Westpac Securities NZ Limited

Interim Financial Report

For the six months ended 31 March 2021

Classification: PROTECTED

Westpac Securities NZ Limited

Contents

The Interim Financial Report does not set out all of the notes of the type normally included in an Annual Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 September 2020 and any public announcements made by Westpac Securities NZ Limited during the interim reporting period in accordance with any relevant continuous disclosure obligations.

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

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

Westpac on Takutai Square
16 Takutai Square
Auckland

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

The members of the Board of Directors of the Company ('Board') at 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	Chief Procurement Officer, WNZL
Mark Broughton Weenink	General Manager Regulatory Affairs, Corporate Legal Services and General Counsel NZ, WNZL
Carolyn Mary Kidd	Chief Risk Officer, WNZL

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

Disclosure regarding forward-looking statements

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

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Interim Report and include statements regarding the Company's intent, belief or current expectations with respect to its business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. Words such as 'will', 'may', 'expect', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'estimate', 'anticipate', 'believe', 'probability', 'risk', 'aim', 'outlook' 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:

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

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

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

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Management report

Review and results of the Company's operations during the six months ended 31 March 2021

The principal activity of the Company (acting through its London branch) is to raise and manage offshore wholesale funding for WNZL. The profit after income tax expense of the Company for the six months ended 31 March 2021 was $1,513,000 compared with $1,891,000 for the six months ended 31 March 2020, a decrease of 20%.

Interest income decreased by 70% to $41,230,000 compared to the six months ended 31 March 2020. The $95,295,000 decrease was in line with the decrease in interest expense.

Interest expense decreased by 71% to $39,171,000 compared to the six months ended 31 March 2020. The $94,785,000 decrease was in line with the decrease in interest income.

Net interest income decreased by 20% to $2,059,000 compared to the six months ended 31 March 2020.

Non-interest income decreased by 44% to $364,000 compared to the six months ended 31 March 2020.

Operating expenses decreased by 44% to $332,000 compared to the six months ended 31 March 2020.

Tax expense decreased by 21% to $578,000 compared to the six months ended 31 March 2020.

Total debt issues as at 31 March 2021 was $11,673,676,000 which was decrease of $486,246,000 or 4%, compared to $12,159,922,000 as at 30 September 2020. This decrease was due to maturities and strengthening in NZD foreign exchange translations, offset by new issuances within the period.

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

Significant events during the six months ended 31 March 2021

There were no significant events during the six months ended 31 March 2021 not already disclosed in the WNZL disclosure statement.

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

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

WNZL is vulnerable to the impacts of a communicable disease outbreak or a pandemic. The COVID-19 pandemic has had, and may continue to have, a negative impact on its customers, shareholders, employees and financial performance, among other adverse effects.

The COVID-19 pandemic has disrupted, and will continue to disrupt, numerous industries and global supply chains, while important measures to mitigate its impact (such as restrictions on businesses, movement and public gatherings) have had, and may continue to have, a negative effect on economic activity.

While economic activity has improved in New Zealand more recently, the decrease in economic activity over 2020 has affected, and may in the future affect, demand for WNZL's products and services for an unknown time and by an unknown amount. The associated financial stress on WNZL's customers has, and is expected to, increase impairments, defaults and write-offs. WNZL continues to hold COVID-19 related overlays to allow for the potential emergence of losses once the effect of support and stimulus measures reduces, however, further increases may be required.

WNZL has supported customers impacted by the pandemic by lowering interest rates on certain products, waiving certain fees and granting deferrals of certain loan repayments. These initiatives have had and may continue to have a negative impact on WNZL's financial performance and may see WNZL assume greater risk than it would have under ordinary circumstances. There is also the potential for further government or regulator intervention to support the economy and customers impacted by COVID-19 which may require banks (including WNZL) to support those interventions.

Actions taken by regulators in response to the COVID-19 pandemic have impacted and could in the future impact WNZL. In New Zealand, the Reserve Bank of New Zealand (RBNZ) in April 2020, made the decision to freeze dividend payments by banks in New Zealand, and in March 2021, it eased the restriction to place a 50% dividend restriction on the distribution of dividends on ordinary shares by banks in New Zealand until 1 July 2022. This prevents WNZL from paying more than 50% of its earnings as dividends. More recently, the RBNZ has moved to stem the rapid growth in house prices by introducing new Loan Value Ratio restrictions on mortgage lending for both owner-occupier and investor-based borrowers.

WNZL's business activities and operations have been, and may in the future be, disrupted by disease outbreaks or pandemics. For example, the COVID-19 pandemic has resulted in WNZL and its third party suppliers closing workplaces and suspending the provision of services through certain channels for a period.

When such outbreaks or pandemics occur, WNZL may need to adjust its risk appetite, policies or controls so it can respond to the outbreak or pandemic and protect the well-being of staff and customers who visit WNZL premises. These changes could have unforeseen consequences and expose WNZL to increased regulatory focus and/or media scrutiny.

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

There continues to be uncertainty associated with the COVID-19 pandemic, including the ultimate course, duration and severity of the disease and effectiveness of vaccination programs, future actions that may be taken by governments and businesses to attempt to contain the virus or mitigate its impact and the effectiveness of such actions, the timing and speed of economic recovery and the widespread availability and ultimate effectiveness of vaccinations for COVID-19. In turn, this has the potential for longer term impacts on WNZL's customers, business and operations. The COVID-19 pandemic may also heighten other risks described below.

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Management report (continued)

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

As a financial institution, WNZL is subject to detailed laws and regulations in each of the jurisdictions in which it or the Company operates or obtains funding. WNZL is also supervised by a number of different regulatory and supervisory authorities which have broad administrative powers over its businesses. The RBNZ and the Financial Markets Authority have supervisory oversight of WNZL's operations. As a subsidiary of WBC, WNZL is also subject to certain regulations imposed by the Australian Prudential Regulation Authority.

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

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

There are many sources of regulatory change that could affect WNZL's business. Such change could stem from international bodies, such as the Basel Committee on Banking Supervision or from reviews and inquiries commissioned by governments or regulators.

Regulation impacting WNZL's business may not always be released in a timely manner before its date of implementation. Similarly, early announcements of regulatory change may not be specific and significantly differ from the final regulation. In those cases, WNZL may not be able to effectively manage its compliance design in the timeframes available.

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

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

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

WNZL's ability to manage regulatory change has been, and will in the future be, impacted by the COVID-19 pandemic or similar pandemics. The COVID-19 pandemic has caused significant disruptions and delays to regulatory change projects, increasing the risk that WNZL may not comply with new regulations when they come into effect. The governmental response to the COVID-19 pandemic has also seen new legislation and regulation, which may increase compliance risks. WNZL may also incur costs responding to this new legislation and regulation.

The failure of WNZL to appropriately manage and implement regulatory change, including by failing to implement effective processes to comply with new regulations, has, in some instances, resulted in, and could in the future result in, WNZL failing to meet a compliance obligation.

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

Review of the Reserve Bank of New Zealand Act 1989

A review of the Reserve Bank of New Zealand Act 1989 was announced in 2017. In April 2021 Cabinet made the decision to adopt the final measures resulting from this review, including the introduction of a deposit insurance scheme. New legislation is expected to be introduced in late 2021 that will create a single regulatory regime for banks and non-bank deposit takers, and introduce a deposit insurance scheme to protect up to $100,000 per depositor, per institution in the event of a failure. The deposit insurance scheme is expected to take effect in 2023.

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

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

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

WNZL's compliance management system is designed to identify, assess and manage compliance risk. However, this system has not always been, and may not always be, effective. Breakdowns have occurred, and may in the future occur, due to flaws in the design of controls or processes. This has resulted in, and may in the future result in, potential breaches of compliance obligations as well as poor customer outcomes.

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

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

WNZL's failure, or suspected failure, to comply with a compliance obligation could lead to a regulator commencing a review. WNZL is currently subject to reviews by regulators, with the intensity of these increasing.

Depending on the circumstances, regulatory reviews and investigations have in the past and may in the future result in a regulator taking administrative or enforcement action against WNZL and/or its representatives. Regulators could pursue civil or criminal proceedings, seeking substantial fines, civil penalties or other enforcement outcomes. In addition, regulatory investigations may lead to adverse findings against directors and management, including potential disqualification.

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

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

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

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

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

WNZL is currently undertaking a significant multi-year program of work to strengthen areas of control weakness in its financial crime risk management framework (including important aspects of its money laundering and terrorism financing risk assessments and governance) and rectify the management of this risk. WNZL has increased dedicated financial crime risk expertise and resources to deliver the financial crime program of work. With increased focus on financial crime, further issues requiring attention have been identified and may continue to be identified.

Reputational damage could harm WNZL's business and prospects

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

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

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

Failure, or perceived failure, to address issues that could or do give rise to reputational risk has created, and could in the future create, additional legal risk, subject WNZL to regulatory investigations, regulatory enforcement actions, fines and penalties or litigation 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 market.

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

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

In recent years there has been an increase in class action proceedings brought against financial services companies, many of which have resulted in significant monetary settlements. The risk of class actions has been heightened by a number of factors, including regulatory enforcement actions, an increase in the number of regulatory investigations and inquiries, more intense media scrutiny and the growth of third-party litigation funding. Class actions commenced against a competitor could also lead to similar proceedings against WNZL.

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

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

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

WNZL could suffer information security risks, including cyberattacks

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

- new technologies;
- increased use of the internet and telecommunications to conduct financial transactions;
- the growing sophistication of attackers;
- increased regulatory focus on cyber security and oversight of cyber activities; and

the COVID-19 pandemic, which has resulted in many WNZL employees (and staff of service providers) working remotely or from other sites, potentially providing increased opportunities for cyber threat actors to exploit.

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Management report (continued)

While WNZL has systems in place to protect against, detect and respond to cyberattacks, these systems have not always been, and may not always be, effective. There is no assurance that WNZL will not suffer losses from cyberattacks or information security breaches. WNZL may not be able to anticipate and prevent a cyberattack, effectively respond to a cyberattack and/or rectify or minimise damage resulting from a cyberattack. WNZL external service providers, and other parties that facilitate WNZL activities and financial platforms and infrastructure (such as payment systems and exchanges) are also subject to the risk of cyberattacks.

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

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

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

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

- systems not operating properly disrupting operations;
- damage to technology infrastructure;
- adverse impacts to network access, operations or availability of services;
- loss of customers;
- loss of data/information;
- reputational damage;
- claims for compensation;
- adverse regulatory action including fines or penalties; and
- significant additional resources required to modify WNZL systems or to investigate and remediate any vulnerabilities or incidents.

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

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

While WNZL has a number of processes in place to preserve and monitor the availability and recovery of its systems, there is a risk that its information and technology systems might fail to operate properly or become disabled, including from events wholly or partially beyond its control. For example, the COVID-19 pandemic has seen more WNZL employees work remotely or from alternative sites, which may put additional stress on WNZL's information technology infrastructure and systems. Similarly, the COVID-19 pandemic and the measures implemented by governments to mitigate its spread are likely to result in increased demand being placed on critical national technology and communications infrastructure which WNZL relies on. This could adversely impact the reliability of such infrastructure and increase the risk that WNZL's technology systems will not be able to operate properly or will become disabled for a period of time.

If WNZL incurs a technology failure it may fail to meet a compliance obligation (such as retaining records and data for a certain period of time), or WNZL customers may be adversely affected, including through privacy breaches or loss of personal data. This could result in reputational damage, remediation costs and a regulator commencing an investigation and/or taking action against WNZL. The over reliance on legacy systems may heighten the risk of a technology failure.

WNZL needs to regularly renew and enhance WNZL technology to deliver new products and services (for example the introduction of negative interest rates), comply with regulatory obligations and meet WNZL customers' and regulators' obligations. Consequently, WNZL is constantly managing new technology projects. Failure to effectively implement these projects could result in cost overruns, reduced productivity, operational instability, compliance failures, reputational damage and/or the loss of market share. This could place WNZL at a competitive disadvantage.

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 to source liquidity and regulatory capital. WNZL's liquidity and costs of obtaining funding and regulatory capital are related to credit and capital market conditions.

Global credit and capital markets can experience periods of extreme volatility, disruption and decreased liquidity. Such disruption can be for extended periods and be unpredictable as experienced during the Global Financial Crisis. The main risks WNZL faces are damage to market confidence, changes to the access and cost of funding, a slowing in global economic activity and there may be other impacts on customers or counterparties.

As of 31 March 2021, approximately 21% of WNZL's total funding originated from domestic and international wholesale markets (30 September 2020: 21%). Of this, around 61% was sourced outside New Zealand (30 September 2020: 65%). As of 31 March 2021, WNZL's deposits provided around 79% of total funding (30 September 2020: 79%). 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 which could increase WNZL's need for funding from other, potentially less stable, or more expensive sources.

If market condition deteriorates due to economic, financial, political or other reasons (including the COVID-19 pandemic), there may also be a loss of confidence in bank deposits leading to unexpected withdrawals. This could increase funding costs and WNZL's liquidity, funding and lending activities may be constrained and WNZL's financial solvency threatened.

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

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

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

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

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

Sovereign risk may destabilise financial markets adversely

Sovereign risk is the risk that governments will default on their debt obligations or will be unable to refinance their debts as they fall due. Potential sovereign debt defaults and the risk that governments will nationalise parts of their economy including assets of financial institutions such as WNZL could negatively impact the value of WNZL's holdings of liquid assets. 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 and may be important to certain customers or counterparties when evaluating WNZL's products and services. Downgrades of WNZL's senior credit rating may impact funding programmes including by requiring additional operational activities, replacement of WNZL as a provider of certain services and may ultimately impact the rating of the securities issued by the Company.

Credit ratings assigned to WNZL by rating agencies are based on an evaluation of a number of factors, including WNZL's ownership structure (including the financial strength of the parent, if any), financial strength, the quality of WNZL's governance, the likelihood of WNZL receiving extraordinary support from either the NZ Sovereign or WBC, structural considerations regarding the New Zealand financial system and economy and New Zealand's Sovereign credit rating. A rating downgrade could be driven by a downgrade of New Zealand's Sovereign credit rating, a downgrade of WBC's credit rating or one or more of the risks identified in this section (including any change in the ownership structure of WNZL implying reduced support from WBC or a demerger) or by other events including changes to the methodologies rating agencies use to determine ratings.

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

WNZL could be adversely affected if WBC decides to pursue a demerger or other restructure

On 24 March 2021 WBC announced that it is assessing the appropriate structure for its New Zealand business and whether a demerger would be in the best interests of its shareholders (the **Assessment**). WBC further stated that it was in an early stage of that Assessment and no decisions had yet been made.

It is currently unclear what the outcome of WBC's Assessment will be, such as a demerger or other restructure (**Potential Outcome**), and what impacts any outcome may have on WNZL. For instance, without limitation, implementation of a Potential Outcome (or the risk of a Potential Outcome being implemented):

- is expected to give rise to a downgrade in WNZL's credit rating. The extent of any such downgrade is likely to depend on the nature of the actions taken, but may be significant;
- may give rise to an increase in operational, legal and other related risks and costs, as WNZL and WBC may need to redocument legal contracts to give full effect to a Potential Outcome and amend systems (particularly, but not limited to, systems shared by WBC and WNZL and hire additional or replacement employees and officers;
- would likely give rise to changes in exposure, and concentration of exposure, to markets in New Zealand and offshore;
- may lead to additional competition and a change in the size of WNZL's business (including as a result of any change in the entity currently carrying out each aspect of the existing New Zealand business);
- may give rise to limited or lost access to some or all historical data for some customers, limiting ability to market, complete credit analysis for potential new products or efficiently consider enforcement options;
- would likely give rise to risks related to being a smaller bank in the market with fewer staff and a smaller asset base, including a reduced ability to absorb the impacts of volatile markets, increased information technology and cybersecurity risks and increased risks of breach of regulation; and
- would likely give rise to a potential need to establish new, separate relationships with financial institutions and regulators (particularly outside New Zealand).

Additional unanticipated risks may emerge depending on the outcome of the Assessment.

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 adversely impacts the New Zealand, Australian or other financial systems.

In the past decade the financial services industry and capital markets have been, and may continue to be, adversely affected by volatility, global economic conditions, external events, geopolitical instability (such as global conflicts) and political developments. For example, the impacts from the COVID-19 pandemic have been, and could continue to be, significant for the global economy including New Zealand.

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 could decline, thereby reducing its earnings. These conditions may also affect the ability of WNZL's borrowers or counterparties to repay their loans or meet their obligations, causing WNZL to incur higher credit losses and affecting investors' willingness to invest in WNZL. These events could also undermine confidence in the financial system, reduce liquidity, impair access to funding and affect WNZL customers and counterparties. 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 is a risk that WNZL's response may be ineffective

Westpac Securities NZ Limited

Management report (continued)

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

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

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

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

Loans secured by residential mortgages are important to WNZL's business. As at 31 March 2021, housing loans represented approximately 64% of WNZL's gross loans and advances (30 September 2020: 62%).

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

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

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.

WNZL's performance is influenced by the level and cyclical nature of activity in New Zealand. These factors are in turn impacted by domestic and international economic conditions (including, at present, the COVID-19 pandemic).

A significant decrease in New Zealand housing valuations and commercial property valuations could adversely impact WNZL's lending activities because borrowers with loans in excess of their property value show a higher propensity to default. If defaults occur, WNZL's security may be eroded, causing higher credit losses. The demand for WNZL's home lending products may also decline due to changes in tax legislation (such as changes to tax rates, concessions or deductions), regulatory requirements or buyer concerns about decreases in values.

Adverse changes to economic and business conditions in New Zealand and other countries could also adversely affect the New Zealand economy and WNZL's customers.

Monetary policy can also significantly affect WNZL. Interest rate settings (including low or negative rates) and 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 can also impact economic conditions of the jurisdictions that WNZL operates or obtain 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. All 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 beyond WNZL's expectations, some customers and/or counterparties could experience higher financial stress leading to an increase in defaults and write-offs, and higher provisioning. Such events could adversely affect WNZL's liquidity, capital resources, financial performance or financial condition.

These risks are heightened by the COVID-19 pandemic which has negatively impacted economic activity and caused a range of customers to experience financial stress. The pandemic has seen many customers cease or substantially reduce their operations for an unknown period. In addition, individuals may have been laid off, been unable to work, or have fewer work hours. WNZL has received requests for assistance from affected businesses and consumers and has implemented, and will continue to implement, various initiatives to support them, including repayment deferrals and interest capitalisation. These initiatives, and any support that governments or regulators may in the future require banks to provide to customers impacted by the COVID-19 pandemic, may have a negative impact on WNZL's financial performance and may see WNZL assume greater risk than it would have under ordinary circumstances.

The long-term impact of the COVID-19 pandemic on customers and the magnitude of defaults or impairments is uncertain. For example, consumers may permanently decrease discretionary spending, which may increase the time it takes certain industries to recover.

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

WNZL faces intense competition in all aspects of its business

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

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

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

A failure to compete effectively in the various markets in which WNZL operates has and may continue to lead to a decline in WNZL margins or market share.

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

WNZL's ability to compete depends on its ability to offer products and services that meet evolving customer preferences. A failure to effectively respond to changes in customer preferences could see WNZL lose customers. This could adversely affect WNZL's business, prospects, financial performance or financial condition.

Westpac Securities NZ Limited

Management report (continued)

WNZL could suffer losses due to market volatility

WNZL is exposed to market risk due to its financial market activities, its businesses, its defined benefit plan and through asset and liability management. Market risk is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, commodity prices, equity prices, and interest rates (including low or negative interest rates and any resulting pressure placed on WNZL's interest margins). This includes interest rate risk in the banking book due to a mismatch between the duration of assets and liabilities arising from the normal course of business activities.

Changes in markets could be driven by numerous developments. For example, the COVID-19 pandemic has resulted in significant market disruption and price volatility.

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

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

WNZL has and could suffer losses due to operational risks

Operational risk includes, among other things, reputational risk, technology risk, model risk and outsourcing risk, as well as the risk of business disruption due to external events such as natural disasters, or outbreaks of communicable diseases (such as the COVID-19 pandemic), 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 have not always been, or currently may not be, effective.

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

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

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

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

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

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

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

Poor data or poor data retention can also affect WNZL's ability to meet its compliance obligations which could lead to a regulator taking action against WNZL. WNZL also needs accurate data for financial, regulatory and other reporting.

Due to the importance of data, WNZL has incurred and will likely continue to incur substantial costs and devote significant effort to improving the quality of data and data frameworks and processes and remediating deficiencies where necessary. Some of WNZL's efforts to remediate data issues have been disrupted by the COVID-19 pandemic and if these are not fixed in a timely way could result in increased regulatory scrutiny, and lead regulators to require WNZL to remediate these issues within specific timeframes.

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

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

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

WNZL has, on a number of occasions, incurred significant remediation costs (including compensation payments and costs of correcting the issue) and there is a risk that similar issues will arise in the future that will require remediation.

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

Determining how to compensate customers properly and fairly can also be complicated, involving numerous stakeholders. WNZL's proposed approach to a remediation may be affected by a number of events, such as affected customers commencing a class action, or a regulator requiring a remediation to be done in a specific way. These factors could delay WNZL in completing the remediation and may lead to a regulator commencing enforcement action against WNZL. It could result in increased reputational risk, and WNZL could be challenged by regulators, affected customers, the media and other stakeholders.

The significant challenges involved in scoping and executing remediations also create a risk that the remediation costs incurred will be higher than initially estimated. Further, delays in completing a remediation could result in WNZL incurring additional administration costs and making higher remediation payments to customers to reflect the time value of money.

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

Westpac Securities NZ Limited

Management report (continued)

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

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

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

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

The risk management framework may also prove ineffective because of weaknesses in risk culture, which may result in risks and control weaknesses not being identified, escalated and acted upon. Recent analysis and reviews, in addition to regulatory feedback, have highlighted that the framework is not operating satisfactorily in a number of respects and needs to be improved. WNZL has a number of risks which sit outside its risk appetite or do not meet the expectations of regulators. Further, 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.

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

If WNZL is unable to bring risks back into appetite, or if it is determined that the WNZL's risk management framework is no longer appropriate, WNZL may incur unexpected losses and be required to undertake considerable remedial work, including incurring substantial costs. The failure to remedy this situation could result in increased scrutiny from regulators, who could require (amongst other things) that WNZL hold additional capital or direct WNZL to spend money to enhance its risk management systems and controls. Inadequacies in addressing risks or in WNZL's risk management framework could also result in WNZL failing to meet compliance obligations and/or financial losses.

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

On 23 March 2021, the RBNZ issued two notices to WNZL under section 95 of the Reserve Bank of New Zealand Act 1989 requiring WNZL to supply two external reviews to the RBNZ. The reports are required to address concerns raised by the RBNZ around WNZL's risk governance processes following various compliance issues reported over recent years. Those issues include non-compliance with the RBNZ's liquidity, capital adequacy and outsourcing requirements (as previously reported in WNZL's RBNZ disclosure statements) and IT outages. While work has been underway to address these areas for some time, more work is required to meet WNZL's expectations and those of the regulator.

The first report relates to the effectiveness of the actions WNZL has taken to improve the management of liquidity risk and the associated risk culture, following previously identified breaches of the RBNZ's Liquidity Policy (BS13) and potential non-compliance identified through the RBNZ's liquidity thematic review. Previous reviews identified the need to implement fundamental improvements to WNZL's management of liquidity risk, and to make material changes to the risk culture in the relevant teams.

The second report requires the external reviewer to assess the effectiveness of risk governance at WNZL, with a particular focus on the role played by the Board.

With effect from 31 March 2021, the RBNZ amended WNZL's conditions of registration to apply an overlay to WNZL's mismatch ratios. The overlay requires WNZL to discount the value of its liquid assets by approximately NZ $2.3 billion. This overlay will apply until the RBNZ is satisfied that:

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

WNZL is currently engaging with the RBNZ in relation to potential experts to prepare the independent reports.

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

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

Climate change may have adverse effects on WNZL's business

WNZL, its customers, external suppliers and communities in which WNZL operates, may be adversely affected by the physical risks of climate change, including increases in temperatures, sea levels, and the frequency and severity of adverse climatic events including fires, storms, floods and droughts. These effects, whether acute or chronic in nature, may directly impact WNZL and its customers through disruptions to business and economic activity or impacts on income and asset values.

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

Failure to effectively manage and disclose these risks could adversely affect WNZL 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, outbreaks or pandemics of communicable diseases such as the COVID-19 pandemic, civil unrest or terrorism) in any of these locations has the potential to disrupt business activities, damage property and affect asset values and WNZL's ability to recover amounts owing to it. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, all of which could adversely affect WNZL's business, prospects, financial performance or financial condition.

Westpac Securities NZ Limited

Management report (continued)

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

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

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

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

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

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

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

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

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

The expansion or integration of a new business, or entry into a new business, can be complex and costly.

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

Wholesale Funding

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

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

Markets	Issuer	31 March 2021 Programme Type	Programme Limit	Issuer	30 September 2020 Programme Type	Programme Limit
Euro market	WBC/Company [1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion	WBC/ Company [1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion
Euro market	Company [1]	Programme for Issuance of Debt Instruments	US$10 billion	Company [1]	Programme for Issuance of Debt Instruments	US$10 billion
Euro market	Company [1]	Global Covered Bond Programme	€ 5 billion	Company [1]	Global Covered Bond Programme	€ 5 billion
United States	Company [1]	US Commercial Paper Programme	US$10 billion	Company [1]	US Commercial Paper Programme	US$10 billion
New Zealand	WNZL	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit	WNZL	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit

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

Westpac Securities NZ Limited

Responsibility statement

The Board confirms that to the best of their knowledge:

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

Westpac Securities NZ Limited

Directors' report

The Board is pleased to present the condensed interim financial statements of the Company comprising the interim management report, the condensed interim financial statements of the Company and the independent auditor's review report for the six months ended 31 March 2021.

The Board authorised these condensed interim financial statements on 18 May 2021.

For and on behalf of the Board:

Carolyn Kidd - Director
18 May 2021

Mark Weenink - Director
18 May 2021

Westpac Securities NZ Limited

Statement of comprehensive income for the six months ended 31 March 2021

	Six months ended 31 March 2021 Unaudited $'000	Six months ended 31 March 2020 Unaudited $'000
Interest income - calculated using the effective interest rate method	37,725	111,103
Interest income - other	3,505	25,422
Interest expense	(39,171)	(133,956)
Net interest income	2,059	2,569
Non-interest income	364	648
Total non-interest income	364	648
Net operating income before operating expenses	2,423	3,217
Operating expenses	(332)	(590)
Profit before income tax	2,091	2,627
Income tax expense	(578)	(736)
Net profit for the period	1,513	1,891
Other comprehensive income (net of tax)	-	-
Total comprehensive income for the period	1,513	1,891

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

Balance sheet as at 31 March 2021

	Note	31 March 2021 Unaudited $'000	30 September 2020 Audited $'000
Assets			
Cash and cash equivalents		13,606	11,368
Receivables due from related entities		11,688,703	12,185,303
Current tax asset		438	570
Total assets		11,702,747	12,197,241
Liabilities			
Payables due to related entities		2,537	2,040
Debt issues	2	11,673,676	12,159,922
Other financial liabilities		14,234	24,492
Total liabilities		11,690,447	12,186,454
Net assets		12,300	10,787
Shareholders' equity			
Share capital		651	651
Retained profits		11,649	10,136
Total shareholders' equity		12,300	10,787

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

pwc

Westpac Securities NZ Limited

Statement of changes in equity for the six months ended 31 March 2021

		Attributable to owners of the Company		
	Note	Share Capital $'000	Retained Profits $'000	Total $'000
As at 30 September 2019 (Audited)		651	9,947	10,598
Six months ended 31 March 2020 (Unaudited)				
Net profit for the period		-	1,891	1,891
Total comprehensive income for the six months ended 31 March 2020		-	1,891	1,891
Transaction with owners:				
Dividends paid on ordinary shares	3	-	(3,454)	(3,454)
As at 31 March 2020 (Unaudited)		651	8,384	9,035
As at 30 September 2020 (Audited)		651	10,136	10,787
Six months ended 31 March 2021 (Unaudited)				
Net profit for the period		-	1,513	1,513
Total comprehensive income for the six months ended 31 March 2021		-	1,513	1,513
Transaction with owners:				
Dividends paid on ordinary shares	3	-	-	-
As at 31 March 2021 (Unaudited)		651	11,649	12,300

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

pwc

Westpac Securities NZ Limited

Statement of cash flows for the six months ended 31 March 2021

	Note	Six months ended 31 March 2021 Unaudited $'000	Six months ended 31 March 2020 Unaudited $'000
Cash flows from operating activities			
Interest income received		51,020	145,866
Interest expense paid		(49,233)	(136,633)
Service fees received - related entities		331	512
Service fees paid - related entities		(476)	(541)
Operating expenses paid		(201)	(40)
Income tax paid		(446)	(1,052)
Net cash provided by/(used in) operating activities		995	8,112
Cash flows from investing activities			
Net movement in receivables due from related entities		30,989	2,241,872
Net cash provided by/(used in) investing activities		30,989	2,241,872
Cash flows from financing activities			
Net movement in payables due to related entities		646	(2,686,489)
Proceeds from debt issues		2,497,333	2,553,646
Repayments of debt issues		(2,527,725)	(2,116,196)
Dividends paid to ordinary shareholders	3	-	(3,454)
Net cash provided by/(used in) financing activities		(29,746)	(2,252,493)
Net increase/(decrease) in cash and cash equivalents		2,238	(2,509)
Cash and cash equivalents at the beginning of the period		11,368	7,724
Cash and cash equivalents at the end of the period		13,606	5,215

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 1. Statement of accounting policies

These condensed interim financial statements ('financial statements') are general purpose financial statements prepared in accordance with the UK Listing Authority Disclosure and Transparency Rules and Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit entities, and the New Zealand equivalent to International Accounting Standard 34 *Interim Financial Reporting* and should be read in conjunction with the financial statements for the year ended 30 September 2020. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

Financial statements preparation

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

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

The accounting policies, methods of computation, areas of judgement, estimates and assumptions in these financial statements, including the key sources of estimation uncertainty, are consistent with those in the financial statements for the year ended 30 September 2020 unless otherwise stated.

Amendments to Accounting Standards effective this period

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

Note 2. Debt issues

	Note	As at 31 March 2021 Unaudited $'000	As at 30 September 2020 Audited $'000
Short-term debt			
Commercial paper		3,292,521	2,502,261
Total short-term debt		3,292,521	2,502,261
Long-term debt			
Euro medium-term notes		4,276,044	5,300,232
Covered Bonds		4,105,111	4,357,429
Total long-term debt		8,381,155	9,657,661
Total debt issues		11,673,676	12,159,922
Debt issues measured at amortised cost		8,381,155	9,657,661
Debt issues measured at fair value	4	3,292,521	2,502,261
Total debt issues		11,673,676	12,159,922

Note 3. Related entities

Related entities of the Company are set out in Note 12 to the financial statements for the year ended 30 September 2020. There have been no changes to the related entities during the period.

During the period ended 31 March 2021, the dividends paid by the Company in respect of the ordinary shares to its immediate parent Westpac New Zealand Operations Limited were nil (31 March 2020: $3,454,000).

There were no other significant related entity transactions in the six months ended 31 March 2021.

Note 4. Fair value of financial assets and financial liabilities

Fair valuation control framework

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

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

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

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

Notes to the financial statements

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

Fair value hierarchy

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

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

Valuation techniques

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

Financial instruments measured at fair value

Level 1 instruments

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

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

There are no financial instruments included in the Level 1 category (30 September 2020: nil).

Level 2 instruments

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

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

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

Financial assets at fair value through profit or loss due from WNZL as at 31 March 2021 were $3,291,740,000 (30 September 2020: $2,501,949,000).

Level 3 instruments

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

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

Analysis of movements between fair value hierarchy levels

During the period, there were no transfers between levels of the fair value hierarchy (30 September 2020: no transfers between levels).

Financial instruments not measured at fair value

The detailed description of how fair value is derived for financial instruments not measured at fair value is set out in Note 14 to the financial statements for the year ended 30 September 2020.

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

	31 March 2021 (Unaudited)		30 September 2020 (Audited)	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial assets not measured at fair value				
Cash and cash equivalents	13,606	13,606	11,368	11,368
Receivables due from related entities	15,797	15,797	25,688	25,688
Loan included in receivables due from related entities - WNZL	8,381,166	8,488,605	9,657,666	9,808,330
Total financial assets not measured at fair value	8,410,569	8,518,008	9,694,722	9,845,386
Financial liabilities not measured at fair value				
Payables due to related entities	2,537	2,537	2,040	2,040
Debt issues	8,381,155	8,510,432	9,657,661	9,838,614
Other financial liabilities	14,234	14,234	24,492	24,492
Total financial liabilities not measured at fair value	8,397,926	8,527,203	9,684,193	9,865,146

Notes to the financial statements

Note 5. Segment information

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

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

Revenue from products and services

The Company does not generate any revenue from external customers.

Secondary reporting – geographic segments

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

Note 6. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 31 March 2021 (30 September 2020: nil).

Independent auditor's review report

To the shareholder of Westpac Securities NZ Limited

Report on the interim financial statements

Our conclusion

We have reviewed the accompanying condensed interim financial statements (the interim financial statements) of Westpac Securities NZ Limited (the Company) on pages 14 to 19, which comprise the balance sheet as at 31 March 2021, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period ended on that date, a statement of accounting policies and selected explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that these accompanying interim financial statements of the Company do not present fairly, in all material respects, the financial position of the Company as at 31 March 2021, and its financial performance and cash flows for the six-month period then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

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

We are independent of the Company in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. Other than in our capacity as auditor and providers of other related assurance services in relation to agreed procedures reports for the Company's debt issuance programmes, we have no relationship with, or interests in, the Company.

Directors' responsibility for the interim financial statements

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

Auditor's responsibility for the review of the financial statements

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
18 May 2021

Auckland