Westpac Covered Bond Trust

ABN 41 372 138 093

Annual Report

For the year ended 30 September 2018

WESTPAC COVERED BOND TRUST

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This financial report covers Westpac Covered Bond Trust (the Trust) as an individual entity. The financial report is presented in Australian dollars.

Westpac Covered Bond Trust is incorporated and domiciled in Australia.

The financial report was authorised for issue by Westpac Securitisation Management Pty Limited (the Manager) under delegation of BNY Trust Company of Australia Limited (the Trustee) on 7 December 2018. The Trustee has the power to amend and reissue the financial report.

The Manager's registered office is:

Level 18, Westpac Place
275 Kent Street
Sydney NSW 2000

MANAGER'S REPORT

For the purposes of this report, the 'Manager' refers to Westpac Securitisation Management Pty Limited in its capacity as Administrative Agent. The Manager has prepared this general purpose financial report under delegation of BNY Trust Company of Australia Limited (the Trustee).

The Manager of the Westpac Covered Bond Trust (the Trust) presents its report together with the financial statements of the Trust for the financial year ended 30 September 2018.

Principal activities

The principal activity of the Trust is to provide a financial guarantee in respect of all interest and principal payable under the terms of the covered bonds issued, from time to time, by Westpac Banking Corporation (Westpac). The guarantee is triggered following the service of a notice to pay on Westpac under the terms of the covered bond programme. The Trust would gain access to a specific pool of residential mortgages to enable it to fulfil the potential financial obligations due to the covered bond note holders. The Trust has entered into contingent swap agreements to hedge against any potential foreign currency exposure.

There have been no significant changes in the nature of the principal activities of the Trust during 2018.

Operating and financial review

The net profit attributable to income unitholders of the Trust for the financial year ended 30 September 2018 was $130,364,975 (2017: $128,778,051). As all profit was fully distributed to the income unitholders, no income tax is payable by the Trust.

Significant changes in state of affairs and events during and since the end of the 2018 financial year

During the financial year the Trust decreased the borrowings from Westpac by $2,000,000,000 in December 2017 and increased the borrowings from Westpac by $3,000,000,000 in April 2018. There were no other significant changes in the state of affairs of the Trust during the year.

The Manager is not aware of any matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Trust, the results of its operations or the state of affairs of the Trust in subsequent financial years.

Developments and expected results

There are no likely developments that are expected to have a material impact on the results of the Trust.

Environmental disclosure

The operations of the Trust are not subject to significant environmental regulation under any law of the Commonwealth of Australia or of any state or territory of Australia. The Trust has not incurred any liability (including for rectification costs) under any environmental legislation.

Rounding of amounts

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars, unless indicated to the contrary.

Signed in accordance with a resolution of the Directors of the Manager.

Director

Director

Sydney,
7 December 2018

WESTPAC COVERED BOND TRUST

Statement of profit or loss and other comprehensive income for the year ended 30 September 2018

	Note	2018 $'000	2017 $'000
Interest income	3	1,185,011	1,146,811
Interest expense	3	(1,050,927)	(1,014,269)
Net interest income		**134,084**	**132,542**
Other income		-	-
Net operating income before operating expenses		**134,084**	**132,542**
Operating expenses	4	(3,719)	(3,764)
Profit before income tax		**130,365**	**128,778**
Income tax expense		-	-
Profit after income tax		**130,365**	**128,778**
Distributions to unitholders		(130,365)	(128,778)
Net profit for the year		**-**	**-**
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the unitholders of Westpac Covered Bond Trust		**-**	**-**

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

WESTPAC COVERED BOND TRUST

Balance sheet as at 30 September 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	12(a)	5,842,761	4,869,061
Loan	5	30,192,057	30,163,317
Due from related entities	6	68,996	61,286
Total assets		**36,103,814**	**35,093,664**
Liabilities			
Borrowings	8	36,000,000	35,000,000
Due to related entities	9	103,811	93,661
Other liabilities	10	3	3
Total liabilities excluding net assets attributable to unitholders		**36,103,814**	**35,093,664**
Net assets attributable to unitholders	11	-	-
Total liabilities		**36,103,814**	**35,093,664**
Net assets		**-**	**-**

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

Statement of changes in equity for the year ended 30 September 2018

	Total equity $'000
Balance at 1 October 2016	-
Balance at 30 September 2017	-
Balance at 30 September 2018	-

Under Australian Accounting Standards (AAS), net assets attributable to unitholders are classified as a financial liabilities rather than equity. As a result there was no equity at the start or the end of the year. The net assets attributable to the unitholders are disclosed in note 11 to the financial statements.

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

WESTPAC COVERED BOND TRUST

Cash flow statement for the year ended 30 September 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Interest received		1,177,301	1,148,583
Interest paid		(1,041,039)	(1,022,078)
Payments to suppliers and service providers		(3,711)	(3,788)
Net cash provided by/(used in) operating activities	12(b)	**132,551**	**122,717**
Cash flows from investing activities			
Non-recourse loan payments		(12,504,120)	(16,923,888)
Non-recourse loan proceeds		12,475,380	20,726,438
Net cash provided by/(used in) investing activities		**(28,740)**	**3,802,550**
Cash flows from financing activities			
Repayment of borrowings		(2,000,000)	(3,000,000)
Proceeds from borrowings		3,000,000	-
Distributions paid to unitholders		(130,111)	(129,456)
Net cash provided by/(used in) financing activities	12(c)	**869,889**	**(3,129,456)**
Net increase in cash and cash equivalents		**973,700**	**795,811**
Cash and cash equivalents as at the beginning of the year		4,869,061	4,073,250
Cash and cash equivalents as at the end of the year	12(a)	**5,842,761**	**4,869,061**

The above cash flow statement should be read in conjunction with the accompanying notes. Details of the reconciliation of net cash provided by/(used in) operating activities to net profit are provided in Note 12.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. General information

The Trust was established pursuant to a Trust Deed dated 26 October 2011.

The Trust's immediate and ultimate parent entity is Westpac Banking Corporation (Westpac), incorporated in Australia.

Note 2. Financial statements preparation

a. Basis of accounting

(i) General

The general purpose financial report has been prepared in accordance with Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial report has been prepared under the historical cost convention except where otherwise indicated.

(iii) Comparative revisions

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

(iv) Standards adopted during the year ended September 2018

The Trust adopted the requirements of AASB 2016-2-Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 which require additional disclosures regarding both cash and non-cash changes in liabilities arising from financing activities. These disclosures have been made in the notes to the cash flow statement. As permitted by the standard, comparatives are not required on first application.

There were no other new standards applied in 2018.

(v) Balance sheet presentation

Assets and liabilities have been presented in order of liquidity on the face of the balance sheet.

(vi) Functional and presentation currency

The financial statements are presented in Australian dollars which is the Trust's functional and presentation currency. The functional currency is the main currency of the economy it operates in.

(vii) Offsetting

Financial assets and liabilities are presented net in the balance sheet when the Trust has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

b. Revenue recognition

(i) Interest income

Interest income for all instruments measured at amortised cost is recognised in the statement of profit or loss and other comprehensive income using the effective interest method.

The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the instrument, over its expected life.

Interest relating to impaired loans is recognised using the loan's original effective rate based on the net carrying value of the impaired loan after giving effect to impairment charges, or for a variable loan, the current effective interest rate determined under the contract. This rate is also used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Other income

Other income is recognised on an accrual basis over the period during which the service is performed.

c. Expense recognition

(i) Interest expense

Interest expense is recognised in the statement of profit or loss and other comprehensive income for all instruments measured at amortised cost using the effective interest method (refer Note 2(b)(i)).

(ii) Operating expenses

Operating expenses are recognised on an accrual basis over the period during which the service is performed.

d. Income tax

Under current legislation, the Trust is not subject to income tax provided the taxable income of the Trust is fully distributed to income unitholders.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Financial statements preparation (continued)

e. Assets

Financial assets

Recognition

Purchases and sales of financial assets (except for receivables) are recognised on trade-date; the date on which the Trust commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

Derecognition

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

Classification and measurement

The Trust classifies its financial assets into the following categories: cash and cash equivalents, loan and due from related entities. Financial assets are recognised initially at fair value plus directly attributable transaction costs.

The accounting policy for each category of financial asset mentioned above and the determination of its fair value is set out in the note for the relevant item.

(i) Cash and cash equivalents

For the purposes of presentation in the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(ii) Loan

The loan is a non-derivative financial asset with fixed or determinable payment that is not quoted in an active market. The non-recourse loan to Westpac is recognised at the fair value of consideration and is subsequently measured at amortised cost. The terms of the loan include a number of linked agreements between Westpac and the Trust, including cash flow management agreements/derivative contracts, services provided by Westpac and the underlying pool of securitised assets. Recourse is limited to the underlying pool of securitised assets. Since the derivatives are deemed part of the terms of the loan, they are not being measured at fair value. The associated profit/interest and loss/fee items are included in interest income.

(iii) Due from related entities

Amounts due from related entities are initially recognised at fair value of consideration and are subsequently measured at amortised cost, less any provisions for impairment.

(iv) Impairment of financial assets

Assets carried at amortised cost

At each balance sheet date, Westpac, as Servicer, assesses whether there is any objective evidence of impairment of its financial assets. An impairment charge is recognised if there is objective evidence that its financial asset may not be recoverable and when the financial impact can be reliably measured.

The impairment charge is measured as the difference between the financial asset's current carrying amount and the present value of its estimated future cash flows. The estimated future cash flows exclude any expected future credit losses which have not yet occurred and are discounted to their present value using the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The impairment charge is recognised in the statement of profit or loss and other comprehensive income with a corresponding reduction of the carrying value of the financial asset through an offsetting provision account.

In subsequent periods, objective evidence may indicate that an impairment charge should be reversed. The impairment charge is reversed in the statement of profit or loss and other comprehensive income of that future period and the related provision for impairment is reduced.

f. Liabilities

Financial liabilities

Recognition

Financial liabilities are recognised when an obligation arises.

Derecognition

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Classification and measurement

The Trust classifies financial liabilities into the following categories: borrowings, due to related entities and other liabilities. Financial liabilities are recognised initially at fair value plus directly attributable transaction costs.
The accounting policy for each category of financial liability mentioned above and the determination of its fair value is set out in the note for the relevant item.

(i) Borrowings

Loans from the ultimate parent entity are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost.

(ii) Due to related entities

Due to related entities are initially recognised at fair value and subsequently measured at amortised cost.

(iii) Other liabilities

Other liabilities include payables and accrued expenses owing by the Trust which are unpaid as at balance sheet date. They are initially recognised at fair value and subsequently measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Financial statements preparation (continued)

f. Liabilities (continued)

Financial liabilities (continued)

(iv) Derivative financial instruments

Derivative financial instruments include interest rate swaps which are initially recognised in the balance sheet at fair value on the date on which a derivative contract is entered into and are subsequently measured at amortised cost. The interest rate swaps form part of the loan (refer Note 2(e)(ii)).

(v) Financial guarantees

Financial guarantees are initially recognised at fair value and subsequently measured at the higher of (a) the best estimate of the amount required to settle the liability, taking into account any default event and (b) the amortised cost.

g. Net assets attributable to unitholders

Units are redeemable on a fixed date 80 years after the commencement of the Trust, unless the Trust is terminated before this date in accordance with the provisions of the Master Trust Deed. Under the terms of the Master Trust Deed and the transaction documents of the Trust, residual income unit and residual capital units have been issued to unitholders. Residual income unitholders have a present entitlement to the distributable income of the Trust. Residual capital unitholders have no right to receive distributable income except on termination of the Trust to an amount equals to the initial subscription price, subject to availability of funds in the Trust. All net assets attributable to unitholders have been recognised as liabilities of the Trust, rather than as equity due to the entitlement to the income and/or the mandatory redemption of the units. The classification of net assets attributable to unitholders does not alter the underlying economic interest of the unitholders in the net assets and comprehensive income attributable to unitholders of the Trust. The units issued are initially recognised and subsequently measured at cost, being the fair value of consideration received.

h. Goods and Services Tax (GST)

The Trust is part of a GST consolidated group, of which Westpac is the head entity. Any GST payable or recoverable is presented on the balance sheet as a net payable to or receivable from the ultimate parent entity.

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not deemed recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are recognised inclusive of GST.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are ultimately recoverable from, or payable to the ATO, are presented as operating cash flows.

Commitments are disclosed net of the amount of GST ultimately recoverable from, or payable to, the ATO.

i. Segment reporting

The Trust operates in only one segment that is domiciled in Australia to act as a special purpose vehicle for the securitisation of the Westpac home loan mortgage portfolio. The Trust has no other operating segment.

j. Critical accounting judgements and estimates

Applying the Trust's accounting policies requires the use of judgement, assumptions and estimates which impact the financial information. The significant assumptions and estimates used are:

Provision for impairment charges on loan

The Trust's loan impairment provision is established to recognise incurred impairment in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan. The impairment charge is the difference between the carrying value of the loan and the present value of estimated future cash flows calculated at the loan's original effective interest rate for fixed rate loans and the loan's current effective interest rate for variable rate loans. Provision for loan impairment represents management's estimate of the impairment charges incurred in the loan portfolio as at the balance sheet date. Changes to the provision for loan impairment are reported in the statements of profit or loss and other comprehensive income as part of impairment charges on loan.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Financial statements preparation (continued)

k. Future developments in accounting standards

The following new standards and interpretations which may have a material impact on the Trust have been issued but are not yet effective, and unless otherwise stated, have not been early adopted by the Trust:

(i) AASB 9 Financial Instruments

AASB 9 Financial Instruments (December 2014) (AASB 9) will replace AASB 139 Financial Instruments: Recognition and Measurement (AASB 139). It includes a forward looking 'expected credit loss' impairment model, revised classification and measurement model and modifies the approach to hedge accounting. The standard is effective from 1 October 2018.

The major changes under the standard are outlined below:

Impairment

AASB 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the existing incurred loss model in AASB 139 which only recognises impairment if there is objective evidence that a loss has been incurred. The revised impairment model applies to all financial assets at amortised cost, lease receivables, debt securities measured at fair value through other comprehensive income, loans commitments and financial guarantee contracts.

Key elements of the new impairment model are:

- requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months expected credit losses is required (stage 1). For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired a provision for full lifetime expected losses is required (stages 2 and 3 respectively);
- expected credit losses are probability-weighted amounts determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. This will involve a greater use of judgement than the existing impairment model; and
- interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired (i.e. stage 3).

Implementation

The adoption of AASB 9 is not expected to have a material impact on the Trust.

Measurement

Models have been developed, tested and approved while certain aspects of the impairment provisioning process continue to be assessed and refined. These models use three main components (as well as the time value of money) being:

- Probability of default (PD): the probability that a counterparty will default;
- Loss given default (LGD): the loss that is expected to arise in the event of a default; and
- Exposure at default (EAD): the estimated outstanding amount of credit exposure at the time of the default.

The models use a 12 month timeframe for expected losses in stage 1 and a lifetime timeframe for expected losses in stages 2 and 3. The models incorporate past experience, current conditions and multiple probability-weighted macroeconomic scenarios for reasonably supportable future economic conditions. Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models.

Significant increase in credit risk and movement between stages

An asset will move from stage 1 to stage 2 if there has been a significant increase in credit risk.

The judgement to determine this will be primarily based on changes in internal customer risk grades since origination of the facility.

The Trust will not be applying the low credit risk exemption which assumes investment grades facilities do not have a significant increase in credit risk.

The movement between stages 2 and 3 will be based on whether financial assets are credit-impaired at the reporting date which is expected to be similar to the individual assessment of impairment for financial assets under the current AASB 139.

Assets may move in both directions through the stages of the impairment model. Assets previously in stage 2 may move back to stage 1 if it is no longer considered that there has been a significant deterioration of credit risk. Similarly, assets in stage 3 may move back to stage 2 if they are no longer assessed to be credit-impaired.

Forward looking information

The estimation of forward looking information is a key area requiring judgement. The Trust intends to consider a minimum of three future macroeconomic scenarios. These will include a base case scenario along with upside and downside scenarios. The macroeconomic variables used in these scenarios, based on current economic forecasts, include (but are not limited to) unemployment rates, gross domestic product and residential and commercial property price indices.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Financial statements preparation (continued)

k. Future developments in accounting standards (continued)

(i) AASB 9 Financial Instruments (continued)

Governance

Westpac has established a governance framework and is implementing appropriate controls to address the new requirements of AASB 9 including key areas of judgement such as the determination of a significant increase in credit risk and the use of forward looking information in future economic scenarios along with the controls addressing credit data and systems and the expected credit loss models.

Classification and measurement

AASB 9 replaces the classification and measurement model in AASB 139 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument solely represent the payment of principal and interest. Financial assets will be measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive income; or
- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest. An entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

Implementation

The financial assets of the Trust will remain measured at amortised cost under AASB 9 based on the hold to collect business model.

(ii) AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers (AASB 15) was issued on 28 May 2014 and will be effective from 1 October 2018. The standard replaces AASB 118 Revenue and related interpretations, and applies to all contracts with customers, except leases, financial instruments and insurance contracts. The standard provides a more systematic approach to revenue recognition by introducing a five-step model governing revenue measurement and recognition. This includes (1) identifying the contract with customer, (2) identifying each of the performance obligations included in the contract, (3) determining the amount of consideration in the contract, (4) allocating the consideration to each of the identified performance obligations and (5) recognising revenue as each performance obligation is satisfied.

The Trust's main source of income is interest. This is outside the scope of the new revenue standard. The application of AASB15 will have no impact on the Trust.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3. Net interest income

	2018 $'000	2017 $'000
Interest income		
Transactions with ultimate parent entity:		
Non-recourse loan	1,106,029	1,048,737
Bank interest	78,982	98,074
Total interest income	**1,185,011**	**1,146,811**
Interest expense		
Transactions with ultimate parent entity:		
Borrowings	1,050,927	1,014,269
Total interest expense	**1,050,927**	**1,014,269**
Net interest income	**134,084**	**132,542**

Note 4. Operating expenses

	2018 $'000	2017 $'000
Transactions with related entities:		
Management fees	3,470	3,536
Trustee fees	188	188
Other operating expenses	61	40
Total operating expenses	**3,719**	**3,764**

Note 5. Loan

	2018 $'000	2017 $'000
Balances with ultimate parent entity:		
Non-recourse loan - principal	30,192,057	30,163,317
Total loan	**30,192,057**	**30,163,317**

Note 6. Due from related entities

	2018 $'000	2017 $'000
Balances with ultimate parent entity:		
Accrued interest receivable - non-recourse loan	68,996	61,286
Total due from related entities	**68,996**	**61,286**

Note 7. Derivative financial instruments

Interest rate swaps

The Trust maintains an interest rate swap for the purpose of minimising the interest rate risk between fixed and floating rates on the underlying pool of residential mortgages and the floating rate obligations of the borrowings. The terms of the interest rate swap allow for netting of swap receipts and payments. The interest rate swap forms part of the loan (refer Note 2(e)(ii)).

Contingent cross currency swaps

For each non-AUD denominated covered bond issued by Westpac, the Trust will enter into a contingent cross currency swap with Westpac, under which Westpac agrees to pay the Trust the non-AUD amount that would be payable by the Trust on the covered bond in the event that the covered bonds become payable under the Trust's guarantee.

Contingent interest rate swaps

For each AUD denominated fixed rate covered bond issued by Westpac, the Trust will enter into a contingent interest rate swap with Westpac, to minimise the interest rate risk of the fixed rate AUD covered bond that would be payable by the Trust in the event that the covered bonds become payable under the Trust's guarantee.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 8. Borrowings

	2018 $'000	2017 $'000
Balances with ultimate parent entity:		
Borrowings	36,000,000	35,000,000
Total borrowings	**36,000,000**	**35,000,000**

Note 9. Due to related entities

	2018 $'000	2017 $'000
Balances with ultimate parent entity:		
Distribution payable	11,641	11,387
Accrued interest payable - borrowings	91,874	81,986
Balances with related entities:		
Management fees payable	296	288
Total due to related entities	**103,811**	**93,661**

Note 10. Other liabilities

	2018 $'000	2017 $'000
Accrued expenses	3	3
Total other liabilities	**3**	**3**

Note 11. Net assets attributable to unitholders

	2018 $'000	2017 $'000
Net assets attributable to unitholders	-	-
Total net assets attributable to unitholders	**-**	**-**

Movements in net assets attributable to unitholders	2018 $'000	2017 $'000
Opening balance	-	-
Profit after income tax	130,365	128,778
Distributions to unitholders	(130,365)	(128,778)
Closing balance	**-**	**-**

	2018 Units	2017 Units
On issue at beginning of the year	2	2
On issue at end of the year	**2**	**2**

The residual capital unit holder, Westpac, has no right to receive distributions in respect of the Trust other than the right to receive, on the termination of the Trust, the entire beneficial interest of the Trust subject to the rights of the holders of the residual income unit.

Residual income and residual capital units were issued at a face value of $10.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 12. Notes to the cash flow statement

	2018 $'000	2017 $'000
(a) Reconciliation of cash and cash equivalents		
Cash with ultimate parent entity	5,842,761	4,869,061
Cash and cash equivalents at end of the year	**5,842,761**	**4,869,061**
(b) Reconciliation of net cash provided by/(used in) operating activities to net profit for the year		
Net profit for the year	130,365	128,778
Changes in operating assets and liabilities:		
(Increase)/decrease in interest receivable	(7,710)	1,772
Increase/(decrease) in interest payable	9,888	(7,809)
Increase/(decrease) in management fees payable	8	(24)
Net cash provided by/(used in) operating activities	**132,551**	**122,717**

(c) Reconciliation of liabilities arising from financing activities

Movement in liabilities arising from financing activities:

	Borrowings $'000	Distributions payable $'000	2018 $'000
Balance as at 1 October 2017	**35,000,000**	**11,387**	**35,011,387**
Proceeds	3,000,000	-	3,000,000
Repayments	(2,000,000)	-	(2,000,000)
Other cash movements	-	(130,111)	(130,111)
Total cash movements	**1,000,000**	**(130,111)**	**869,889**
Other non-cash movements	-	130,365	130,365
Total non-cash movements	**-**	**130,365**	**130,365**
Balance as at 30 September 2018	**36,000,000**	**11,641**	**36,011,641**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 13. Financial risk management

Risk management policies and procedures

Categories of risk

The financial condition and operating results of the Trust are affected by a number of key financial and non-financial risks. These risks may include the following:

- Credit risk: the potential for financial loss where a customer or counterparty fails to meet their financial obligations to the Trust.
- Market risk: the risk to earnings from changes in market factors. The principal market risk is interest rate risk, the potential loss arising from the changes in market interest rates.
- Liquidity risk: the potential loss arising from cash outflows exceeding cash inflows over a given period.

The Trust's objectives and policies in respect of managing these risks are set out below.

Governance framework

The Trust operates within the governance and risk management frameworks of Westpac. These frameworks support effective and efficient decision-making through established reporting obligations to the Board of the Westpac and the committees which support the Board, as well as measure staff performance.

The key components of the risk and compliance framework include:

- Incident management and reporting;
- Targeted monitoring of control effectiveness;
- Internal and external assurance reviews, reporting and actions;
- Risk and control assessments;
- Operational risk scorecards; and
- Regulatory breach reporting.

The Trust's risk and compliance framework is aligned with Westpac's business units rather than the individual entities that comprise the Westpac Group. Nevertheless the framework recognises the governance arrangements that are in place in relation to all Westpac Group entities and is designed to ensure that all risks and risk related issues that impact the Trust are captured, escalated and managed appropriately via the appropriate forums and committees.

(i) Credit risk

(a) Credit risk exposure

The table below sets out the maximum exposure to credit risk and the credit risk concentrations to which the Trust is exposed.

	2018 $'000	2017 $'000
On-balance sheet credit exposures consist of		
Cash and cash equivalents	5,842,761	4,869,061
Loan	30,192,057	30,163,317
Due from related entities	68,996	61,286
Total credit exposures	**36,103,814**	**35,093,664**
Analysis of credit exposures by industry and economic sector		
Financial	36,103,814	35,093,664
Total credit exposures	**36,103,814**	**35,093,664**

(b) Credit quality of financial assets

There are a variety of techniques to reduce the credit risk arising on the underlying portfolio of residential mortgages. Enforceable legal documentation establishes direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided. All residential mortgages are secured by fixed charges over borrowers' residential properties and are subject to Westpac's credit lending policies, including Lenders Mortgage Insurance as required.

The net fair value of the financial assets approximates its carrying amount.

The table below set out the amount of past due or impaired assets, on the underlying portfolio of residential mortgages.

	2018 $'000	2017 $'000
30 - 60 days	73,312	73,807
61 - 90 days	22,879	30,933
	96,191	**104,740**

(ii) Liquidity risk

Liquidity risk is the risk that the Trust will encounter difficulty in meeting obligations associated with the financial liabilities due to lack of liquid assets or access to adequate funding on acceptable terms. No significant liquidity risk exposure existed at balance date. All financial liabilities are expected to mature within three months, with the exception of distributions payable which have an expected maturity of less than one year and borrowings, which have an expected maturity of greater than five years. This is for the current and comparative periods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 13. Financial risk management (continued)

Risk management policies and procedures (continued)

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market variables such as interest and foreign exchange rates. No significant market risk exposure existed at balance date.

The Trust does not enter or trade financial instruments for speculative purpose.

(iv) Interest rate risk

Interest rate risk is the risk of loss resulting from changes in market interest rates. Adverse changes in market interest rates can potentially decrease returns on financial assets.

The Trust is not materially impacted by market interest rates due to economic hedging of interest bearing assets and interest bearing liabilities.

(v) Fair value measurements

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

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

The Trust categorises all fair value instruments according to the hierarchy described below:

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 valuation of Level 1 instruments requires little or no management judgement. The Trust does not hold instruments classified as Level 1 in the fair value hierarchy.

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 prices. Valuation techniques include the use of market standard discounting methodologies. The Trust does not hold instruments classified as Level 2 in the fair value hierarchy.

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. The carrying value of financial instruments approximate their net fair value as they are based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for similar risk profiles. The financial instruments relate to intercompany balances which are deemed to have no observable market. The Trust holds instruments which are classified as Level 3 in the fair value hierarchy.

The table below summarises the estimated fair value and fair value hierarchy of financial instruments not measured at fair value:

30 September 2018

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Loan	-	-	30,192,057	30,192,057
Due from related entities	-	-	68,996	68,996
Total financial assets carried at fair value	**-**	**-**	**30,261,053**	**30,261,053**
Financial liabilities				
Borrowings	-	-	36,000,000	36,000,000
Due to related entities	-	-	103,811	103,811
Total financial liabilities carried at fair value	**-**	**-**	**36,103,811**	**36,103,811**

30 September 2017

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Loan	-	-	30,163,317	30,163,317
Due from related entities	-	-	61,286	61,286
Total financial assets carried at fair value	**-**	**-**	**30,224,603**	**30,224,603**
Financial liabilities				
Borrowings	-	-	35,000,000	35,000,000
Due to related entities	-	-	93,661	93,661
Total financial liabilities carried at fair value	**-**	**-**	**35,093,661**	**35,093,661**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Related Party disclosures

The Manager of the Westpac Covered Bond Trust is Westpac Securitisation Management Pty Limited, incorporated in Australia. The Manager is a wholly owned subsidiary of Westpac Banking Corporation, incorporated in Australia.

(a) Parent entity

Westpac Banking Corporation is the immediate and ultimate parent entity of the Trust.

(b) Key management personnel (KMP)

Key management personnel are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the Trust. This includes all Executive and Non-Executive Directors.
The Directors of the Manager of the Trust during the year since 1 October 2017 and up to the date of this report unless otherwise stated are:

Curtis Zuber

Gaetano Volpicella

Richard Burton

David Lees

No compensation is paid to key management personnel directly by the Trust. Total key management personnel compensation is paid by the ultimate parent entity, Westpac Banking Corporation.

(c) Transactions with other related parties

The transactions with related entities were disclosed in the notes to the financial statements, and were made on normal commercial terms and conditions and at market rates except where indicated.

Note 15. Auditor's remuneration

The auditor's remuneration for audit of the financial statements of $18,524 (2017: $18,250) was paid by the ultimate parent entity, Westpac.

Note 16. Contingent liabilities and commitments

Upon the serving of notice to pay, the financial guarantee covers the covered bonds issued by Westpac in the following currencies, AUD 3.2bn, EUR 9.4bn, NOK 2.8bn, USD 7.1bn and GBP 1bn.

Note 17. Subsequent events

No matters have arisen since the year ended 30 September 2018 which is not otherwise dealt with in this report, that has significantly affected or may significantly affect the operations of the Trust, the results of its operations or the state of affairs of the Trust in subsequent periods.

MANAGER'S DECLARATION

We report that in our opinion:

(a) the Trust has operated during the year ended 30 September 2018 in accordance with the provisions of the Administration Deed for the Trust;

(b) the general purpose financial report of the Trust is properly drawn up in accordance with the Administration Deed for the Trust so as to present fairly the state of affairs of the Trust at 30 September 2018 in accordance with Note 2(a) to the financial report and the results and cash flows of the Trust for the year ended at that date; and

(c) at the date of this Declaration, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they fall due.

For and on behalf of the Manager:
Westpac Securitisation Management Pty Limited
(ABN 73 081 709 211)

Director

Director

Sydney,
7 December 2018

TRUSTEE'S REPORT

Pursuant to the Administration Deed for the Trust this general purpose financial report has been prepared by Westpac Securitisation Management Pty Limited (the Administration Agent), and has been audited by PricewaterhouseCoopers, who were appointed by the Trustee and whose report is attached.

The Trustee is not aware of any material matters that require disclosure and that have not been disclosed. The Trustee is not aware of any material matters that have occurred since the date of the financial report that require disclosure and that have not been disclosed.

7/12/18

Anna O'Sullivan

17/12/18

For and on behalf of:
BNY Trust Company of Australia Limited
Sydney,

pwc

Independent auditor's report

To the unitholders of Westpac Covered Bond Trust

Our opinion

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of Westpac Covered Bond Trust (the Trust) as at 30 September 2018 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

What we have audited

The financial report comprises:

- the balance sheet as at 30 September 2018
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the Manager's declaration

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Trust in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors of the Manager are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 September 2018, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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Responsibilities of the directors of the Manager for the financial report

The directors of the Manager are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as the directors of the Manager determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

Sam Hinchliffe
Partner

Sydney
7 December 2018