Westpac Securities NZ Limited

Interim financial report

For the six months ended 31 March 2020

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 financial report. Accordingly, this report is to be read in conjunction with the Interim report for the period ended 31 March 2020 and any public announcements made by Westpac Securities NZ Limited during the interim reporting period in accordance with any relevant continuous disclosure obligations.

The 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	Head of Commercial Services, WNZL
Mark Broughton Weenink	General Manager Regulatory Affairs, Corporate Legal Services and General Counsel, WNZL
Carolyn Mary Kidd	Chief Risk Officer, WNZL

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

- the effect of the global COVID-19 pandemic, which has had, and is expected to continue to have, a negative impact on the business and global economic conditions, adversely affect a wide-range of WNZL's customers, create increased volatility in financial markets and may result in increased impairments, defaults and write-offs;
- disruptions to 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 actual or alleged failure to comply with laws (such as financial crime laws), regulations or regulatory policy;
- internal and external events which may adversely impact WNZL's reputation;
- information security breaches, including cyberattacks;
- reliability and security of Westpac Banking Corporation ('**WBC**') or WNZL's technology and risks associated with changes to technology systems;
- the stability of New Zealand, Australian and international financial systems and disruptions to financial markets and any losses or business impacts the Company, WNZL or its customers or counterparties may experience as a result;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- adverse asset, credit or capital market conditions; an increase in defaults in credit exposures because of a deterioration in economic conditions;
- the conduct, behaviour or practices of the Company, WNZL and WBC or their staff;
- changes to the credit ratings of WNZL or WBC or the methodology used by credit rating agencies;
- levels of inflation, interest rates (including low or negative interest rates), exchange rates and market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in economic conditions, consumer spending, saving and borrowing habits in Australia, New Zealand and other countries (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;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- the effectiveness of WNZL's risk management policies, including internal processes, systems and employees;
- the incidence or severity of WBC or WNZL insured events;
- the occurrence of environmental change (including as a result of climate change) or external events in countries in which WNZL or its customers or counterparties conduct their operations;
- changes to the value of WNZL's intangible assets;
- changes in political, social or economic conditions in any of the major markets in which WNZL or its customers or counterparties operate;
- the success of strategic decisions involving diversification or innovation, in addition to business expansion activity, business acquisitions and the integration of new businesses; and
- various other factors beyond WNZL's and the Company's control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made 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 2020

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 2020 was $1,891,000 compared with $1,674,000 for the six months ended 31 March 2019, an increase of 13%.

Interest income increased by 19% to $136,525,000 compared to the six months ended 31 March 2019. The $22,054,000 increase was in line with the increase in interest expense.

Interest expense increased by 19% to $133,956,000 compared to the six months ended 31 March 2019. The $21,747,000 increase was in line with the increase in interest income.

Net interest income increased by 14% to $2,569,000 compared to the six months ended 31 March 2019.

Non-interest income decreased by 6% to $648,000 compared to the six months ended 31 March 2019.

Operating expenses decreased by 6% to $590,000 compared to the six months ended 31 March 2019.

Tax expense increased by 13% to $736,000 compared to the six months ended 31 March 2019.

Total debt issues as at 31 March 2020 was $15,974,689,000 which was an increase of $1,225,505,000 or 8%, compared to $14,749,184,000 as at 30 September 2019. This increase was predominately due to the new issuances within the period.

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

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

Outbreaks of communicable diseases or a pandemic like COVID-19 have had, and could in the future have, an adverse effect on WNZL

WNZL operates a large scale business and as part of the financial services industry delivers critical services which support the economy. WNZL is vulnerable to the impacts of a communicable disease outbreak or a pandemic. The current and ongoing COVID-19 pandemic has disrupted, and will continue to disrupt, numerous industries and global supply chains, while measures to mitigate the severity of the pandemic, such as restrictions on businesses, venues, transport, movement and public gatherings of people, workplace closures, and the closure of public institutions such as schools and universities will negatively affect economic activity. We currently expect the COVID-19 pandemic to impact on WNZL's financial performance, among other adverse effects. At this time, however, it is not possible to estimate how long it will take to halt the spread of the virus or the longer term effects that the COVID-19 pandemic could have on the economy and WNZL's business. The extent to which the COVID-19 pandemic impacts WNZL's customers, business, financial performance and financial condition will depend on future developments which are evolving and highly uncertain.

The significant decrease in economic activity resulting from the COVID-19 pandemic has affected, and will continue, for an unpredictable time, to affect demand for WNZL's products and services. We expect that the COVID-19 pandemic will result in increased impairments, defaults and write-offs, which are likely to be material, due to financial stress caused to WNZL's customers and counterparties, particularly those in the transport, manufacturing, education, retail trade, entertainment and hospitality, travel, tourism, agriculture, food and beverage, commercial property, construction, consulting and financial services sectors. WNZL has increased its provisions for expected credit losses due to the impact of COVID-19, however, as the full impact of the pandemic is highly uncertain, it is possible that WNZL will need to further increase these provisions in the future.

The current COVID-19 pandemic has also resulted in declining asset values (see 'Declines in asset markets could adversely affect WNZL operations or profitability') and volatility in global markets (see 'We could suffer losses due to market volatility' below).

Further, adverse economic consequences may arise depending on how the COVID-19 pandemic progresses, potentially giving rise to a systemic economic shock (further information is set out below in 'A systemic shock in relation to the Australian, New Zealand or other financial systems could have adverse consequences for WNZL or its customers or counterparties that would be difficult to predict and respond to').

In response to the current COVID-19 pandemic, WNZL has provided support to its customers by implementing a range of initiatives, such as lowering interest rates on certain products, waiving certain fees and granting deferrals of loan repayments to customers affected by the COVID-19 pandemic. These initiatives together with the impact of the COVID-19 pandemic on WNZL's customers will likely have a negative impact on WNZL's financial performance and may see WNZL assume a greater level of risk than it would have under ordinary circumstances. In addition, there is a risk that Governments or regulators require, or seek to require, banks (including WNZL) to provide further support and accommodation to customers impacted by the COVID-19 pandemic in the future. This could involve WNZL being required to forego interest payments, forgive certain principal amounts owing on loans as well as limitations being placed on WNZL's ability to foreclose on loans and enforce security. If this were to occur, there would be a further adverse impact on WNZL's financial performance and level of risk assumed by WNZL.

Actions taken by regulators in response to the COVID-19 pandemic have impacted and could in the future impact WNZL. As an example, regulators in some overseas jurisdictions have exercised their powers to prevent banks from declaring dividends or undertaking share buy-backs. In New Zealand, the Reserve Bank of New Zealand ('RBNZ') made the decision to freeze the distribution of dividends on ordinary shares by all banks in New Zealand during the period of economic uncertainty caused by COVID-19.

WNZL's business activities and operations have been, and will be, disrupted by communicable disease outbreaks or pandemics (such as the COVID-19 pandemic). WNZL has been and may in the future be required to close workplaces and suspend providing services through certain offices, branches, ATMs or other channels. Any outbreak or pandemic may also negatively impact the ability of WNZL's back-office, support functions and key suppliers to operate, in turn disrupting WNZL's business and operations.

During the period when a communicable disease outbreak or pandemic (such as the COVID-19 pandemic) is occurring, WNZL may need to temporarily adjust its risk appetites, policies or controls so that it can respond to the broader impacts of the pandemic and protect the wellbeing of staff. These temporary adjustments could have unforeseen consequences and may, depending on the outcome, expose WNZL to increased regulatory oversight and/or regulatory action. Further, to respond to the impacts of an outbreak or pandemic (such as the COVID-19 pandemic) WNZL has been, and may in the future be, required to take steps or implement new measures in very short periods of time. Taking this type of action may increase the risk that an operational or compliance breakdown will occur, potentially leading to financial losses, impacts on customer service or regulatory or legal action.

Outbreaks of communicable diseases or pandemics (such as COVID-19), as with other large scale global events which have had a broad impact on the operation of economies around the world have had, and may in the future have, a negative impact on WNZL's business, prospects, financial performance and financial condition. There continues to be significant uncertainties associated with the COVID-19 pandemic, including with respect to the severity of the disease, the duration of the pandemic, actions that may be taken by governmental authorities and private businesses to attempt to contain the COVID-19 pandemic or to mitigate its impact and the potential for the COVID-19 pandemic to have longer term and lasting impacts on WNZL's customers, business and operations. WNZL continues to monitor the situation and assess further possible implications, which could be material and adverse, to WNZL's business, prospects, financial performance and financial condition. The COVID-19 pandemic may also have the effect of heightening other risks described below.

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 ('**FMA**') have supervisory oversight of WNZL's operations. As a subsidiary of WBC, WNZL is also subject to certain regulations imposed by the Australian Prudential Regulation Authority ('**APRA**').

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

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

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

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

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

Regulatory changes and the timing of their introduction continue to evolve and WNZL manages its businesses in the context of regulatory uncertainty and complexity. The nature and impact of future changes are not predictable and are beyond WNZL's control. Regulatory compliance and the management of regulatory change are an important part of WNZL's planning processes. WNZL expects that it will be required to continue to invest significantly in compliance and the management and implementation of regulatory change and, at the same time, significant management attention and resources will be required to update existing, or implement new processes to comply with new regulations (such as obligations to provide certain data and information to regulators) or new interpretations of existing laws or regulations.

WNZL's ability to successfully implement and manage regulatory change has been, and will in the future be, impacted by the current and ongoing COVID-19 pandemic or similar pandemics or outbreaks of communicable diseases. This has caused (and may in the future cause) significant disruptions and delays to regulatory change management projects, increasing the risk that WNZL will be non-compliant with new regulation at the time it comes into effect. The governmental responses to COVID-19 have seen the introduction of a significant body of new legislation, regulations and orders, the impact of which, together with an uncertain environment, are not necessarily foreseeable and may increase compliance risks. This body of new legislation, regulations and orders may also result in WNZL incurring significant additional costs.

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.

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Management report (continued)

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

- COVID-19 impacts

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

Also in response to COVID-19, there have been a number of new guidance updates published and regulatory delays announced by New Zealand regulators, including the RBNZ, the FMA, and the Commerce Commission ('**the Commission**'). The most significant of these updates or changes for WNZL are described in the relevant paragraphs below.

- Freeze on NZ Bank Dividends

On 2 April 2020, a decision was made by the RBNZ to freeze the distribution of dividends on ordinary shares by all banks in New Zealand during the period of economic uncertainty caused by COVID-19.

- Government relief packages

On 24 March 2020, the New Zealand Government announced mortgage and business finance support schemes for those whose income was impacted by COVID-19, to be implemented by the Government and retail banks (including WNZL). The schemes include payment deferrals for certain customers and a Business Finance Guarantee Scheme to provide short-term credit to solvent small and medium-sized firms. On 2 April 2020, the New Zealand Government announced that it would make temporary changes to companies legislation to provide insolvency relief for business impacted by COVID-19, including a business debt hibernation scheme.

- RBNZ steps to support liquidity and customer lending

Also on 2 April 2020, the RBNZ reduced the Core Funding Ratio for banks (including WNZL) from 75% to 50%. With effect from 1 May 2020, the RBNZ removed loan-to-value restrictions to encourage continued bank lending to customers.

- RBNZ - Revised Outsourcing Policy

WNZL is required to comply with RBNZ's revised Outsourcing Policy (BS11) (Revised Outsourcing Policy) for all new outsourcing arrangements from 1 October 2017 and to maintain a compendium of all outsourcing arrangements from 1 October 2019. Work is underway to implement the other aspects of the Revised Outsourcing Policy by 30 September 2023 in line with the revised regulatory timeline as a result of COVID-19.

As a result of complying with the Revised Outsourcing Policy, the ongoing cost of operating WNZL business will increase, in addition to the costs of implementing the changes.

- RBNZ Capital Review

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

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

WNZL is already strongly capitalised with a Tier 1 capital ratio of 14.1% at 31 March 2020 based on the current RBNZ rules. On a pro forma basis WNZL, (including the new RWA and capital requirements) at 31 March 2020 and assuming a Tier 1 capital ratio of 16-17%, WNZL would require a further NZ$2.1-$2.7 billion of Tier 1 capital to meet the new requirements that are fully effective in 2028.

In response to the impacts of COVID-19, and to support credit availability, the RBNZ has delayed the start date of the new capital regime by 12 months to 1 July 2021 and the RBNZ will consider further delays in 2021 if it considers that market conditions warrant it. Banks will be given up to seven years to comply.

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

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

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

- Review of the Reserve Bank of New Zealand Act 1989

In November 2017, the New Zealand Government announced it would undertake a review of the Reserve Bank of New Zealand Act 1989 (RBNZ Review). The RBNZ Review will consist of two phases. The legislation for the recommended Phase 1 came into force on 1 April 2019.

Phase 2 of the RBNZ Review considers the overarching objectives of the RBNZ's institutional governance and decision- making, the macro-prudential framework, the current prudential supervision model, trans-Tasman coordination, supervision and enforcement and resolution and crisis management. In December 2019, the New Zealand Government announced in-principle decisions on Phase 2. Changes include the Reserve Bank of New Zealand Act 1989 will be replaced with two separate Acts – an 'Institutional Act' and a 'Deposit Takers Act'. Cabinet also confirmed that work will continue on a cross-agency process to develop an executive accountability regime for banks and insurers. A third round of consultation on the Phase 2 review is underway with extended timescales due to COVID-19. The submissions due date has been extended to 23 October 2020 with legislation now expected to be introduced in late 2020 and 2021.

- Conduct of Financial Institutions Review

Following the developments and findings of the Financial Services Conduct and Culture Review and the Australian Royal Commission, the Financial Markets (Conduct of Institutions) Amendment Bill was introduced to Parliament on 11 December 2019. The Bill introduces a conduct licensing regime for banks, insurers and non-bank deposit takers and their intermediaries in respect of their conduct in relation to retail customers. The regime will require licensed institutions to comply with a fair conduct principle to treat consumers fairly, and establish, implement and maintain an effective fair conduct programme. It will also require institutions to comply with regulations that regulate incentives (including a prohibition on volume and value sales targets). The Bill is currently before the Select Committee.

- Reform of Credit Contracts and Consumer Finance Legislation

The Credit Contracts Legislation Amendment Act received royal assent on 19 December 2019. The Act introduces a number of changes to the Credit Contracts and Consumer Finance Act, including new duties for directors and senior managers and increased penalties and statutory damages. The Act also introduces stricter requirements around suitability and affordability assessments as well as a cap for interest and fees of 'high cost' loans (being loans with annualised interest exceeding 50%). The Act will come into effect in stages from June 2020. The commencement date for new duties for directors and senior managers, and new requirements around suitability and affordability assessments, has been delayed by at least 6 months and will come into effect no earlier than 1 October 2021.

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

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

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

WNZL employs a compliance management system which is designed to identify, assess and manage compliance risk. While this system is currently in place, it has not always been, and may not in the future be, effective. Breakdowns have and may occur in this system due, for example, to flaws in the design of controls or processes. This has resulted in, and may in the future result in, potential breaches of WNZL's compliance obligations, as well as poor customer outcomes. The risk of a breakdown occurring is heightened by the COVID-19 pandemic. The pandemic has resulted in large numbers of WNZL's staff and the staff of WNZL's third party contractors working remotely and these distributed working arrangements may have a negative impact on the effectiveness of some of WNZL's compliance controls and monitoring processes.

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

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

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

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

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

The current and ongoing COVID-19 pandemic also has the potential to complicate WNZL's dealings with its regulators in a number of ways. In particular, disruptions to WNZL's business, operations, third party contractors and suppliers resulting from the pandemic increase the risk that WNZL will not be able to satisfy prior commitments made to regulators about improving processes and/or addressing outstanding issues, potentially increasing the prospect of a regulator taking adverse action against WNZL.

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

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

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

AML/CFT laws also require WNZL to report certain matters and transactions to regulators and ensure that certain information is not disclosed to third parties in a way that would contravene the 'tipping off' provisions in AML/CFT legislation.

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Management report (continued)

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

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

Reputational damage could harm WNZL's business and prospects

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

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

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

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

WNZL's reputation could also be adversely affected by the actions of the financial services industry in general or from the actions of related companies (including WBC), its competitors, customers, suppliers, strategic partners, other counterparties and accredited data recipients.

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

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

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

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

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

WNZL could suffer information security risks, including cyberattacks

The proliferation of new technologies, the increasing use of the internet and telecommunications to conduct financial transactions and the growing sophistication and activities of attackers (including organised crime and state-sponsored actors) have resulted in increased information security risks for major financial institutions such as WNZL and its external service providers. The COVID-19 pandemic has exacerbated these risks by requiring a significant number of WNZL staff and third party contractors to work remotely or from alternative work sites, with these working arrangements potentially providing additional opportunities for malicious cyber actors to exploit.

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

If WNZL 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.

Westpac Securities NZ Limited

Management report (continued)

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

Major banks in other jurisdictions have suffered security breaches from sophisticated cyberattacks. WNZL's external service providers, and other parties that facilitate its business activities and financial platforms and infrastructure (such as clearing houses, payment systems and exchanges) are also subject to the risk of cyberattacks. Any such security breach could result in the loss of customers and business opportunities, significant disruption to WNZL's operations, misappropriation of WNZL's confidential information and/or that of its customers and damage to WNZL's computers or systems and/or those of its customers. Such a security breach could also result in reputational damage, claims for compensation and regulatory investigations and penalties, which could adversely affect WNZL's business, prospects, financial performance or financial condition.

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

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

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

While WNZL has a number of processes in place to provide for and monitor the availability and recovery of its systems, there is a risk that its information and technology systems might fail to operate properly or become disabled, including as a result of events that are wholly or partially beyond its control. As an example, in response to the COVID-19 pandemic, more WNZL staff and third party contractors are required to work remotely or from alternative work 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 we may fail to meet a compliance obligation. This could potentially result in reputational damage, remediation costs and a regulator commencing an investigation and/or taking administrative or enforcement action against WNZL. The overuse or overreliance on legacy or outdated systems may heighten the risk of a technology failure occurring.

Further, in order to continue to deliver new products and services to customers, comply with WNZL's regulatory obligations (such as obligations to report certain data and information to regulators) and meet the ongoing expectations of WNZL's regulators and customers, WNZL needs to regularly renew and enhance its technology. WNZL is constantly managing technology projects including projects to upgrade WNZL's technology platforms, consolidate technology platforms, simplify and enhance its technology, assist in complying with legal obligations and operations environment, improve productivity and provide for a better customer experience. Failure to implement these projects or manage associated change effectively could result in cost overruns, unrealised productivity, operational instability, failure to meet compliance obligations, reputational damage and/or result in the loss of market share to competitors. In turn, this could place WNZL at a competitive disadvantage and adversely affect its business prospects, financial performance, or financial condition.

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

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

Global credit and capital markets can experience periods of extreme volatility, disruption and decreased liquidity. While there can be extended periods of stability in these markets, the environment remains unpredictable as evidenced by the Global Financial Crisis and the systemic impacts from the COVID-19 pandemic. The main risks WNZL faces are damage to market confidence, changes to the access and cost of funding and a slowing in global activity or through other impacts on entities with which WNZL does business.

As of 31 March 2020, approximately 25% of WNZL's total funding originated from domestic and international wholesale markets (30 September 2019: 23%). Of this, around 70% was sourced outside New Zealand (30 September 2019: 79%). As of 31 March 2020, WNZL's deposits provided around 75% of total funding (30 September 2019: 77%). Customer deposits held by WNZL are comprised of both term deposits which can be withdrawn after a certain period of time and at call deposits which can be withdrawn at any time.

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

If market conditions deteriorate due to economic, financial, political or other reasons (including the current and ongoing COVID-19 pandemic), there may also be a loss of confidence in bank deposits and WNZL could experience unexpected deposit withdrawals. In this situation WNZL's funding costs may be adversely affected and its liquidity, funding and lending activities may be constrained.

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

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

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

Sovereign risk may destabilise financial markets adversely

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

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

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

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

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

The current and ongoing economic impacts of the COVID-19 pandemic have affected WNZL's credit ratings and may continue to do so in the future. Credit rating agency Fitch recently downgraded its short-term and long-term ratings for the major Australian banks (including WNZL) by one notch, to A+ (from AA-) and F1 (from F1+) respectively, citing the significant economic consequences for WNZL's core market of New Zealand caused by the actions taken by governments to try and slow the spread of COVID-19. Fitch has maintained the rating outlook for the major Australian banks as "negative", reflecting the major downside risk to Fitch's economic outlook in light of the evolving global situation. S&P Global Ratings also revised its outlook for WNZL's long-term issuer credit rating to 'negative', mirroring a similar change to their outlook for the Australian Sovereign. As the economic impacts from the COVID-19 pandemic continue, there is a risk that there will be further negative movement in WNZL's credit ratings.

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

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

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

During the past decade the financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility, global economic conditions, external events, geopolitical instability (such as threats of or actual conflict occurring around the world), and political developments. In particular, the economic impacts from the COVID-19 pandemic could be significant for the global economy including Australia and New Zealand.

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

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

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

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

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

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

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

Loans secured by residential mortgages are important to WNZL's business. As at 31 March 2020, housing loans represented approximately 61% of WNZL's gross loans and advances (30 September 2019: 61%).

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

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

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

Management report (continued)

WNZL conducts the majority of its business in New Zealand and, consequently, its performance is influenced by the level and cyclical nature of lending in New Zealand. These factors are in turn impacted by both domestic and international economic conditions, natural disasters and political events, and in particular, at present, are being impacted by the current and ongoing COVID-19 pandemic (see 'Outbreaks of communicable diseases or a pandemic like COVID-19 have had, and could in the future have, an adverse effect on WNZL' above).

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

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

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

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

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

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

These risks are heightened due to the current COVID-19 pandemic which has negatively impacted economic activity and caused a wide range of customer segments to experience financial stress. To combat the spread of the COVID-19 pandemic, and in some cases, in response to government mandates to close businesses, many of WNZL's customers have ceased or substantially reduced their operations for an indeterminate period of time. In addition, individuals may have been laid off, be unable to work, or have fewer hours of work as a result of ceased or reduced business operations. WNZL has received requests for assistance from both businesses and individual customers who have been affected, and WNZL has implemented a range of initiatives to support them. These initiatives have included granting principal and interest repayment holidays and interest capitalisation to certain affected customers. These initiatives will likely have a negative impact on WNZL's financial performance and may see WNZL assume a greater level of risk than it would have under ordinary circumstances.

The longer-term impact of the COVID-19 pandemic on WNZL's customers and the number and extent of defaults or impairments is uncertain, given the shape and timing of the recovery, the influence of significant government assistance packages on economic activity and the potential for consumers to demonstrate changed behaviour even after the COVID-19 pandemic is over. For example, consumers may decrease their discretionary spending on a permanent or long-term basis meaning certain industries may take longer to recover.

For further information see 'Outbreaks of communicable diseases or a pandemic like COVID-19 have had, and could in the future have, an adverse effect on WNZL' above.

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

WNZL faces intense competition in all aspects of its business

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

The competitive environment may also change as a result of legislative reforms such as 'Open Banking', which will stimulate competition, improve customer choice and likely give rise to increased competition from new and existing industry participants.

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

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

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

WNZL could suffer losses due to market volatility

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

Changes in market factors could be driven by a number of developments. As an example, the current and ongoing COVID-19 pandemic has resulted in and will likely continue to result in significant market volatility. Continuing uncertainty as to the longevity and severity of the threat to public health is likely to further disrupt markets in the period ahead and could result in adverse consequences to the value of market exposures held by WNZL.

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

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

We have and could suffer losses due to operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes, among other things, legal risk, 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, pandemics or outbreaks of communicable diseases (such as the current and ongoing COVID-19 pandemic - see 'Outbreaks of communicable diseases or a pandemic like COVID -19 have had, and could in the future have, an adverse effect on WNZL') environmental hazard, damage to critical utilities, and targeted activism and protest activity. While WNZL has policies, processes and controls in place to manage these risks, these may not always have been, or continue to be effective.

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

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

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

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

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

WNZL also relies on a number of suppliers, both in New Zealand and overseas, to provide services to it and its customers. The current and ongoing COVID-19 pandemic is disrupting the ability of WNZL's suppliers and third party contractors to operate, with these disruptions likely to continue into the future (for further information see 'Outbreaks of communicable diseases or a pandemic like COVID -19 have had, and could in the future have, an adverse effect on WNZL'). Failure by these third party contractors and suppliers to deliver services as required (whether due to the COVID-19 pandemic or for any other reasons) could disrupt WNZL's ability to provide services and adversely impact WNZL's operations, profitability or reputation.

Another possible source of disruption to WNZL is central banks adopting negative interest rates. If this was to occur in the future, the technology systems used by WNZL, its counterparties and/or financial infrastructure providers may fail to operate correctly and this may cause loss or damage to WNZL and/or its counterparties.

Operational risks can impact WNZL's reputation and result in financial losses which would adversely affect its financial performance or financial condition.

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

Accurate, complete and reliable data, along with appropriate data governance frameworks and processes, is critical to the effective operation of WNZL's business.

Data plays a key role in WNZL's provision of products and services to customers, WNZL's systems (both customer-facing and back- office), WNZL's risk management frameworks and WNZL's decision-making and strategic planning.

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

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

Poor data can also affect WNZL's ability to comply with its compliance obligations (including obligations to report certain information to regulators), which could lead to a regulator taking action against WNZL. WNZL also needs accurate data for its financial reporting processes (including the calculation of its risk-weighted assets).

Due to the importance of data, WNZL has and will likely continue to incur substantial costs and devote significant management effort to remediating data-related deficiencies. Further, WNZL's ongoing efforts to remediate data issues have been complicated and delayed by the disruption caused by the COVID-19 pandemic. The failure of WNZL to remediate such data issues in a timely way could result in increased regulatory scrutiny, with regulators potentially exercising their supervisory powers against WNZL to require the remediation of these issues.

The consequences and effects arising from poor data quality 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

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

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

There are significant challenges and risks involved in customer remediation activities. WNZL's ability to investigate an adverse customer outcome that may require remediation could be impeded if the issue is a legacy matter spanning beyond WNZL's record retention period, or if WNZL's record keeping is inadequate. Depending on the nature of the issue, it may be difficult and take significant time to quantify and scope the remediation activity.

Determining how to properly and fairly compensate customers can also be a complicated exercise involving numerous stakeholders, such as the affected customers, regulators and industry bodies. WNZL's proposed approach to a remediation may be affected by a number of events, such as a group of affected customers commencing class action proceedings on behalf of the broader population of affected customers, or a regulator exercising their powers to require that a particular approach to remediation be taken. These factors could impact the timeframe for completing the remediation activity, potentially resulting in WNZL failing to execute the remediation in a timely manner. A failure of this type could lead to a regulator commencing enforcement action against WNZL. The ineffective or slow completion of a remediation also exposes WNZL to increased reputational risk, with WNZL potentially being criticised and challenged by regulators, affected customers, the media and other stakeholders, resulting in reputational damage.

The significant challenges and risks involved in scoping and executing remediations in a timely way also create the potential for remediation costs actually incurred to be higher than those initially estimated by WNZL. Further, if a remediation program is delayed (whether due to the impact of the COVID-19 pandemic or for other reasons) this could result in WNZL incurring additional program administration costs above those originally anticipated and result in WNZL paying higher remediation payments to affected customers in order to reflect the impact of the time value of money.

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

WNZL could suffer losses due to conduct risk

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

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

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

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

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

This could be because the design of the framework may be inadequate, which could result in key information not being provided to decision-makers in the right form and in a timely manner, or because of weaknesses in underlying data. There is also the possibility that key risk management policies, controls and processes may be ineffective, either due to inadequacies in their design, or because of the poor implementation of these policies, controls and processes. The potential for failings in the design and implementation of risk processes and controls is heightened if WNZL does not have a sufficient number of appropriately skilled, adequately trained and qualified employees in key positions.

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

Westpac Securities NZ Limited

Management report (continued)

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

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

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

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

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

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

Key executives, employees and Directors play an integral role in the operation of WNZL's business and its pursuit of its strategic objectives. The unexpected departure of an individual in a key role, or WNZL's failure to recruit and retain appropriately skilled and qualified persons into these roles, could each have an adverse effect on 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 we operate, may be adversely affected by the physical risks of climate change, including increases in temperatures, sea levels, and the frequency and severity of adverse climatic events including fires, storms, floods and droughts. These effects, whether acute or chronic in nature, may directly impact WNZL and its customers through reputational damage, environmental factors, insurance risk and business disruption and may have an adverse impact on financial performance (including through an increase in defaults in credit exposures).

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

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 current and ongoing COVID-19 pandemic – see 'Outbreaks of communicable diseases or a pandemic like COVID-19 have had, and could in the future have, an adverse effect on WNZL', civil unrest or terrorism) in any of these locations has the potential to disrupt business activities, impact on WNZL's operations, damage property and otherwise affect the value of assets held in the affected locations and WNZL's ability to recover amounts owing to us. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, all of which could adversely affect WNZL's business, prospects, financial performance or financial condition.

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

WNZL is required to make estimates, assumptions and judgements when applying accounting policies and preparing its financial statements, particularly in connection with the calculation of provisions (including those related to remediations or credit losses), the determination of the fair value of financial instruments, the valuation of intangible assets including goodwill and the accounting treatment of any uncertain tax positions. A change in a critical accounting estimate, assumption and/or judgement resulting from new information or from changes in circumstances or experience could result in WNZL incurring losses greater than those anticipated or provided for. This risk is currently heightened by the COVID-19 pandemic due to the unpredictable nature of the pandemic and uncertainty about the extent of its impact. In particular, it is possible that WNZL will incur credit losses greater than its existing provisions for expected credit losses and that these provisions may need to be revised upward in the future.

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 be exposed to a reduction in the value of intangible assets. As at our balance date WNZL carried goodwill principally related to its investments in New Zealand, as well as intangible capitalised software balances.

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

Westpac Securities NZ Limited

Management report (continued)

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

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

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

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

Wholesale Funding

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

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

Markets	Issuer	31 March 2020 Programme Type	Programme Limit	Issuer	30 September 2019 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 2020.

The Board authorised these condensed interim financial statements on 27 May 2020.

For and on behalf of the Board:

Director
27 May 2020

Director
27 May 2020

Westpac Securities NZ Limited

Statement of comprehensive income for the six months ended 31 March 2020

	Six months ended 31 March 2020 Unaudited $'000	Six months ended 31 March 2019 Unaudited $'000
Interest income from financial assets at amortised cost	111,103	110,151
Interest income from financial assets at fair value through profit or loss	25,422	4,320
Interest expense	(133,956)	(112,209)
Net interest income	2,569	2,262
Non-interest income	648	688
Total non-interest income	648	688
Net operating income before operating expenses	3,217	2,950
Operating expenses	(590)	(625)
Profit before income tax	2,627	2,325
Income tax expense	(736)	(651)
Net profit	1,891	1,674
Total comprehensive income	1,891	1,674

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

Balance sheet as at 31 March 2020

	Note	31 March 2020 Unaudited $'000	30 September 2019 Audited $'000
Assets			
Cash and cash equivalents		5,215	7,724
Receivables due from related entities		16,011,633	17,474,655
Current tax asset		3,883	3,567
Total assets		16,020,731	17,485,946
Liabilities			
Payables due to related entities		2,035	2,688,491
Debt issues	2	15,974,689	14,749,184
Other financial liabilities		34,972	37,673
Total liabilities		16,011,696	17,475,348
Net assets		9,035	10,598
Shareholder's equity			
Share capital		651	651
Retained profits		8,384	9,947
Total shareholder's equity		9,035	10,598

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

Westpac Securities NZ Limited

Statement of changes in equity for the six months ended 31 March 2020

	Note	Share Capital $'000	Retained Profits $'000	Total $'000
		Attributable to owners of the Company		
As at 1 October 2018 (Audited)		651	9,822	10,473
Six months ended 31 March 2019 (Unaudited)				
Net profit for the period		-	1,674	1,674
Total comprehensive income for the six months ended 31 March 2019		-	1,674	1,674
Transactions with owners:				
Dividends paid on ordinary shares	3	-	(3,329)	(3,329)
As at 31 March 2019 (Unaudited)		651	8,167	8,818
As at 1 October 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
Transactions with owners:				
Dividends paid on ordinary shares	3	-	(3,454)	(3,454)
As at 31 March 2020 (Unaudited)		651	8,384	9,035

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

Westpac Securities NZ Limited

Statement of cash flows for the six months ended 31 March 2020

	Note	Six months ended 31 March 2020 Unaudited $'000	Six months ended 31 March 2019 Unaudited $'000
Cash flows from operating activities			
Interest received		145,866	112,954
Interest paid		(136,633)	(110,986)
Service fees received - related entities		512	592
Service fees paid - related entities		(541)	(396)
Operating expenses paid		(40)	(122)
Income tax paid		(1,052)	(1,010)
Net cash provided by/(used in) operating activities		8,112	1,032
Cash flows from investing activities			
Net movement in receivables due from related entities		2,241,872	(1,324,386)
Net cash provided by/(used in) investing activities		2,241,872	(1,324,386)
Cash flows from financing activities			
Net movement in payables due to related entities		(2,686,489)	175
Proceeds from debt issues		2,553,646	1,324,375
Repayments of debt issues		(2,116,196)	-
Dividends paid to ordinary shareholders	3	(3,454)	(3,329)
Net cash provided by/(used in) financing activities		(2,252,493)	1,321,221
Net decrease in cash and cash equivalents		(2,509)	(2,133)
Cash and cash equivalents at beginning of the year		7,724	7,551
Cash and cash equivalents at end of the period		5,215	5,418

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. These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit entities, and the New Zealand equivalent to International Accounting Standard (**'IAS'**) 34 *Interim Financial Reporting* and should be read in conjunction with the financial statements for the year ended 30 September 2019. These financial statements comply with IAS 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 and the accrual basis of accounting have 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 2019 unless otherwise stated.

Amendments to Accounting Standards effective this period

NZ IFRIC 23 Uncertainty over Income Tax Treatments (NZ IFRIC 23)

NZ IFRIC 23 *Uncertainty over Income Tax Treatments* (**'NZ IFRIC 23'**) was adopted by the Company on 1 October 2019. NZ IFRIC 23 clarifies the recognition and measurement criteria in NZ IAS 12 *Income Taxes* where there is uncertainty over income tax treatments, and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position.

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

NZ IFRIC 23 did not have a material impact on the Company.

Interest Rate Benchmark Reform

Interest Rate Benchmark Reform - amendments to NZ IFRS 9 *Financial Instruments* (**'NZ IFRS 9'**), NZ IAS 39 *Financial Instruments: Recognition and Measurement* (**'NZ IAS 39'**) and *NZ IFRS 7 Financial Instruments: Disclosures* (**'NZ IFRS 7'**) was early adopted, as permitted by the standard, by the Company on 1 October 2019. These amendments allow certain exceptions to the standard hedging requirements in respect of hedge relationships that are impacted by a market-wide interest rate benchmark reform.

As the Company does not apply hedge accounting, these amendments did not have an impact on the Company.

The IASB continues to work through phase 2 of the project which considers the issues that will affect financial reporting when an existing benchmark interest rate is replaced by an alternative reference rate (**'ARR'**). The Company continues to monitor these developments and the expected impact on exposures.

Note 2. Debt issues

	Note	As at 31 March 2020 Unaudited $'000	As at 30 September 2019 Audited $'000
Short-term debt			
Commercial paper		3,051,895	2,312,229
Total short-term debt		3,051,895	2,312,229
Long-term debt			
Euro medium-term notes		7,529,731	7,297,759
Covered bonds		5,393,063	5,139,196
Total long-term debt		12,922,794	12,436,955
Total debt issues		15,974,689	14,749,184
Debt issues measured at amortised cost	4	12,922,794	12,436,955
Debt issues measured at fair value		3,051,895	2,312,229
Total debt issues		15,974,689	14,749,184

Westpac Securities NZ Limited

Notes to the financial statements

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 2019. There have been no changes to the related entities during the period.

During the period ended 31 March 2020, the Company paid dividends in respect of the ordinary shares to its immediate parent Westpac New Zealand Operations Limited amounting to $3,454,000 (31 March 2019: $3,329,000).

In addition, $1,455,396,000 in lending was repaid by Westpac New Zealand Limited (**'WNZL'**) to the Company, and $2,681,350,000 borrowing from WNZL was repaid by the Company (refer to Note 4).

There were no other significant related entity transactions in the six months ended 31 March 2020.

Note 4. Fair value of financial instruments

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.

Fair value hierarchy

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

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

Valuation techniques

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

Financial instruments measured at fair value

Level 1 instruments

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

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

There are no financial instruments included in the Level 1 category (30 September 2019: 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 independent pricing services, broker quotes or inter-dealer prices.
Financial assets at fair value through profit or loss due from WNZL	Receivables due from related entities	Loans	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of the Company.

Financial assets at fair value through profit or loss due from WNZL as at 31 March 2020 were $3,049,330,000 (30 September 2019: $2,309,303,000).

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 judgment.

There are no financial instruments included in the Level 3 category (30 September 2019: nil).

Westpac Securities NZ Limited

Notes to the financial statements

Note 4. Fair value of financial instruments (continued)

Analysis of movements between fair value hierarchy levels

During the period, there were no transfers between levels of the fair value hierarchy (30 September 2019: 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 2019.

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

	31 March 2020 (Unaudited)		30 September 2019 (Audited)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$'000	$'000	$'000	$'000
Financial assets not measured at fair value				
Cash and cash equivalents	5,215	5,215	7,724	7,724
Receivables due from related entities	39,409	39,409	47,035	47,035
Loan included in receivables due from related entities - WNZL	12,922,873	12,717,087	15,118,317	15,306,377
Total financial assets not measured at fair value	12,967,497	12,761,711	15,173,076	15,361,136
Financial liabilities not measured at fair value				
Payables due to related entities	2,035	2,035	2,688,491	2,688,491
Debt issues measured at amortised cost	12,922,794	12,881,203	12,436,955	12,673,955
Other financial liabilities	34,972	34,972	37,673	37,673
Total financial liabilities not measured at fair value	12,959,801	12,918,210	15,163,119	15,400,119

Note 5. Segment information

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

The chief operating decision 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

Other than the guarantee requirements under the Global Covered Bond programme, there were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 31 March 2020 (30 September 2019: nil).

Independent auditor's review report

To the shareholder of Westpac Securities NZ Limited

Report on the interim financial statements

We have reviewed the accompanying condensed interim financial statements (the interim financial statements) of Westpac Securities NZ Limited (the Company) on pages 17 to 22, which comprise the balance sheet as at 31 March 2020, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period ended on that date, and a statement of accounting policies and selected explanatory notes.

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 International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (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.

Our responsibility

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 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. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs 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. Accordingly, we do not express an audit opinion on these interim financial statements.

We are independent of the Company. Other than in our capacity as auditor and provider of other audit-related services in relation to agreed procedures reports for the Company's debt issuance programmes, we have no relationship with, or interests in, the Company. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Company do not present fairly, in all material respects, the financial position of the Company as at 31 March 2020, and its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.

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.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Auckland

27 May 2020

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz