Westpac Securities NZ Limited

Financial statements

For the year ended 30 September 2009

Westpac Securities NZ Limited

Contents

This financial report covers Westpac Securities NZ Limited as an individual entity. The financial report is presented in New Zealand dollars.

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

Level 15
PwC Tower
188 Quay Street
Auckland

A description of the nature of the Company's operations and its principal activities is included in the Management Report and Responsibility Statement on page 4.

The Directors of the Company at the date of this Financial Report are:

Name	Principal activity outside the Company
Mariette Maria Bernadette Van Ryn	General Manager, Regulatory Affairs, Customer Advocacy and General Counsel NZ, Westpac New Zealand Limited
Geoffrey Neville Martin	Senior Manager, Funding, Westpac New Zealand Limited
George Frazis	Chief Executive, Westpac New Zealand Limited
Richard Warren Jamieson	Chief Financial Officer, Westpac New Zealand Limited
Royce Brennan	General Manager Risk, BT Financial Group

The financial report was authorised for issue by the directors on 17 December 2009. The Company has the power to amend and reissue the financial report.

Westpac Securities NZ Limited

Disclosure regarding forward-looking statements

This Financial Report contains forward-looking statements which appear in a number of places and include statements regarding our intent, belief or current expectations with respect to Westpac Securities NZ Limited's ("WSNZL" or the "Company") business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. This Financial Report uses words such as 'will', 'may', 'expect', 'intend', 'plan', 'estimate', 'anticipate', 'believe', 'probability', 'risk', or other similar words to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond our control and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on us will be those anticipated by management. Actual results may vary materially from those we expect, depending on the outcome of various factors. These factors include but are not limited to:

- Impacts of the global financial crisis, including adverse conditions in global debt, equity and asset markets;
- Changes to the credit ratings of Westpac New Zealand Limited ("WNZL");
- Inflation, interest rate, exchange rate, market and monetary fluctuations;
- Market liquidity and investor confidence;
- The effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity and capital requirements arising from the global financial crisis;
- Changes in consumer spending, saving and borrowing habits in New Zealand;
- The effects of competition in the geographic and business areas in which WNZL conducts its operations;
- The ability to maintain or to increase market share and control expenses;
- The timely development of and acceptance of new products and services and the perceived overall value of these products and services by users;
- Technological changes;
- Demographic changes and changes in political, social or economic conditions in any of the major markets in which WNZL operates;
- Stability of New Zealand and international financial systems and disruptions to financial markets and any losses WNZL may experience as a result; and
- Various other factors beyond WNZL's control.

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

The Company is under no obligation, and does not intend to update any forward-looking statements contained in this Financial Report, whether as a result of new information, future events or otherwise, after the date of this Financial Report.

Westpac Securities NZ Limited

Management Report and Responsibility Statement

Review and results of the Company's operations during the financial year

The principal activity of the Company (acting through its London branch) is to raise and manage offshore wholesale funding for WNZL, in respect of which entity the Company is a wholly owned, indirect subsidiary.

The profit after income tax of the Company for the year ended 30 September 2009 was $1,767,000 compared with $3,030,000 for the year ended 30 September 2008, a decrease of 41.68%.

Net interest income decreased by 66.18% to $1,409,000 compared to the year ended 30 September 2008. This was largely due to higher amortization of certain accrual costs in the current year.

Non-interest income increased by 50.40% to $2,062,000 compared to the year ended 30 September 2008 and this was mainly due to the recovery of costs from related parties.

Operating expenses decreased by 6.70% to $947,000 compared to the year ended 30 September 2008 due to a decrease in management fees and professional services fees paid during the year.

Income tax expense decreased by 49.26% to $757,000 compared to the year ended 30 September 2008 due to the decrease in profit before tax for the year.

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

Significant events during the financial year ended 30 September 2009

New Zealand Government Guarantee Scheme

On 1 November 2008, the New Zealand Government announced details of a wholesale funding guarantee facility to investment-grade financial institutions that have substantial New Zealand borrowing and lending operations (the Facility). The Crown entered into a Crown Wholesale Funding Guarantee Facility Deed with WNZL on 23 February 2009 and has provided a Crown Wholesale Funding Guarantee in respect of WNZL dated the same date. The Facility operates on an opt-in basis, by institution and by instrument. Wholesale funding liabilities of WNZL (which can include amounts guaranteed by WNZL, such as instruments issued by the Company) only have the benefit of the Facility where a Guarantee Eligibility Certificate has been issued in respect of those liabilities. A guarantee fee is charged for each guarantee issued under the Facility, differentiated by the credit rating of the issuer, the term of the security being guaranteed and, in the case of issues with terms of more than one year, between New Zealand dollar and non-New Zealand dollar issues. The maximum term of securities guaranteed is five years.

Further information about the Facility may be obtained from WNZL's General Disclosure Statements and the New Zealand Treasury's internet site 'www.treasury.govt.nz'.

WNZL's outsourcing policy

The Reserve Bank of New Zealand's ("RBNZ") Outsourcing Policy (BS 11) requires that certain core functions must be available under normal conditions and in the event of stress or failure of WNZL or of a service provider to WNZL. For the purposes of BS 11 and condition 11 of WNZL's conditions of registration, services provided to WNZL by Westpac Banking Corporation or Westpac Banking Corporation's New Zealand branch ("NZ Branch") are regarded as outsourced. WNZL has complied with condition 11 of its conditions of registration except in the two respects set out below, both of which involve certain services provided to WNZL by Westpac Banking Corporation or its NZ Branch:

- Growing customer demand for automated payment solutions has resulted in the potential requirement to add a back-up system and add more legal controls in relation to one product for a small number of business customers. Actions are underway to remediate this issue.
- In the event of stress or failure of WNZL or a service provider to WNZL, WNZL must be able to provide legal and practical controls relating to certain settlement tasks. WNZL currently needs to enhance its existing practical controls in this area. Actions are underway to remediate this issue.

Review of operating model

Until 1 November 2006, Westpac Banking Corporation conducted its operations in New Zealand in a branch structure. On that date, and after extensive consultation with the RBNZ, Westpac Banking Corporation adopted a dual registration model including a locally incorporated subsidiary, WNZL, to conduct its consumer and business banking activities, and NZ Branch, to conduct its wholesale and financial markets activities. The conditions of registration of each of WNZL and NZ Branch are consistent with these operating model arrangements. In May 2009, the RBNZ, WNZL and NZ Branch agreed to an independent review of the structure of the operating model of Westpac Banking Corporation's business in New Zealand. This review was conducted under the well established processes and framework contemplated by section 95 of the Reserve Bank Act. The report from the independent reviewer was completed on 30 September 2009. Operating model and governance changes that may result from this process will be the subject of discussions between WNZL and the RBNZ

There have been no other significant events impacting the financial standing of the Company during the financial year ended 30 September 2009.

Principal risks and uncertainties

The Company's business is subject to risks that can adversely impact its business, future performance and financial condition. As the Company is an indirect, wholly owned subsidiary of WNZL, it is consequently affected by the same principal risks and uncertainties which affect WNZL. The principal risks and uncertainties that affect WNZL are set forth below. There are no additional risk factors solely affecting the Company.

The principal risks and uncertainties described below are not the only ones the Company may face. Additional risks and uncertainties of which we may be unaware, or that we currently deem to be immaterial, may also become important factors that affect us in the future. If any of the following risks actually occur, our business, results of operations or financial condition could be materially adversely affected.

Management Report and Responsibility Statement (cont'd)

Adverse credit and capital market conditions may significantly affect WNZL's ability to meet liquidity needs, adversely affect its access to domestic and international capital markets and increase its cost of funding

Global credit and capital markets have experienced extreme volatility, disruption and decreased liquidity for more than 2 years. The timing of a sustained recovery of global financial markets remains uncertain. WNZL relies on credit and capital markets to fund its business. As of 30 September 2009, it obtained approximately 36%[1] of its total net funding from domestic and international wholesale markets. As a result of the recent adverse global capital market conditions its funding costs have increased.

A shift in investment preferences of businesses and consumers away from bank deposits towards other asset or investment classes would increase WNZL's need for funding from wholesale markets and would increase its funding costs, as deposits are generally less costly than funding from the wholesale markets. Since May 2009, WNZL has utilised the guarantee facility of the New Zealand Crown to obtain a significant portion of its wholesale funding in the international capital markets. As at 30 September 2009, WNZL's wholesale funding balance was approximately NZ$15.8 billion. Of this, approximately NZ$4.1 billion is guaranteed by the New Zealand Crown. WNZL's access to the international wholesale markets without the New Zealand Crown guarantee facility, particularly for longer term securities, has been difficult. Terminating the New Zealand Crown guarantee facility may adversely affect WNZL's ability to fund itself in the future and the cost of the funding. Should conditions remain uncertain for a prolonged period, or deteriorate further, WNZL's funding costs may increase further and may limit WNZL's ability to replace, in a timely manner, maturing liabilities, which could adversely affect its ability to fund and grow the business.

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

If WNZL is unable to source appropriate funding, it may be forced to reduce its lending or begin to sell liquid securities. Such actions would adversely impact its business, results of operations, liquidity, capital resources and financial condition.

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

The credit ratings assigned to WNZL by rating agencies are based on an evaluation of a number of factors, including WNZL's financial strength. In light of the recent difficulties in the banking sector and financial markets, the rating agencies have indicated they are watching global developments closely and if conditions deteriorate further, they may adjust the ratings of some or all of the major New Zealand banks. Moody's has all the major Australian banks, including WNZL's ultimate holding company, Westpac Banking Corporation, on a negative outlook. If the long-term issuer credit rating of Westpac Banking Corporation were to be downgraded, there would likely be a consequent negative impact on WNZL's long-term issuer credit rating. A credit rating downgrade could also be driven by the occurrence of one or more of the other risks identified in this section or by other events.

If WNZL fails to maintain its current credit ratings, this would adversely affect its cost of funds and related margins, liquidity, competitive position and access to capital markets. In addition, any downgrade in the sovereign credit ratings of New Zealand may adversely affect WNZL's ability to raise funds that have the benefit of the New Zealand Crown guarantee facility, or the cost of those funds. If New Zealand's foreign currency sovereign debt is not AA+ rated, or its domestic currency sovereign debt is not AAA rated, there is likely to be less interest in WNZL sovereign guaranteed debt, and it will also be more expensive. In turn, this could adversely affect WNZL's earnings, liquidity, access to capital markets and financial condition.

A systemic shock in relation to the New Zealand or global financial systems could have adverse consequences for WNZL that would be difficult to predict and respond to

In the current uncertain global economic environment, there is a risk that another major systemic shock could occur that causes a further adverse impact on the New Zealand or global financial systems. Such an event could have a material adverse effect on financial institutions such as WNZL, including the undermining of confidence in the financial systems, reducing liquidity and impairing access to funding. The nature and consequences of any such event are difficult to predict and there can be no guarantee that WNZL could respond effectively to any such event.

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

Declines in global asset markets, including equity, property and other asset markets have adversely affected and could continue to impact WNZL's operations and profitability.

Declining asset prices impact WNZL's asset holdings. Declining asset prices could also impact customers and the value of security WNZL holds against loans which may impact its ability to recover amounts owing to it if customers were to default.

WNZL's business is substantially dependent on the New Zealand economy and it can give no assurance as to the likely future state of such economy

WNZL's revenues and earnings are dependent on economic activity and the level of financial services its customers require. In particular, lending is dependent on customer confidence, economic activity, the state of the home lending market and prevailing market interest rates in New Zealand.

WNZL currently conducts substantially all of its business in New Zealand and, consequently, its performance is influenced by the level and cyclical nature of business and home lending in New Zealand. These factors are in turn impacted by both domestic and international economic and political events. The dislocation in global credit and capital markets has impacted global economic activity which has, in turn, impacted the New Zealand economy. This has led to a slowdown in credit growth and an increase in impaired assets. If the downturn continues for an extended period or becomes more severe, or there are declines in consumer and business confidence, WNZL's results of operations, liquidity, capital resources and financial condition would be further adversely affected. The economic conditions of Australia can also affect its future performance.

[1] Comprised of wholesale funding net of excess liquid assets.

Management Report and Responsibility Statement (cont'd)

An increase in defaults under WNZL's loan portfolio could adversely affect its results of operations, liquidity, capital resources and financial condition

Credit risk is a significant risk and arises primarily from WNZL's lending activities. The risk arises from the likelihood that some customers will be unable to honour their obligations to WNZL, including the repayment of loans and interest. Credit exposures also include WNZL's dealings with, and holdings of, debt securities issued by other banks and financial institutions whose conditions may be impacted to varying degrees by recent turmoil in the global financial markets.

WNZL holds collective and individually assessed provisions for impaired assets. As a result of the recent market and economic conditions, WNZL has increased its impairment provisions and if economic conditions deteriorate further, some customers could experience higher levels of financial stress and WNZL may continue to experience a significant increase in defaults and write-offs, and be required to further increase its provisioning. Such actions would diminish available capital and would adversely affect WNZL's results of operations, liquidity, capital resources and financial condition.

There can be no assurance that actions of the New Zealand, Australian, United States and other foreign governments and other governmental and regulatory bodies to stabilise financial markets will continue or not be modified

In response to the global financial crisis affecting the banking system and financial markets generally and deteriorating global financial conditions, stabilising actions have been taken by governments and regulatory bodies in New Zealand, Australia, the United States, United Kingdom, Europe and other jurisdictions. WNZL expects to continue to make use of the New Zealand Crown guarantee facility to access the wholesale funding markets in the short to medium term.

The New Zealand Crown has announced that the guarantee schemes will be reviewed on an ongoing basis and revised, if necessary. There can be no assurance that any such changes will not have an adverse effect on WNZL's ability to obtain wholesale term funding in the future in reliance on the facility. The ongoing effect of the stabilisation packages implemented by governments and regulators in other jurisdictions are equally uncertain. There can be no assurance as to what effect such regulatory actions will have on financial markets, consumer and investor confidence, or the levels of volatility in financial markets. Further declines in consumer and investor confidence and continued uncertainty and volatility could materially adversely affect WNZL's business, financial condition and results of operations.

WNZL's business is highly regulated and could be adversely affected by changes in regulations and regulatory policy

Compliance risk arises from the regulatory standards that apply to WNZL as a financial institution. WNZL is responsible for ensuring that it complies with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice, as well as meeting its ethical standards. The nature and impact of future changes in such policies are not predictable and are beyond WNZL's control.

It is likely that the recent global financial crisis will lead to changes in regulation in most markets in which WNZL operates, particularly for financial institutions. These changes may include, for example, changes in capital adequacy or other prudential requirements, accounting and reporting requirements, liquidity regulation, regulation relating to remuneration, consumer protection legislation, or changes in the oversight approach of regulators. In the current economic conditions, it is also possible that governments in jurisdictions in which WNZL does business or obtains funding might revise their application of existing regulatory policies that apply to, or impact, WNZL's business, including for reasons relating to national and systemic stability.

WNZL anticipates that the current uncertain economic environment may also result in increased litigation, which creates the potential for legal decisions that result in unanticipated changes in law and may result in regulators making material changes to existing regulatory policies to address or enforce such changes in law.

Changes in law, regulations or regulatory policy could adversely affect WNZL's business, including limiting its ability to do business, and could require it to incur substantial costs to comply or impact its capital and liquidity requirements. The failure to comply with applicable regulations could result in fines and penalties or limitations on WNZL's ability to do business. These costs, expenses and limitations could have a material adverse effect on WNZL's business, financial performance or financial condition.

WNZL faces intense competition in all aspects of its business

WNZL competes domestically with retail and commercial banks, non-bank mortgage brokers, private banking firms and other investment service firms. In addition, the trend toward consolidation in the global financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power.

If WNZL is unable to compete effectively in its various businesses and markets, its business, results of operations and financial condition would be adversely affected.

WNZL could suffer losses due to market volatility

WNZL is exposed to market risk due to volatility of interest rates, foreign exchange rates, commodity prices, credit prices and equity prices. The recent levels of market volatility increased WNZL's estimated earnings at risk as measured by value at risk (VaR)[1]. Structural interest rate risk (WNZL's most significant market risk) may arise from lending and deposit taking activities in the normal course of business and through the investment of capital and other non-interest bearing liabilities. If WNZL was to suffer substantial losses due to any such market volatility, including the volatility brought about by the current global credit crisis, it would adversely affect its results of operations, liquidity, capital resources and financial condition.

[1] VaR is the potential loss in earnings from adverse market movements, calculated by WNZL using a 99% confidence level with a minimum of one year of historical rate data and a one-day time horizon.

Management Report and Responsibility Statement (cont'd)

WNZL could suffer losses due to operational risks or environmental factors

As a financial services organisation WNZL is exposed to a variety of other risks including those resulting from process error, fraud, information technology instability and failure, system failure, security and physical protection, customer services, staff competence, external events (including fire, flood or pandemic) that cause material damage, impact on its operations or adversely affect demand for its products and services, and product development and maintenance. Operational risks can directly impact WNZL's reputation and result in financial losses which would adversely affect its financial performance or financial condition.

Reputational damage could harm WNZL's business and prospects

Various issues may give rise to reputational risk and cause harm to WNZL's business and prospects. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering laws, trade sanctions legislation, privacy laws, information security policies, sales and trading practices and conduct by companies in which WNZL holds strategic investments. Failure to address these issues appropriately could also give rise to additional legal risk, subject WNZL to regulatory enforcement actions, fines and penalties, or harm its reputation among its customers and investors in the marketplace.

Other risks

Other risks that can adversely impact WNZL's performance and its financial position include insurance risk, model risk, business risk and contagion risk.

Responsibility Statement

The Directors of Westpac Securities NZ Limited confirm that to the best of their knowledge:

1. the financial statements, which have been prepared in accordance with the Financial Reporting Act 1993 (New Zealand), Companies Act 1993 (New Zealand), applicable New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other authoritative pronouncements of the Accounting Standards Review Board as appropriate for profit-oriented entities, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
2. the Management Report includes a fair review of the information required by the Disclosure and Transparency Rules 4.1.8R to 4.1.11R of the United Kingdom Financial Services Authority.

Westpac Securities NZ Limited

Directors' statement

Each Director of the Company believes, after due enquiry that, as at the date on which this set of financial statements is signed:

(i) the financial statements and notes set out on pages 9 to 30 give a true and fair view of Westpac Securities NZ Limited 's financial position as at 30 September 2009;

(ii) proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position and financial performance of the Company and facilitate compliance of the financial statements and notes set out on pages 9 to 30 with the Financial Reporting Act 1993; and

(iii) there are reasonable grounds to believe that Westpac Securities NZ Limited will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the Directors. The shareholders of the Company have exercised their rights under section 211(3) of the Companies Act 1993 and unanimously agreed that the annual report need not comply with any of the paragraphs (a) and (e) to (j) of section 211 of the Act.

This Directors' Statement has been signed by two of the Directors:

Director

Director
Auckland
17 December 2009

Westpac Securities NZ Limited

Income statement for the year ended 30 September 2009

	Note	2009 $'000	2008 $'000
Interest income	2	235,675	560,008
Interest expense	2	(234,266)	(555,842)
Net interest income		1,409	4,166
Non-interest income	3	2,062	1,371
Net operating income		3,471	5,537
Operating expenses	4	(947)	(1,015)
Profit before income tax		2,524	4,522
Income tax expense	5	(757)	(1,492)
Profit after income tax for the year		1,767	3,030
Attributable to:			
Shareholders of the Company		1,767	3,030
Profit for the year		1,767	3,030

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

Westpac Securities NZ Limited

Statement of changes in equity for the year ended 30 September 2009

	2009 $'000	2008 $'000
Total equity at the beginning of the year	3,681	651
Profit after income tax for the year	1,767	3,030
Total recognised income and expenses	1,767	3,030
Share capital issued	551	-
Dividends paid or provided	(551)	-
Total equity at the end of year	5,448	3,681

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

Westpac Securities NZ Limited

Balance sheet as at 30 September 2009

	Note	2009 $'000	2008 $'000
Assets			
Cash and cash equivalents	6	1,407	1,902
Due from related entities	7	10,279,115	10,057,984
Deferred tax assets	8	2,026	469
Total assets		10,282,548	10,060,355
Liabilities			
Debt issues	9	10,168,109	9,520,017
Current tax liabilities		540	862
Other liabilities	10	43,685	99,290
Due to related entities	11	64,766	436,505
Total liabilities		10,277,100	10,056,674
Net assets		5,448	3,681
Equity			
Share capital	13	651	100
Retained earnings	13	4,797	3,581
Total equity		5,448	3,681

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

Westpac Securities NZ Limited

Statement of cash flows for the year ended 30 September 2009

	Note	2009 $'000	2008 $'000
Cash flows from operating activities			
Interest received		288,514	620,053
Interest paid		(290,232)	(615,926)
Management fees received - related entities		1,458	360
Other non-interest income received		-	74
Income taxes paid		(2,636)	(732)
Management fees paid - related entities		(535)	(704)
Operating expenses paid		(273)	(313)
Net cash (outflow)/inflow from operating activities		(3,704)	2,812
Cash flows from investing activities			
Net (increase)/decrease in due from related entities		(273,375)	1,565,752
Net cash (outflow)/inflow from investing activities		(273,375)	1,565,752
Cash flows from financing activities			
Decrease in borrowing from related entities		(372,521)	(82,985)
Proceeds from issue of notes		37,218,629	27,659,200
Purchase of notes		(36,569,524)	(29,143,023)
Net cash inflow/(outflow) from financing activities		276,584	(1,566,808)
Net (decrease)/increase in cash and cash equivalents		(495)	1,756
Cash and cash equivalents at beginning of the year		1,902	146
Cash and cash equivalents at end of the year		1,407	1,902
Cash and cash equivalents comprise:			
Cash and cash equivalents	6	1,407	1,902
Cash and cash equivalents at end of the year		1,407	1,902

	2009 $'000	2008 $'000
Reconciliation of profit after income tax to net cash flow from operating activities:		
Profit after income tax attributable to shareholder of the Company	1,767	3,030
Adjustments:		
Movement in accrued assets	52,839	60,045
Movement in other assets	(604)	(937)
Movement in accrued liabilities	(55,827)	(60,086)
Movement in income tax provisions	(1,879)	760
Net cash (outflow)/inflow from operating activities	(3,704)	2,812

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 1. Summary of significant accounting policies

These financial statements were authorised for issue by the Board of Directors of the Company (Board) on 17 December 2009. The Board has the power to amend the financial statements after they are authorised for issue.

The Company raises funds for New Zealand domestic operations.

a. Basis of preparation

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand) and the Companies Act 1993 (New Zealand). These financial statements have also been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the Accounting Standards Review Board, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards ('**IFRS**'). Compliance with NZ IFRS ensures that the financial report comprising the financial statements and accompanying notes, complies with IFRS and interpretations issued by the International Accounting Standards Board.

The financial statements are based on the general principles of historical cost accounting, as modified by the fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2008.

Certain comparative figures have been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative figures the nature of, and the reason for, the restatement is disclosed in the relevant note.

b. Foreign currency translation

(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 financial statements are presented in New Zealand Dollars, which is the Company's functional and presentation currency. All values have been rounded off to the nearest thousand dollars ($000) unless otherwise stated.

(ii) Transactions and balances

Foreign currency monetary assets and liabilities have been translated into the functional currency at the rate of foreign exchange ruling as at balance sheet date.

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction.

Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Company have been included in the income statement.

c. Particular accounting policies

Revenue recognition

Interest income

Interest income for all instruments measured at amortised cost is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, cash flows are estimated based upon contractual terms and behavioural aspects of the financial instrument (e.g. prepayment options), but do not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest relating to impaired loans is recognised using the loans' original effective interest rate. This rate is also used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised on an accrual basis over the period during which the service is performed. All fees related to the successful origination or settlement of a loan (together with the related direct costs) are deferred and are recognised as an adjustment to the effective interest rate on the loan.

Gains/ (loss) on financial assets and liabilities at fair value

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are recognised as gain/ (loss) on financial assets and liabilities at fair value in the income statement in the period in which they arise. Interest income and expense on financial assets and liabilities at fair value through profit or loss is recognised as part of net interest income.

Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated issue expenses incurred on the issue of securities, is recognised in the income statement for all financial liabilities at amortised cost using the effective interest method.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

Losses on loans and receivables carried at amortised cost

The charge recognised in the income statement for losses on loans and receivables carried at amortised cost reflects the net movement in the provisions for individually assessed loans, write-offs and recoveries of losses previously written off.

Commissions and other fees

All other fees and commissions are recognised in the income statement over the period during which the related service is consumed.

Taxation

Income tax

Income tax expense on the profit for the reporting periods comprises current tax and movements in deferred tax balances.

Current tax is the expected tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted as at the balance date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted as at the balance date that are expected to apply when the liability is settled or the asset is realised. Deferred tax assets are recognised only to the extent that their realisation is probable.

Current and deferred tax attributable to amounts recognised directly in equity are also recognised directly in equity.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

For presentation purposes deferred tax assets and deferred tax liabilities have been offset where they relate to income taxes levied by the same taxation authority on the Company.

Goods and services tax

Revenue, expenses and assets are recognised net of goods and services tax (**'GST'**) except to the extent that GST is not recoverable from the Inland Revenue Department. In these circumstances, the GST is recognised as part of the expense or the cost of the asset.

Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. Management classifies its financial assets at initial recognition.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired or incurred principally for selling it in the near term, if it is part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management.

This designation may only be made if the financial asset either contains an embedded derivative, or it will be managed on a fair value basis in accordance with a documented risk management strategy or designating it at fair value will reduce an accounting mismatch.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers. Financial assets at fair value through profit or loss are recognised initially at fair value. Loans and receivables are recognised initially at fair value plus directly attributable transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all the risks and rewards of ownership.

Financial assets recognised at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Foreign exchange gains and losses and interest calculated using the effective interest method on debt instruments are also recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(i) Cash and cash equivalents

Cash and cash equivalents include cash and liquid assets. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate.

(ii) Due from related entities

Receivables from related entities include financial assets at fair value through profit or loss, loans, accrued interest receivable, and other trading receivables.

Amounts due from related entities designated at fair value through profit or loss are classified as financial assets at fair value through profit or loss in these financial statements. This designation is made if it is managed on a fair value basis in accordance with a documented risk management strategy or if designating it at fair value reduces an accounting mismatch.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

Amounts due from related entities classified as loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money directly to Westpac New Zealand Limited ("WNZL") with no intention of trading the receivable. They are measured at amortised cost using the effective interest rate method and are classified as loans in these financial statements.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or group of similar financial assets) is derecognised where:

the rights to receive cash flows from the asset have expired; or

the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flow in full without material delay to a third party under a 'pass-though' arrangement and cannot sell or repledge the asset other than to the transferee; and

either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A situation may arise where the Company transfers its rights to receive cashflows from an asset or has entered into a pass-through arrangement. In some cases the Company would neither have transferred nor retained substantially all the risks and rewards of the asset nor transferred control of these assets. Should this occur to the extent that the Company has continuing involvement in the asset, the asset continues to be recognised on the balance sheet.

Impairment of financial assets

Assets carried at amortised cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

(i) Significant financial difficulty of the issuer or obligor;

(ii) A breach of contract, such as a default or delinquency in interest or principal payments;

(iii) The Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;

(iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) The disappearance of an active market for that financial asset because of financial difficulties; or

(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

   (a) adverse changes in the payment status of borrowers in the group; or

   (b) national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment charge on loans and receivables carried at amortised cost has been incurred, the amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets reflect, and are directionally consistent with, changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Company and its magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the charge for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment charge decreases and the decrease can be related

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment charge is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Financial liabilities

Financial liabilities are initially recognised at fair value plus transaction costs except where they are designated at fair value through profit or loss, in which case transaction costs are expensed as incurred. They are subsequently measured at amortised cost except for derivatives and financial liabilities at fair value through profit or loss, which are held at fair value. Financial liabilities are recognised when an obligation arises and derecognised when it is discharged.

(i) Due to related entities

Due to related entities include bonds bought back by Westpac Banking Corporation and accrual expense balances due to other related entities. They are measured at amortised cost.

(ii) Debt issues

These are bonds, notes and commercial paper that have been issued by the Company. They are either accounted for at amortised cost or at fair value through profit or loss. If the liability is accounted for at amortised cost it is initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. Subsequently, the debt is measured using the effective interest method. If the liability is accounted for at fair value through profit or loss, the debt issue is initially recognised at the fair value of the consideration received. Debt issues are measured at fair value through profit or loss. This designation is made if it is managed on a fair value basis in accordance with a documented risk management strategy or if designating it at fair value reduces an accounting mismatch.

Equity and reserves

Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Statement of cash flows

Basis of presentation

The statement of cash flows has been presented in accordance with NZ IAS 7 *Cash Flow Statements* with the netting of certain items as disclosed below.

Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day management of the Company, which are readily convertible at the Company's option.

Netting of cash flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of those customers rather than the Company.

d. Changes in accounting policies

There were no changes in accounting policies for the year ended 30 September 2009.

e. Future accounting developments

The following new standards and interpretations have been issued, but are not yet effective and have not been early adopted by the Company:

(i) NZ IFRS 8: *Operating Segments* was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and will apply to the Company for the financial period commencing on 1 October 2009. NZ IFRS 8 will impact the disclosure of financial and descriptive information about reportable segments, if any, but will not impact the Company's reported results or financial position.

(ii) A revised NZ IFRS 3: *Business Combinations* and amended NZ IAS 27: *Consolidated and Separate Financial Statements* were issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants in February 2008. The revisions to the standards apply prospectively to business combinations and will be effective for the 30 September 2010 financial year end. The main changes under the standards are that:

- acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
- earn-outs and contingent considerations will be measured at fair value at the acquisition date; however, remeasurement in the future will be recognised in the income statement;
- step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
- while control is retained, transactions with minority interests would be treated as equity transactions.

(iii) NZ IAS 1: *Presentation of Financial Statements* is a revised standard applicable to annual reporting periods beginning on or after 1 January 2009. The amendments affect the presentation of owner changes in equity and of comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

(iv) Amendments to NZ IAS 32 *Financial Instruments: Presentation* and NZ IAS 1, approved in November 2007, require some puttable financial instruments, and some financial instruments which impose on the entity an obligation to deliver another party a pro rata share of the net assets only on liquidation, to be classified as equity. The amendment is applicable to the Company from 1 October 2009 and is not expected to have a material impact.

(v) Amendments to NZ IFRS 7 *Financial instruments: Disclosures*, approved in March 2009, require additional disclosures on fair value and liquidity risk. The amendments are applicable to the Company from 1 October 2009.

f. Critical accounting assumptions and estimates

The application of the Company's accounting policies necessarily requires the use of judgement, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values would change, impacting the net assets and income of the Company.

Management has discussed the accounting policies which are sensitive to the use of judgement, estimates and assumptions with the Board.

The nature of assumptions and estimates used and the value of the resulting asset and liability balances are included in the policies below.

Fair value of financial instruments

Financial instruments are classified as either held-for-trading or designated at fair value through profit or loss. All derivatives are measured and recognised at fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation technique, the expected cash flows for each instrument is determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial market pricing models. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, profits or losses are recognised upon initial recognition only when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs. In the event that inputs into valuation techniques are non-market observable any day one profit or loss is amortised over the life of the transaction.

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used) or to reflect hedging costs not captured in pricing models (to the extent they would be taken into account by a market participant in determining a price). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics.

These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in Note 16.

Provisions for impairment on loans

The Company's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's effective interest rate. Provisions for loan impairment losses represent management's estimate of the losses incurred in the loan portfolios as at balance date. Changes to the allowances for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the income statement as part of the impairment charge on loans.

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

Income taxes

The Company is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company estimates its tax liabilities based on the Company's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period where such determination is made.

Notes to the financial statements (continued)

Note 2. Net interest income

	2009 $'000	2008 $'000
Interest income		
Due from related entities	235,675	560,008
Total interest income	235,675	560,008
Interest expense		
Debt issues	(228,517)	(532,590)
Related entities	(5,436)	(23,182)
Other	(313)	(70)
Total interest expense	(234,266)	(555,842)
Net interest income	1,409	4,166

Note 3. Non-interest income

	2009 $'000	2008 $'000
Fees and commissions		
Management fees received from related entities	2,062	1,297
Other fee income	-	74
Total fees and commissions	2,062	1,371
Gain/(loss) on financial assets and liabilities at fair value		
Gain on financial assets at fair value through profit or loss	14,008	10,348
Loss on debt issues measured at fair value through profit or loss	(14,008)	(10,348)
Total gain/(loss) on financial assets and liabilities at fair value	-	-
Total non-interest income	2,062	1,371

Note 4. Operating expenses

	2009 $'000	2008 $'000
Purchased services	236	313
Management fees paid - related entities	674	702
Travel expenses	1	-
Bank Charges	36	-
Total operating expenses	947	1,015

The audit fees for the current year and the prior year have been borne WNZL. Management fees were paid to WNZL for certain operating costs incurred on the Company's behalf.

Notes to the Financial Statements (continued)

Note 5. Income tax expense

	2009 $'000	2008 $'000
Income tax expense		
Current income tax	838	1,961
Deferred income tax	(74)	(469)
Adjustments for deferred tax of prior years	(7)	-
Total income tax expense	757	1,492

Reconciliation of income tax expense to profit before income tax

	2009 $'000	2008 $'000
Operating profit before income tax expense	2,524	4,522
Prima facie income tax expense at 30 percent (2008: 33%)	757	1,492
Tax effect of amounts which are not deductible / (assessable) in calculating taxable income:		
Expenses not deductible for tax purposes	7	-
Adjustments for deferred tax of prior years	(7)	-
Total income tax expense	757	1,492

	2009 $'000	2008 $'000
Imputation credit account		
Balance at beginning of the year	820	638
Imputation credit on dividends paid	(271)	-
Income tax payments during the year	-	182
Income tax refunds during the year	(1)	-
Income tax transfers during the year	(250)	-
Other movements	3	-
Balance at end of the year	301	820

The availability of these imputation credits is contingent on the Overseas Banking Group (the total worldwide business of Westpac Banking Corporation including its controlled entities) meeting the shareholder continuity rules. As a result of the acquisition of St George Bank Limited and its subsidiaries during the period, it is possible that a number of imputation credits have been forfeited. Westpac is currently in discussions with the Inland Revenue Department concerning this issue. If the credits are forfeited there should be no financial impact on the Company.

Note 6. Cash and cash equivalents

	2009 $'000	2008 $'000
Nostro accounts	253	226
Cash and cash at bank - Due from related entities	1,202	1,706
Cash and cash at bank - Due to related entities	(48)	(30)
Total cash and cash equivalents	1,407	1,902

Note 7. Due from related entities

	2009 $'000	2008 $'000
Accrued interest	49,497	102,336
Accrued income - other	1,010	221
Financial assets at fair value through profit or loss	6,064,803	9,954,411
Loans	4,162,983	-
Trade and other receivables	822	1,016
Total due from related entities	10,279,115	10,057,984
Due from related entities comprises of:		
At call	-	-
Term	10,279,115	10,057,984
Total due from related entities	10,279,115	10,057,984

Both the financial assets at fair value through profit or loss and loans are interest bearing and interest is charged on normal commercial terms. Amounts owing to and by related parties are normally settled within 90 days.

Westpac Securities NZ Limited

Notes to the Financial Statements (continued)

Note 8. Deferred Tax Assets

	2009 $'000	2008 $'000
Deferred tax assets attributable to the following:		
Other temporary differences	-	(81)
Overseas tax paid	2,026	550
Balance at end of the year	2,026	469
Deferred tax assets movements		
Balance at beginning of the year	469	-
Current period temporary differences	-	469
Other temporary differences	1,476	
Prior year adjustments	7	-
Credited to the income statement	74	-
Balance at end of the year	2,026	469

Note 9. Debt issues

	2009 $'000	2008 $'000
Short term debt		
US commercial paper	5,334,558	1,829,026
Euro commercial paper	691,971	1,284,286
Total short term debt	6,026,529	3,113,312
Long term debt		
Euro medium term notes mature as follows:		
One year or less	430,284	5,558,696
Between one and two years	-	539,100
Between two and five years	3,711,296	308,910
Over five years	-	-
Total long term debt	4,141,580	6,406,706
Total debt issues	10,168,109	9,520,017
Opening balance	9,520,017	11,064,740
New deals	37,217,616	27,598,300
Matured deals	(36,569,524)	(29,143,023)
Closing balance	10,168,109	9,520,017
Government guaranteed debt[1]		
Terms of guarantee:		
One year or less	-	-
Between one and two years	-	-
Between two and five years	3,456,260	-
Over five years	-	-
Total government guaranteed debt	3,456,260	-
Non government guaranteed, but secured debt[2]	6,711,849	9,520,017
Total debt issues	10,168,109	9,520,017
Debt issues measured at amortised cost	4,085,641	-
Debt issues measured at fair value	6,082,468	9,520,017
Total debt issues	10,168,109	9,520,017

[1] The Company has elected to issue certain debt securities under the Crown Wholesale Funding Guarantee Facility provided by the New Zealand government. This facility guarantees WNZL's payment obligations in respect of principal and interest as guarantor of the Company's debt. The guarantee fees were borne by WNZL.

[2] The Company is an indirect, wholly owned subsidiary of WNZL and all of its debt issues are guaranteed by WNZL.

Note 10. Other liabilities

	2009 $'000	2008 $'000
Accrued Interest payable on debt issues[1]	43,685	99,290
Total other liabilities	43,685	99,290

[1] This balance represents interest payable to be settled within 12 months.

Notes to the Financial Statements (continued)

Note 11. Due to related entities

	2009 $'000	2008 $'000
Unlisted issued securities	61,913	60,900
Accrued interest payable - Borrowings	-	369
Accrued interest payable - Unlisted issued securities	2,685	2,677
Unearned income	-	9
Borrowings	-	372,521
Other	168	29
Total due to related entities	64,766	436,505
Due to related entities comprises of:		
At call	-	-
Term	64,766	436,505
Total due to related entities	64,766	436,505

The advances are interest bearing and interest is charged on normal commercial terms. Amounts owing to and by related parties are normally settled within 90 days.

Note 12. Priority of financial liabilities in the event of liquidation

	2009 $'000	2008 $'000
Debt issues	10,168,109	9,520,017
Other liabilities	43,685	99,290
Due to related entities	64,766	436,505
Total financial liabilities	10,276,560	10,055,812

Note 13. Equity & Retained Earnings

	2009 $'000	2008 $'000
Issued and paid up capital		
Ordinary shares	651	100
Total share capital	651	100

	2009 $	2008 $
Ordinary shares		
Ordinary shares at the beginning of the year	100,000	100,000
Shares issued during the year[1]	551,185	-
Ordinary shares at end of the year	651,185	100,000

	2009 Number of Issued Shares	2008 Number of Issued Shares
Number of ordinary shares at the begininng of the year	100,000	100,000
Number of shares issued during the year[1]	551,185	-
Number of ordinary shares at the end of the year	651,185	100,000

Retained earnings	2009 $'000	2008 $'000
Retained earnings at beginning of the year	3,581	551
Profit after income tax attributable to shareholders	1,767	3,030
Dividends paid[1]	(551)	-
Retained earnings at the end of the year	4,797	3,581

[1] A dividend of $551,185 on ordinary shares, by bonus issue of 551,185 NZ$1.00 ordinary shares fully paid from retained earnings pursuant to section CD8 of the Income Tax Act 2007.

Terms and conditions

The ordinary shares in the Company confer on their holder the rights described in section 36 of the Companies Act 1993, i.e. subject to the constitution of the Company, each share carries the right to one vote on a poll at meetings of shareholders, the right to a proportionate share in dividends authorised by the Company and the right to a proportionate share in the distribution of the surplus assets of the Company in the event of liquidation. Under the constitution of the Company, there is provision for the Company to authorise a dividend which is of greater value per share for some shares than it is for others, so long as the amount paid is in proportion to the amount paid up on the shares. The shares have no par value.

Notes to the Financial Statements (continued)

Note 14. Related entities

Ultimate Holding Company

The Company is a wholly owned subsidiary of Westpac NZ Operations Limited and the ultimate parent Company is Westpac Banking Corporation ("WBC"), which is incorporated in Australia and whose financial statements are available for public use at www.westpac.com.au.

NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of Westpac Banking Corporation, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 Limited and their jointly owned subsidiary PF No. 2, Westpac NZ Funding Limited, BT Financial Group (NZ) Limited and its subsidiaries, Westpac Group Investment-NZ-Limited and its subsidiaries, Westpac Financial Services Group-NZ-Limited and its subsidiaries, Westpac New Zealand Group Limited and its subsidiaries, St.George New Zealand Limited and St.George Financial Investment New Zealand Limited.

The Company is related to members of the NZ Banking Group as a fellow subsidiary of Westpac Banking Corporation.

Westpac Group Investment -NZ - Limited's sole subsidiary is Westpac Holdings - NZ - Limited, which in turn has its subsidiaries listed below:

Name of Subsidiary	Principal Activity	Notes
Augusta (1962) Limited	Non-trading company	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
TBNZ Equity Limited	Finance company	
TBNZ Investments (UK) Limited	Finance company	
Westpac Capital - NZ - Limited	Finance and holding company	
Aotearoa Financial Services Limited	Non-trading company	
Westpac Lease Discounting - NZ - Limited	Finance company	
Westpac Operations Integrated Limited	Finance company	
Westpac Financial Synergy Limited	Finance company	
Westpac Overseas Investments Limited	Finance company	
Westpac Equity Investments NZ Limited	Finance company	
Westpac Finance Limited	Finance company	
WestpacTrust Securities NZ Limited	Funding company	

The subsidiaries of BT Financial Group (NZ) Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Agri Private Capital Management Limited	Funds management company	
BT Funds Management NZ Limited	Funds management company	

The subsidiaries of Westpac Financial Services Group - NZ - Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Westpac Life-NZ-Limited	Life insurance company	
Westpac Nominees -NZ- Limited	Nominee company	
Westpac Superannuation Nominees-NZ-Limited	Nominee company	

The subsidiaries of Westpac New Zealand Group Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Westpac New Zealand Limited	Registered bank	
Westpac NZ Operations Limited	Holding company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51% owned
Westpac (NZ) Investments Limited	Property owning and capital funding company	
Westpac Securities NZ Limited	Funding company	
Westpac NZ Securitisation Holdings Limited	Holding company	Incoporated 14 October 2008, 9.5% owned
Westpac NZ Securitisation Limited	Investment company	Incoporated 14 October 2008
Westpac Term PIE Fund	Unit Trust	Established 20 July 2009

Notes to the Financial Statements (continued)

Note 14. Related entities (continued)

The NZ Banking Group has consolidated the following special purpose vehicles, used for the securitisation of the NZ Banking Group's own and customers' assets:

Waratah Receivables Corporation (NZ) Limited;

Waratah Securities Australia Limited (NZ Branch);

WST - Funding Trust New Zealand (NZ Branch); and

WST - NZ Warehouse Trust #1.

NZ Banking Group together with its subsidiaries provide retail, corporate and investment banking services.

All entities in the NZ Banking Group are 100% owned unless otherwise stated. All entities within the NZ Banking Group have a balance date of 30 September and are incorporated and domiciled in New Zealand, except TBNZ Investments (UK) Limited which is incorporated and domiciled in the United Kingdom and Waratah Securities Australia Limited which is incorporated and domiciled in Australia.

The NZ Banking Group has investments in a number of New Zealand industry-based initiatives as listed below:

Mondex New Zealand Limited;

Electronic Transaction Services Limited; and

Interchange and Settlement Limited.

The NZ Banking Group does not have significant influence over these entities and therefore they are not classified as associates.

In addition to the above entities, the principal related parties of the NZ Banking Group are other significant divisions of the Overseas Banking Group, based in London, Hong Kong, Sydney, New York and Singapore.

Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiary company, Westpac NZ Securitisation Limited ('**WNZSL**'), were incorporated on 14 October 2008. The NZ Banking Group, through two of its subsidiaries, has a qualifying interest of 19% in WNZSHL. Through contractual arrangements put in place, the NZ Banking Group is deemed to control both WNZSHL and WNZSL.

The Westpac Term PIE Fund ('**Term PIE**') was established on 20 July 2009 as a unit trust under the Unit Trusts Act 1960, where BT Funds Management (NZ) Limited is the manager and issuer of Term PIE. It is consolidated in the financial statements of the NZ Banking Group.

Nature of Transactions

Loan finance, current account banking facilities and other financial products are provided by WNZL and the WBC London branch to the Company on normal commercial terms.

Reimbursement of related entity expenses of $674,000 (2008: $702,000) were paid to WNZL and WBC for certain operating costs incurred by the Company on their behalf.

The Company provides funding to the NZ operations of WNZL. Included as part of interest income is funding fees of $2,594,000 (2008: $2,651,000) paid to the Company by WNZL. The funding fees represent arm's length pricing and are verified by market participants. In addition, the Company charged service fees of $2,062,000 (2008:1,297,000) to WNZL.

WNZL guarantees all payment obligations in respect of notes, bonds and commercial paper issued by the Company.

The government guarantee fees for the current year have been borne by WNZL.

Transactions and balances with related parties are disclosed separately in these financial statements.

Revenue and expenses in relation to these related parties are arranged on an arms' length basis.

Amounts owing to and by related parties are normally settled within 90 days.

Notes to the Financial Statements (continued)

Note 15. Financial risk management

The principal activity of the Company is to raise and manage offshore wholesale funding for WNZL, in respect of which entity the Company is a wholly owned, indirect subsidiary. Debt issued by the Company is ultimately guaranteed by its parent, WNZL. The risk exposures of the Company arise as a consequence of this debt funding program.

The Company's business activities are subject to risks that can adversely impact its future performance and financial condition. As the Company is an indirect, wholly owned subsidiary of WNZL and as the Company's debt issuances are guaranteed by WNZL, it is consequently affected by the same principal risks and uncertainties which affect WNZL. The principal risks and uncertainties which affect WNZL are set forth in the section "principal risks and uncertainties" in the Management Report and Responsibility Statement on page 4. There are no additional risk factors solely affecting the Company.

The principal risks and uncertainties are not the only ones we may face. Additional risks and uncertainties of which we may be unaware, or that we currently deem to be immaterial, may become important factors that affect us in the future. If any of the risks actually occur, our business, results of operations or financial condition could be materially adversely affected.

Any risks arising from offshore wholesale funding is passed through under the principal terms of the loan to WNZL. The Company charges WNZL a management fee to cover day to day cost of operations.

The Company operates within the governance and risk management frameworks of the ultimate parent entity, WBC. These frameworks support effective and efficient decision-making through established reporting obligations to the Board of the Company as well as measures of staff performance. The Company regards the management of risk to be a fundamental management activity. Supporting this approach is a risk management framework that includes core risk principles as well as policies and processes for measuring and monitoring risk.

Categories of risk

The key risks that the Company is exposed to are specific banking risks and risks arising from the general business environment.

The risk management framework identifies five broad categories of risk:

- Credit risk: the potential for financial loss where a customer or counterparty fails to meet their financial obligations to the Company;
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events;
- Compliance risk: the risk of failing to comply with all applicable legal and regulatory requirements and industry codes of practice, and of failing to meet the Company's own ethical standards;
- Liquidity risk: the potential loss arising from cash outflows exceeding cash inflows over a given period; and
- Market risk: the risk to earnings from changes in market factors. Market risk includes the following risk factors:
    - Currency risk: the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities; and
    - Interest rate risk: the potential loss arising from the changes in the value of financial instruments due to changes in market interest rates or their implied volatilities.

Additional details surrounding the risk management activities relating to the management of these risks follows.

a. Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Company. This arises primarily from the Company's provision of offshore wholesale funding to WNZL.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

The Company is subject to WNZL's Risk Management Framework. This framework defines what constitutes credit risk for the Company and provides the Company with a framework for managing credit risk. Compliance with the framework policies is monitored and exposures and breaches are reported to the Ultimate Parent Bank Group Credit Risk Committee (CREDCO).

The Company's main exposure to risk arises as a consequence of the funding arrangement in place with WNZL. A guarantee is provided by WNZL over all the Company's liabilities. The credit risk associated with the Company is mitigated by this guarantee. The Company as noted above is affected by the same principal risks that affect WNZL. WNZL's most significant risk is the risk of financial loss resulting from the failure of customers to honour fully the terms of their contract.

(i) External Credit Rating

The Company is a wholly owned, indirect subsidiary of WNZL. WNZL has the following credit ratings with respect to its long term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars. For financial assets recognised on the balance sheet, the exposure to credit risk equals the carrying amount. The amounts recognised in the balance sheet are not materially different to the maximum credit exposure. These credit ratings are given without any qualifications:

Credit ratings for WNZL

Rating Agency	Current Credit Rating	Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Services	Aa2	Stable
Standard and Poor's	AA	Stable

Since the rating was first assigned on 26 October 2007, WNZL's credit rating issued by Fitch Ratings has not changed. The rating was put on rating watch positive on 6 June 2008 and affirmed at AA- with a stable outlook on 3 December 2008.

In the two years prior to 30 September 2009, WNZL's credit rating issued by Moody's Investors Service has not changed at Aa2 with a 'stable' outlook.

In the two years prior to 30 September 2009, WNZL's credit rating issued by Standard & Poor's has not changed at AA with a 'stable' outlook.

Ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Ratings may be changed, qualified, withdrawn or suspended at any time.

Westpac Securities NZ Limited

Notes to the Financial Statements (continued)

Note 15. Financial risk management

(ii) Fully performing

Contractual payments due from WNZL have been received by their contractual maturity date and are considered to be fully performing.

(iii) Concentration of credit exposure

	2009 $'000	2008 $'000
On-balance sheet credit exposures consist of:		
Cash and cash equivalents	1,407	1,902
Due from related entities	10,279,115	10,057,984
Total credit exposures	10,280,522	10,059,886
Analysis of credit exposures by geographical area:		
Within New Zealand	10,280,522	10,059,886
Overseas	-	-
Total credit exposures	10,280,522	10,059,886
Analysis of credit exposures by industry and economic sector:		
Commercial and financial	10,280,522	10,059,886
Total credit exposures	10,280,522	10,059,886

b. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is primarily exposed to interest rate risk and foreign currency risk.

(i) Interest rate risk

Interest rate risk is the risk of a loss of earnings arising from adverse movements in levels and volatilities of interest rates. Financial instruments with floating rate interest, expose the Company to cash flow interest rate risk, whereas financial instruments with fixed rate interest expose the Company to fair value interest rate risk.

The table below summarises the Company's exposure to interest rate risk. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The effective interest rate and interest repricing of financial instruments are as follows:

30 September 2009

	Floating rate $'000	Less than 1 month $'000	Over 1 month to 3 months $'000	Over 3 months to 1 year $'000	Over 1 year to 5 years $'000	Non-Interest bearing $'000	Total $'000	Weighted Average Interest Rate %
Financial Assets								
Cash and cash equivalents	-	-	-	-	-	1,407	1,407	N/A
Due from related entities	602,787	1,795,546	2,650,024	1,724,154	3,469,813	36,791	10,279,115	1.6%
Total financial assets	602,787	1,795,546	2,650,024	1,724,154	3,469,813	38,198	10,280,522	
Non-financial assets	-	-	-	-	-	2,026	2,026	
Total assets	602,787	1,795,546	2,650,024	1,724,154	3,469,813	40,224	10,282,548	
Financial Liabilities								
Debt issues	602,820	1,797,770	2,651,893	1,665,622	3,469,813	(19,809)	10,168,109	1.5%
Other liabilities	-	-	-	-	-	43,685	43,685	N/A
Due to related entities	-	-	-	61,100	-	3,666	64,766	7.8%
Total financial liabilities	602,820	1,797,770	2,651,893	1,726,722	3,469,813	27,542	10,276,560	
Non-financial liabilities	-	-	-	-	-	540	540	
Total liabilities	602,820	1,797,770	2,651,893	1,726,722	3,469,813	28,082	10,277,100	
Net financial (liabilities)/assets	(33)	(2,224)	(1,869)	(2,568)	-	10,656	3,962	
Off-balance sheet financial instruments								
Net interest rate contracts (principal):								
Receivable/(payable)	-	-	-	-	-	-	-	

Notes to the Financial Statements (continued)

Note 15. Financial risk management (continued)

30 September 2008

	Floating rate $'000	Less than 1 month $'000	Over 1 month to 3 months $'000	Over 3 months to 1 year $'000	Over 1 year to 5 years $'000	Non-Interest bearing $'000	Total $'000	Weighted Average Interest Rate %
Financial Assets								
Cash and cash equivalents	-	-	-	-	-	1,902	1,902	N/A
Due from related entities	4,749,025	2,716,267	1,035,989	853,129	600,000	103,574	10,057,984	3.7%
Total financial assets	4,749,025	2,716,267	1,035,989	853,129	600,000	105,476	10,059,886	
Non-financial assets	-	-	-	-	-	469	469	
Total assets	4,749,025	2,716,267	1,035,989	853,129	600,000	105,945	10,060,355	
Financial Liabilities								
Debt issues	4,749,025	2,343,021	1,035,989	853,129	539,100	(247)	9,520,017	3.7%
Other liabilities	-	-	-	-	-	99,290	99,290	N/A
Due to related entities	-	372,521	-	-	60,900	3,084	436,505	3.3%
Total financial liabilities	4,749,025	2,715,542	1,035,989	853,129	600,000	102,127	10,055,812	
Non-financial liabilities	-	-	-	-	-	862	862	
Total liabilities	4,749,025	2,715,542	1,035,989	853,129	600,000	102,989	10,056,674	
Net financial assets	-	725	-	-	-	3,349	4,074	
Off-balance sheet financial instruments								
Net interest rate contracts (principal):								
Receivable/(payable)	-	-	-	-	-	-	-	

The non-interest bearing debt issues amount in the tables above relate to the unamortised discounts and fees on the issues of debt.

The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

The Company manages its exposure to interest rate risk by matching the market risk exposures on financial liabilities with financial assets due from WNZL.

(ii) Structural foreign exchange risk

The Company operates a London branch that gives rise to an immaterial amount of structural foreign exchange rate risk from translating foreign currency earnings and net assets into New Zealand dollars for consolidation in the financial statements.

As with managing its exposure to interest rate risk, the Company eliminates its direct foreign exchange exposures by matching the currency of liabilities arising from wholesale funding with that of receivables from WNZL.

c. Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems or from external events. Operational risk has the potential, as a result of the way business objectives are pursued, to negatively impact the organisation's financial performance, customer service and/or reputation in the community or cause other damage to the business.

The Company uses the Ultimate Parent Bank's Group Operational Risk Management Framework as a tool to assist in understanding and managing those risks that could hinder progress. This framework outlines the business requirements for managing Operational Risk with respect to governance, risk and control assessments, incident management, operational risk in change, reporting and monitoring and operational risk capital allocation.

A tangible benefit of this Framework is to ensure compliance with relevant legislative and regulatory requirements.

d. Compliance risk

The Company is subject to regulation and regulatory oversight. Any significant regulatory developments could have an adverse effect on how business is conducted and on results of operations. Business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the New Zealand Government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Company's control.

Regulatory responsibilities have increased significantly and, in order to manage existing and new requirements in a more effective way, the development of the ability to provide early detection monitoring of these responsibilities to the business has been accelerated. Effective compliance risk management enables the Company to identify emerging issues and where necessary put in place preventative measures. The Company has a dedicated Operational Risk and Compliance function.

New Zealand Operational Risk and Compliance Committee (NZOPCO) meets quarterly and is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. The committee monitors the business unit operational risk profiles and the action plans, and is required to escalate material matters to the Board, Group Operational Risk and Compliance Committee (OPCO) and the BRMC, where material.

Westpac Securities NZ Limited

Notes to the Financial Statements (continued)

Note 15. Financial risk management (continued)

e. Liquidity risk

Liquidity risk is the potential inability to meet payment obligations of the Company as and when they fall due.

The liquidity risk within the Company is managed by matching the terms of funding with the terms of receivables from WNZL. There is no payment mismatch between the Company's receivables and payables.

WBC's Group Treasury department is also responsible for liquidity management, including for WNZL and WSNZL. WBC is also responsible for monitoring WNZL's funding bases and ensuring it is prudentially maintained and adequately diversified.

(i) Maturity profile

The following liquidity analysis of financial assets and liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at balance date to the contractual maturity.

The tables below are prepared on the basis of contractual profile. The balances in the tables may not agree to the balance sheet as the table incorporates all cash flows on an undiscounted basis, including both principal and associated future interest income/expense accruals.

The Company's undiscounted maturity profile for financial assets and liabilities as at September 2009 is as follows:

30 September 2009	At call	Less Than 1 Month $'000	Over 1 Month to 3 Months $'000	Over 3 Months to 1 Year $'000	Over 1 Year to 5 Years $'000	No specific maturity $'000	Total $'000
Financial Assets							
Cash and cash equivalents	1,407	-	-	-	-	-	1,407
Due from related entities	-	1,798,494	2,677,993	2,185,211	4,040,590	1,833	10,704,121
Total financial assets	1,407	1,798,494	2,677,993	2,185,211	4,040,590	1,833	10,705,528
Financial liabilities							
Debt issues	-	1,797,822	2,659,976	2,093,825	4,040,120	-	10,591,743
Other liabilities	-	672	18,085	24,928	-	-	43,685
Due to related entities	-	-	-	65,728	-	168	65,896
Total financial liabilities	-	1,798,494	2,678,061	2,184,481	4,040,120	168	10,701,324

The Company's undiscounted maturity profile for financial assets and liabilities as at September 2008 is as follows:

30 September 2008	At call	Less Than 1 Month $'000	Over 1 Month to 3 Months $'000	Over 3 Months to 1 Year $'000	Over 1 Year to 5 Years $'000	No specific maturity $'000	Total $'000
Financial Assets							
Cash and cash equivalents	1,902	-	-	-	-	-	1,902
Due from related entities	-	2,755,002	1,090,597	5,443,348	1,001,743	1,237	10,291,927
Total financial assets	1,902	2,755,002	1,090,597	5,443,348	1,001,743	1,237	10,293,829
Financial liabilities							
Debt issues	-	2,347,149	1,061,650	5,402,523	936,124	-	9,747,446
Other liabilities	-	34,238	28,947	36,105	-	-	99,290
Due to related entities	-	373,615	-	4,720	65,619	38	443,992
Total financial liabilities	-	2,755,002	1,090,597	5,443,348	1,001,743	38	10,290,728

WNZL (the parent) guarantees all payment obligations in respect of debt issues by the Company.

Notes to the Financial Statements (continued)

Note 15. Financial risk management (continued)

(ii) Concentration of funding

	2009 $'000	2008 $'000
Funding consists of:		
Due to related entities	64,766	436,505
Debt issues	10,168,109	9,520,017
Other liabilities	43,685	99,290
Total funding	10,276,560	10,055,812
Analysis of funding by product:		
Secured borrowings	10,211,794	9,619,307
Due to related entities	64,766	436,505
Total funding	10,276,560	10,055,812
Analysis of funding by geographical areas:		
Within New Zealand	64,766	436,505
Overseas	10,211,794	9,619,307
Total funding	10,276,560	10,055,812
Analysis of funding by industry and economic sector:		
Commercial and financial	10,276,560	10,055,812
Total funding	10,276,560	10,055,812

Note 16. Fair value of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost, in the balance sheet. However, NZ IFRS 7 requires the disclosure of the fair value of those financial instruments not already carried at fair value in the balance sheet. The fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction between knowledgeable, willing parties. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective such as income taxes and intangible assets.

Quoted market prices, when available, are used as the measure of fair values. Where quoted market prices do not exist, fair values are derived using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

The fair value estimates were determined by application of the methods and assumptions described below.

Loans

The fair value of loans is determined by discounting all future cash flows, including interest accruals. For variable rate loans, the discount rate used is the current effective interest rate. The discount rate applied for fixed rate loans reflects the market rate for the maturity of the loan and the credit worthiness of the borrower.

Debt issues

The fair value of debt issues is based on market quoted prices, where available. The fair value of debt issues where a market quote is not available is based on discounted cash flows, using a rate appropriate to the instrument and the term of the issue.

Other financial assets and liabilities

The carrying amount of these items is a reasonable approximation of fair value as they are either short-term in nature or reprice frequently and are of a high credit rating.

Notes to the Financial Statements (continued)

Note 16. Fair value of financial instruments (continued)

The table below summarises the carrying value and fair value of all financial instruments of the Company.

	2009 Carrying Amount $'000	2009 Estimated Fair Value $'000	2008 Carrying Amount $'000	2008 Estimated Fair Value $'000
Financial Assets				
Cash and cash equivalents	1,407	1,407	1,902	1,902
Due from related entities	10,279,115	10,312,899	10,057,984	10,057,984
Total financial assets	10,280,522	10,314,306	10,059,886	10,059,886
Non-financial assets	2,026	n/a	469	n/a
Total assets	10,282,548	10,314,306	10,060,355	10,059,886
Financial Liabilities				
Debt issues	10,168,109	10,201,893	9,520,017	9,520,017
Other liabilities	43,685	43,685	99,290	99,290
Due to related entities	64,766	64,766	436,505	436,505
Total financial liabilities	10,276,560	10,310,344	10,055,812	10,055,812
Non-financial liabilities	540	n/a	862	n/a
Total liabilities	10,277,100	10,310,344	10,056,674	10,055,812
Net assets	5,448	3,962	3,681	4,074

The total amount of the change in fair value, estimated using a valuation technique, but incorporating significant non-observable inputs, that was recognised in the income statement during the year ended 30 September 2009 in the Company was nil (30 September 2008: nil).

Note 17. Capital

The Company is a wholly owned subsidiary of Westpac NZ Operations Limited which itself is a part of the banking group made up of Westpac New Zealand Limited, its subsidiaries and controlled entities (otherwise referred to as the 'Banking Group'). Capital for this Company is managed as part of the NZ Banking Group rather than on the individual entity level. The adequacy of the Banking Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Reserve Bank of New Zealand in supervising the Banking Group.

During the past year, the Banking Group has complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Banking Group's capital management are to ensure that the Banking Group complies with externally imposed capital requirements and that the Banking Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Banking Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Banking Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Three independent processes ensure that the Banking Group's capital is adequate to support its current and future activities:

1. The Banking Group's Board has approved a risk appetite statement. This statement outlines the target debt rating, the target capital ratios, and the degree of earnings volatility that is acceptable. The table below outlines the current target ratios.

Current target capital structure	%
Minimum Tier One ratio	6.8
Minimum total regulatory ratio	8.8

2. The Banking Group calculates the capital that is required to be held for its current risk profile and forecasts the estimated capital position based on expected future activities. The forecast capital required is assessed against the target ranges that have been approved by the Board in regard to capital ratios. The Banking Group has no appetite for breaching the lower limits of its target ranges.
3. The Ultimate Parent Bank Group takes capital considerations into account during its Board Strategy Review ('**BSR**'). The BSR is an annual process where the current strategic direction of the Ultimate Parent Bank Group is reviewed and refinements made.

Notes to the Financial Statements (continued)

Note 18. Key management personnel compensation

No compensation was paid by the Company to its key management personnel (2008: nil).

Note 19. Commitments and contingencies

Capital expenditure commitments

There were no capital commitments as at 30 September 2009 (2008: nil).

Operating lease commitments

There were no operating lease commitments as at 30 September 2009 (2008: nil).

Note 20. Events occurring after reporting date

The directors are not aware of any significant events since the reporting date.

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Independent audit report to the shareholder of Westpac Securities NZ Limited

PWC TO COMPILE

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Auditors' Report
To the shareholders of Westpac Securities New Zealand Limited

We have audited the financial statements on pages 9 to 30. The financial statements provide information about the past financial performance and cash flows of the Company for the year ended 30 September 2009 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 13 to 17.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company as at 30 September 2009 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company other than in our capacity as auditors.

PRICEWATERHOUSECOOPERS

Auditors' Report

To the shareholders of Westpac Securities New Zealand Limited

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 9 to 30:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company as at 30 September 2009 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 17 December 2009 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants Auckland