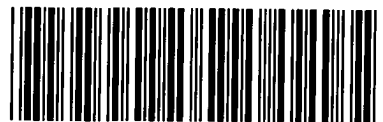


**Westpac Europe Limited**  
**Registered No. 5660032**  
**Annual Report**  
**For the year ended 30 September 2020**

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# WESTPAC EUROPE LIMITED

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## CONTENTS

Directors' report.....	2
Strategic report.....	4
Statement of profit or loss and other comprehensive income.....	7
Balance sheet.....	8
Statement of changes in equity .....	9
Cash flow statement.....	10
Notes to the financial statements .....	11
Independent auditors' report .....	31

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 20 January 2021. The Company's registered office is  
Camomile Court  
23 Camomile Street  
London EC3A 7LL

# WESTPAC EUROPE LIMITED

## 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 2020.

### *Directors*

The following persons were Directors of the Company during the period since 1 October 2019 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 in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 2020, the Company's total credit and liquidity risks are US\$642 million and US\$367 million respectively. The risks increased by some 17% and 13%, respectively, compared to the previous year. The total collateral buffer was US\$38 million as at 30 September 2020, and it was sufficient to meet all known 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\$1.2830 (2019: £1.00 = US\$1.2295).

The average exchange rate for the year was £1.00 = US\$1.2754 (2019: £1.00 = US\$1.2764).

### *Transactions with directors and related parties*

No Director held, at 30 September 2020, any interest in the share capital of the Company (2019: 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 (2019: 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.

# WESTPAC EUROPE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### *Post balance sheet events*

No matter or circumstances has arisen since the year ended 30 September 2020 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 prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006. 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;
- state whether applicable IFRSs in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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. The directors 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 Christopher Jonathan Lloyd (Jon) Burgess

Date: 20 January 2021

Registered Office  
Camomile Court  
23 Camomile Street  
London EC3A 7LL

# WESTPAC EUROPE LIMITED

## 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 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.

In accordance with the Companies Act 2006 (the 'Act') for the year ended 30 September 2020, the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

### **Statement of Engagement with Employees and Other Stakeholders**

In accordance with the Large and Medium- sized Companies and Groups (accounts and Reports) Regulations 2008, the following statement also provides details on how the Directors have engaged with and had regard to, the interest of key stakeholders and employees.

#### **Employees**

WEL does not have any direct employees but staff are seconded from Westpac Banking Corporation London Branch.

#### **Customers**

The Company has continued to focus on growing relationships with our existing customers and bringing on new clients where appropriate, emphasising and building upon the linkage to Westpac Banking Corporation's core franchise in Australia and New Zealand. The Company aims to develop and maintain strong client relationships.

The directors recognise the importance of treating customers fairly. This has been evident during the COVID-19 pandemic where discussions have centred on impacts to customers and endeavouring to provide support where appropriate.

#### **Shareholders**

The company is a wholly owned subsidiary of Westpac Banking Corporation, forming part of Westpac's Institutional Division. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are aligned to those of Westpac Banking Corporation, ensuring that the interests of Westpac Banking Corporation as the company's sole shareholder are duly acknowledged. The Board is committed to openly engaging with our shareholder to ensure clear understanding of strategy and objectives.

#### **Communities and the Environment**

WEL has undertaken initial analysis of the impact of the risks of climate change on its business which will be regularly updated going forward. The directors are mindful of the community in which WEL is based, being the City of London. The board of WEL understand that through our activities we may impact on human rights, whether in our role as a financial service provider, lender, purchaser of goods and services, or supporter of communities. We recognise we have both a responsibility to respect human rights, and find opportunities to positively impact human rights across the value chain.

#### **Regulators**

The company provides periodic updates on its current status to relevant regulators including disclosures on its loan profile and capital position. During 2020 the Company's Executive Directors had meetings with relevant regulators endeavouring to provide, proactive engagement across key regulation changes and areas of regulatory focus including Brexit and the COVID-19 pandemic.

#### **How stakeholder interest has influenced decision making**

The directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of Westpac Banking Corporation, is to effectively manage its customer base to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest standards of conduct.

#### **Business performance and position**

The Company's net profit for the year ended 30 September 2020 was US\$915,000 (2019: US\$1,334,000). The decrease was primarily driven by lower interest rates on US Treasury Notes where WEL's excess capital is invested. The Company has total assets of US\$440 million (2019: US\$411 million). Underlying loan exposures increased by 21% during the year to US\$327 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.

The presence of COVID-19 has not significantly affected the Company's results or its state of affairs during the financial year ended 30 September 2020 as the current customer portfolio comprise of large investment grade corporates which to date have been able to manage the impacts of COVID-19.

Since the end of the financial year management has continued to monitor the COVID-19 situation. At the date of this report a definitive assessment of the future effects of COVID-19 on the Company cannot be made, as the impact will depend on the magnitude and duration of the pandemic and resulting public health orders and economic downturn, with the full range of possible effects unknown. The directors are of the view that no significant post balance sheet event has occurred on the provision which requires reporting.

#### **Future outlook**

Brexit - On 29th 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. Subsequently legislation was passed for the UK's departure from the EU on the 31st January 2020 ('Brexit') with a transition period to 31st December 2020. On 24 December 2020, it was announced that the EU and UK had reached a trade & co-operation agreement (TCA) on trade and other issues governing the relationship between the UK and EU going forward. The TCA does not include provisions on financial services that would allow the

# WESTPAC EUROPE LIMITED

## STRATEGIC REPORT (CONTINUED)

company to continue to use its passport to transact new business with clients in certain EU countries. Consequently, the Company has ceased to transact new business in those countries. However, under various local licensing regimes in certain EEA countries, the Company is permitted to service loan and derivative commitments entered into prior 31 December 2020, (that is existing loans and derivative commitments) post 1 January 2021. Over time, WEL may seek approval to transfer a number, but not all, of its loans to a new WBC group subsidiary, Westpac Europe GmbH.

There remains uncertainty as to the longer term implications of Brexit on WEL going forward but the Board is continuing to monitor developments and the implications for its business, and continues to services existing client relationships where permitted under local licensing rules.

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

In July 2017, the Financial Conduct Authority, 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.

A review of the global major IBORs is being conducted to reform or replace existing IBORs with more suitable alternative reference rates (ARRs). The transition of our products, services and customers away from LIBOR in advance of its cessation remains a key strategic priority for the Group, particularly given guidance from the regulatory community that the end of 2021 remains the overall target date for LIBOR transition. Several key milestones which have been achieved in 2020 are:

1. the approval of an initial batch of alternative reference rate (ARR) products, updates to certain prioritised systems and models;
2. transition to ESTR and SOFR discounting at the London Clearing House (LCH); and
3. engagement with both our customers and our staff on IBOR transition.

### **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 Banking Corporation 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 2020, WEL invested US\$299 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. This risk is mitigated by the high quality liquid assets (HQLA) of face value US\$203 million US Treasuries (2019: US\$180 million) and EUR5 million (US\$5.9 million) German government bonds (2019: EUR5 million) as at 30 September 2020. 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.

Operational risk is closely monitored and there were no operational risk losses incurred by WEL during the 2020 year.

### **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, Westpac Institutional Banking. 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.

# WESTPAC EUROPE LIMITED

## STRATEGIC REPORT (CONTINUED)

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

Table 1

	2020	2019
<b>Capital indicators</b>		
Common equity tier 1 ratio	171.46%	162.71%
<b>Leverage ratios</b>		
Debt ratio	85.29%	84.47%
Debt-to-equity ratio	5.80	5.44
<b>Liquidity indicators</b>		
Liquidity coverage ratio	393%	1239%
Current ratio <sup>1</sup>	1.27	1.41
<b>Profitability indicators</b>		
Return on assets	0.21%	0.32%
Return on equity	1.41%	2.09%
<b>Asset quality indicators</b>		
Off balance sheet commitments/Total assets	46.05%	33.26%
Customer advance/Total assets	28.12%	32.68%
Internal funding/Total assets	83.19%	78.74%

<sup>1</sup>Current Ratio (FSA047 & FSA048 Asset /Liabilities < 12months)

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

Director  Christopher Jonathan Lloyd (Jon) Burgess

Date: 20 January 2021

Registered Office  
Camomile Court  
23 Camomile Street  
London EC3A 7LL

# WESTPAC EUROPE LIMITED

## Statement of profit or loss and other comprehensive income for the year ended 30 September 2020

	Note	2020 US\$'000	2019 US\$'000
<b>Income</b>			
<i>Interest income</i>			
Loans and advances to customers		3,702	4,942
Debt securities at amortised cost		3,254	5,793
<b>Total interest income</b>		<b>6,956</b>	<b>10,735</b>
Interest expense	20	(6,259)	(9,428)
<b>Net interest income</b>		<b>697</b>	<b>1,307</b>
Fees and commission		3,082	2,625
Other income		250	25
<b>Net income</b>		<b>4,029</b>	<b>3,957</b>
Administrative expenses		(2,673)	(2,285)
Impairment charges		(233)	(24)
<b>Profit before income tax</b>	2	<b>1,123</b>	<b>1,648</b>
Income tax expense	4	(208)	(314)
<b>Net profit for the year</b>		<b>915</b>	<b>1,334</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year attributable to owners of Westpac Europe Limited</b>		<b>915</b>	<b>1,334</b>

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



# WESTPAC EUROPE LIMITED

Balance sheet as at 30 September 2020

	Note	2020 US\$'000	2019 US\$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and bank balances	5	8,103	7,458
Derivative financial instruments	17	3,700	5,861
Debt securities at amortised cost	8	298,833	209,325
Due from related entities	9	1,092	4,213
Other financial assets	10	4,361	14,392
<b>Total current assets</b>		<b>316,089</b>	<b>241,249</b>
<b>Non-current assets</b>			
Debt securities at amortised cost	8	-	35,174
Loans and advances to customers	6	123,678	134,158
<b>Total non-current assets</b>		<b>123,678</b>	<b>169,332</b>
<b>Total assets</b>		<b>439,767</b>	<b>410,581</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	11	365,842	288,304
Derivative financial instruments	17	3,700	5,861
Due to related entities	12	4,856	15,575
Other financial liabilities	13	231	1,842
Provisions	23	215	81
Current tax liabilities		-	114
<b>Total current liabilities</b>		<b>374,844</b>	<b>311,777</b>
<b>Non-current liabilities</b>			
Borrowings	11	-	35,000
Other financial liabilities	13	251	47
<b>Total non-current liabilities</b>		<b>251</b>	<b>35,047</b>
<b>Total liabilities</b>		<b>375,095</b>	<b>346,824</b>
<b>Net assets</b>		<b>64,672</b>	<b>63,757</b>
<b>Equity</b>			
Share premium reserve		58,427	58,427
Retained earnings		6,245	5,330
<b>Total equity</b>		<b>64,672</b>	<b>63,757</b>
<b>Total equity and liabilities</b>		<b>439,767</b>	<b>410,581</b>

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

The financial statements were approved by the Board of Directors on 20 January 2021, and were signed on its behalf by:

Director



Christopher Jonathan Lloyd (Jon) Burgess

20 January 2021

# WESTPAC EUROPE LIMITED

## Statement of changes in equity for the year ended 30 September 2020

	Called up share capital US\$'000	Share premium reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
<b>2020</b>				
<b>Balance at 1 October 2019</b>	-	58,427	5,330	63,757
<b>Net profit for the year</b>	-	-	915	915
Net other comprehensive income for the year	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	915	915
Transaction in capacity as equity holders				
Issue of ordinary shares	-	-	-	-
<b>Balance at 30 September 2020</b>	-	58,427	6,245	64,672

	Called up share capital US\$'000	Share premium reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
<b>2019</b>				
<b>Balance at 1 October 2018</b>	-	58,427	3,996	62,423
<b>Net profit for the year</b>	-	-	1,334	1,334
Net other comprehensive income for the year	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	1,334	1,334
Transaction in capacity as equity holders				
Issue of ordinary shares	-	-	-	-
<b>Balance at 30 September 2019</b>	-	58,427	5,330	63,757

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

# WESTPAC EUROPE LIMITED

## Cash flow statement for the year ended 30 September 2020

	Note	2020 US\$'000	2019 US\$'000
<b>Cash flows from operating activities</b>			
Fees and commissions received		2,824	2,674
Interest received		7,319	11,290
Interest paid		(7,356)	(8,823)
Tax expense paid		(322)	(275)
Operating expenses paid		(2,710)	(2,229)
Decrease/(increase) in loans and advances		10,480	(17,547)
Decrease/(increase) in other financial assets		9,667	(13,492)
(Decrease)/increase in other financial liabilities		(1,407)	1,831
Net (increase)/decrease in intercompany balances		(6,054)	9,612
<b>Net cash provided by/(used in) operating activities</b>	15(b)	<b>12,441</b>	<b>(16,959)</b>
<b>Cash flows from investing activities</b>			
Increase in debt securities at amortised cost net		(54,334)	(29,157)
<b>Net cash provided by/(used in) investing activities</b>		<b>(54,334)</b>	<b>(29,157)</b>
<b>Cash flows from financing activities</b>			
Increase in interest bearing borrowings	15(c)	42,538	46,078
<b>Net cash provided by/(used in) financing activities</b>		<b>42,538</b>	<b>46,078</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>645</b>	<b>(38)</b>
Cash and cash equivalents as at the beginning of the year		7,458	7,496
<b>Cash and cash equivalent as at the end of the year</b>	15(a)	<b>8,103</b>	<b>7,458</b>

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.

# WESTPAC EUROPE LIMITED

## 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 international accounting standards in conformity with the requirements of the Companies Act 2006.

#### 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.

#### (i) Comparative revisions

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

#### (ii) Standards adopted during the year ended 30 September 2020

##### IFRS 16 Leases (IFRS 16)

The Company adopted IFRS 16 on 1 October 2019. The adoption of IFRS 16 has had no impact on the Company as the Company has no leasing arrangements.

#### 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 0.8527; USD/GBP 0.7794; GBP/Euro 1.0940 (2019: USD/Euro 0.9146; USD/GBP 0.8134; GBP/Euro 1.1244).

#### 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

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.

ECLs 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).

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### d. Provision for expected credit losses/impairment charges (continued)

##### Measurement

The Company calculates the provision 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 ECL 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 an individual basis.

Financial assets in Stage 3 are those that are in default. A default occurs when the Company considers that the customer is unable to repay its credit obligations in full, irrespective of recourse 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. This means that they are grouped in pools of similar assets with similar credit risk characteristics including the type of product and the customer risk grade. Financial assets in Stage 3 are assessed on an individual basis and calculated collectively for those below a specified threshold.

##### Expected life

In considering the lifetime timeframe for ECL in Stages 2 and 3, 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 1 or Stage 2 if they are no longer assessed to be non-performing.

#### 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 to customers, which are held to collect contractual cash flows represent solely payments of principal and interest, are measured at amortised cost. These assets are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. 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

##### 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.

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### 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).

Other Income includes the reimbursement by Westpac Banking Corporation of the annual impairment charges.

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.

#### 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.

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### 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. Transactions with related entities

All transactions with related entities i.e. Westpac Banking Corporation are shown at amortised cost. Transactions with related entities are cash settled on an ongoing basis.

#### p. 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 estimates include when a significant increase in credit risk has occurred and estimation of forward-looking macroeconomic information. Other factors which can impact the provision include 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 estimate 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 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 modest 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.

##### ▪ 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.

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### q. Critical accounting assumptions and estimates (continued)

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.

#### *Impact of COVID-19*

The COVID-19 pandemic and the measures put in place domestically and globally to control the spread of the virus have had a significant impact on global economies and financial markets. As a result, this has increased the uncertainty and judgement required in relation to our critical accounting assumptions and estimates, primarily relating to:

- expected credit losses; and
- fair value measurement.

As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, the actual economic conditions are likely to be different from those which may impact accounting estimates included in these financial statements. This potential impact is not expected to be material to the Company.

#### r. 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) 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 ARR.

The International Accounting Standards Board's (IASB) Phase 1 IBOR Transition amendments has been adopted for relevant hedging and disclosure standards to maintain existing hedge relationships. The Company is actively following Phase 2 of the IASB's IBOR transition project. The funds transfer pricing (FTP) impact assessment has been completed covering methodology, process, and system impacts resulting from IBOR transition with the current FTP work focused on a tactical solution to manage short-term basis risk.

Furthermore, we continue to monitor these developments and the expected impact.

##### *(ii) Revised Conceptual Framework*

A revised Conceptual Framework (Framework) was issued in May 2019. This will be effective for the Company for the 30 September 2021 financial year. The revised Framework includes new definitions and recognition criteria for assets, liabilities, income and expenses and other relevant financial reporting concepts. The changes are not expected to have a material impact to the Company.

There are no other standards and interpretations that have been issued, which have a material impact on the Company.



# WESTPAC EUROPE LIMITED

## 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\$105,117 (2019: US\$98,373).

	2020 US\$	2019 US\$
Financial statements audit	97,586	91,325
Client money audit	7,531	7,048
<b>Total</b>	<b>105,117</b>	<b>98,373</b>

In 2020 the Company had no employees (2019: 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\$1,738 thousand (2019: US\$1,514 thousand).

### 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 US\$308 thousand (2019: US\$243 thousand). Emoluments for highest paid executive director was US\$106 thousand (2019: US\$90 thousand)

### Note 4. Income tax expense

The charge for the year comprises:

	2020 US\$'000	2019 US\$'000
<b>Profit on ordinary activities before tax</b>	<b>1,123</b>	<b>1,648</b>
Taxation charge at 19% (2019: 19%)	213	314
Effects of:		
Adjustments for prior year tax charges	(3)	-
Other items	(2)	-
<b>Tax expense for the year</b>	<b>208</b>	<b>314</b>

### Note 5. Cash and bank balances

	2020 US\$'000	2019 US\$'000
Cash and bank balances	8,103	7,458
<b>Total cash and bank balances</b>	<b>8,103</b>	<b>7,458</b>

### Note 6. Loans and advances to customers

	2020 US\$'000	2019 US\$'000
<b>Non-current</b>		
Loans and advances at amortised cost*	123,805	134,214
<b>Net loans and advances to customers</b>	<b>123,805</b>	<b>134,214</b>
Provisions for expected credit losses on loans (Note 7)	(127)	(56)
<b>Total Loans</b>	<b>123,678</b>	<b>134,158</b>

\*Net of unearned income

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Note 7. Provision for expected credit losses

#### Loans and credit commitments

The following table reconciles the 30 September 2020 provision for ECL on loans and credit commitments for the Company:

US\$'000	Performing		Non- performing		Total
	Stage 1	Stage 2	Stage 3		
<b>Provision for ECL on loans, and credit commitments as at 30 September 2019</b>	<b>137</b>	-	-		<b>137</b>
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	95	-	-		95
Net remeasurement of provision for ECL	91	-	-		91
Write-offs	-	-	-		-
Exchange rate and other adjustments	19	-	-		19
<b>Total provision for ECL on loans and credit commitments as at 30 September 2020</b>	<b>342</b>	-	-		<b>342</b>
Presented as:					
Provision for ECL loans (Note 6)	127	-	-		127
Provision for ECL credit commitments (Note 23)	215	-	-		215
<b>Total provision for ECL on loans and credit commitments as at 30 September 2020</b>	<b>342</b>	-	-		<b>342</b>
Of which:					
Collectively assessed provisions	342	-	-		342
Individually assessed provisions	-	-	-		-
<b>Total provision for ECL on loans and credit commitments as at 30 September 2020</b>	<b>342</b>	-	-		<b>342</b>

#### Reconciliation of impairment charges

	2020	2019
	US\$'000	US\$'000
Loans:		
Business activity during the year	95	53
Net remeasurement of provision for ECL	91	(25)
Recoveries		
Other	19	(8)
<b>Total impairment charges</b>	<b>205</b>	<b>20</b>

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Note 7. Provision for expected credit losses (continued)

#### *Modelled provision for ECL*

The modelled provision for ECL is a probability weighted estimate based on three scenarios which together are representative of the Company's view of the forward-looking distribution of potential loss outcomes. The increase in provisions as a result of changes in modelled ECL are reflected through the "net remeasurement of provision for ECL" line in the "movement in provision for ECL on loans" table.

The base case scenario uses current Westpac Economics forecasts and reflects the latest available macroeconomic view which shows a deterioration in the short term, with a subsequent recovery. The latest view considers both the economic and societal impacts of COVID-19.

The downside scenario is a more severe scenario with ECL higher than those under the current base case scenario. The more severe loss outcome for the downside is generated under a recession scenario in which the combination of negative GDP growth, declines in commercial and residential property prices and an increase in the unemployment rate simultaneously impact ECL across all portfolios from the reporting date. The assumptions in this scenario and relativities to the base case scenario will be monitored having regard to the emerging economic conditions and updated where necessary.

The upside scenario represents a modest improvement to the base case. 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).

	2020 US\$'000	2019 US\$'000
Reported probability-weighted ECL	342	137
100% base case ECL	160	15
100% downside ECL	632	462

If 10% 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\$ 277 thousand (2019: US\$ 159 thousand) for WEL.

The following table indicates the macroeconomic scenario weightings applied by the Company:

	2020	2019
Upside	5	10
Base case	55	62.5
Downside	40	27.5

The increase in weighting to the downside scenario since 30 September 2019 reflects the significant risk regarding the economic assumptions used in the base case and the asymmetric impact of downside tail risk on ECL. In particular, the current base case economic forecast indicates a relatively short and sharp economic impact followed by a subsequent recovery. There is a risk that the economic impacts of COVID-19 could be deeper or more prolonged which would result in higher credit losses than those modelled under the base case.

The COVID-19 pandemic is leading to material structural shifts in the behaviour of the economy and customers, and unprecedented actions by banks, governments and regulators in response. ECL models are expected to be subject to a higher than usual level of uncertainty during this period. In this environment there is a heightened need for the application of judgement in order to reflect these evolving relationships and risks. This judgement has been applied in the form of the revision to scenario weightings.

#### *Impact of changes in credit exposures on the provision for ECL*

- Stage 1 exposures had a net increase of US\$205 thousand (2019: Increase of US\$20 thousand). Increase was primarily driven by two additional facilities. There are no exposures in Stage 2 or Stage 3.

# WESTPAC EUROPE LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Note 7. Provision for expected credit losses (continued)

#### Debt Securities

The following table reconciles the 30 September 2020 provision for ECL on debt securities at amortised cost for the Company based on the requirements of IFRS 9:

	US\$'000
Provision for ECL debt securities as at 30 September 2019	24
Stage 1 - change in the provision during the year	34
Exchange rate and other adjustments	-
Total provision for ECL debt securities as at 30 September 2020	58

Stage 1 ECL increased from US\$24 thousand to US\$58 thousand which was primarily driven by:

- credit exposure increasing year on year (US\$245m to US\$299m);
- changes in factors as a result of the market stresses with COVID-19 &;
- mix change towards bank paper which attracts a relatively higher ECL

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Note 8. Debt securities at amortised cost

The Company invests the cash collateral of US\$242 million (2019: US\$189 million) and US\$57 million (2019: 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.

	2020 US\$'000	2019 US\$'000
<b>Current</b>		
Debt securities at amortised cost – Government securities	208,836	184,315
Debt securities at amortised cost – Other debt securities	90,055	25,023
Provisions for expected credit losses on debt securities (Note 7)	(58)	(13)
<b>Total current debt securities at amortised cost</b>	<b>298,833</b>	<b>209,325</b>
<b>Non-current</b>		
Debt securities at amortised cost – Other debt securities	-	35,185
Provisions for expected credit losses on debt securities (Note 7)	-	(11)
<b>Total non-current debt securities at amortised cost</b>	<b>-</b>	<b>35,174</b>

### Note 9. Due from related entities

	2020 US\$'000	2019 US\$'000
Accrued interest receivable	11	10
Management fee receivable	851	343
Securities sold not delivered	230	1,838
Other receivables	-	2,022
<b>Total due from related entities</b>	<b>1,092</b>	<b>4,213</b>

### Note 10. Other financial assets

	2020 US\$'000	2019 US\$'000
Accrued interest receivable	523	887
Other receivables	50	33
Securities sold not delivered	3,788	13,472
<b>Total other financial assets</b>	<b>4,361</b>	<b>14,392</b>

### Note 11. Borrowings

	2020 US\$'000	2019 US\$'000
<b>Current balances due to Parent</b>		
Gross loan funding	124,438	134,710
Collateral deposits	241,404	153,594
<b>Total current balances due to Parent</b>	<b>365,842</b>	<b>288,304</b>
<b>Non-current balances due to Parent</b>		
Collateral deposits	-	35,000
<b>Total non-current balances due to Parent</b>	<b>-</b>	<b>35,000</b>
<b>Total borrowings</b>	<b>365,842</b>	<b>323,304</b>

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Note 12. Due to related entities

	2020	2019
	US\$'000	US\$'000
Securities purchased not delivered	3,788	13,472
Accrued interest payable	1,006	2,103
Other payables	62	-
<b>Total due to related entities</b>	<b>4,856</b>	<b>15,575</b>

### Note 13. Other financial liabilities

	2020	2019
	US\$'000	US\$'000
<b>Current</b>		
Securities purchased not delivered	231	1,838
Other financial liabilities	-	4
<b>Total current other financial liabilities</b>	<b>231</b>	<b>1,842</b>
<b>Non-current</b>		
Unearned income on undrawn loans	251	47
<b>Total non-current other financial liabilities</b>	<b>251</b>	<b>47</b>

### Note 14. Called up share capital

	2020	2019
	No.	No.
<b>Issued and fully paid share capital</b>		
Ordinary shares of US\$1 each	2	2
Ordinary shares of £1 each	1	1
<b>Ordinary shares at end of the year</b>	<b>3</b>	<b>3</b>

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Note 15. Notes to the cash flow statement

	2020 US\$'000	2019 US\$'000
<b>(a) Reconciliation of cash</b>		
Cash and cash equivalents	8,103	7,458
<b>Cash and cash equivalents as at end of the year</b>	<b>8,103</b>	<b>7,458</b>
	2020 US\$'000	2019 US\$'000
<b>(b) Reconciliation of net cash provided by/(used in) operating activities to net profit for the year is set out below:</b>		
Profit before income tax	1,123	1,648
Adjustments:		
Impairment charges	233	24
Tax expense paid	(322)	(275)
Changes in assets and liabilities:		
Decrease in interest receivable	363	555
(Increase)/decrease in due from related entities	(6,562)	9,636
Decrease/(increase) in loans and advances	10,480	(17,547)
Decrease/(increase) in other financial assets	9,667	(13,492)
(Decrease)/increase in other financial liabilities	(1,407)	1,831
(Decrease)/increase in interest payable	(1,097)	605
Increase/(decrease) in due to related entities	62	(1)
(Decrease)/increase in provisions	(99)	57
<b>Net cash provided by/(used in) operating activities</b>	<b>12,441</b>	<b>(16,959)</b>

### (c) Reconciliation of liabilities arising from financing activities

Movement in liabilities arising from financing activities

	Borrowings US \$'000	Total US \$'000
<b>Balance as at 1 October 2018</b>	<b>277,226</b>	<b>277,226</b>
Borrowings	46,078	46,078
Other cash movements	-	-
<b>Total cash movements</b>	<b>46,078</b>	<b>46,078</b>
Other non-cash movements	-	-
<b>Total non-cash movements</b>	<b>-</b>	<b>-</b>
<b>Balance as at 30 September 2019</b>	<b>323,304</b>	<b>323,304</b>
Borrowings	42,538	42,538
Other cash movements	-	-
<b>Total cash movements</b>	<b>42,538</b>	<b>42,538</b>
Other non-cash movements	-	-
<b>Total non-cash movements</b>	<b>-</b>	<b>-</b>
<b>Balance as at 30 September 2020</b>	<b>365,842</b>	<b>365,842</b>

# WESTPAC EUROPE LIMITED

## 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 business 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:

	2020 US\$'000	2019 US\$'000
Cash and bank balances	8,103	7,458
Debt securities at amortised cost	298,833	244,499
Net loans and advances	123,678	134,158
Receivables	4,919	17,708
Accrued interest receivable	534	897
Derivative financial instruments	3,700	5,861
Credit commitments	202,525	136,553
<b>Total maximum exposure to credit risk</b>	<b>642,292</b>	<b>547,134</b>

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 2020, the collateral received amounted to US\$242 million (2019: US\$189 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.



# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Note 16. Financial risk management (continued)

#### (ii) Liquidity risk (continued)

30 September 2020

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	1,006	1,006	1,006	-
Payables	62	62	62	-
Gross loan funding	124,438	125,259	125,259	-
Collateral deposits	241,404	242,028	242,028	-
<b>Total financial liabilities</b>	<b>366,910</b>	<b>368,355</b>	<b>368,355</b>	<b>-</b>
<b>Contingent liabilities and commitments</b>				
Commitments to extend credit	-	202,525	202,525	-

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
<b>Total financial liabilities</b>	<b>325,411</b>	<b>330,136</b>	<b>294,744</b>	<b>35,392</b>
<b>Contingent liabilities and commitments</b>				
Commitments to extend credit	-	136,553	136,553	-

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 2020	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
<b>Gross settled foreign exchange derivative liabilities</b>				
Outflow	(187,654)	-	-	-
Inflow	185,229	-	-	-
<b>Net settled interest rate derivative liabilities</b>	-	-	-	-

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
<b>Gross settled foreign exchange derivative liabilities</b>				
Outflow	(296,674)	-	-	-
Inflow	292,508	-	-	-
<b>Net settled interest rate derivative liabilities</b>	-	-	-	-

#### (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.

# WESTPAC EUROPE LIMITED

## 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

	2020 US\$'000	2019 US\$'000
<b>Assets:</b>		
Foreign exchange derivatives	2,586	4,006
Interest rate derivatives	1,114	1,855
<b>Total derivative assets</b>	<b>3,700</b>	<b>5,861</b>
<b>Liabilities:</b>		
Foreign exchange derivatives	2,586	4,006
Interest rate derivatives	1,114	1,855
<b>Total derivative liabilities</b>	<b>3,700</b>	<b>5,861</b>

### 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		
	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
<b>30 September 2020</b>						
<b>Financial assets:</b>						
Derivative financial instruments	3,700	-	3,700	(761)	-	2,939
<b>Financial liabilities:</b>						
Derivative financial instruments	3,700	-	3,700	(761)	-	2,939

	Effects of offsetting on balance sheet			Amounts subject to enforceable netting arrangements but not offset		
	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
<b>30 September 2019</b>						
<b>Financial assets:</b>						
Derivative financial instruments	5,861	-	5,861	(2,470)	-	3,391
<b>Financial liabilities:</b>						
Derivative financial instruments	5,861	-	5,861	(2,470)	-	3,391

#### 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.

# WESTPAC EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Note 19. Subsequent events

Since the end of the financial year management has continued to monitor the COVID-19 situation. At the date of this report a definitive assessment of the future effects of COVID-19 on the Company cannot be made, as the impact will depend on the magnitude and duration of the pandemic and resulting public health orders and economic downturn, with the full range of possible effects unknown.

No other matters except the above have arisen since the year ended 30 September 2020 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 periods.

### 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	2020 US\$'000	2019 US\$'000
Collateral deposits	11	241,404	188,594
Gross loan funding	11	124,438	134,710
Accrued interest payable	12	1,006	2,103
Other payables	12	62	-
Securities purchased not delivered	12	3,788	13,472
Derivative liabilities		762	2,135
		<b>371,460</b>	<b>341,014</b>

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

	Note	2020 US\$'000	2019 US\$'000
Accrued interest receivable	9	11	10
Management fee receivable	9	851	343
Securities sold not delivered	9	230	1,838
Other receivables	9	-	2,022
Derivative assets		2,938	3,726
		<b>4,030</b>	<b>7,939</b>

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

	2020 US\$'000	2019 US\$'000
Commission received from parent	3,082	2,625
Administrative expenses paid to parent	(2,673)	(2,285)
Interest expense on amounts due to parent	(6,259)	(9,428)
	<b>(5,850)</b>	<b>(9,088)</b>

(b) Key management is comprised of directors. There were no transactions with the directors during the year (2019: nil) apart from payment of emoluments in Note 3.

# WESTPAC EUROPE LIMITED

## 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 2020. 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:

		Carrying amount	Quoted market prices	Fair valuation techniques (Market observable)	Fair valuation techniques (Non-market observable)
	Note		(Level 1)	(Level 2)	(Level 3)
30 September 2020		US\$'000	US\$'000	US\$'000	US\$'000
<b>Financial assets measured at fair value on a recurring basis</b>					
Derivative financial instruments	17	3,700	-	3,700	-
<b>Total financial assets</b>		<b>3,700</b>	<b>-</b>	<b>3,700</b>	<b>-</b>
<b>Financial liabilities measured at fair value on a recurring basis</b>					
Derivative financial instruments	17	3,700	-	3,700	-
<b>Total financial liabilities</b>		<b>3,700</b>	<b>-</b>	<b>3,700</b>	<b>-</b>

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

# WESTPAC EUROPE LIMITED

## 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 and credit spreads 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 financial 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:

		Carrying amount	Quoted market prices	Fair valuation techniques	
	Note		(Level 1)	(Market observable) (Level 2)	(Non-market observable) (Level 3)
30 September 2020		US\$'000	US\$'000	US\$'000	US\$'000
Financial assets not measured at fair value					
Cash and bank balances	5	8,103	8,103	-	-
Due from related entities	9	1,092	-	-	1,092
Loan and advances to customers	6	123,678	-	-	123,678
Debt securities at amortised cost	8	298,833	-	298,833	-
Other financial assets	10	4,361	-	4,361	-
<b>Total financial assets</b>		<b>436,067</b>	<b>8,103</b>	<b>303,194</b>	<b>124,770</b>
Financial liabilities not measured at fair value					
Due to related entities	12	4,856	-	-	4,856
Borrowings	11	365,842	-	365,842	-
Other financial liabilities	13	482	-	482	-
<b>Total financial liabilities</b>		<b>371,180</b>	<b>-</b>	<b>366,324</b>	<b>4,856</b>

		Carrying amount	Quoted market prices	Fair valuation techniques	
	Note		(Level 1)	(Market observable) (Level 2)	(Non-market observable) (Level 3)
30 September 2019		US\$'000	US\$'000	US\$'000	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	-
<b>Total financial assets</b>		<b>404,720</b>	<b>7,458</b>	<b>258,891</b>	<b>138,371</b>
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	-
<b>Total financial liabilities</b>		<b>340,768</b>	<b>-</b>	<b>325,193</b>	<b>15,575</b>

# WESTPAC EUROPE LIMITED

## 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. Provisions

The Company has the following irrevocable loan commitments:

	2020 US\$'000	2019 US\$'000
Undrawn credit facilities	202,525	136,553
<b>Total commitments</b>	<b>202,525</b>	<b>136,553</b>

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
<b>Balance as at 1 October 2018</b>	<b>74</b>
Additions	7
<b>Balance as at 30 September 2019</b>	<b>81</b>
Additions	134
Utilisations	-
Reversals	-
Other	-
<b>Balance as at 30 September 2020</b>	<b>215</b>

# ***Independent auditors' report to the members of Westpac Europe Limited***

## **Report on the audit of the financial statements**

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### **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 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020; 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.

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### **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.

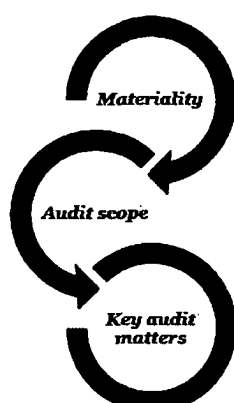
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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 2019 to 30 September 2020.

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### **Our audit approach**

#### *Overview*



- Overall materiality: \$642,000 (2019: \$632,000), 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 the scope. This enabled us to focus on the best types of audit evidence to obtain, and the audit resources needed to deliver our audit.
  - Valuation of Expected Credit Loss (ECL) provisions on corporate loans and advances; and
  - Impact of COVID-19.
-



## *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 the Companies Act 2006, 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.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Valuation of Expected Credit Loss (ECL) provisions on corporate loans and advances</i></p> <p><i>Refer to page 11 (Note 1: Financial statements preparation) and page 17 (Note 7: Provision for expected credit losses)</i></p> <p>The determination of ECL allowances is highly subjective and judgemental. The COVID-19 pandemic has increased the uncertainty over the future economic outlook, consequently increasing the uncertainty in the measurement of the ECL.</p> <p>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 Significant Increase in Credit Risk (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 ECL as opposed to a 12 month ECL, which can have a significant impact on the provision charge. COVID-19 has increased the difficulty of identifying a SICR. All loans in Westpac Europe Limited are in stage 1 for the year ended 30 September 2020.</p>	<p>We understood and critically assessed the methodology applied. This included consideration of the criteria used to identify a SICR in the portfolio. For the impairment model, we incorporated the work of modelling experts to confirm that the 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.</p> <p>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.</p> <p>We tested a sample of management's loan file reviews used to determine the credit risk grade and security quality of individual loans. We also considered other external factors that could impact the credit quality of an exposure, including external ratings, and whether counterparties are</p>

	<p>in industries more impacted by the current economic conditions.</p> <p>We sent external loan confirmations, and where no response was received, performed alternative procedures over the existence of the loan, 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.</p>
<p><i>Impact of COVID-19</i></p> <p>Refer to page 11 (Note 1: Financial statements preparation), page 17 (Note 7: Provision for expected credit losses) and page 26 (Note 19: Subsequent events)</p> <p>The COVID-19 pandemic has had and continues to have a significant impact on all businesses, with uncertainty over the future spread of the disease, the extent and impact of government measures and economic outlook around the world.</p> <p>The directors have considered the impact of COVID-19 when preparing the financial statements with the main impacts being on the level of impairment provisions and related disclosures. Further details are set out in notes 7 and 19, and the accounting policies are set out in note 1.</p> <p>We considered this area a key audit matter given the pervasive nature of the risk and the level of uncertainty at the date of signing the financial statements.</p> <p>The impact on impairment provisions is considered in the key audit matter above.</p>	<p>In assessing the directors' consideration of the impact of COVID-19 on the financial statements, we have undertaken the following audit procedures:</p> <ul style="list-style-type: none"> <li>• inquiries of management to understand the current and future impact of COVID-19 on the company's recent financial performance and business operations;</li> <li>• read correspondence with regulators and met with the Bank's lead regulator, the Prudential Regulation Authority;</li> <li>• reviewed the going concern assessments of Westpac Europe Limited and Westpac Banking Corporation (WBC), WEL's parent, given the majority of WEL's funding is from WBC, which considered the potential impact of COVID-19 on future profitability; and</li> <li>• evaluated the adequacy of the disclosures made in the financial statements with respect to the impact of COVID-19.</li> </ul> <p>As a result of these procedures, we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of the financial statements.</p>

### *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 under our direction and supervision. 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 to supervise their work and performed detailed reviews 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:

<b>Overall materiality</b>	\$642,000 (2019: \$632,000).
<b>How we determined it</b>	1% of total capital resources.
<b>Rationale for benchmark applied</b>	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 aligns 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 (2019: \$30,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

### 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 2020 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](http://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.

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## **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.

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### **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 15 years, covering the years ended 30 September 2006 to 30 September 2020.



Ian Godsmark (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
20 January 2021