suppliers, both in New Zealand and overseas, to provide services to it and its customers. Failure by these suppliers to deliver services as required could disrupt services and adversely impact WNZL's operations, profitability or reputation. WNZL could also be adversely affected by events that cause disruption within the banking and financial services industry. For example, there is a risk that if central banks adopt negative interest rates in the future, the technology systems used by WNZL, its counterparties and/or financial infrastructure providers may fail to operate correctly and this may cause loss or damage to WNZL and/or its counterparties.

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

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

WNZL relies on a large number of policies, processes, procedures, systems and people to conduct its business. Breakdowns or deficiencies in one of these areas (arising from one or more operational risk, technology risk, conduct risk or compliance risk events) have resulted, and could in the future, result in adverse outcomes for customers which WNZL is required to remediate.

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

There are significant challenges and risks involved in customer remediation activities. WNZL's ability to investigate an adverse customer outcome that may require remediation could be impeded if the issue is a legacy matter spanning beyond our record retention period, or if WNZL's record keeping is inadequate. Depending on the nature of the issue, it may be difficult to quantify and scope the remediation activity. Determining how to properly and fairly compensate customers can also be a complicated exercise involving numerous stakeholders, such as the affected customers, regulators and industry bodies. WNZL's proposed approach to a remediation may be affected by a number of events, such as a group of affected customers commencing class action proceedings on behalf of the broader population of affected customers, or a regulator exercising their powers to require that a particular approach to remediation be taken. These factors could impact the time frame for completing the remediation activity, potentially resulting in WNZL failing to execute the remediation in a timely manner. A failure of this type could lead to a regulator commencing enforcement action against WNZL. The ineffective or slow completion of a remediation also exposes WNZL to reputational damage, with WNZL potentially being criticised by regulators, affected customers, the media and other stakeholders, resulting in reputational damage. The significant challenges and risks involved in scoping and executing remediations in a timely way also create the potential for remediation costs actually incurred to be higher than those initially estimated by WNZL.

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

### ***WNZL could suffer losses due to conduct risk***

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

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

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

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

WNZL has implemented risk management strategies, policies and internal controls involving processes and procedures intended to identify, monitor and manage risks. However, WNZL's risk management framework has not always been, or may not in the future prove to be, effective.

This could be because the design of the framework may be inadequate, which could result in key information not being provided to decision-makers in the right form and in a timely manner, or because of weaknesses in underlying data. There is also the possibility that key risk management policies, controls and processes may be ineffective, either due to inadequacies in their design, or because of the poor implementation of these policies, controls and processes.

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

Risk management frameworks may also prove ineffective because of weaknesses in risk culture, which may result in risks and control weaknesses not being identified, escalated and acted upon. Further, while the development of appropriate remuneration structures can play an important role in supporting a sound risk culture, a deficiency in the design or operation of its remuneration structures could have a negative effect, potentially resulting in staff engaging in excessive risk taking behaviours.

Risk management failings of the type outlined above could adversely affect WNZL in numerous ways, with WNZL potentially being exposed to higher levels of risk than expected, which may result in WNZL incurring unexpected losses, breaches of compliance obligations and reputational damage.

# Westpac Securities NZ Limited

## Management report (continued)

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

If WNZL is unable to bring risks back into appetite, or if it is determined that the limits under WNZL's risk management framework are no longer appropriate, WNZL may incur unexpected losses and be required to undertake considerable remedial work. The failure to remedy this situation could result in increased scrutiny from regulators, who could take supervisory action such as requiring WNZL to hold additional capital or directing 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 a compliance obligation and/or financial losses.

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

### ***WNZL's failure to recruit and retain key executives, employees and Directors may have adverse effects on our 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 our business, prospects, reputation, financial performance or financial condition.

### ***Climate change may have adverse effects on WNZL's business***

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

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

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

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

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

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

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

In certain circumstances WNZL may be exposed to a reduction in the value of intangible assets. As at 30 September 2019, WNZL carried goodwill principally related to its investments in New Zealand, as well as intangible capitalised software balances.

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

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

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

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

# Westpac Securities NZ Limited

## Management report (continued)

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

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

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

### Wholesale Funding

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

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

Markets	Issuer	30 September 2019 Programme Type	Programme Limit	Issuer	30 September 2018 Programme Type	Programme Limit
Euro market	WBC/Company <sup>1</sup>	Euro Commercial Paper and Certificate of Deposit Programme	US\$20 billion	WBC/Company <sup>1</sup>	Euro Commercial Paper and Certificate of Deposit Programme	US\$20 billion
Euro market	Company <sup>1</sup>	Programme for Issuance of Debt Instruments	US\$10 billion	Company <sup>1</sup>	Programme for Issuance of Debt Instruments	US\$10 billion
Euro market	Company <sup>1</sup>	Global Covered Bond Programme	€ 5 billion	Company <sup>1</sup>	Global Covered Bond Programme	€ 5 billion
United States	Company <sup>1</sup>	US Commercial Paper Programme	US\$10 billion	Company <sup>1</sup>	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.

### Important events that have occurred since the end of the financial year

#### *AUSTRAC proceedings issued against WBC*

On 20 November 2019 WBC received a statement of claim from AUSTRAC commencing civil proceedings in relation to alleged contraventions of Westpac Banking Corporation's obligations under Australia's Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth). The proceedings relate to the alleged failure to report a large number of international fund transfer instructions and alleged failings in relation to correspondent banking, risk assessments, customer due diligence, transaction monitoring, record keeping and the passing on of certain data in funds transfer instructions.

No related proceedings have been commenced against WNZL or its controlled entities in New Zealand.

# Westpac Securities NZ Limited

## Responsibility Statement

The Board confirms that to the best of their knowledge:

1. the financial statements for the year ended 30 September 2019, which have been prepared in accordance with the Financial Reporting Act 2013 (New Zealand), Financial Markets Conduct Act 2013, applicable New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other authoritative pronouncements of the External Reporting Board ('XRB') as appropriate for for-profit entities, present fairly, the financial position and profit or loss of the Company; and
2. the Management report includes a fair review of the information required by the Disclosure and Transparency Rules 4.1.8R to 4.1.11R of the United Kingdom Financial Conduct Authority.

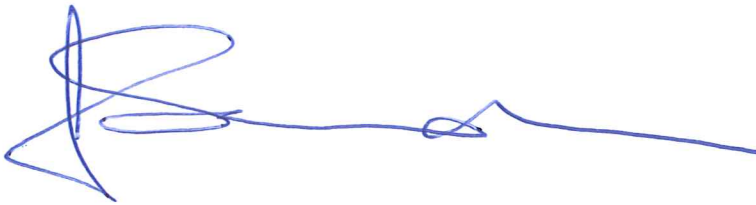
# Westpac Securities NZ Limited

## Directors' report

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

Accordingly, there is no information to be included in the Annual Report other than the financial statements for the year ended 30 September 2019 and the independent auditor's report on those financial statements.

For and on behalf of the Board of Directors:



Director  
5 December 2019



Director  
5 December 2019

# Westpac Securities NZ Limited

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

	Note	2019 \$'000	2018 \$'000
Interest income - calculated using the effective interest rate method <sup>1</sup>		232,313	186,713
Interest income - other <sup>1</sup>		23,850	12,927
Interest expense		(251,467)	(195,116)
<b>Net interest income</b>	2	<b>4,696</b>	<b>4,524</b>
Non-interest income	3	1,095	1,093
<b>Total non-interest income</b>		<b>1,095</b>	<b>1,093</b>
<b>Net operating income before operating expenses</b>		<b>5,791</b>	<b>5,617</b>
Operating expenses	4	(995)	(994)
<b>Profit before income tax</b>		<b>4,796</b>	<b>4,623</b>
Income tax expense	6	(1,342)	(1,294)
<b>Net profit for the year</b>		<b>3,454</b>	<b>3,329</b>
Other comprehensive income (net of tax)		-	-
<b>Total comprehensive income for the year</b>		<b>3,454</b>	<b>3,329</b>

<sup>1</sup> The Company has changed its presentation of interest income in the current year. Comparatives have been restated. Refer to Note 1 for further detail.

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

## Balance sheet as at 30 September

	Note	2019 \$'000	2018 \$'000
<b>Assets</b>			
Cash and cash equivalents	8	7,724	7,551
Receivables due from related entities	12	17,474,655	11,769,075
Current tax asset		3,567	3,376
<b>Total assets</b>		<b>17,485,946</b>	<b>11,780,002</b>
<b>Liabilities</b>			
Payables due to related entities	12	2,688,491	11,855
Debt issues	9	14,749,184	11,718,616
Other financial liabilities <sup>1</sup>	10	37,673	39,058
<b>Total liabilities</b>		<b>17,475,348</b>	<b>11,769,529</b>
<b>Net assets</b>		<b>10,598</b>	<b>10,473</b>
<b>Shareholder's equity</b>			
Share capital	11	651	651
Retained profits		9,947	9,822
<b>Total shareholder's equity</b>		<b>10,598</b>	<b>10,473</b>

<sup>1</sup> The Company has renamed 'Other liabilities' to 'Other financial liabilities' in the current year.

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

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

	Note	Attributable to owners of the Company		Total
		Share Capital \$'000	Retained Profits \$'000	\$'000
<b>As at 1 October 2017</b>		651	10,367	11,018
<b>Year ended 30 September 2018</b>				
Net profit for the year		-	3,329	3,329
<b>Total comprehensive income for the year ended 30 September 2018</b>		-	3,329	3,329
Transactions with owners:				
Dividends paid on ordinary shares	11	-	(3,874)	(3,874)
<b>As at 30 September 2018</b>		<b>651</b>	<b>9,822</b>	<b>10,473</b>
<b>Year ended 30 September 2019</b>				
Net profit for the year		-	3,454	3,454
<b>Total comprehensive income for the year ended 30 September 2019</b>		-	3,454	3,454
Transactions with owners:				
Dividends paid on ordinary shares	11	-	(3,329)	(3,329)
<b>As at 30 September 2019</b>		<b>651</b>	<b>9,947</b>	<b>10,598</b>

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



# Westpac Securities NZ Limited

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

	Note	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Interest income received		250,043	195,408
Interest expense paid		(237,627)	(190,609)
Service fees received - related entities		665	1,079
Service fees paid - related entities		(1,045)	(963)
Operating expenses paid		(17)	(31)
Income tax paid		(1,533)	(1,450)
<b>Net cash provided by operating activities</b>	15	<u>10,486</u>	<u>3,434</u>
<b>Cash flows from investing activities</b>			
Net movement in receivables due from related entities		(5,427,902)	2,669,304
<b>Net cash (used in) / provided by investing activities</b>		<u>(5,427,902)</u>	<u>2,669,304</u>
<b>Cash flows from financing activities</b>			
Net movement in payables due to related entities		2,661,478	9,813
Proceeds from debt issues		7,524,991	-
Repayments of debt issues		(4,765,551)	(2,679,385)
Dividends paid to ordinary shareholders	11	(3,329)	(3,874)
<b>Net cash provided by / (used in) financing activities</b>		<u>5,417,589</u>	<u>(2,673,446)</u>
<b>Net increase /(decrease) in cash and cash equivalents</b>		173	(708)
Cash and cash equivalents at beginning of the year		7,551	8,259
<b>Cash and cash equivalents at end of the year</b>	8	<u>7,724</u>	<u>7,551</u>

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 1. Financial statement preparation

These financial statements were authorised for issue by the Board on 5 December 2019. The Board has the power to amend and reissue the financial statements.

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

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

#### a. Basis of preparation

##### (i) Basis of accounting

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

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

##### (ii) Historical cost convention

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

##### (iii) Foreign currency translation

###### Functional and presentational currency

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

###### Transactions and balances

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

##### (iv) Comparative revisions

Comparative information has been revised where appropriate to conform to the changes in presentation in the current year.

#### b. Standards adopted during the year ended 30 September 2019

##### NZ IFRS 9 Financial Instruments (September 2014) ('NZ IFRS 9')

The Company adopted NZ IFRS 9 on 1 October 2018 which replaces NZ IAS 39 *Financial Instruments: Recognition and Measurement* ('NZ IAS 39'), with no restatement of comparatives as permitted by the standard. The adoption of NZ IFRS 9 resulted in no impact to retained earnings on 1 October 2018.

###### Classification and measurement

NZ IFRS 9 replaced the classification and measurement model in NZ IAS 39 with a new model that categorises financial assets based on: a) the business model within which the assets are managed and b) whether the contractual cash flows under the instrument represent solely payments of principal and interest ('SPPI').

NZ IFRS 9 did not have a material impact on the classification and measurement of financial assets and financial liabilities of the Company as:

- Cash and cash equivalents and receivables due from related entities (which include the loan to WNZL, accrued interest receivable, and other receivables) meet the SPPI criterion and are held for collection of contractual cash flows. As a result, these financial assets which were previously classified as loans and receivables under NZ IAS 39 are classified and measured at amortised cost under NZ IFRS 9, with the exception of a portion of the loan to WNZL which continues to be designated at fair value through profit or loss. This fair value designation is to reduce an accounting mismatch which would otherwise occur from the measurement of the related liability from debt issues at fair value through profit or loss.

- Debt issues, payables due to related entities and other financial liabilities remain classified and measured as financial liabilities at amortised cost, with the exception of a portion of the debt issues which continues to be designated at fair value through profit or loss as these debt issues are managed and their performance evaluated on a fair value basis.

The accounting policies for the classification and measurement of financial assets and financial liabilities are located on page 18 and in the relevant notes to the financial statements.

###### Impairment

NZ IFRS 9 also introduced a new expected credit loss ('ECL') impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the incurred loss model of NZ IAS 39 which only recognises impairment if there is objective evidence that a loss has been incurred. The ECL impairment model applies to all financial assets at amortised cost.

The adoption of the ECL impairment model did not have a material impact on the Company as the financial assets subject to impairment testing have a low probability of default due to WNZL's strong external credit rating.

###### Hedging

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 1. Financial statement preparation (continued)

#### Amendments to NZ IAS 1

The Company also adopted consequential amendments to NZ IAS 1 *Presentation of Financial Statements* as a result of the adoption of NZ IFRS 9 which introduced the requirement to separately present interest income calculated using the effective interest method in the Statement of Comprehensive Income.

Accordingly, the Company now presents interest income separately as 'Interest income - calculated using the effective interest rate method' and 'Interest income - other'. Comparative information has been restated to conform to this presentation.

#### NZ IFRS 15 Revenue from Contracts with Customers ('NZ IFRS 15')

The Company has adopted the requirements of NZ IFRS 15 on 1 October 2018 which replaces NZ IAS 18 *Revenue* and related interpretations, and applies to all contracts with customers except leases, financial instruments and insurance contracts.

NZ IFRS 15 provides a systematic approach to revenue recognition by introducing a five-step model governing revenue recognition and measurement.

This includes:

- identifying the contract with the customer;
- identifying each of the performance obligations included in the contract;
- determining the amount of consideration in the contract;
- allocating the consideration to each of the identified performance obligations; and
- recognising revenue as each performance obligation is satisfied.

NZ IFRS 15 did not result in changes to the Company's current accounting treatment of service fee income.

### c. Financial assets and financial liabilities

#### *(i) Recognition*

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

#### *(ii) Classification and measurement*

As comparatives have not been restated upon the adoption of NZ IFRS 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 19. The accounting policy applied in 2019 is as follows.

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

#### Financial assets

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

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

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

#### Financial liabilities

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

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

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

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

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

#### *(iii) Derecognition*

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

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

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 1. Financial statement preparation (continued)

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

#### (iv) Impairment of financial assets

As comparatives have not been restated upon the adoption of NZ IFRS 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 19. The accounting policy applied in 2019 is as follows.

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

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

### d. Statement of cash flows

#### Operating, investing and financing activities

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

### e. Critical accounting assumptions and estimates

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

- Note 14 Fair value of financial instruments

### f. Future developments in accounting standards

NZ IFRIC 23 Uncertainty over Income Tax Treatments ('NZ IFRIC 23') was issued on 10 August 2017 and will be effective for the 30 September 2020 financial year. NZ IFRIC 23 clarifies the recognition and measurement criteria in NZ IAS 12 Income Taxes ('NZ IAS 12') where there is uncertainty over income tax treatments, and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position.

Where it is not considered probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented.

The interpretation is not expected to have a material impact on the Company.

A revised Conceptual Framework ('Framework') was issued on 10 May 2018. This will be effective for the Company for the 30 September 2021 financial year. The revised Framework includes new definitions and recognition criteria for assets, liabilities, income and expenses and other relevant financial reporting concepts. The changes are not expected to have a material impact on the Company.

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

#### Interbank-offered rates ('IBOR') reform

IBORs are interest rate benchmarks used in financial markets for pricing, valuing and hedging a wide variety of financial instruments such as derivatives, loans and bonds. Examples of IBOR include the London Interbank Offered Rate ('LIBOR') and the Euro Interbank Offered Rate ('EURIBOR').

A review of the global major IBORs is being conducted to reform or replace existing IBORs with more suitable alternative reference rates ('ARRs'). This IBOR reform will impact the accounting for financial instruments that reference IBORs including hedge accounting, fair value methodologies and existing financial instruments that reference IBORs at transition. This replacement process is at different stages and is progressing at different speeds in different jurisdictions. Therefore, there is uncertainty as to the basis, method, timing and implications of transition to the ARR.

In November 2019, the External Reporting Board issued amendments to NZ IFRS 9, NZ IAS 39 and NZ IFRS 7 which enable hedge accounting to continue for certain hedges that might otherwise need to be discontinued due to uncertainties arising from IBOR reform and requires certain disclosures. These amendments are effective for the Company for the 30 September 2021 financial year with early application permitted.

As the Company does not apply hedge accounting, no impact on the financial statements are expected from these amendments.

### Note 2. Net interest income

#### Accounting policy

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 2. Net interest income (continued)

	Note	2019 <sup>1</sup> \$'000	2018 \$'000
<b>Interest income</b>			
Calculated using the effective interest rate method			
Receivables due from related entities <sup>2</sup>		232,313	186,713
<b>Total interest income calculated using the effective interest rate method</b>		<b>232,313</b>	<b>186,713</b>
<b>Other</b>			
Receivables due from related entities <sup>2</sup>		23,850	12,927
<b>Total Other</b>		<b>23,850</b>	<b>12,927</b>
<b>Total interest income</b>	12	<b>256,163</b>	<b>199,640</b>
<b>Interest expense</b>			
Calculated using the effective interest rate method			
Debt issues		199,008	169,362
Payables due to related entities	12	28,777	12,957
<b>Total interest expense calculated using the effective interest rate method</b>		<b>227,785</b>	<b>182,319</b>
<b>Other</b>			
Debt issues		23,682	12,797
<b>Total Other</b>		<b>23,682</b>	<b>12,797</b>
<b>Total interest expense</b>		<b>251,467</b>	<b>195,116</b>
<b>Net interest income</b>		<b>4,696</b>	<b>4,524</b>

<sup>1</sup> The Company has changed its presentation of interest income in the current year. Comparatives have been restated. Refer to Note 1 for further detail.

<sup>2</sup> Includes interest income, funding margin and guarantee fees recovery from related entities (refer to note 12).

### Note 3. Non-interest income

#### Accounting policy

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

	Note	2019 \$'000	2018 \$'000
<b>Fees and commissions</b>			
Service fees received from related entities	12	1,095	1,093
<b>Total non-interest income</b>		<b>1,095</b>	<b>1,093</b>

### Note 4. Operating expenses

	Note	2019 \$'000	2018 \$'000
<b>Bank charges</b>		<b>8</b>	<b>8</b>
Services provided - related entities	12	978	963
Purchased services		9	23
<b>Total operating expenses</b>		<b>995</b>	<b>994</b>

### Note 5. Auditor's remuneration

The audit fees for the audit and review of financial statements for the year ended 30 September 2019 amounting to \$38,000 (30 September 2018: \$38,000) were borne by WNZL. The Company also incurred fees for assurance and other audit related services for the year ended 30 September 2019 (30 September 2018: \$42,101) amounting to \$43,101 which were borne by WNZL and related to agreed procedures reports obtained for updates to the debt issuance programmes. \$52,082 of assurance and other audit related services fees were paid to PwC Sydney for the year ended 30 September 2019 (30 September 2018: \$48,778) in relation to debt issuance programme updates.

### Note 6. Income tax expense

#### Accounting policy

##### Income tax

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

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 6. Income tax expense (continued)

#### Goods and services tax ('GST')

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

	2019 \$'000	2018 \$'000
<b>Income tax expense</b>		
Current tax:		
- Current year	1,342	1,294
- Prior year adjustments	-	-
<b>Total income tax expense</b>	<b>1,342</b>	<b>1,294</b>
<b>Reconciliation of income tax expense to profit before income tax</b>		
Profit before income tax	4,796	4,623
Tax calculated at tax rate of 28% (30 September 2018: 28%)	1,342	1,294
<b>Tax effect of amounts which are not (assessable)/deductible in calculating taxable income:</b>		
Prior year adjustments	-	-
<b>Total income tax expense/(credit)</b>	<b>1,342</b>	<b>1,294</b>

### Note 7. Imputation credit account

	2019 \$'000	2018 \$'000
Imputation credits available for use in subsequent reporting periods	1,104,331	768,625

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

### Note 8. Cash and cash equivalents

#### Accounting policy

As comparatives have not been restated upon the adoption of NZ IFRS 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 19. The accounting policy applied in 2019 is as follows.

Cash and cash equivalents include cash at bank and call money market deposits. Cash equivalents are short-term and highly liquid used in the day-to-day management of the Company that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are brought to account at the face value or the gross value of the outstanding balance, where appropriate. They are accounted for as financial assets at amortised cost.

	Note	2019 \$'000	2018 \$'000
Cash and cash equivalents - with external parties		88	94
Cash and cash equivalents - WNZL	12	7,636	7,457
<b>Total cash and cash equivalents</b>		<b>7,724</b>	<b>7,551</b>

### Note 9. Debt issues

#### Accounting policy

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

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

Debt issues are designated at fair value if they are managed and their performance evaluated on a fair value basis.

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

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 9. Debt issues (continued)

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

	Note	2019 \$'000	2018 \$'000
<b>Short-term debt</b>			
Commercial papers		2,312,229	-
<b>Total short-term debt</b>		2,312,229	-
<b>Long-term debt</b>			
Euro medium-term notes		7,297,759	6,087,292
Covered Bonds		5,139,196	5,631,324
<b>Total long-term debt</b>		12,436,955	11,718,616
<b>Total debt issues</b>		14,749,184	11,718,616
Debt issues measured at amortised cost	14	12,436,955	11,718,616
Debt issues measured at fair value	14	2,312,229	-
<b>Total debt issues</b>		14,749,184	11,718,616
Amounts expected to be settled within 12 months		5,098,892	1,322,137
Amounts expected to be settled after 12 months		9,650,292	10,396,479
<b>Total debt issues</b>		14,749,184	11,718,616

### Movement Reconciliation

	2019 \$'000	2018 \$'000
<b>Balance as at 1 October</b>	11,718,616	13,459,583
Issuance	7,524,991	-
Maturities, repayments, buy backs and reductions	(4,765,551)	(2,679,385)
<b>Total cash movements</b>	2,759,440	(2,679,385)
Foreign exchange translation impact	272,952	933,430
Fair value adjustments	201	(873)
Amortisation of issue costs	(2,025)	5,861
<b>Total non-cash movements</b>	271,128	938,418
<b>Balance as at 30 September</b>	14,749,184	11,718,616

### Note 10. Other financial liabilities

#### Accounting policy

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

	2019 \$'000	2018 \$'000
Accrued interest payable on debt issues	37,673	39,058
<b>Total other financial liabilities<sup>1</sup></b>	37,673	39,058

<sup>1</sup> The Company has renamed 'Other liabilities' to 'Other financial liabilities' in the current year.

The balance will be settled within 12 months.

### Note 11. Shareholder's equity

#### Accounting policy

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

#### Ordinary shares fully paid

	2019 Number of Authorised and Issued Shares	2018 Number of Authorised and Issued Shares
Balance at beginning of the year	651,185	651,185
<b>Balance at end of the year</b>	651,185	651,185

#### Ordinary shares

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

#### Dividends paid

In the year ended 30 September 2019, the Company paid dividends in respect of the ordinary shares amounting to \$3,329,000 (30 September 2018: \$3,874,000).



# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 12. Related entities

#### Accounting policy

As comparatives have not been restated upon the adoption of NZ IFRS 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 19. The accounting policy applied in 2019 is as follows.

#### Related parties

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

#### Receivables due from related entities

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

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

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

#### Receivables due from related entities at FVPL

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

#### Receivables due from related entities at amortised cost

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

#### Payables due to related entities

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

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

#### Ultimate Parent Company

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

#### Nature of Transactions

Current account banking facilities and other financial products are provided by WNZL and the WBC London Branch to the Company on normal commercial terms. This includes a \$500,000,000 borrowing facility with the WBC London Branch. This facility remains undrawn as at 30 September 2019 (30 September 2018: nil).

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

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

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

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

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

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

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

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

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

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



# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 12. Related entities (continued)

#### Transactions with related entities

	Note	2019 \$'000	2018 \$'000
<b>Dividend paid</b>			
Dividend paid to WNZOL	11	3,329	3,874
<b>Income</b>			
Interest income from WNZL <sup>1</sup>	2	237,799	182,159
Funding margin from WNZL <sup>1</sup>	2	4,696	4,524
Guarantee fees recovery from WNZL <sup>1</sup>	2	13,668	12,957
Service fees from WNZL <sup>2</sup>	3	1,095	1,093
<b>Total income</b>		<b>257,258</b>	<b>200,733</b>
<b>Expenses</b>			
Interest expense on debt issues to WBC <sup>3</sup>		46	70
Interest expense on borrowings from WNZL <sup>3</sup>	2	15,109	-
Guarantee fees to WNZCBL <sup>3</sup>	2	13,668	12,957
Operating expenses to WNZL and WBC <sup>4</sup>	4	978	963
<b>Total expenses</b>		<b>29,801</b>	<b>13,990</b>

<sup>1</sup> Included in interest income in the statement of comprehensive income

<sup>2</sup> Included in non-interest income in the statement of comprehensive income

<sup>3</sup> Included in interest expense in the statement of comprehensive income

<sup>4</sup> Included in operating expenses in the statement of comprehensive income

#### Due from and to related entities

	Note	2019 \$'000	2018 \$'000
<b>Cash and cash equivalents</b>			
Deposits held with WNZL	8	7,636	7,457
<b>Total cash and cash equivalents</b>		<b>7,636</b>	<b>7,457</b>
<b>Receivables due from related entities</b>			
Accrued interest due from WNZL		45,360	39,223
Other receivables due from WNZL		1,675	1,530
Financial assets at fair value through profit or loss due from WNZL		2,309,303	-
Loan to WNZL	14	15,118,317	11,728,322
<b>Total receivables due from related entities</b>	13	<b>17,474,655</b>	<b>11,769,075</b>
<b>Total receivables due from related entities including cash and cash equivalents</b>		<b>17,482,291</b>	<b>11,776,532</b>
<b>Settlement profile:</b>			
Amounts expected to be recovered within 12 months		7,820,625	1,361,877
Amounts expected to be recovered after 12 months		9,654,030	10,407,198
<b>Total receivables due from related entities</b>		<b>17,474,655</b>	<b>11,769,075</b>
<b>Payables due to related entities</b>			
Due to WNZL and WBC		2,687,502	10,799
Due to WNZCBL		989	1,056
<b>Total payables due to related entities</b>		<b>2,688,491</b>	<b>11,855</b>
<b>Settlement profile:</b>			
Amounts expected to be settled within 12 months		2,688,491	2,159
Amounts expected to be settled after 12 months		-	9,696
<b>Total payables due to related entities</b>		<b>2,688,491</b>	<b>11,855</b>

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

#### Key management personnel compensation

No compensation was paid by the Company to its key management personnel for the year ended 30 September 2019 (30 September 2018: nil).

### Note 13. Financial risk

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

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 13. Financial risk (continued)

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

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

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

#### Categories of financial risk

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

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

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

#### a. Credit risk

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

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

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

#### (i) External Credit Rating

The Company is a wholly-owned, indirect subsidiary of WNZL. WNZL has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars as at 30 September 2019 and at the date the Directors signed these financial statements.

#### Credit ratings for WNZL

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

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

#### (ii) Fully performing

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

#### (iii) Concentration of credit exposure

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

	Note	2019 \$'000	2018 \$'000
<b>On-balance sheet credit exposures consist of:</b>			
Cash and cash equivalents	8	7,724	7,551
Receivables due from related entities	12	17,474,655	11,769,075
<b>Total credit exposures</b>		<b>17,482,379</b>	<b>11,776,626</b>

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

#### b. Market risk

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 13. Financial risk (continued)

#### (i) Interest rate risk

Interest rate risk is the potential loss arising from the changes in the value of financial instruments due to changes in market interest rates or their implied volatility. Financial instruments with floating rate interest expose the Company to cash flow interest rate risk, whereas financial instruments with fixed rate interest expose the Company to fair value interest rate risk. The table below summarises the Company's exposure to interest rate risk. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The interest repricing profile of financial instruments is as follows:

	30 September 2019						Total \$'000
	Up to 3 Months \$'000	Over 3 Months and Up to 6 Months \$'000	Over 6 Months and Up to 1 Year \$'000	Over 1 Year and Up to 2 Years \$'000	Over 2 Years \$'000	Non- Interest Bearing \$'000	
<b>Financial assets</b>							
Cash and cash equivalents	-	-	-	-	-	7,724	7,724
Receivables due from related entities	9,481,435	-	1,374,431	1,796,209	4,775,545	47,035	17,474,655
<b>Total financial assets</b>	9,481,435	-	1,374,431	1,796,209	4,775,545	54,759	17,482,379
Non-financial assets							3,567
<b>Total assets</b>							17,485,946
<b>Financial liabilities</b>							
Payables due to related entities	2,686,120	-	-	-	-	2,371	2,688,491
Debt issues	6,803,253	-	1,374,356	1,796,112	4,775,463	-	14,749,184
Other financial liabilities	-	-	-	-	-	37,673	37,673
<b>Total financial liabilities</b>	9,489,373	-	1,374,356	1,796,112	4,775,463	40,044	17,475,348
Non-financial liabilities							-
<b>Total liabilities</b>							17,475,348
<b>Net financial (liabilities)/assets subject to interest rate risk</b>	(7,938)	-	75	97	82		

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

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

#### (ii) Structural foreign exchange risk

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

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

#### c. Liquidity risk

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

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 13. Financial risk (continued)

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

#### (i) Maturity profile

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

	30 September 2019							Total \$'000
	On Demand \$'000	Up to 1 Month \$'000	Over 1 Month to 3 Months \$'000	Over 3 Months to 1 Year \$'000	Over 1 Year to 5 Years \$'000	Over 5 Years \$'000	No specific maturity \$'000	
<b>Financial assets</b>								
Cash and cash equivalents	7,724	-	-	-	-	-	-	7,724
Receivables due from related entities	-	1,547,869	944,806	5,494,264	9,490,184	392,627	-	17,869,750
<b>Total undiscounted financial assets</b>	<b>7,724</b>	<b>1,547,869</b>	<b>944,806</b>	<b>5,494,264</b>	<b>9,490,184</b>	<b>392,627</b>	<b>-</b>	<b>17,877,474</b>
<b>Financial liabilities</b>								
Payables due to related entities	-	1,439,638	3,941	1,244,912	-	-	-	2,688,491
Debt issues	-	108,428	935,741	4,240,559	9,490,184	392,627	-	15,167,539
Other financial liabilities	-	7,099	6,248	24,326	-	-	-	37,673
<b>Total undiscounted financial liabilities</b>	<b>-</b>	<b>1,555,165</b>	<b>945,930</b>	<b>5,509,797</b>	<b>9,490,184</b>	<b>392,627</b>	<b>-</b>	<b>17,893,703</b>

	30 September 2018							Total \$'000
	On Demand \$'000	Up to 1 Month \$'000	Over 1 Month to 3 Months \$'000	Over 3 Months to 1 Year \$'000	Over 1 Year to 5 Years \$'000	Over 5 Years \$'000	No specific maturity \$'000	
<b>Financial assets</b>								
Cash and cash equivalents	7,551	-	-	-	-	-	-	7,551
Receivables due from related entities	-	9,532	29,671	1,480,642	9,663,755	1,016,961	-	12,200,561
<b>Total undiscounted financial assets</b>	<b>7,551</b>	<b>9,532</b>	<b>29,671</b>	<b>1,480,642</b>	<b>9,663,755</b>	<b>1,016,961</b>	<b>-</b>	<b>12,208,112</b>
<b>Financial liabilities</b>								
Payables due to related entities	-	2,159	-	-	9,696	-	-	11,855
Debt issues	-	4	19,531	1,461,252	9,654,059	1,016,961	-	12,151,807
Other financial liabilities	-	9,528	10,140	19,390	-	-	-	39,058
<b>Total undiscounted financial liabilities</b>	<b>-</b>	<b>11,691</b>	<b>29,671</b>	<b>1,480,642</b>	<b>9,663,755</b>	<b>1,016,961</b>	<b>-</b>	<b>12,202,720</b>

#### (ii) Concentration of funding

	2019 \$'000	2018 \$'000
<b>Funding consists of:</b>		
Payables due to related entities	2,688,491	11,855
Debt issues	14,749,184	11,718,616
Other liabilities	37,673	39,058
<b>Total funding</b>	<b>17,475,348</b>	<b>11,769,529</b>
<b>Analysis of funding by product:</b>		
Commercial papers	2,312,229	-
Euro medium-term notes	7,297,759	6,087,292
Covered Bonds	5,139,196	5,631,324
Other liabilities	37,673	39,058
Payables due to related entities	2,688,491	11,855
<b>Total funding</b>	<b>17,475,348</b>	<b>11,769,529</b>
<b>Analysis of funding by geographical areas:</b>		
Within New Zealand	2,688,430	1,894
Overseas	14,786,918	11,767,635
<b>Total funding</b>	<b>17,475,348</b>	<b>11,769,529</b>
<b>Analysis of funding by industry sector:</b>		
Finance and insurance	17,475,348	11,769,529
<b>Total funding</b>	<b>17,475,348</b>	<b>11,769,529</b>

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

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

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 14. Fair value of financial instruments

#### Accounting policy

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

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

#### Critical accounting assumptions and estimates

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

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

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

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

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

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

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

#### Fair Valuation Control Framework

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

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

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

#### Fair value hierarchy

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

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

#### Valuation techniques

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

#### Financial instruments measured at fair value

##### Level 1 instruments

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

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

There are no financial instruments included in the Level 1 category (30 September 2018: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.

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 14. Fair value of financial instruments (continued)

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

#### Level 3 instruments

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historical transactions. These valuations are calculated using a high degree of management judgment. There are no financial instruments included in the Level 3 category (30 September 2018: nil).

#### Analysis of movements between fair value hierarchy levels

During the year, there were no transfers between levels of the fair value hierarchy (30 September 2018: no transfers between levels).

#### Financial instruments not measured at fair value

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

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

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

	Note	30 September 2019		30 September 2018	
		Total Carrying Amount \$'000	Estimated Fair Value (Level 2) \$'000	Total Carrying Amount \$'000	Estimated Fair Value (Level 2) \$'000
<b>Financial assets</b>					
Loan included in receivables due from related entities - WNZL	12	15,118,317	15,306,377	11,728,322	11,777,024
<b>Total financial assets carried at amortised cost</b>		<b>15,118,317</b>	<b>15,306,377</b>	<b>11,728,322</b>	<b>11,777,024</b>
<b>Financial liabilities</b>					
Debt issues measured at amortised cost	9	12,436,955	12,673,955	11,718,616	11,832,342
<b>Total financial liabilities carried at amortised cost</b>		<b>12,436,955</b>	<b>12,673,955</b>	<b>11,718,616</b>	<b>11,832,342</b>

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

	2019 \$'000	2018 \$'000
Net profit for the year	3,454	3,329
<b>Adjustments:</b>		
Movement in accrued assets	(6,550)	(4,246)
Movement in accrued liabilities	(1,452)	4,507
Movement in tax balances	(191)	(156)
Interest expense in financing activities	15,225	-
<b>Net cash provided by operating activities</b>	<b>10,486</b>	<b>3,434</b>

### Note 16. Capital

There are no externally imposed capital requirements on the Company. The Company is a wholly-owned subsidiary of WNZOL which itself is a part of Westpac New Zealand Limited and its controlled entities ('Banking Group'). Capital for the Company is managed as part of the Banking Group.

# Westpac Securities NZ Limited

## Notes to the financial statements

### Note 17. Segment information

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

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

#### *Revenue from Products and Services*

The Company does not generate any revenue from external customers.

#### *Secondary reporting – geographic segments*

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

### Note 18. Contingent assets, contingent liabilities and commitments

Other than the guarantee requirements in Note 12, there were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2019 (30 September 2018: nil).

### Note 19. Accounting policies relating to prior years

Due to the adoption of NZ IFRS 9, the accounting policies relating to the accounting for some financial instruments and related balances have changed. The policies applicable to the current year are provided in the relevant note to the financial statements above. As prior comparative years have not been restated, the accounting policies detailed below reflect the policies applicable to financial years prior to 2019 based on NZ IAS 39. Refer to Note 1 for further information.

#### *Accounting policy relating to classification and measurement of financial instruments:*

##### *Classification and measurement of financial instruments (Note 1)*

The Company classifies its financial assets into the following categories: financial assets at FVPL and loans and receivables.

The Company classifies its financial liabilities into the following categories: financial liabilities at FVPL and financial liabilities at amortised cost.

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

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

##### *Cash and cash equivalents (Note 8)*

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

##### *Receivables due from related entities (Note 12)*

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

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

#### *Accounting policy relating to impairment:*

##### *Impairment of financial assets (Note 1)*

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

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





## ***Independent auditor's report***

To the shareholder of Westpac Securities NZ Limited

We have audited the financial statements which comprise:

- the balance sheet as at 30 September 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include the principal accounting policies.

### ***Our opinion***

In our opinion, the accompanying financial statements of Westpac Securities NZ Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 September 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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### ***Basis for opinion***

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

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

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

Our firm carries out other services for the Company in the areas of other audit related services, which relate to assurance on certain financial information performed in the role of auditor (or where most appropriate to be performed by the auditor) including the issue of comfort letters and agreed procedures reports in relation to debt issuance programmes. The provision of these other services has not impaired our independence as auditor of the Company.



## Our audit approach

### Overview



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

Overall materiality: \$174 million, which represents approximately 1% of total assets, however this has been capped at \$66 million.

We chose total assets as the benchmark because the entity's principal activity is to raise and manage offshore wholesale funding and on-lend this to Westpac New Zealand Limited. The costs of borrowing are met by Westpac New Zealand Limited. Therefore, users, in our view, are more likely to place emphasis on assets and the claims on those assets.

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

### Materiality

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

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

### Audit scope

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

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

### Key audit matters

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

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### *Information other than the financial statements and auditor's report*

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

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

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### *Responsibilities of the Directors for the financial statements*

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

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

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### *Auditor's responsibilities for the audit of the financial statements*

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

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

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

This description forms part of our auditor's report.

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### *Who we report to*

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

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

For and on behalf of:

*PricewaterhouseCoopers*

Chartered Accountants  
5 December 2019

Auckland