Westpac Europe Limited

Registered No. 5660032

Annual Report

For the year ended 30 September 2019

WESTPAC EUROPE LIMITED

CONTENTS

This financial report covers Westpac Europe Limited (the Company) as an individual entity. The financial report is presented in United States dollars.

Westpac Europe Limited is incorporated and domiciled in UK.

The financial report was authorised for issue by the Directors of the Company on 22 January 2020. The Company's registered office is

Camomile Court
23 Camomile Street
London EC3A 7LL

DIRECTORS' REPORT

The Directors of Westpac Europe Limited (the Company or WEL) present their report, together with the audited financial statements of the Company for the financial year ended 30 September 2019.

Directors

The following persons were Directors of the Company during the period since 1 October 2018 and up to the date of this report unless otherwise stated:

C. Bannister

R. Jackson

J. Burgess

A. Belchambers

B. Stevenson

Directors' indemnities

During the year and up to the date of this report, Westpac Banking Corporation (the Parent or Westpac) maintained liability insurance and third-party indemnification provisions for the Company's directors, under which the Parent has agreed to indemnify the Company's directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Company. These indemnities are Qualifying Third Party Indemnity Provisions as defined in Section 234 of the Companies Act 2006.

Principal activities

Westpac Banking Corporation, incorporated in Australia, is the immediate holding company, in which the Company's financial statements are consolidated. Westpac Europe Limited is domiciled in the United Kingdom.

The market and credit risk associated with the activities of the Company is backed out to the Parent via risk transfer, sub-participation and collateral agreements. The principal risks are operational in nature and rely on the Parent. Sufficient capital exists to cover these risks, along with other mitigation measures, which are detailed in the Internal Capital Adequacy Assessment Process (ICAAP) approved annually by the Company's Board.

The Company has adopted International Financial Reporting Standards as adopted by the European Union (IFRS) as the basis of preparation of the financial statements as set out in the accounting policies.

The principal activities of the Company comprise the conducting of banking and financial markets transactions with European companies and financial institutions. No employees are hired by WEL.

There were no significant changes in the nature of these activities during the year.

Risk management

The Company's underlying credit, market and liquidity risks are mitigated through various agreements with the Parent. The collateral requirement is monitored by management on a daily basis and includes a buffer of 5% to ensure the Company always has sufficient collateral. The Directors review the overall collateral position on a monthly basis.

As at 30 September 2019, the Company's total credit and liquidity risks are US$547 million and US$325 million respectively. The risks increased by some 15% and 16%, respectively, compared to the previous year. The total collateral buffer was US$52 million as at 30 September 2019, and it was sufficient to meet any contingencies.

Operational risk is the risk of loss from inadequate or failed internal processes, people and systems, or from external events. The Company has adopted the Parent's operational risk management framework underpinned by a culture of accountability and responsibility, based on a three lines of defence model.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure. The Company's capital management is also driven by the requirements of the Companies Act 2006 and Prudential Regulation Authority as applicable to UK Banks, and as such a regular calculation is performed in order to calculate the statutory capital requirements versus the current capital resources of the Company.

Under the Prudential Regulation Authority's (PRA) implementation of Basel III, firms are required to maintain a minimum Pillar 1 Capital ratio of at least 8%, and the Company's capital ratio is significantly above the PRA's minimum capital adequacy requirements. The Company considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital. The Company evaluates these considerations through an Internal Capital Adequacy Process (ICAAP) annually.

Dividends

The Directors do not recommend the payment of a dividend in the current year. No dividends were paid in the prior year.

Functional currency

All amounts are expressed in US Dollars as the functional currency unless otherwise stated. The functional currency represents the primary economic environment in which the Company operates and generates its cash flows.

The exchange rate at balance sheet date was £1.00 = US$1.2295 (2018: £1.00 = US$1.3072).

The average exchange rate for the year was £1.00 = US$1.2764 (2018: £1.00 = US$1.3453).

Transactions with directors and related parties

No Director held, at 30 September 2019, any interest in the share capital of the Company (2018: nil). No Director of the Company had a material interest at any time during the year in any contracts significant to the Company's business (2018: nil). There are no loans, arrangements or agreements that require disclosure under the Companies Act 2006 or International Accounting Standards (IAS 24) regarding transactions with related parties, other than those shown in the notes to the financial statements.

DIRECTORS' REPORT (CONTINUED)

Post balance sheet events

No matter or circumstances has arisen since the year ended 30 September 2019 which is not otherwise dealt with in this report, that has significantly affected or may significantly affect the operations of the Company, the results of its operations or the state of affairs of the Company in subsequent financial years.

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). In preparing these financial statements, the directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

So far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The Company has elective resolutions in force to dispense with the laying of financial statements before the shareholders in a general meeting, the holding of Annual General Meetings and the obligation to appoint auditors annually. PricewaterhouseCoopers LLP will therefore be deemed to have been reappointed auditors of the Company at the end of the period of 28 days commencing with the day on which copies of financial statements are sent to the members.

Approved by the Board of Directors and signed on its behalf by:

Director

C JL BURGESS

Date: 22 January 2020

Registered Office
Camomile Court
23 Camomile Street
London EC3A 7LL

STRATEGIC REPORT

Review and principal activities

The Company was incorporated in the UK on 21 December 2005. The principal activities of the Company comprise the conducting of banking and financial markets transactions with European companies and financial institutions.

WEL was granted permission under Part IV of the Financial Services and Markets Act 2000 and is licensed to operate as a bank by the UK Financial Services Authority as of 19 May, 2006. Since authorisation, the Company has marketed its services and products to targeted customers in Europe and will continue to increase its activities in line with its strategic objectives.

WEL is primarily a sales and marketing operation, which was initially established to generate business in selected EEA countries. WEL's business focuses primarily on wholesale vanilla FX (spot, forward and options), bonds, swaps and other derivatives, and commodity/energy risk management products. In addition, bi-lateral and syndicated loan facilities and other types of commitments are also offered through WEL. Competition is intense in these markets, but the ability to deal with counterparties in these jurisdictions is critical to generating business in Australasia through the Australasian subsidiaries of EEA companies. Westpac continues to value the ongoing maintenance and growth of its business in Europe, and promoting its AUD$ and NZ$ franchise. WEL also assists in protecting and promoting business gained in Australasia through products and services such as Transactional Banking.

Business performance and position

The Company's net profit for the year ended 30 September 2019 was US$1,334,000 (2018: US$905,000). The increase was primarily driven by rising yields on US Treasury Notes where WEL's excess capital is invested. The Company has total assets of US$411 million (2018: US$348 million). Underlying loan exposures increased by 11% during the year to US$271 million driven by new client origination. WEL currently has US$64 million of Tier 1 capital which the Board considers more than sufficient to cover the risk profile of the firm.

Future outlook

Brexit

On 29 March 2017, the Prime Minister of the United Kingdom (UK) notified the European Council in accordance with Article 50 of the Treaty on European Union of the UK's intention to withdraw from the European Union (EU), triggering a period for the negotiation of the UK's withdrawal from the EU which was subsequently extended. Following the UK General Election on the 12th December 2019, legislation is passing through Parliament contemplating the UK's departure on the 31st January 2020 with a transition period to 31st December 2020. It remains difficult to predict the impact that Brexit may have on financial markets, the global economy and the global financial services industry.

The future regulatory environment governing the trading relationship between the UK and the EU27 remains uncertain and hence there is uncertainty as to the possible impacts on WEL going forward. The Board of WEL has considered the possible impacts on strategy and business going forward and has contingency planning in place. The Board is continuing to monitor the implications of Brexit and believes it can continue to serve customers in material respects for the foreseeable future. More broadly, in connection with Brexit, WBC is considering plans to establish a new subsidiary in Germany.

Interbank-offered rates (IBOR) reform

In July 2017, the Financial Conduct Autority, which regulates the London Interbank Offered Rate ("LIBOR"), announced that it would not require panel banks to continue to submit rates for the calculation of the LIBOR benchmark after 2021. Accordingly, the continuation of LIBOR in its current form will not be guaranteed after 2021, and it appears likely that LIBOR will be discontinued or modified by 2021.

A review of the global major IBORs is being conducted to reform or replace existing IBORs with more suitable alternative reference rates (ARRs). The Company continues to monitor these developments and the expected impact.

Principal risks & uncertainties

WEL's tolerance level for risk is very low due to the business model and strategy of not taking any risk on transactions coupled with a desire to maintain its public AA- rating (Standard and Poor's).

The Board has limited appetite for taking on market risk. As a result all material positions are backed out to Westpac through its London Branch.

The material credit risk that is retained within WEL is in relation to the cash collateral received from Westpac, and on WEL's capital, which are invested in fixed income debt securities. In order to manage the credit risk, WEL has adopted Westpac's Investment Management Policy. As at 30 September 2019, WEL invested US$245 million in fixed income debt securities with central governments and highly rated financial institutions. By adopting Westpac's Investment Management Policy, WEL's investment decisions are made by taking into account the results of periodic investment reviews performed by Westpac. The Directors have oversight of WEL's investments on a monthly basis and continue to endorse Westpac's Investment Management Policy.

Liquidity risk is a material risk to WEL mitigated by the high quality liquid assets (HQLA) of face value US$180 million US Treasuries (2018: US$115 million) and EUR5 million (US$5.5 million) German government bonds (2018: EUR5 million) as at 30 September 2019. It enables WEL to pass its liquidity adequacy assessment process without taking any other management actions.

The Board will continue to review WEL's collateral structure and capital requirements to ensure there is enough cash collateral and capital buffers to manage the above risks under different business and market scenarios.

Key performance indicators

The WEL Board comprises three senior Westpac staff members including: the General Manager, Europe & Americas; Chief Operating Officer, Europe & Americas; and the Chief Financial Officer, International. The WEL Board comprises two Executive Directors and three Non-Executive Directors, including the Non-Executive Chairman of the Board.

Board meetings are held quarterly to review WEL's overall business performance and risk management. The assessments of WEL's liquidity risk and capital adequacy are reviewed monthly by the senior management team based on financial key performance indicators.

The indicators in Table 1 show that WEL has a strong ability to meet its short term maturing obligations. WEL has only net interest income earnings from the capital invested in fixed income debt securities, thus the expected profitability indicators show steady results. The majority of WEL's funding is from Westpac Banking Corporation and the leverage ratios reflect its stable funding structure. All undrawn commitments are 100% cash collateralised and the collateral profile is reviewed daily by WEL's Executive Management team. WEL's CET1 ratio and LCR sit firmly above the Prudential Regulation Authority's (PRA) minimum regulatory requirements of at least 8% for pillar 1 capital and 100% for LCR. Additional capital adequacy requirements comprising pillar 2 and combined buffer are also met in full by WEL.

STRATEGIC REPORT (CONTINUED)

The below table summarises the key performance indicators monitored by the WEL Board.

Table 1

	2019	2018
Capital indicators		
Common equity tier 1 ratio	162.71%	166.60%
Leverage ratios		
Debt ratio	84.47%	82.04%
Debt-to-equity ratio	5.44	4.57
Liquidity indicators		
Liquidity coverage ratio	1239%	790%
Current ratio[1]	1.41	1.39
Profitability indicators		
Return on assets	0.32%	0.26%
Return on equity	2.09%	1.47%
Asset quality indicators		
Off balance sheet commitments/Total assets	33.26%	36.64%
Customer advance/Total assets	32.68%	33.60%
Internal funding/Total assets	78.74%	79.76%

[1]Current Ratio (FSA047 & FSA048 Asset /Liabilities < 12months)

Approved by the Board of Directors and signed on its behalf by:

Director

Date: 22 January 2020

C J L BURGESS

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WESTPAC EUROPE LIMITED

Statement of profit or loss and other comprehensive income for the year ended 30 September 2019

	Note	2019[1] US$'000	2018 US$'000
Income			
Interest income			
Loans and advances to customers		4,942	4,802
Debt securities at amortised cost		5,793	3,992
Total interest income		**10,735**	**8,794**
Interest expense	20	(9,428)	(8,041)
Net interest income		**1,307**	**753**
Fees and commission		2,625	2,808
Other income		25	-
Net income		**3,957**	**3,561**
Administrative expenses		(2,285)	(2,442)
Impairment charges		(24)	-
Profit before income tax	2	**1,648**	**1,119**
Income tax expense	4	(314)	(214)
Net profit for the year		**1,334**	**905**
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of Westpac Europe Limited		**1,334**	**905**

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

[1] The Company has adopted IFRS 9 and IFRS 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

WESTPAC EUROPE LIMITED

Balance sheet as at 30 September 2019

	Note	2019[1] US$'000	2018 US$'000
Assets			
Current assets			
Cash and bank balances	5	7,458	7,496
Derivative financial instruments	17	5,861	6,369
Debt securities at amortised cost	8	209,325	215,342
Due from related entities	9	4,213	369
Other financial assets[2]	10	14,392	1,463
Total current assets		**241,249**	**231,039**
Non-current assets			
Debt securities at amortised cost	8	35,174	-
Loans and advances to customers	6	134,158	116,611
Total non-current assets		**169,332**	**116,611**
Total assets		**410,581**	**347,650**
Liabilities			
Current liabilities			
Borrowings	11	288,304	277,226
Derivative financial instruments	17	5,861	6,369
Due to related entities	12	15,575	1,499
Other financial liabilities[2]	13	1,842	1
Provisions	23	81	-
Current tax liabilities		114	75
Total current liabilities		**311,777**	**285,170**
Non-current liabilities			
Borrowings	11	35,000	-
Other financial liabilities[2]	13	47	57
Total non-current liabilities		**35,047**	**57**
Total liabilities		**346,824**	**285,227**
Net assets		**63,757**	**62,423**
Equity			
Share premium reserve		58,427	58,427
Retained earnings		5,330	3,996
Total equity		**63,757**	**62,423**
Total equity and liabilities		**410,581**	**347,650**

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

[1] The Company has adopted IFRS 9 and IFRS 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

[2] In the current year, other assets and other liabilities have been renamed to other financial assets and other financial liabilities to better reflect the nature of these balances. Refer to Note 1 for further information.

The financial statements were approved by the Board of Directors on 22 January 2020, and were signed on its behalf by:

Director C J L BURGESS

WESTPAC EUROPE LIMITED

Statement of changes in equity for the year ended 30 September 2019

	Called up share capital US$'000	Share premium reserve US$'000	Retained earnings US$'000	Total equity US$'000
2019				
Balance at 1 October 2018	-	58,427	3,996	62,423
Impact of adoption of new accounting standards[1]	-	-	-	-
Restated opening balance	-	58,427	3,996	62,423
Net profit for the year	-	-	1,334	1,334
Net other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	1,334	1,334
Transaction in capacity as equity holders				
Issue of ordinary shares	-	-	-	-
Balance at 30 September 2019	-	58,427	5,330	63,757

	Called up share capital US$'000	Share premium reserve US$'000	Retained earnings US$'000	Total equity US$'000
2018				
Balance at 1 October 2017	-	38,427	3,091	41,518
Net profit for the year	-	-	905	905
Net other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	905	905
Transaction in capacity as equity holders				
Issue of ordinary shares	-	20,000	-	20,000
Balance at 30 September 2018	-	58,427	3,996	62,423

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

[1] The Company has adopted IFRS 9 and IFRS 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

WESTPAC EUROPE LIMITED

Cash flow statement for the year ended 30 September 2019

	Note	2019[1] US$'000	2018[2] US$'000
Cash flows from operating activities			
Fees and commissions received		2,674	2,489
Interest received		11,290	8,711
Interest paid		(8,823)	(7,708)
Tax expense paid		(275)	(151)
Operating expenses paid		(2,229)	(2,749)
(Increase)/decrease in loans and advances		(17,547)	22,184
(Increase)/decrease in other financial assets		(13,492)	1,421
Increase/(decrease) in other financial liabilities		1,831	(314)
Net decrease/(increase) in intercompany balances		9,612	(1,194)
Net cash provided by operating activities	15(b)	**(16,959)**	**22,689**
Cash flows from investing activities			
Debt securities at amortised cost purchased		(444,978)	(352,674)
Debt securities at amortised cost matured		415,821	338,023
Net cash used in investing activities		**(29,157)**	**(14,651)**
Cash flows from financing activities			
Proceeds from issue of share capital		-	20,000
Increase/(decrease) in interest bearing borrowings	15(c)	46,078	(32,662)
Net cash (used in)/provided by financing activities		**46,078**	**(12,662)**
Net decrease in cash and cash equivalents		**(38)**	**(4,624)**
Cash and cash equivalents as at the beginning of the year		7,496	12,120
Cash and cash equivalent as at the end of the year	15(a)	**7,458**	**7,496**

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 15.

[1] The Company has adopted IFRS 9 and IFRS 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

[2] The 2018 comparatives in the above have been updated to better reflect the underlying substance of the cash flow.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Financial statements preparation

Westpac Europe Limited is a company incorporated in the UK. The principal activities of the Company comprise conducting banking and financial markets transactions with European companies and financial institutions.

Westpac Banking Corporation, incorporated in Australia, is the ultimate holding company and the parent entity within which the Company's financial statements are consolidated.

The principal accounting policies applied in the presentation of the financial statements are set out below:

a. Statement of compliance

The financial statements have been prepared and presented in accordance with the United Kingdom Companies Act 2006. The financial statements are approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and its interpretations adopted by the International Accounting Standards Board Standards (IASB).

(i) Basis of preparation

The statements are prepared in accordance with the going concern principle on the historical cost basis modified by the revaluation of certain financial instruments in accordance with applied accounting standards.

Full adoption of IFRS has been implemented and the accounting policies have been consistently applied and presented in the financial statements.

The preparation of financial statements in conformity with IFRS requires management to make adjustments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

(ii) Changes in accounting standards

Balance sheet

The following voluntary presentation changes to the balance sheet (and related notes) have been made to improve consistency and provide more relevant information to the users of the financial statements by reporting balances of a similar nature together in the same place in the balance sheet. These changes have no effect on the measurement of these items and therefore had no impact on retained earnings or net profit. These changes are:

- renaming of financial assets and financial liabilities included in other assets and other liabilities respectively to other financial assets and other financial liabilities respectively.

(iii) Standards adopted during the year ended 30 September 2019

IFRS 9 Financial Instruments (December 2014) (IFRS 9)

The Company adopted IFRS 9 on 1 October 2018. The adoption of IFRS 9 has been applied retrospectively by adjusting the opening balance sheet at 1 October 2018, with no restatement of comparatives as permitted by the standard.

Impairment

IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses (ECL) based on unbiased forward looking information, replacing the incurred loss model under IAS 39 Financial instruments: Recognition and Measurement (IAS 39) which only recognised impairment if there was objective evidence that a loss had been incurred. The revised impairment model applies to the Company's financial assets at amortised cost and credit commitments as detailed in Notes 6, 8 & 23.

The accounting policy for the provision for expected credit losses under IFRS 9 is detailed in Note 1(d).

Classification and measurement

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

Financial liabilities are measured at amortised cost if they are not held for trading or designated at fair value through profit and loss (FVPL). This remains unchanged from IAS 39.

There were no changes to the Company's classification and measurement of financial assets and financial liabilities other than to update the presentation of held to maturity securities to debt securities at amortised cost.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

The Company adopted IFRS 15 on 1 October 2018. It replaced IAS 18 Revenue and related interpretations and applies to all contracts with customers, except leases, financial instruments and insurance contracts.

The Company's main source of income is interest and is outside the scope of the new revenue standard. The adoption of IFRS 15 has had no material impact on the Company.

Transition (IFRS 9)

Impact of the adoption of IFRS 9 – impairment

The Company's opening impairment balance as at 30 September 2018 under IAS 39 was US$0. The Company's new impairment allowance as at 1 October 2018 measured in accordance with IFRS 9 expected credit loss model totalled US$136,401: debt securities at amortised cost US$19,593; loans and advances US$43,213; provisions on loan commitments US$73,595.

ECL is recognised in the statement of profit or loss under impairment charges with income subsequently received from the Parent on applicable ECL to reflect the Company's risk transfer agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

b. Foreign currency translations

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional and presentational currency of the entity is US dollars. Figures are rounded to the nearest thousand.

(ii) Transactions and balances

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated using rate of exchange ruling at the statement of financial position date and the gains and losses in translation are recognised in the income statement. Key spot currency rates as at balance sheet date were USD/Euro 0.9146; USD/GBP 0.8134; GBP/Euro 1.1244 (2018: USD/Euro 0.8602; USD/GBP 0.7650; GBP/Euro 1.1245).

c. Cash and bank balances

Cash and bank balances are disclosed in the cash flow statements and consist of cash and balances with related undertakings.

d. Provision for expected credit losses/impairment charges

As comparatives have not been restated upon the adoption of IFRS 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 24. The accounting policy applied in 2019 is as follows.

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

ECL determined under IFRS 9 are recognised in the statement of profit or loss and other comprehensive income, with a corresponding amount recognised as follows:

- Loans & advances to customers, debt securities at amortised cost: as a reduction of the carrying value of the financial asset through an offsetting provision account (refer to Notes 6 & 8);
- Credit commitments: as a provision (refer to Note 23).

Measurement

The Company calculates the provisions for ECL based on a three stage approach. ECL are a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are 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.

The models use three main components to determine the ECL (as well as the time value of money) including:

- 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.

Model stages

The three stages are as follows:

Stage 1: 12 months ECL – performing

For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months ECL is recognised.

Stage 2: Lifetime ECL – performing

For financial assets where there has been a significant increase in credit risk since origination but where the asset is still performing a provision for lifetime ECL is recognised.

Stage 3: Lifetime ECL – non-performing

For financial assets that are non-performing a provision for lifetime expected losses is recognised. Indicators include a breach of contract with the Company such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on a group of loans.

Financial assets in stage 3 are those that are in default. A default occurs when the Company considers that the customer is unlikely to repay its credit obligations in full, irrespective of recourse by the Company to actions such as realising security, or the customer is more than 90 days past due on any material credit obligation.

Collective and individual assessment

Financial assets that are in stages 1 and 2 are assessed on a collective basis as are financial assets in stage 3 below specified thresholds. Financial assets that are collectively assessed are grouped in pools of similar assets with similar credit risk characteristics including the type of product and the customer risk grade. Those financial assets in stage 3 above the specified thresholds are assessed on an individual basis.

Expected life

Expected credit losses are determined as a lifetime ECL in stages 2 and 3.

In considering the lifetime timeframe the standard generally requires use of the remaining contractual life adjusted where appropriate for prepayments, extension and other options. For certain revolving credit facilities which include both a drawn and undrawn component, the Company's contractual ability to demand repayment and cancel the undrawn commitment does not limit our exposure to credit losses to the contractual notice period. For these facilities, lifetime is based on historical behaviour.

Movement between stages

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 increase in credit risk. Similarly, assets in stage 3 may move back to stage 2 if they are no longer assessed to be non-performing.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

e. Debt securities at amortised cost

Debt securities at amortised cost are fixed income debt securities which are held to maturity and accounted for at amortised cost.

f. Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not classified as available for sale. They arise when the Company provides money to a debtor with no intention of trading the loans and advances. The loans and advances are initially recognised at fair value, including transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership. Net loans and advances include direct finance provided to customers and can include term loans and multi-currency revolving credit facilities.

g. Impairment losses on loans and advances

As comparatives have not been restated upon the adoption of IFRS 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 24. The accounting policy applied in 2019 is discussed in Note 1 (a) and (d).

Uncollectable loans

A loan may become uncollectable in full or part if, after following the Company's loan recovery procedures, the Company remains unable to collect that loan's contractual repayments. Uncollectable amounts are written off against their related provision for expected credit losses, after all possible repayments have been received.

The Company may subsequently be able to recover cash flows from loans written off. In the period which these recoveries are made, they are recognised in the statement of profit or loss and other comprehensive income.

h. Derivative financial instruments

Derivative financial instruments are instruments whose values derive from the value of an underlying asset, reference rate or index and include forwards, futures, swaps and options.

All derivatives are held at fair value. Changes in fair value are recognised in the statement of profit or loss and comprehensive income.

Subsequent to initial recognition, the Company's derivative trading transactions are subject to a Matching Transaction clause under a Risk Transfer Agreement between the Company and Westpac where any gains or losses on re-measurement to fair value are backed out to Westpac. As a result, there is no financial impact on Comprehensive Income arising from re-measurement.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is derived from market observable inputs or consensus pricing providers using industry standard models.

i. Revenue and expenditure

(i) Net interest income

Interest income and expense for all interest earning financial assets and interest bearing financial liabilities are recognised using the effective interest rate method.

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

Loan commitment fees together with related direct costs, are deferred and recognised as an adjustment to the interest yield on the loan once drawn or immediately to the statement of profit or loss and other comprehensive income for expired commitments.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

The income and expenses arising from derivative financial instruments are recognised net in the financial statements.

(ii) Non-interest income

Fees and commission income are recognised as follows:

- facility fees are primarily earned for the provision of credit and other facilities to customers and are recognised as the services were provided;
- transaction fees are earned for facilitating transactions and are recognised once the transaction is executed;
- other non-risk fee income includes advisory and underwriting fees which are recognised when the related service is completed.

Income which forms an integral part of the effective interest rate of a financial instrument is recognised using the effective interest method and recorded in interest income (for example, loan origination fees).

Management fee income:

- earned for the management of transactions on behalf of Westpac and are accrued using a cost plus 15% methodology, as set out in agreement with Westpac.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

j. Income tax expense

Income tax expense

Income tax on earnings for the period comprises current and deferred tax and is based on the applicable tax law. It is recognised in the statement of profit or loss and other comprehensive income as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

(i) Current tax

Current tax is the expected tax payable on taxable income for the period, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date, including any adjustments for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax accounts for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their values for taxation purposes.

Deferred tax is determined using the enacted or substantively enacted tax rates and laws for each jurisdiction which are expected to apply when the assets will be realised or the liabilities settled.

Deferred tax assets and liabilities have been offset where they relate to the same taxation authority and where there is a legal right and intention to settle on a net basis.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available to utilise the asset.

k. Dividends on ordinary shares

Dividends are recognised in the period in which they are approved. Dividends approved after the statement of financial position date are disclosed in the dividends note.

l. Financial instruments

The financial risk management objectives and policies are set out in Note 16 of this report.

m. Offsetting

Financial assets and liabilities are presented net in the balance sheet when the Company 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.

n. Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the outflow of economic resources is remote.

o. Critical accounting assumptions and estimates

Applying the Company's accounting policies requires the use of judgement, assumptions, and estimates which impact the financial information.

Provision for expected credit losses

Key judgements include when a significant increase in credit risk has occurred, estimation of forward looking macroeconomic information, the borrower's financial situation, the realisable value of collateral, the Company's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan.

Significant increase in credit risk

Determining when a financial asset has experienced a significant increase in credit risk since origination is a critical accounting judgement which is primarily based on changes in internal customer risk grades since origination of the facility. A change in an internal customer risk grade is based on both quantitative and qualitative factors. The number of changes in the internal customer risk grade that the Company uses to represent a significant increase in credit risk will be determined on a sliding scale where the number of changes will typically be higher for an exposure with low credit risk grade compared to an exposure with a higher credit risk grade.

The Company does not rebut the presumption that instruments that are 30 days past due have experienced a significant increase in risk but this is used as a backstop rather than the primary indicator.

The Company does not apply the low credit risk exemption which assumes investment grade facilities do not have a significant increase in credit risk.

Forward looking macroeconomic information

The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation of forward looking information is a critical accounting judgement. The Company considers a minimum of three future macroeconomic scenarios including 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) real gross domestic product growth rates and commercial property price indices.

- Base case scenario

This scenario utilises internal Westpac economic forecasts used for strategic decision making and forecasting. This assumes that the current economic conditions continue with Gross Domestic Product (GDP) growth and a stable cash rate in the short term.

- Upside scenario

This scenario represents a modest improvement on the base case scenario. In this scenario, the economy strengthens with increases in GDP growth and commercial property price indices but with the cash rate continuing to remain stable in the short term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

o. Critical accounting assumptions and estimates (continued)

- Downside scenario

This scenario represents a moderate economic downturn and is used in the Company's stress testing. In this scenario, the economy weakens with declines in GDP growth and commercial property prices but with the cash rate continuing to remain stable in the short term.

In a deteriorating economy there may be times when a more severe downside scenario is required which will be monitored as part of the governance framework.

The macroeconomic scenarios are weighted based on the Company's best estimate of the relative likelihood of each scenario. The weighting applied to each of the three forward looking macroeconomic scenario takes into account historical frequency, current trends, and forward looking conditions.

Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models.

Judgements can change with time as new information becomes available which could result in changes to the provision for expected credit losses.

Fair value of financial instruments

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

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

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

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

- product type;
- depth of market activity;
- maturity of market models; and
- complexity of the transaction.

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

- standard industry practice;
- economic models; and
- observed transaction prices.

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

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

p. Future developments in accounting standards

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

(i) IFRS 16 Leases

IFRS 16 Leases (IFRS 16) was issued on 23 February 2016 and will be effective for the 30 September 2020 financial year. The standard will not result in significant changes for lessor accounting. The main changes under the standard are:

- all operating leases of greater than 12 months duration will be required to be presented on balance sheet by the lessee as a right-of-use asset and lease liability. The asset and liability will initially be measured at the present value of non-cancellable lease payments and payments to be made in optional periods where it is reasonably certain that the option will be exercised; and
- all leases on balance sheet will give rise to a combination of interest expense on the lease liability and depreciation of the right-of-use asset (ROU).

Alternative methods of calculating the right-of-use asset are allowed under IFRS 16 which impact the size of the transition adjustment.

The application of IFRS 16 will not have an impact on the Company as the Company has no leasing arrangements.

(ii) Interbank-offered rates (IBOR) reform

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

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

The Company continues to monitor these developments and the expected impact.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Profit before income tax

Profit before income tax is stated after taking into account PricewaterhouseCoopers LLP's remuneration of US$98,373 (2018: US$54,490).

	2019 US$	2018 US$
Financial statements audit	91,325	47,353
Client money audit	7,048	7,137
Total	**98,373**	**54,490**

In 2019 the Company had no employees (2018: nil). Staff are employed by the group entity and charge a proportion of their time to the Company which is included in administrative expenses. Total salaries and other staff costs charged for the year amounted to approximately US$1,514,498 (2018: US$1,552,679).

Note 3. Directors' emoluments

The Directors are employed either directly by the Company or through service agreements with the Parent and remunerated in respect of their services to the Company. Their remuneration was borne by Westpac Europe Limited.

The proportion of the Executive and Non-Executive Directors' emoluments which relates to the management of the affairs of the Company amounted to approximately US$243,484 (2018: US$258,166).

Note 4. Income tax expense

The charge for the year comprises:

	2019 US$'000	2018 US$'000
Profit on ordinary activities before tax	**1,648**	**1,119**
Taxation charge at 19% (2018: 19%)	314	212
Effects of:		
Adjustments for prior year tax charges	-	2
Tax expense for the year	**314**	**214**

Note 5. Cash and bank balances

	2019 US$'000	2018 US$'000
Cash and bank balances	7,458	7,496
Total cash and bank balances	**7,458**	**7,496**

Note 6. Loans and advances to customers

	2019 US$'000	2018 US$'000
Non-current		
Loans and advances at amortised cost*	134,214	116,611
Net loans and advances to customers	**134,214**	**116,611**
Provisions for expected credit losses on loans (Note 7)	(56)	-
Total Loans	**134,158**	**116,611**

*Net of unearned income

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 7. Provision for expected credit losses

Loans and credit commitments

The following table reconciles the 30 September 2019 provision for ECL on loans and credit commitments for the Company based on the requirements of IFRS 9:

	Performing		Non- performing	
US$'000	Stage 1	Stage 2	Stage 3	Total
Provision for impairment charges as at 30 September 2018	-	-	-	-
Restatement for adoption of IFRS 9	117			117
Restated provision for ECL as at 1 October 2018	**117**	-	-	**117**
Changes due to changes in credit quality:				
Transfer in/(out) of stage 1	-	-	-	-
Transfer in/(out) of stage 2	-	-	-	-
Transfer in/(out) of stage 3	-	-	-	-
Business activity during the year	53	-	-	53
Net remeasurement of provision for ECL	(25)	-	-	(25)
Write-offs	-	-	-	-
Exchange rate and other adjustments	(8)	-	-	(8)
Total provision for ECL on loans and credit commitments as at 30 September 2019	**137**	-	-	**137**
Presented as:				
Provision for ECL loans (Note 6)	56	-	-	56
Provision for ECL credit commitments (Note 23)	81	-	-	81
Total provision for ECL on loans and credit commitments as at 30 September 2019	**137**	-	-	**137**
Of which:				
Collectively assessed provisions	137	-	-	137
Individually assessed provisions	-	-	-	-
Total provision for ECL on loans and credit commitments as at 30 September 2019	**137**	-	-	**137**

Impact of changes in credit exposures on the provision for ECL

Stage 1 ECL increased from US$117,000 to US$137,000 which was primarily driven by lending portfolio growth. Origination of a new facility partially offset by the amortisation of existing loans contributed to the increase in the lending portfolio. There were no transfers in/out of stages during the year.

Sensitivity of the provision for ECL

As noted in the accounting policy, the critical accounting assumptions in determining the provision for ECL are the determination of a significant increase in credit risk and the use of probability weighted forward looking macroeconomic scenarios.

Staging sensitivity
If 1% of the stage 1 gross exposure from loans and credit commitments (calculated on a 12 month ECL) was reflected in stage 2 (calculated on a lifetime ECL) the provision for ECL would increase by US$29,229 based on applying the average provision coverage ratio by stage to the movement in the gross exposure by stage.

Weighting of macroeconomic scenarios
The Company uses three macro-economic scenarios which are probability weighted based on the Company's best estimate of the relative likelihood of each scenario.
The Company assigned a weighting of 62.5% to the base case scenario, 27.5% to the downside scenario and 10% to the upside scenario as at 30 September 2019. During September 2019 there was a 2.5% reduction in the weighting on the base case scenario from 65% and a corresponding 2.5% increase in the weighting on the downside scenario from 25%. The increase in weighting to the downside scenario was primarily driven by global economic uncertainties.
The base case scenario utilises Westpac Economics forecasts and assumes the following one-year outlook: a GDP growth of 2.5%, a reduction in the rate of growth in commercial property prices to 1.1% and a 50bps reduction in the cash rate to 0.50%.
The downside scenario represents a moderate recession. In this scenario there is negative GDP growth and declines in commercial property prices.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 7. Provision for expected credit losses

The following table shows the reported provision for ECL based on the probability weighted scenarios and what the provisions for ECL would be assuming a 100% weighting is applied to the base case scenario and to the downside scenario (with all other assumptions held constant).

	US$'000
Reported probability-weighted ECL	137
100% base case ECL	15
100% downside ECL	462

Debt Securities

The following table reconciles the 30 September 2019 provision for ECL on debt securities at amortised cost for the Company based on the requirements of IFRS 9:

	US$'000
Provision for impairment charges as at 30 September 2018	-
Restatement for adoption of IFRS 9	20
Restated provision for ECL as at 1 October 2018	**20**
Stage 1 - change in the provision during the year	4
Exchange rate and other adjustments	-
Total provision for ECL debt securities as at 30 September 2019	**24**

Stage 1 ECL increased from US$20,000 to US$24,000 which was primarily driven by an increase in credit exposures year on year. No transfers in/out of stages occurred during the year.

Note 8. Debt securities at amortised cost

The Company invests the cash collateral of US$189 million (2018: US$160 million) and US$55 million (2018: US$55 million) of the capital received from Westpac Banking Corporation in fixed income debt securities. The issuers of the securities are investment grade financial institutions and Governments rated AA+ (US Treasury) and AAA (German Bunds). These investments are held to maturity.

	2019 US$'000	2018 US$'000
Current		
Debt securities at amortised cost – Government securities	184,315	120,342
Debt securities at amortised cost – Other debt securities	25,023	95,000
Provisions for expected credit losses on debt securities (Note 7)	(13)	-
Total current debt securities at amortised cost	**209,325**	**215,342**
Non-current		
Debt securities at amortised cost – Other debt securities	35,185	-
Provisions for expected credit losses on debt securities (Note 7)	(11)	-
Total non-current debt securities at amortised cost	**35,174**	**-**

Note 9. Due from related entities

	2019 US$'000	2018 US$'000
Accrued interest receivable	10	2
Management fee receivable	343	366
Securities sold not delivered	1,838	-
Other receivables	2,022	1
Total due from related entities	**4,213**	**369**

Note 10. Other financial assets

	2019 US$'000	2018 US$'000
Accrued interest receivable	887	1,450
Other receivables	33	13
Securities sold not delivered	13,472	-
Total other financial assets	**14,392**	**1,463**

Note 11. Borrowings

	2019 US$'000	2018 US$'000
Current balances due to Parent		
Gross loan funding	134,710	116,802
Collateral deposits	153,594	160,424
Total current balances due to Parent	**288,304**	**277,226**
Non-current balances due to Parent		
Collateral deposits	35,000	-
Total non-current balances due to Parent	**35,000**	**-**
Total borrowings	323,304	277,226

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 12. Due to related entities

	2019 US$'000	2018 US$'000
Securities purchased not delivered	13,472	-
Accrued interest payable	2,103	1,498
Other payables	-	1
Total due to related entities	**15,575**	**1,499**

Note 13. Other financial liabilities

	2019 US$'000	2018 US$'000
Current		
Securities purchased not delivered	1,838	-
Other financial liabilities	4	1
Total current other financial liabilities	**1,842**	**1**
Non-current		
Unearned income on undrawn loans	47	57
Total non-current other financial liabilities	**47**	**57**

Note 14. Called up share capital

	2019 No.	2018 No.
Issued and fully paid share capital		
Ordinary shares of US$1 each	2	2
Ordinary shares of £1 each	1	1
Ordinary shares at end of the year	**3**	**3**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 15. Notes to the cash flow statement

	2019 US$'000	2018[2] US$'000
(a) Reconciliation of cash		
Cash and cash equivalents	7,458	7,496
Cash and cash equivalents as at end of the year	**7,458**	**7,496**
(b) Reconciliation of net cash provided by/(used in) operating activities to net profit for the year is set out below:		
Profit before income tax	1,648	1,119
Adjustments:		
Impairment charges	24	-
Tax expense paid	(275)	(151)
Changes in assets and liabilities:		
Decrease/(increase) in interest receivable	555	(83)
Decrease/(increase) in due from related entities	9,636	(1,513)
(Increase)/decrease in loans and advances	(17,547)	22,184
(Increase)/decrease in other financial assets	(13,492)	1,421
Increase/(decrease) in other financial liabilities	1,831	(314)
Increase in interest payable	605	333
Decrease in due to related entities	(1)	(307)
Increase in provisions	57	-
Net cash provided by operating activities	**(16,959)**	**22,689**

[1] The 2018 comparatives in the above have been updated to better reflect the underlying substance of the cash flow.

(c) Reconciliation of liabilities arising from financing activities

Movement in liabilities arising from financing activities

	Borrowings US $'000	Total US $'000
Balance as at 1 October 2017	**309,888**	**309,888**
Repayments	(32,662)	(32,662)
Other cash movements	-	-
Total cash movements	**(32,662)**	**(32,662)**
Other non-cash movements	-	-
Total non-cash movements	-	-
Balance as at 30 September 2018	**277,226**	**277,226**
Borrowings	46,078	46,078
Other cash movements	-	-
Total cash movements	**46,078**	**46,078**
Other non-cash movements	-	-
Total non-cash movements	-	-
Balance as at 30 September 2019	**323,304**	**323,304**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Financial risk management

Strategy in using financial instruments

Exposure to credit, interest rate and currency risks arise in the normal course of the business. The Company policy is to transfer all such risks to the Parent using a variety of contractual arrangements.

Any remaining exposures arising from its activities are collateralised by deposits received from the immediate holding company. The Company does not hold or issue derivative or other financial instruments for trading purposes.

(i) Credit risk

Credit risk is the potential for customers or counterparties to fail in meeting their financial obligations. The Company is subject to credit risk on cash balances at banks, derivative financial instruments, loans and advances to corporate customers, receivables and debt securities at amortised cost. Management monitors credit risk on an ongoing basis. Credit evaluations are performed on all customers in accordance with Westpac's policy and with the terms of the arrangements between the Company and its Parent. Transaction managed customers (generally customers with busness lending exposures) are individually assigned a Customer Risk Grade (CRG), corresponding to their expected PD. Each facility is assigned a LGD. The Company's risk rating system has a tiered scale of risk grades for both non-defaulted customers and defaulted customers. Non-defaulted CRGs are mapped to Moody's and S&P Global Ratings (S&P) external senior ranking unsecured ratings.

The CRGs of exposures measured at amortised cost to which the impairment requirements of IFRS 9 apply (per Note 7) maps to the Company's credit quality disclosure of 'Strong'. This equates to S&P ratings between AAA to BBB-. The credit quality is determined by reference to the credit risk ratings system and expectations of future economic conditions under multiple scenarios.

No amounts were past due nor impaired as at the reporting date.

Maximum exposure to credit risk

The maximum exposure to credit risk (excluding collateral received) is represented by the carrying amount of on-balance sheet financial assets (which comprises cash and bank balances, debt securities at amortised cost, loans, receivables, derivatives and other financial assets) and undrawn credit commitments.

The Company's maximum exposure to credit risk at the reporting date was:

	2019 US$'000	2018 US$'000
Cash and bank balances	7,458	7,496
Debt securities at amortised cost	244,499	215,342
Net loans and advances	134,158	116,611
Receivables	17,708	380
Accrued interest receivable	897	1,452
Derivative financial instruments	5,861	6,369
Credit commitments	136,553	127,344
Total maximum exposure to credit risk	**547,134**	**474,994**

The credit risk of the Company is managed through contractual arrangements whereby the Parent provides cash collateral in order to provide security against credit and market risks on loans including commitments to lend and derivatives entered into by the Company. As at 30 September 2019, the collateral received amounted to US$189 million (2018: US$160 million).

The Company purchases fixed income debt securities with the collateral, which are held to maturity (refer to Note 8), and pays interest earned on the collateral back to the Parent. The only residual credit risks relate to the investment in fixed income debt securities issued by financial institutions (minimum rating of investment grade) and cash balances.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will be unable to fund assets and meet obligations as they become due.

The Company's funding is provided by the Parent in the form of loans and collateral deposits (see above). The collateral received is then invested in various fixed income debt securities. The loan funding and collateral provided by the Parent matches the term of the loan with customer and of the debt securities purchased. The Company also has a US$50 million multicurrency revolving liquidity facility agreement with the Parent. The liquidity facility provides additional funding support to the Company in the underlying currency during an idiosyncratic stress.

The table below analyses the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Financial risk management (continued)

(ii) Liquidity risk (continued)

30 September 2019

Financial liabilities	Carrying amount US$'000	Contractual cash flows US$'000	Less than 1 year US$'000	More than 1 year US$'000
Accrued interest payable	2,103	2,103	2,103	-
Payables	4	4	4	-
Gross loan funding	134,710	136,236	136,236	-
Collateral deposits	188,594	191,793	156,401	35,392
Total financial liabilities	**325,411**	**330,136**	**294,744**	**35,392**
Contingent liabilities and commitments				
Commitments to extend credit	-	136,553	136,553	-

30 September 2018

Financial liabilities	Carrying amount US$'000	Contractual cash flows US$'000	Less than 1 year US$'000	More than 1 year US$'000
Accrued interest payable	1,498	1,498	1,498	-
Payables	2	2	2	-
Gross loan funding	116,802	117,265	117,265	-
Collateral deposits	160,424	162,826	40,749	122,077
Total financial liabilities	**278,726**	**281,591**	**159,514**	**122,077**
Contingent liabilities and commitments				
Commitments to extend credit	-	127,344	127,344	-

The table below analyses the Company's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period as at reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows of derivative financial liabilities.

30 September 2019	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
Gross settled foreign exchange derivative liabilities				
Outflow	(296,674)	-	-	-
Inflow	292,508	-	-	-
Net settled interest rate derivative liabilities	-	-	-	-

30 September 2018	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
Gross settled foreign exchange derivative liabilities				
Outflow	(258,400)	-	-	-
Inflow	256,381	-	-	-
Net settled interest rate derivative liabilities	-	-	-	-

(iii) Market risk

The Board has limited appetite for taking on market risk. All traded market risk is backed out to Westpac under the Risk Transfer Agreement. The minimal market risk exposure remaining is on the non-traded debt securities at amortised cost.

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euros. Foreign exchange risk arises from fluctuations in the future cash flows of a financial instrument because of changes in foreign exchange rates and where recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company primarily manages its foreign exchange exposures on its foreign currency loans through borrowings denominated in the relevant foreign currencies; therefore any changes in foreign exchange rates will not give rise to any significant net impact on equity nor on the profit and loss. Foreign exchange derivatives are traded with customers and the risk is hedged through matching contracts with the Parent Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Financial risk management (continued)

(iii) Market risk (continued)

Interest rate risk

Interest rate risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company earns no interest on cash balances held at banks.

Lending transactions are funded by Westpac and all associated interest rate risk passed back to the Parent entity. No interest rate swaps have been used for hedging of interest rate risks on loans and advances. The Company provides interest rate swaps to its clients with all associated risk passed back to Westpac.

Note 17. Derivative financial instruments

	2019 US$'000	2018 US$'000
Assets:		
Foreign exchange derivatives	4,006	4,091
Interest rate derivatives	1,855	2,278
Total derivative assets	**5,861**	**6,369**
Liabilities:		
Foreign exchange derivatives	4,006	4,091
Interest rate derivatives	1,855	2,278
Total derivative liabilities	**5,861**	**6,369**

Note 18. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are presented net on the balance sheet when they meet the offsetting criteria described in Note 1(l). The Company does not apply any offsetting in the balance sheet but may have master netting agreements in place that do not qualify for offsetting in the balance sheet but is reflected in the following table:

	Effects of offsetting on balance sheet			Amounts subject to enforceable netting arrangements but not offset		
30 September 2019	**Gross amounts US$'000**	**Amounts offset US$'000**	**Net amounts reported on the balance sheet US$'000**	**Impact of Master Netting Agreements US$'000**	**Cash/ Financial instrument collateral US$'000**	**Net amount US$'000**
Financial assets:						
Derivative financial instruments	5,861	-	5,861	(2,470)	-	3,391
Financial liabilities:						
Derivative financial instruments	5,861	-	5,861	(2,470)	-	3,391

	Effects of offsetting on balance sheet			Amounts subject to enforceable netting arrangements but not offset		
30 September 2018	**Gross amounts US$'000**	**Amounts offset US$'000**	**Net amounts reported on the balance sheet US$'000**	**Impact of Master Netting Agreements US$'000**	**Cash/ Financial instrument collateral US$'000**	**Net amount US$'000**
Financial assets:						
Derivative financial instruments	6,369	-	6,369	(3,585)	-	2,784
Financial liabilities:						
Derivative financial instruments	6,369	-	6,369	(3,585)	-	2,784

Amounts subject to enforceable netting arrangements but not offset

'Impact of Master Netting Agreements' discloses financial assets and liabilities recognised on balance sheet that are subject to enforceable master netting agreements but are not offset due to the rights of set off applying only in the event of default or if other predetermined events occur.

The amounts subject to enforceable netting arrangements but not offset has been limited to the net amount presented on the balance sheet so as not to include any over-collateralisation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 19. Subsequent events

No matter has arisen since the year ended 30 September 2019 which is not otherwise dealt with in this report, that has significantly affected or may significantly affect the operations of the Company, the results of its operations or the state of affairs of the Company in subsequent financial years.

Note 20. Related party transactions

(a) 100% of the Company's voting rights are owned directly by Westpac Banking Corporation. The consolidated financial statements of Westpac Banking Corporation, within which this company is included, can be obtained from the Australian Securities and Investments Commission, Sydney, Australia.

The Company has related party transactions with Westpac Banking Corporation where cash collateral and funding are provided to the Company and taxation group relief is surrendered (when appropriate). These are reported in the Company's statement of financial position within Borrowings and Due to related entities (Notes 11 and 12). In the statement of profit or loss and other comprehensive income there is interest on the above mentioned current account and funding loan and a management fee charge made to the Company by Westpac Banking Corporation for additional management services provided.

Detailed below are the amounts reported in the Company's statement of financial position which are due to Parent:

	Note	2019 US$'000	2018 US$'000
Collateral deposits	11	188,594	160,424
Gross loan funding	11	134,710	116,802
Accrued interest payable	12	2,103	1,498
Other payables	12	-	1
Securities purchased not delivered	12	13,472	-
Derivative liabilities - foreign exchange derivatives		2,135	3,327
		341,014	**282,052**

Detailed below are the amounts reported in the Company's statement of financial position which are due from Parent:

	Note	2019 US$'000	2018 US$'000
Accrued interest receivable	9	10	2
Management fee receivable	9	343	366
Securities sold not delivered	9	1,838	-
Other receivables	9	2,022	1
Derivative assets - foreign exchange derivatives		1,871	2,999
Derivative assets - interest rate derivatives		1,855	2,277
		7,939	**5,645**

Detailed below are the amounts reported in the Company's statement of profit or loss and other comprehensive income which are with Parent:

	2019 US$'000	2018 US$'000
Commission received from parent	2,625	2,808
Administrative expenses paid to parent	(2,285)	(2,442)
Interest expense on amounts due to parent	(9,428)	(8,041)
	(9,088)	**(7,675)**

(b) Key management is comprised of directors. There were no transactions with the directors during the year (2018: nil) apart from payment of emoluments in Note 3.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 21. Fair value of financial assets and financial liabilities

IFRS requires the disclosure of the fair value of financial instruments. The disclosures exclude all non-financial instruments, such as income taxes.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Net fair value is the fair value adjusted for transaction costs.

Quoted market prices, where available, are used as the measure of fair value. In cases where quoted market prices are not available, fair values are based on present value estimates or other valuation techniques. For the majority of short term financial instruments, defined as those which reprice or mature in 90 days or less, with no significant change in credit risk, the fair value was assumed to equate to the carrying amount in the statement of financial position. Where the carrying value is a reasonable approximation for fair value for these short term financial instruments, no fair value disclosures are required.

The fair values are based on relevant information available as at 30 September 2019. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement, and changes in underlying assumptions could significantly affect these estimates.

The Company is required to classify fair value measures using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table summarises the financial instruments carried a fair value to the fair value hierarchy:

				Fair valuation techniques	
		Carrying amount	Quoted market prices	(Market observable)	(Non-market observable)
	Note		(Level 1)	(Level 2)	(Level 3)
30 September 2019		**US$'000**	**US$'000**	**US$'000**	**US$'000**
Financial assets measured at fair value on a recurring basis					
Derivative financial instruments	17	5,861	-	5,861	-
Total financial assets		**5,861**	**-**	**5,861**	**-**
Financial liabilities measured at fair value on a recurring basis					
Derivative financial instruments	17	5,861	-	5,861	-
Total financial liabilities		**5,861**	**-**	**5,861**	**-**

				Fair valuation techniques	
		Carrying amount	Quoted market prices	(Market observable)	(Non-market observable)
	Note		(Level 1)	(Level 2)	(Level 3)
30 September 2018		**US$'000**	**US$'000**	**US$'000**	**US$'000**
Financial assets measured at fair value on a recurring basis					
Derivative financial instruments	17	6,369	-	6,369	-
Total financial assets		**6,369**	**-**	**6,369**	**-**
Financial liabilities measured at fair value on a recurring basis					
Derivative financial instruments	17	6,369	-	6,369	-
Total financial liabilities		**6,369**	**-**	**6,369**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 21. Fair value of financial assets and financial liabilities (continued)

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:

Derivative financial instruments

Interest rate derivative products

These are products linked to interest rates (e.g. London Interbank Offered Rate (LIBOR)) and are predominantly interest rate swaps.

Interest rate derivative cash flows are valued using interest rate curves whereby observable market data is used to construct the term structure of forward rates. This term structure is used to project and discount future cash flows based on the terms of the trade. Instruments with optionality are valued using market observable or consensus provided volatilities. Non-vanilla interest rate derivatives are valued using industry standard models based on market observable inputs which are determined separately for each parameter. Where unobservable, inputs will be set with reference to an observable proxy.

In general, interest rate derivatives are classified as Level 2 instruments.

Foreign exchange products

These are products linked to the foreign exchange market. This includes FX swaps, FX forwards and other non-vanilla FX derivatives.

FX swap and forward valuations are derived from market observable inputs or consensus pricing providers using industry standard models. FX swaps and forwards are classified as Level 2 instruments.

Other FX derivatives are valued using industry standard models and market observable inputs. Where unobservable, inputs will be set with reference to an observable proxy. In general, FX options and other FX derivatives are classified as Level 2 instruments.

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

Loans & advances

The carrying value of loans is net of provisions for impairment charges. The fair value is estimated using discounted cash flow models and for variable rate loans, the discount rate used is the current effective interest rate. The impact of changes in credit risk not otherwise reflected in the carrying value is not estimated to be material. These products are classified as Level 3 instruments as interest rates are not observable.

Debt securities at amortised cost

Non-asset backed debt instruments

Includes state and other government bonds, corporate bonds and commercial paper.

Valued using observable market prices which are sourced from broker quotes or inter-dealer prices. These products are classified as Level 2 instruments.

Certificates of deposit

The fair value of certificates of deposit are determined using a discounted cash flow analysis using market rates offered for deposits of similar remaining maturities. Certificates of deposit are classified as Level 2 instruments.

Borrowings

Fair values are estimated using discounted cash flows models using market interest rates. The impact of credit risk not otherwise reflected in the carrying value is not estimated to be material. Borrowings are classified as Level 2 instruments.

WESTPAC EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 21. Fair value of financial assets and financial liabilities (continued)

Other financials assets and liabilities

For all other financial assets and liabilities, the carrying value approximates to the fair value. These items are either short-term in nature, re-price frequently or are of a high credit rating.

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

30 September 2019	Note	Carrying amount US$'000	Quoted market prices (Level 1) US$'000	Fair valuation techniques (Market observable) (Level 2) US$'000	Fair valuation techniques (Non-market observable) (Level 3) US$'000
Financial assets not measured at fair value					
Cash and bank balances	5	7,458	7,458	-	-
Due from related entities	9	4,213	-	-	4,213
Loan and advances to customers	6	134,158	-	-	134,158
Debt securities at amortised cost	8	244,499	-	244,499	-
Other financial assets	10	14,392	-	14,392	-
Total financial assets		**404,720**	**7,458**	**258,891**	**138,371**
Financial liabilities not measured at fair value					
Due to related entities	12	15,575	-	-	15,575
Borrowings	11	323,304	-	323,304	-
Other financial liabilities	13	1,889	-	1,889	-
Total financial liabilities		**340,768**	**-**	**325,193**	**15,575**

30 September 2018	Note	Carrying amount US$'000	Quoted market prices (Level 1) US$'000	Fair valuation techniques (Market observable) (Level 2) US$'000	Fair valuation techniques (Non-market observable) (Level 3) US$'000
Financial assets not measured at fair value					
Cash and bank balances	5	7,496	7,496	-	-
Due from related entities	9	369	-	-	369
Loan and advances to customers	6	116,611	-	-	116,611
Debt securities at amortised cost	8	215,342	-	215,850	-
Other financial assets	10	1,463	-	1,463	-
Total financial assets		**341,281**	**7,496**	**217,313**	**116,980**
Financial liabilities not measured at fair value					
Due to related entities	12	1,499	-	-	1,499
Borrowings	11	277,226	-	277,226	-
Other financial liabilities	13	58	-	58	-
Total financial liabilities		**278,783**	**-**	**277,284**	**1,499**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Ultimate holding company

Westpac Banking Corporation, a company incorporated in Australia is the ultimate parent company, the ultimate controlling entity, and the parent undertaking of the largest and smallest group of undertakings for which group financial statements are drawn up.

Copies of the group financial statements prepared in respect of the Group may be obtained from the Australian Securities and Investments Commission, Level 5, 100 Market Street Sydney, New South Wales. An electronic copy of the group financial statements can also be obtained from the Westpac website.

Note 23. Commitments

The Company has the following irrevocable loan commitments:

	2019 US$'000	2018 US$'000
Undrawn credit facilities	136,553	127,344
Total commitments	**136,553**	**127,344**

Total commitments also represent contingent assets. Such commitments to provide credit may convert to loans and advances. All commitments are collateralised.

Provision for ECL on credit commitments

	US$'000
Balance as at 30 September 2018	-
Impact on adoption of IFRS 9	74
Restated opening balance	**74**
Additions	7
Utilisations	-
Reversals	-
Other	-
Balance as at 30 September 2019	**81**

Note 24. Accounting policies relating to prior years

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

Impairment losses on loans and advances (Note 1(g)/ Note 1(f))

All loans are individually assessed for impairment. Impairment is recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. Relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Company's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgments are made in this process. Furthermore, judgments can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.

A charge is shown on the statement of profit or loss and other comprehensive income for individual provisions on impaired exposures, where applicable.

Independent auditors' report to the members of Westpac Europe Limited

Report on the audit of the financial statements

Opinion

In our opinion, Westpac Europe Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 30 September 2019; the statement of profit or loss and other comprehensive income, the cash flow statement and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

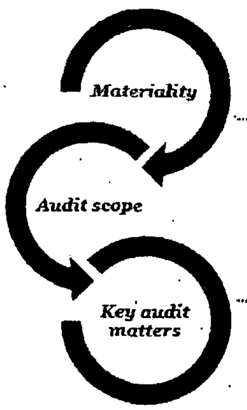
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the company in the period from 1 October 2018 to 30 September 2019.

Our audit approach

Overview



- Overall materiality: $632,000 (2018: $624,000), based on 1% of total capital resources.

- We considered relevant information relating to the audit, including materiality, risk, size and complexity of the business to determine our scope. This enabled us to focus on the best types of audit evidence to obtain, and the audit resources needed to deliver this plan.

- Valuation of Expected Credit Loss (ECL) provisions on corporate loans and advances.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with UK tax legislation, the Financial Conduct Authority's regulations and the Prudential Regulatory Authority's regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, and management bias in accounting estimates. The engagement team shared this risk assessment with the other auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the engagement team and/or other auditors included:

- Discussions with management, including inquiry of whether there were any known or suspected instances of non-compliance with laws and regulations or fraud;
- Reading key correspondence with regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of loans and advances; and
- Identifying journal entries including, but not limited to, journals posted by terminated users, IT users with elevated system access, users who have seldom posted during the period and journals posted to unexpected accounts.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Valuation of Expected Credit Loss (ECL) provisions on corporate loans and advances The determination of expected credit loss allowances is highly subjective and judgemental. With the introduction of IFRS 9, a number of additional judgements and assumptions were introduced and reflected in the financial statements, including the identification of significant increases in credit risk (SICR) and the application of forward looking economic scenarios.	We understood and critically assessed the methodology applied. This included consideration of the the criteria used to identify a significant increase in credit risk in the portfolio. For the impairment model, we used modelling specialists to confirm that the implemented methodology was compliant with IFRS 9. We tested key assumptions and judgements used in the calculation and tested the accuracy of critical data inputs used by the impairment models on a sample basis, through to supporting documentation.
The ECL for Westpac Europe Limited (WEL) is most sensitive to the stage allocation of loans. A staging change is triggered by the identification of a SICR, influenced by both a change in the underlying loan quality and also the forward looking economic scenarios, used as inputs to the impairment models. Movement of loans from stage 1 to stage 2 results in the recognition of a lifetime expected credit loss as opposed to a 12 month expected credit loss, which can have a significant impact on the provision charge. All loans in Westpac Europe Limited are in stage 1 for the year ended 30 September 2019.	In testing the impact of the multiple economic scenarios, we compared the forward looking economic assumptions used to independent consensus forecasts, appropriate for the economic exposure of the entity. We also considered the reasonableness of management's assumptions and their assigned weightings to take account of risks from economic shocks. We reperformed a sample of management's loan file reviews, used to determine the credit risk rating of individual loans. We sent external loan confirmations for

	the complete loan book, with a 100% response rate, which provided us with comfort over the underlying loan terms used as part of the impairment process. We confirmed there were no overdue payments on any loans at year end.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Key management and business activities are located in London, however the majority of financial reporting processes and the core banking and product systems are operated from Sydney. The key financial reporting processes maintained in London are purchasing, payables, regulation and taxation. The structure of our audit reflects the nature of the company and its operations. A PwC network firm was engaged to execute the audit of all processes that operate in Sydney. We maintained control of the scoping and the overall risk assessment of the audit. We held regular meetings with the key team members in Sydney and performed oversight of the work executed by the team, including review of audit workpapers.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	$632,000 (2018: $624,000).
How we determined it	1% of total capital resources.
Rationale for benchmark applied	We have determined total capital resources to be the most appropriate benchmark for Westpac Europe Limited (WEL) because profit is not a key driver for the Company. This align's to WEL's position as a risk transfer entity, transferring market and credit risk to Westpac Banking Corporation (WBC). WEL is entirely funded by WBC and the main users of the financial statements, determined to be WBC and relevant regulators, have a clear interest in capital strength. Due to the nature of WEL's business, net assets have been used as a proxy for total capital resources given they are closely aligned.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $30,000 (2018: $30,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 30 September 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were first appointed by the members to audit the financial statements for the year ended 30 September 2006 and subsequent financial periods. The period of total uninterrupted engagement is 14 years, covering the years ended 30 September 2006 to 30 September 2019.

Ian Godsmark (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 January 2020