Westpac Securities NZ Limited

Financial statements

Westpac Securities NZ Limited

For the year ended 30 September 2010

Contents

This financial report covers Westpac Securities NZ Limited ("the Company") 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 during the year ended 30 September 2010 and up to 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	
Richard Warren Jamieson	Chief Financial Officer, Westpac New Zealand Limited	
David Andrew Watts	Chief Risk Officer, Westpac New Zealand Limited	Appointed 1 July 2010
David Stuart Clement	Head of Tax, Westpac New Zealand Limited	Appointed 1 July 2010 Resigned 22 November 2010
Geoffrey Neville Martin	Senior Manager, Funding, Westpac New Zealand Limited	Resigned 1 July 2010
George Frazis	Chief Executive, Westpac New Zealand Limited	Resigned 1 July 2010
Royce Noel Brennan	General Manager Risk, BT Financial Group	Resigned 1 July 2010

The financial report was authorised for issue by the Directors on 3 December 2010. The Company has the power to amend and reissue the financial report.

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 the Company's 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:

- 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 in response to the global financial crisis;
- continuing impacts of the global financial crisis, including volatile conditions in funding, 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;
- 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 and risks associated with changes to our technology systems;
- operational risks or environmental factors;
- adverse impacts on our reputation;
- 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 and Responsibility Statement. 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.

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 expense of the Company for the year ended 30 September 2010 was $2.57million compared with the profit after income tax expense of $1.77 million for the year ended 30 September 2009, an increase of 45.40 %.

Interest income decreased by 14% to $203 million compared to the year ended 30 September 2009. The $32.4 million decrease was due to a lower interest rate despite an increased funding base.

Interest expense decreased by 15% to $199.8 million compared to the year ended 30 September 2009. The $34.4 million decrease was due to a lower interest rate despite an increased funding base.

Net interest income increased by 145% to $3.5 million compared to the year ended 30 September 2009. The $2 million increase was due to a reduced and normalised amortisation expense incurred in the year.

Non-interest income decreased by 37% to $1.3 million compared to the year ended 30 September 2009. The decrease of $765,000 was due to a reduced expense including amortisation costs, incurred by the Company and it led to a reduction of charge to WNZL.

Operating expenses increased by 15% to $1.1 million.

Income tax expense of $1.1 million, increased by 44% due to the increase in profit before income tax expense for the year.

Total debt issues as at 30 September 2010 was $13.1billion which was an increase of $2.9 billion, or 28%, compared to $10.2 billion as at 30 September 2009. This increase was due to a number of factors including increasing funding size and lengthening of the Company's maturity profile.

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 2010

Proposed transfer of additional banking functions to WNZL

Until 1 November 2006, the Ultimate Parent Company, Westpac Banking Corporation ("WBC") conducted its operations in New Zealand through a branch structure. On that date, and after extensive consultation with the Reserve Bank, the Ultimate Parent Company adopted a dual operating model including a locally incorporated subsidiary, WNZL, to conduct its consumer and business banking operations in New Zealand, and the NZ Branch ("NZ Branch"), to conduct its institutional and financial markets operations. The conditions of registration of each of WNZL and the NZ Branch are consistent with these operating model arrangements.

In May 2009, the Reserve Bank, WNZL and the NZ Branch agreed to an independent review of the structure of the operating model of the Ultimate Parent Company's business in New Zealand. This review was conducted under the well established processes and framework of section 95 of the Reserve Bank Act.

The Reserve Bank, the Bank and the Ultimate Parent Bank have now reached high level agreement on changes to the operating model. Under that agreement, the NZ Branch will transfer the following additional business activities and associated employees to the WNZL:

- institutional customer deposits;
- institutional customer transactional banking;
- institutional customer lending;
- debt capital markets (including customer loan syndication and securitisation arrangements, but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes); and
- corporate advisory.

Details of the changes are being worked through in consultation with the Reserve Bank as part of the implementation process.

As of 30 September 2010, business activities proposed to be transferred to WNZL include: customer loans of approximately $6.7 billion and customer deposits of approximately $5.5 billion. It is currently anticipated that term intra-group funding of approximately $3.0 billion will be put in place. In addition, for the year ended 30 September 2010, it is estimated that the business activities to be transferred to WNZL had aggregate revenues of approximately $170 million and aggregate net profit after tax of approximately $110 million.

Under the proposed changes to the operating model, the NZ Branch will retain its financial markets operations for external customers, including sales and trading of capital markets products and foreign exchange for corporate and institutional customers, pricing and risk management for interest rate, foreign exchange and commodity products for retail, business and institutional customers of WNZL, and trading of capital markets products and foreign exchange as principal. In addition, the NZ Branch will retain its global intra-group financing functions.

In conjunction with the review and the proposed transfer of these business activities, WNZL has been reviewing its management and operational frameworks, including governance and risk management arrangements (such as board composition, board delegations, credit risk reporting and treasury risk reporting), financial and regulatory reporting processes, and settlement and payment systems and functions.

Implementation of the transfer is currently expected to be completed by the end of the 2011 calendar year.

Management Report and Responsibility Statement (continued)

Closing of the Wholesale Crown Guarantee

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 operated on an opt-in basis, by institution and by instrument. Wholesale funding liabilities of WNZL (which could include amounts issued by Westpac Securities NZ Limited ("WSNZL") and guaranteed by WNZL) only have the benefit of the Facility where a Guarantee Eligibility Certificate has been issued in respect of those liabilities. Copies of the Guarantee Eligibility Certificates issued in respect of WNZL obligations are available on the New Zealand Treasury internet site. A guarantee fee is charged for each Guarantee Eligibility Certificate issued under the Facility, differentiated by the credit rating of the issuer of the relevant securities, 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.

The Facility closed on 30 April 2010. From that time no new Guarantee Eligibility Certificates will be issued but existing guaranteed liabilities have not been affected.

Principal risks and uncertainties

The Company's business is subject to risks that can adversely impact its business, results of operations, financial condition and future performance. As the Company is an indirect, wholly owned subsidiary of WNZL, it is consequently affected by the same principal risks and uncertainties which affect WNZL. The principal risks and uncertainties that affect WNZL are set forth below. There are no additional 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 the Company in the future. If any of the following risks actually occur, the Company's business, results of operations, financial condition and future performance could be materially adversely affected.

WNZL's businesses are 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.

Following the recent global financial crisis, significant regulatory change for financial institutions is occurring in New Zealand. These changes will include changes in funding, liquidity, capital adequacy and other prudential requirements. Details of these changes and the timing of their introduction are currently uncertain and WNZL currently manages its business in the context of regulatory uncertainty.

Other areas of potential regulatory change may include accounting and reporting requirements, tax legislation, regulation relating to remuneration and consumer protection legislation. In addition, change may occur in other areas driven by policy, prudential or political factors.

Some areas of potential regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach to these issues. Such an approach may not appropriately respond to the specific requirements of New Zealand.

Changes may also occur in the oversight approach of regulators. It is also possible that governments in jurisdictions in which the Company or WNZL do business, or obtain funding, might revise their application of existing regulatory policies that apply to, or impact, the Company's or WNZL's business, including for reasons relating to national and systemic stability.

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, funding 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.

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

New Zealand and international credit and capital markets have experienced extreme volatility, disruption and decreased liquidity in recent years. While some stability has returned to various markets, the environment remains volatile. WNZL relies on credit and capital markets to fund its business. As of 30 September 2010, approximately 35% of WNZL's total net funding (34% as of 30 September 2009) originated from wholesale markets, particularly markets outside New Zealand. A shift in investment preferences of businesses and consumers away from bank deposits toward other asset or investment classes would increase WNZL's need for funding from wholesale markets. As a result of the recent adverse global capital market conditions and competition for funding, WNZL's funding costs from both wholesale markets and bank deposits have increased. If market conditions deteriorate due to economic, financial, political or other reasons, WNZL's funding costs may be further adversely affected.

The New Zealand Government withdrew its wholesale funding guarantee facility from 30 April 2010. Although WNZL had not utilized the guarantee for new long-term funding since 12 February 2010, its continued access to the unguaranteed market is dependent on investor appetite. In addition, the implementation of changes to WNZL's operating model, including the proposed transfer of certain assets and liabilities from NZ Branch to WNZL, will likely result in increased funding requirements for WNZL.

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 WNZL's credit capacity. Even if available, the cost of these alternatives may be more expensive or on unfavorable 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.

Management Report and Responsibility Statement (continued)

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. A credit rating downgrade could 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, which would, in turn, have an adverse impact on its results of operations and financial condition.

A decline in the credit ratings of WBC, WNZL's ultimate parent entity, would likely result in a decrease in WNZL's credit ratings, which would adversely affect WNZL's cost of funds and related margins, liquidity, competitive position and access to capital markets

The credit ratings of a subsidiary are generally linked to the credit ratings of its parent entity. Consequently, should the long-term issuer credit rating of WBC be downgraded, it is likely that WNZL's long-term issuer credit rating would also be downgraded.

One rating agency has indicated it remains concerned about the level of wholesale funding of the major Australian banks and is waiting for new regulations to be clarified to determine any rating implications. Moody's Investor Services has all the major Australian banks, including WNZL's ultimate parent entity WBC, on a negative outlook. 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's current credit rating is downgraded, it would adversely affect WNZL's cost of funds and related margins, liquidity, competitive position and access to capital markets, which would, in turn, have an adverse impact on its results of operations and financial condition.

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

In the current global economic environment, there is a risk that another major systemic shock could occur that causes a further adverse impact to the New Zealand, Australian or other financial systems. Such an event could have a material adverse effect on financial institutions such as WNZL, including undermining confidence in the financial system, reducing liquidity, impairing access to funding and impairing our customers and counterparties. 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.

WNZL is subject to contagion and reputation risk, which may adversely impact WNZL's financial conditions and results of operations

As part of a larger business group, WNZL is vulnerable to financial and reputational damage by virtue of its association with other members of the WBC group, any of which may suffer the occurrence of a risk event, including financial stress or failure. In WNZL's case, the damage may be financial and may impact its financial condition and results of operations if the financial resources provided by WBC to support WNZL are withdrawn. Reputational consequences (including damage to the Westpac franchise), as a result of the occurrence of a risk event (for example major operational failure), may exceed the direct cost of the risk event itself and may impact on WNZL's results.

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

Declines in New Zealand or other asset markets, including equity, property and other asset markets, could adversely affect WNZL's operations and profitability.

Declining asset prices could impact WNZL's asset holdings. Declining asset prices may also impact WNZL's customers and counterparties and the value of security WNZL holds against loans and derivatives which may impact its ability to recover amounts owing to it if customers or counterparties were to default. It also affects WNZL's level of provisioning which in turn impacts on profitability.

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

Loans secured by residential mortgages are important to WNZL's business. As at 30 September 2010, housing lending represented approximately two-thirds of WNZL's gross loans and advances. During the 2008 calendar year, there was a marked softening and decline in value in the New Zealand housing market. Although this decline reversed somewhat through October 2009, prices since that time have eased and sales volumes have been subdued.

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

WNZL's business is substantially dependent on the New Zealand 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 various factors including economic growth, business investment, levels of employment, interest rates and trade flows 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 global financial crisis adversely impacted global economic activity which, in turn, impacted the New Zealand economy. This led to a slowdown in credit growth and an increase in impaired assets. While activity has improved in New Zealand, there is the risk of further declines in economic activity in international economies which could affect WNZL's financial performance if it operates or obtains funds in those regions or could lead to a similar effect in New Zealand. Should this occur, WNZL's results of operations, liquidity, capital resources and financial condition could be adversely affected. The economic conditions of Australia, New Zealand's most significant trading partner, can also affect WNZL's future performance.

Management Report and Responsibility Statement (continued)

An increase in defaults in credit exposures could adversely affect WNZL's results of operations, liquidity, capital resources and financial condition

Credit risk is a significant risk and arises primarily from WNZL's lending activities. Credit risk also arises from certain derivatives contracts entered into by WNZL. Credit risk arises from the likelihood that some customers will be unable to honour their obligations to WNZL, including the repayment of loans and interest. WNZL's dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies whose financial conditions may be impacted to varying degrees by economic conditions in global financial markets also impact WNZL's credit risk.

WNZL holds collective and individually assessed provisions in respect of its credit exposures. If economic conditions deteriorate, some customers could experience higher levels of financial stress and WNZL may experience a significant increase in defaults and write-offs, and be required to increase its provisioning. Such actions would diminish available capital and would adversely affect WNZL's results of operations, liquidity, capital resources and financial condition.

The non-renewal of financial stimulus measures implemented by the New Zealand, Australian, United States and other governments to stabilise financial markets could have an impact on economic activity, which may adversely affect WNZL's business

In response to the global financial crisis, stabilising actions were taken by governments which included financial stimulus measures in New Zealand, Australia, the United States and other jurisdictions. Many of these measures are of a non-recurring nature.

There can be no assurance as to what effect the non-renewal of these financial stimulus measures will have on economic activity, consumer and investor confidence, or the levels of volatility in financial markets.

Any adverse changes in these areas could adversely affect WNZL's business, financial condition and results of operations.

WNZL faces intense competition in all aspects of its business

WNZL competes domestically primarily with retail and commercial banks and, to a lesser extent, with non-bank lending institutions and other financial institutions. In addition, the trend towards 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. Structural interest rate risk (WNZL's most significant market risk) may arise from lending and deposit-taking activities in the normal course of business. If WNZL were to suffer substantial losses due to any market volatility, it would adversely affect its results of operations, liquidity, capital resources and financial condition.

The proposed transfer to WNZL of additional banking operations is a complex process and involves operational challenges that could adversely affect WNZL's business, results of operations or financial condition

The proposed transfer to WNZL of certain institutional banking activities currently conducted by WBC's NZ Branch involves operational risks. These risks include: difficulties or unexpected costs relating to the restructuring and realigning, where required, of technology, financial and accounting systems, and risk and other management systems; difficulties or unexpected costs in realising synergies from the consolidation of certain functions within WNZL; higher than expected levels of customer attrition or market share loss arising as a result of the transfer of the deposit-taking functions from WBC's NZ Branch to WNZL; unexpected loss of key personnel during or following implementation of changes; possible decrease in employee morale; and potential damage to the reputation of brands due to possible actions from competitors or the media.

In addition, senior management of WNZL and the businesses to be transferred will be required to devote significant time and attention to the process of implementing the proposed transfer and the integration of the businesses to be transferred, which may decrease the time they have to manage both WNZL's existing businesses and the transferred businesses.

If any of these risks should occur, or if there are unexpected delays or difficulties in the implementation process, WNZL's ability to integrate the operations to be transferred to it with WNZL's existing businesses may be impaired, which could have an adverse effect on WNZL's results of operations or financial condition.

The proposed transfer to WNZL of additional banking operations, presently conducted by WBC's NZ Branch involves financial risks that could adversely affect WNZL's business, results of operations or financial condition

The proposed transfer to WNZL of certain additional banking activities currently conducted by WBC's NZ Branch involves financial risks. These financial risks include exposure to credit losses arising from larger loans and commitments and the requirement for additional capital to facilitate the businesses to be transferred. As at 30 September 2010, the institutional loan portfolio to be transferred to WNZL amounted to approximately $6.7 billion. Consequently, following the transfer, WNZL could incur substantially higher total impairment charges, particularly in difficult economic environments, than it had in the past. Such charges could materially adversely affect WNZL's profitability, reduce its capital, impair its access to external funding and require it to raise additional equity.

WNZL is likely to have additional funding requirements as a result of the proposed transfer to WNZL of additional banking operations. Although it is likely that a substantial portion of the increased funding requirements will be met initially through intra-group borrowing, WNZL's ability to obtain funding from WBC is subject to regulatory limitations under applicable banking regulations. There is no assurance that WNZL will be able to fund any additional needs from external sources, in the wholesale markets, at rates comparable to its current external borrowing rates or on similar terms and conditions or at all. If WNZL's funding costs increase, it may adversely affect its profitability, and if it cannot obtain sufficient funding, it may not be able to grow its business, it may have decreased liquidity and it may not be able to repay its liabilities as they become due.

Management Report and Responsibility Statement (continued)

WNZL could suffer losses due to operational risks or environmental factors

As a financial services organization, 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, earthquake or a pandemic) that could cause material damage, impact its operations or adversely affect demand for its products and services, and product development and maintenance. Operational risks could directly impact WNZL's reputation and result in financial losses which would adversely affect its financial performance or financial condition.

In addition WNZL and its customers operate businesses and hold assets in a diverse range of geographical locations. Any significant environmental change in any of these locations has the potential to disrupt business activities or affect the value of assets held in the affected locations.

WNZL may be exposed to the impact of future climate change, geological and other extrinsic events which may adversely affect WNZL's financial condition and results of operations

Scientific observations and climate modelling are pointing to changes in the global climate environment that may see extreme weather events increase in both frequency and severity. Among the possible effects of climate change are severe storms, cyclones, hurricanes, floods and rising sea levels. Such events, and others like them, pose the risk of floods and damage to the houses and commercial assets of WNZL's customers. In some cases, this impact may also adversely affect WNZL's collateral position in relation to credit facilities extended to those customers.

While the future impact of climate change is difficult to predict accurately, it should nevertheless be considered among the risks that may adversely impact WNZL's financial condition and results of operations in the future.

In addition to the climate events, geological events, such as volcanic or seismic activity, or other extrinsic events, such as flu pandemics, could severely disrupt normal business activity and have a negative effect on the ability of WNZL's customers to pay interest or repay principal on their loans.

Failure to update technology infrastructure or implement technology projects effectively may put WNZL at a competitive disadvantage and could impact its results of operations

WNZL's ability to develop and deliver products and services to its customers is dependent upon technology that requires periodic renewal. WNZL is constantly managing technology projects including projects to consolidate duplicate technology platforms, simplify and enhance its technology and operations environments, improve productivity and provide for a better customer experience. Failure to implement these projects effectively could result in cost overruns, operational instability, reputational damage or operating technology that could place WNZL at a competitive disadvantage and may adversely affect its results of operations.

An interruption in or breach of WNZL's information systems may result in lost business

WNZL relies heavily on communications and information systems furnished by third party service providers to conduct its business. Any failure or interruption or breach in security of these systems could result in failures or interruptions in its customer relationship management, general ledger, deposit, servicing or loan origination systems. WNZL cannot assure you that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by WNZL or the third parties on which WNZL relies. In addition, a significant barrier to online financial transactions is the secure transmission of confidential information over public networks. WNZL's internet banking system relies on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms WNZL's third-party service providers use to protect customer transaction data. If any such compromise of security were to occur, it could have a material adverse effect on WNZL's financial condition and results of operations.

Further, if any of these third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption, including failure to comply with banking regulations, in WNZL's relationships with them, WNZL may be required to locate alternative sources of such services, and WNZL cannot assure you that it could negotiate terms that are as favourable to it, or could obtain services with similar functionality as found in its existing systems without the need to expend substantial resources, if at all. The occurrence of any failures or interruptions could have a material adverse effect on WNZL's financial condition and results of operations.

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, pricing policies, legal and regulatory requirements, ethical issues, money laundering laws, trade sanctions legislation, privacy laws, information security policies, sales and trading practices, personnel and supplier policies and conduct by companies in which WNZL holds strategic investments. Failure to address these issues appropriately could also impact the regulatory change agenda, give rise to additional legal risk, subject WNZL to regulatory enforcement actions, fines and penalties, or harm its reputation among its customers, investors and the marketplace.

Other risks

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

Management Report and Responsibility Statement (continued)

Wholesale Funding

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

The following table sets forth the wholesale funding programs of WNZL and the Company as of 30 September 2010.

Program Limit	Issuer	Program Type
Euro Market		
US$20 billion	WBC/WSNZL(1)	Euro Commercial Paper and Certificate of Deposit Program
US$7.5 billion	WSNZL(1)	Program for Issuance of Debt Instruments
United States		
US$10 billion	WSNZL(1)	Section 4(2) US Commercial Paper Program
US$10 billion	WSNZL(1)	Rule 144A US MTN Program
New Zealand		
No limit	WNZL	Medium Term Note and Registered Certificate of Deposit Programs

(1) Notes issued by WSNZL (acting through its London branch) are guaranteed by WNZL.

Responsibility Statement

The Directors of the Company 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.

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 give a true and fair view of the Company's financial position as at 30 September 2010;

(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 11 to 33, with the Financial Reporting Act 1993; and

(iii) there are reasonable grounds to believe that the Company 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(1) of the Act.

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

Director

Director

~~XX~~ December 2010, Auckland

3.

Statement of comprehensive income for the year ended 30 September 2010

	Note	2010 $'000	2009 $'000
Interest income	2	203,283	235,675
Interest expense	2	(199,834)	(234,266)
Net interest income		3,449	1,409
Non-interest income	3	1,297	2,062
Net operating income		4,746	3,471
Operating expenses	4	(1,087)	(947)
Profit before income tax expense		3,659	2,524
Income tax expense	6	(1,090)	(757)
Profit after income tax expense		2,569	1,767
Other comprehensive income		-	-
Total comprehensive income for the year		2,569	1,767
Profit after income tax expense attributable to:			
Owners of the Company		2,569	1,767
Non-controlling interests		-	-
Profit after income tax expense		2,569	1,767
Total comprehensive income attributabable to:			
Owners of the Company		2,569	1,767
Non-controlling interests		-	-
Total comprehensive income for the year		2,569	1,767

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

Statement of changes in equity for the year ended 30 September 2010

	Note	Share Capital $'000	Retained Profits $'000	Total $'000
As at 1 October 2008		100	3,581	3,681
Year ended 30 September 2009:				
Profit after income tax expense		-	1,767	1,767
Total comprehensive income for the year ended 30 September 2009		-	1,767	1,767
Transactions with owners:				
Ordinary share capital issued	13	551	-	551
Dividends paid on ordinary shares	13	-	(551)	(551)
As at 30 September 2009		651	4,797	5,448
Year ended 30 September 2010				
Profit after income tax expense		-	2,569	2,569
Total comprehensive income for the year ended 30 September 2010		-	2,569	2,569
Transactions with owners:				
Ordinary share capital issued	13	-	-	-
Dividends paid on ordinary shares	13	-	-	-
As at 30 September 2010		651	7,366	8,017

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

Balance sheet as at 30 September 2010

	Note	2010 $'000	2009 $'000
Assets			
Cash and cash equivalents		2,953	1,455
Due from related entities	7	13,179,520	10,279,115
Deferred tax assets	8	2,727	2,026
Total assets		13,185,200	10,282,596
Liabilities			
Current tax liabilities		1,098	540
Other liabilities	10	60,931	43,685
Due to related entities	11	670	64,814
Debt issues	9	13,114,484	10,168,109
Total liabilities		13,177,183	10,277,148
Net assets		8,017	5,448
Equity			
Share capital	13	651	651
Retained profits	13	7,366	4,797
Total equity attributable to owners of the Company		8,017	5,448

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

Statement of cash flows for the year ended 30 September 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Interest income received		189,897	288,514
Interest expense paid		(185,273)	(290,232)
Management fees received - related entities		336	1,458
Income tax paid		(1,233)	(2,636)
Management fees paid - related entities		(610)	(535)
Operating expenses paid		(23)	(225)
Net cash provided by/ (used in) operating activities		3,094	(3,656)
Cash flows from investing activities			
Loans advanced to related parties		(22,330,537)	(27,356,219)
Repayment of loans from related parties		19,444,479	27,082,844
Net cash used in investing activities		(2,886,058)	(273,375)
Cash flows from financing activities			
Net decrease in due to related entities		(61,913)	(371,508)
Proceeds from debt issues		22,318,188	27,677,339
Repayment of debt issues		(19,371,813)	(27,029,247)
Net cash provided by financing activities		2,884,462	276,584
Net increase/ (decrease) in cash and cash equivalents		1,498	(447)
Cash and cash equivalents at beginning of the year		1,455	1,902
Cash and cash equivalents at end of the year		2,953	1,455
Cash and cash equivalents comprise:			
Cash and cash equivalents		2,953	1,455
Cash and cash equivalents at end of the year		2,953	1,455

	2010 $'000	2009 $'000
Reconciliation of profit after income tax expense to net cash provided by/ (used in) operating activities:		
Profit after income tax expense	2,569	1,767
Adjustments:		
Movement in accrued assets	(13,386)	52,839
Movement in other assets	(961)	(604)
Movement in accrued liabilities	15,015	(55,779)
Movement in income tax provisions	(143)	(1,879)
Net cash provided by/ (used in) operating activities	3,094	(3,656)

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

Notes to the financial statements

Note 1. Summary of significant accounting policies

(a) General information

These financial statements were authorised for issue by the Board of Directors of the Company (Board) on 3 December 2010. The Board has the power to amend the financial statements after they are authorised for issue.

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.

(b) Statutory base

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993. 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**'), as issued by the International Accounting Standards Board.

(c) Basis of preparation

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 accruals basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2009, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in Note 1 (g) Changes in accounting policies. Certain comparative figures have been restated to ensure consistent treatment with the current financial 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.

(d) Rounding of amounts

Amounts in this financial report have been rounded to the nearest thousand.

(e) Foreign 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 of the Company are presented in New Zealand dollars, which is the Company's functional and presentation currency.

Foreign currency monetary assets and liabilities have been translated into New Zealand dollars at the rate of foreign exchange prevailing as at the balance 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 statement of comprehensive income.

(f) Particular accounting policies

Revenue recognition

Interest income

Interest income for all instruments measured at amortised cost, or those classified as available-for-sale securities, is recognised in the statement of comprehensive income using the effective interest method. Interest income for instruments measured at fair value through profit or loss is also recognised 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 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 based on the net carrying value of the impaired loan after giving effect to any impairment losses. This rate is also used to discount the future cash flows for the purpose of measuring the impairment charges. For loans that have been impaired, this method results in cash receipts being apportioned between interest and principal.

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.

Gain/(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 gains/(losses) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income in the period in which they arise. Interest income and expense on financial assets and liabilities at fair value through profit or loss are recognised as part of net interest income.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated issue expenses incurred on the issue of securities is recognised in the statement of comprehensive income for all financial liabilities at amortised cost using the effective interest method. Interest expense relating to instruments classified as fair value through profit or loss, including trading liabilities, is also recognised using the effective interest method.

Losses on loans and receivables carried at amortised cost

The charge recognised in the statement of comprehensive income 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

Fees and commissions paid are recognised in the statement of comprehensive income over the period in 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 other comprehensive income are also recognised directly in other comprehensive income.

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 in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale securities. Management determines the classification of its financial assets at initial recognition.

(i) 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 principally for the purpose of selling it in the near term, if it is part of a portfolio of identified financial assets 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.

(ii) Loans and receivables

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, goods or services directly to a debtor with no intention of trading the receivable.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date, being 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. All other financial assets 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 and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are 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 statement of comprehensive income in the period in which they arise.

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.

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 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
- the entity has transferred its rights either the Company has transferred substantially all the risks and rewards of the asset, or 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 cash flows 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

Impaired financial assets include:

- individually impaired assets, which are defined as assets where an individual provision has been raised to cover the expected loss for which full recovery of principal is doubtful; and
- restructured assets, which are defined as assets in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer.

Assets that are in arrears based upon their contractual terms, but not yet impaired, are reported separately as 'past due assets'. Assets that are greater than 90 days past their contractual terms, but not yet impaired are reported separately as '90 days past due assets'.

Assets, not classified as impaired assets or past due assets, in which the counterparty is (a) in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or (b) in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction, are reported separately. These are known as 'other assets under administration'.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

The following accounting policy applies to the impairment of financial assets carried at amortised cost

The Company assesses as at each balance 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 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 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 been 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 statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss 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 assessment 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 assessed. Future cash flows in a group of financial assets that are collectively assessed 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 should reflect and be directionally consistent with changes in related observable data from period to period (e.g. changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their 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 uncollectible, 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 charge for loan impairment in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related 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 statement of comprehensive income.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets, other than deferred tax assets, are reviewed as at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment losses and reversals of impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

This amount includes amounts due to other entities controlled by WBC.

Due to related entities include bonds bought by WBC and balances due to other related entities. They are measured at amortised cost.

(ii) Debt issues

Debt issues represent 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 to reduce an accounting mismatch, which arises due to derivatives being executed for risk management purposes.

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.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

(g) Changes in accounting policies

As a result of the new and revised accounting standards which became operative for the annual reporting period commencing 1 October 2009 the following standards, interpretations and amendments have been adopted with effect from 1 October 2009 in the preparation of these financial statements:

- NZ IFRS 7 Financial Instruments: Disclosures - The amendments require additional disclosures on fair value and liquidity risk.
- NZ IFRS 8 Operating Segments - The new standard further aligns external operating segment reporting with internal reporting to key management personnel.
- NZ IAS 1 Presentation of Financial Statements (revised) - The amendments affect the presentation of owner changes in equity and of comprehensive income, but do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.

(h) Future accounting developments

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

- NZ IFRS 9 *Financial Instruments* - If this standard is not early adopted it will be effective for the 30 September 2014 financial year end. The major changes under the standard are that:
  - NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value;
  - a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial assets for the collection of the contractual cash flows; and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;
  - if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
  - there will be no separation of an embedded derivative where the host is a financial asset;
  - equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present the fair value changes on an equity investment directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss, however dividends from such investments will continue to be recognised in profit and loss; and
  - if an entity holds a tranche in a waterfall structure it must determine the classification of that tranche by looking through to the assets ultimately underlying that portfolio and assess the credit quality of the tranche compared with the underlying portfolio. If an entity is unable to look through, then the tranche must be measured at fair value.

  The standard will impact the classification and measurement of the Company's financial assets.
- NZ IAS 1 *Presentation of Financial Statements* - The amendments to the standard were issued in April 2009 and are applicable to the Banking Group in the 2011 financial year. The amendments clarify that the terms of a liability, which could be settled at any time by the issuance of equity instruments at the option of the counterparty, do not affect its classification. It is not expected to have a material impact on the Banking Group.
- NZ IAS 7 *Statement of Cash Flows* - Amendments to the standard were issued in April 2009 and are applicable to the Banking Group in the 2011 financial year. The amendments clarify that only expenditure which results in a recognised asset can be classified as cash flow from investing activities. It is not expected to have a material impact on the Banking Group.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

- NZ IAS 24 *Related Party Disclosures* - The revised standard was approved in November 2009 and is applicable to the Banking Group in the 2012 financial year. The main changes to the standard simplify the definition of a related party and clarify its intended meaning. It is not expected to have a material impact on the Banking Group.
- NZ IAS 32 *Financial Instruments: Presentation* - Amendments to the standard were issued in October 2009 and are applicable to the Banking Group in the 2011 financial year. The amendments clarify the classification of rights issues. It is not expected to have a material impact on the Banking Group.

(i) Critical accounting estimates, judgement and assumptions

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

Critical accounting estimates

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

Fair value of financial instruments

Financial instruments classified as held-for-trading or designated at fair value through profit or loss are recognized in the financial statements at fair value. 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 technique. Where the fair value is calculated using a valuation technique, the methodology used is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use 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.

The fair value of substantially all securities positions carried at fair value is determined directly from quoted prices or inputs.

Critical accounting judgements

The judgements, apart from those involving estimations, that management has made in applying the Company's accounting policies and that have the most significant impact on the amounts recognised in the financial statements are as below:

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

	2010 $'000	2009 $'000
Interest income		
Due from related entities	203,283	235,675
Total interest income[1]	203,283	235,675
Interest expense		
Debt issues	(197,735)	(228,517)
Due to related entities	(1,954)	(5,436)
Other	(145)	(313)
Total interest expense[2]	(199,834)	(234,266)
Net interest income	3,449	1,409

[1]Total interest income for financial assets that are not at fair value through profit or loss is $168 million (30 September 2009: $219 million).
[2]Total interest expense for financial liabilities that are not at fair value through profit or loss is $169 million (30 September 2009: $212 million).

Note 3. Non-interest income

	2010 $'000	2009 $'000
Fees and commissions		
Management fees received from related entities	1,297	2,062
Total fees and commissions	1,297	2,062
Gain/(loss) on financial assets and liabilities at fair value through profit or loss		
Gain on financial assets designated at fair value through profit or loss	816	14,008
Loss on debt issues designated at fair value through profit or loss	(816)	(14,008)
Total gain/(loss) on financial assets and liabilities at fair value through profit or loss	-	-
Total non-interest income	1,297	2,062

Note 4. Operating expenses

	2010 $'000	2009 $'000
Purchased services	275	236
Sundry expenses - deductible	13	-
Management fees paid - related entities	752	674
Travel expenses	6	1
Bank charges	41	36
Total operating expenses	1,087	947

Management fees were paid to WNZL for certain operating costs incurred on the Company's behalf.

Note 5. Auditors' remuneration

The audit fees for the current and prior year were borne by WNZL.

Notes to the financial statements (continued)

Note 6. Income tax expense

	2010 $'000	2009 $'000
Income tax expense		
Current tax	1,098	838
Adjustments for current tax of prior years	(8)	-
Deferred income tax - prior year	-	(74)
Adjustments for deferred tax of prior years	-	(7)
Total income tax expense	1,090	757
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	3,659	2,524
Tax calculated at tax rate of 30% (2009: 30%)	1,098	757
Tax effect of amounts which are not deductible / (assessable) in calculating taxable income:		
Expenses not deductible for tax purposes	-	7
Prior year adjustments	(8)	(7)
Total income tax expense	1,090	757

The balance of the dividend withholding payment account as at 30 September 2010 was $nil (30 September 2009: $nil) and there was no movement during the year ended 30 September 2010 (30 September 2009: nil).

In May 2010 the New Zealand Government enacted a reduction in company tax rates from 30% to 28%, which will apply to the Company from 1 October 2011. Accordingly, the deferred taxes have been remeasured at 28% to the extent the underlying temporary differences are expected to reverse from 1 October 2011 onwards. This change in tax rate did not impact the Company's deferred tax expense for the year ended 30 September 2010.

	2010 $'000	2009 $'000
Imputation credit account		
Balance at beginning of the year	301	820
Imputation credit attached to dividends paid	-	(271)
Income tax refunds	-	(1)
Income tax transfers	(212)	(250)
Other movements	(3)	3
Balance at end of the year	86	301

Note 7. Due from related entities

	2010 $'000	2009 $'000
Accrued interest	62,883	49,497
Accrued income - other	327	1,010
Financial assets at fair value through profit or loss	6,543,970	6,064,803
Loans	6,569,874	4,162,983
Other receivables	2,466	822
Total due from related entities	13,179,520	10,279,115
Due from related entities comprises of:		
Term	13,179,520	10,279,115
Total due from related entities	13,179,520	10,279,115
Amounts expected to be recovered within 12 months	6,610,957	6,567,819
Amounts expected to be recovered after 12 months	6,568,563	3,711,296
Total due from related entities	13,179,520	10,279,115

All amounts above are due from WNZL. Both the financial assets at fair value through profit or loss and loans are interest bearing and interest is charged on normal commercial terms. Non-deal related amounts owing to and by related parties are normally settled within 90 days. Deal related amounts are settled in accordance with the terms of the transaction.

Notes to the financial statements (continued)

Note 8. Deferred tax assets

	2010 $'000	2009 $'000
Deferred tax assets attributable to the following:		
Overseas tax paid	2,727	2,026
Balance at end of the year	2,727	2,026
Amounts expected to be recovered within 12 months	2,727	2,026
Balance at end of the year	2,727	2,026
Deferred tax assets movements		
Balance at beginning of the year	2,026	469
Other temporary differences	701	1,476
Prior year adjustments	-	7
Credited to the statement of comprehensive income	-	74
Balance at end of the year	2,727	2,026

Note 9. Debt issues

	2010 $'000	2009 $'000
Short term debt		
US commercial paper	6,200,804	5,334,558
Euro commercial paper	345,117	691,971
Total short term debt	6,545,921	6,026,529
Long term debt		
Euro medium term notes mature as follows:		
One year or less	-	430,284
Between one and two years	2,066,427	-
Between two and five years	3,105,923	3,711,296
Over five years	1,396,213	-
Total long term debt	6,568,563	4,141,580
Total debt issues	13,114,484	10,168,109
Government guaranteed debt[1]		
Between one and two years	2,031,427	-
Between two and five years	1,418,144	3,456,260
Total government guaranteed debt	3,449,571	3,456,260
Non government guaranteed[2]	9,664,913	6,711,849
Total debt issues	13,114,484	10,168,109
Debt issues measured at amortised cost	6,568,563	4,085,641
Debt issues measured at fair value	6,545,921	6,082,468
Total debt issues	13,114,484	10,168,109
Amounts expected to be settled within 12 months	6,545,921	6,456,813
Amounts expected to be settled after 12 months	6,568,563	3,711,296
Total debt issues	13,114,484	10,168,109

[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

	2010 $'000	2009 $'000
Accrued interest payable on debt issues[1]	60,931	43,685
Total other liabilities	60,931	43,685

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

Notes to the financial statements (continued)

Note 11. Due to related entities

	2010	2009
	$'000	$'000
Unlisted issued securities	-	61,913
Accrued interest payable - unlisted issued securities	-	2,685
Other	670	216
Total due to related entities	670	64,814
Due to related entities comprises of:		
At call	-	-
Term	-	-
Other	670	64,814
Total due to related entities	670	64,814
Amounts expected to be settled within 12 months	670	64,814
Amounts expected to be settled after 12 months	-	-
Total due to related entities	670	64,814

All 2010 amounts above are due to WNZL. The 2009 amounts that relate to unlisted securities were due to WBC. All other 2009 amounts were due to WNZL. The advances are interest bearing and interest is charged on normal commercial terms. Non deal related amounts owing to and by related parties are normally settled within 90 days. Other amounts due are in relation to services provided and are settled in accordance with normal terms of settlement.

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

In the unlikely event that the Company was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of claims of unsecured creditors.

Note 13. Equity & retained profits

	2010	2009
	$'000	$'000
Ordinary shares - fully paid up		
Ordinary shares at the beginning of the year	651	100
Shares issued during the year[1]	-	551
Ordinary shares at end of the year	651	651
	2010	2009
	Number of Issued Shares	Number of Issued Shares
Number of ordinary shares at the begininng of the year	651,185	100,000
Number of shares issued during the year[1]	-	551,185
Number of ordinary shares at the end of the year	651,185	651,185
	2010	2009
Retained profits	**$'000**	$'000
Retained profits at beginning of the year	4,797	3,581
Profit after income tax attributable to owners of the Company	2,569	1,767
Dividends paid[1]	-	(551)
Retained profits at the end of the year	7,366	4,797

[1] A dividend of $551,185 on ordinary shares was paid in the year ended 30 September 2009. This was done via a 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, as per section 38 of the Companies Act 1993.

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. The Company is also an indirect wholly owned subsidiary of WNZL. The ultimate parent company is WBC, which is incorporated in Australia and whose financial statements are available for public use at www.westpac.com.au.

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.

Interest income of $203.2 million (2009 $235.7 million) was received from WNZL.

Interest expense includes an amount relating to bonds bought back by WBC of $1.95 million in 2010 (2009 $5.44 million)

The Company provides offshore wholesale funding to WNZL. Contained within interest income is a funding margin of $3.8 million (2009: $2.6 million) paid to the Company by WNZL.

Non-interest income comprises service fees of $1.3 million (2009: $2.1 million) which were charged to WNZL to recover operating expenses incurred by the Company.

Within operating expenses are reimbursements of related entity expenses of $752,000 (2009: $674,000) which were paid to WNZL and WBC for certain operating costs incurred on the Company's behalf.

Cash and cash at bank due from related entities comprises $2.7 million (2009 $1.2 million) held with WBC.

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.

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

Transactions with these related parties are on an arm's length basis.

Non-deal related amounts owing to and by related parties are normally settled within 90 days. Deal related amounts are settled in accordance with the terms of the transaction. Other amounts due are settled in accordance with normal terms of settlement.

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 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 5. There are no additional risk factors solely affecting the Company.

The principal risks and uncertainties are not the only ones the Company may face. Additional risks and uncertainties of which the Company may be unaware, or that we currently deem to be immaterial, may become important factors that affect the Company in the future. If any of the risks actually occur, the Company's 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.

As an indirect wholly owned subsidiary of WNZL, the Company operates within the governance and risk management frameworks of WNZL. These frameworks support effective and efficient decision-making through established reporting obligations to the Board 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;
- Operational risk: the risk that arises 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 risk that the Company will not be able to fund assets and meet obligations as they come due, without incurring unacceptable losses; 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 changes in the value of financial instruments 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.

Notes to the financial statements (continued)

Note 15. Financial risk management (continued)

a. Credit risk

Credit risk is the potential for financial loss where a customer or counterparty fails to meet their financial obligations. 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 the notes issued by the Company. 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 as at the date the Directors signed this General Disclosure Statement.

Credit ratings for WNZL

Rating agency	Current credit rating	Rating outlook
Fitch Ratings	AA	Stable
Moody's Investors Services	Aa2	Stable
Standard and Poor's	AA	Stable

On 31 March 2010, WNZL's credit rating issued by Fitch Ratings was upgraded from AA- to AA with a 'stable' outlook. On 30 September 2008, the rating issued by Fitch Ratings was AA- with a 'positive' outlook and on 3 December 2008 the outlook was changed to 'stable'. This position was unchanged until 31 March 2010 when the credit rating was upgraded to AA with a 'stable' outlook.

In the two years prior to 30 September 2010, the 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 2010, the 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.

(ii) Fully performing

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

Notes to the financial statements (continued)

Note 15. Financial risk management (continued)

(iii) Concentration of credit exposure

	2010 $'000	2009 $'000
On-balance sheet credit exposures consist of:		
Cash and cash equivalents	2,953	1,455
Due from related entities	13,179,520	10,279,115
Total credit exposures	13,182,473	10,280,570
Analysis of credit exposures by geographical area:		
Within New Zealand	13,182,473	10,280,570
Total credit exposures	13,182,473	10,280,570
Analysis of credit exposures by industry and economic sector:		
Commercial and financial	13,182,473	10,280,570
Total credit exposures	13,182,473	10,280,570

Australian and New Zealand Standard Industrial Classifications have been used as the basis for disclosing industry sectors.

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 2010

	Floating rate $'000	Less than 1 month $'000	1 month to 3 months $'000	3 months to 1 year $'000	1 year to 5 years $'000	Over 5 years $'000	Non-Interest bearing $'000	Total $'000
Financial Assets								
Cash and cash equivalents	-	-	-	-	-	-	2,953	2,953
Due from related entities	4,674,754	677,747	1,090,152	744,436	4,544,390	1,405,472	42,569	13,179,520
Total financial assets	4,674,754	677,747	1,090,152	744,436	4,544,390	1,405,472	45,522	13,182,473
Non-financial assets								2,727
Total assets								13,185,200
Financial Liabilities								
Other liabilities	-	-	-	-	-	-	60,931	60,931
Due to related entities	-	-	-	-	-	-	670	670
Debt issues	4,665,349	677,168	1,090,284	743,954	4,535,123	1,402,606	-	13,114,484
Total financial liabilities	4,665,349	677,168	1,090,284	743,954	4,535,123	1,402,606	61,601	13,176,085
Non-financial liabilities								1,098
Total liabilities								13,177,183
Net financial (liabilities)/assets	9,405	579	(132)	482	9,267	2,866		

Notes to the financial statements (continued)

Note 15. Financial risk management (continued)

30 September 2009

	Floating rate $'000	Less than 1 month $'000	1 month to 3 months $'000	3 months to 1 year $'000	1 year to 5 years $'000	Non-Interest bearing $'000	Total $'000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	1,455	1,455
Due from related entities	602,787	1,795,546	2,650,024	1,724,154	3,469,813	36,791	10,279,115
Total financial assets	602,787	1,795,546	2,650,024	1,724,154	3,469,813	38,246	10,280,570
Non-financial assets							2,026
Total assets							10,282,596
Financial Liabilities							
Other liabilities	-	-	-	-	-	43,685	43,685
Due to related entities	-	-	-	61,100	-	3,714	64,814
Debt issues	601,648	1,794,275	2,646,737	1,662,383	3,463,066	-	10,168,109
Total financial liabilities	601,648	1,794,275	2,646,737	1,723,483	3,463,066	47,399	10,276,608
Non-financial liabilities							540
Total liabilities							10,277,148
Net financial (liabilities)/assets	1,139	1,271	3,287	671	6,747		

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

The Company manages its exposure to interest rate risk by matching the market risk exposures on financial liabilities with financial assets due from WNZL, therefore there is no material unmatched interest rate risk in the Company.

(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 in the financial statements.

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

Notes to the financial statements (continued)

Note 15. Financial risk management (continued)

c. *Liquidity risk*

Liquidity risk is the potential inability to meet payment obligations as they come due, without incurring unacceptable losses.

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

WNZL's Treasury department is responsible for liquidity management, including for WNZL and the Company. WNZL Treasury 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 balances in the tables below may not agree to the balance sheet as the tables incorporate 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 2010 is as follows:

30 September 2010

	At call $'000	Less Than 1 Month $'000	1 Month to 3 Months $'000	3 Months to 1 Year $'000	1 Year to 5 Years $'000	Over 5 years $'000	No specific maturity $'000	Total $'000
Financial Assets								
Cash and cash equivalents	2,953	-	-	-	-	-	-	2,953
Due from related entities	-	680,308	2,953,266	3,105,953	5,672,622	1,513,546	2,793	13,928,488
Total financial assets	2,953	680,308	2,953,266	3,105,953	5,672,622	1,513,546	2,793	13,931,441
Financial liabilities								
Other liabilities	-	1,318	18,470	41,143	-	-	-	60,931
Due to related entities	-	-	-	-	-	-	670	670
Debt issues	-	678,990	2,934,654	3,064,968	5,672,884	1,513,546	-	13,865,042
Total financial liabilities	-	680,308	2,953,124	3,106,111	5,672,884	1,513,546	670	13,926,643

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

30 September 2009

	At call $'000	Less Than 1 Month $'000	1 Month to 3 Months $'000	3 Months to 1 Year $'000	1 Year to 5 Years $'000	No specific maturity $'000	Total $'000
Financial Assets							
Cash and cash equivalents	1,455	-	-	-	-	-	1,455
Due from related entities	-	1,798,494	2,677,993	2,185,211	4,040,590	1,833	10,704,121
Total financial assets	1,455	1,798,494	2,677,993	2,185,211	4,040,590	1,833	10,705,576
Financial liabilities							
Other liabilities	-	672	18,085	24,928	-	-	43,685
Due to related entities	-	-	-	65,728	-	216	65,944
Debt issues	-	1,797,822	2,659,976	2,093,825	4,040,120	-	10,591,743
Total financial liabilities	-	1,798,494	2,678,061	2,184,481	4,040,120	216	10,701,372

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

	2010 $'000	2009 $'000
Funding consists of:		
Debt issues	13,114,484	10,168,109
Other liabilities	60,931	43,685
Due to related entities	670	64,814
Total funding	13,176,085	10,276,608
Analysis of funding by product:		
US commercial paper	6,200,804	5,334,558
Euro commercial paper	345,117	691,971
Euro medium term notes	6,568,563	4,141,580
Other liabilities	60,931	43,685
Due to related entities	670	64,814
Total funding	13,176,085	10,276,608
Analysis of funding by geographical areas:		
Within New Zealand	670	64,814
Overseas	13,175,415	10,211,794
Total funding	13,176,085	10,276,608
Analysis of funding by industry and economic sector:		
Commercial and financial	13,176,085	10,276,608
Total funding	13,176,085	10,276,608

Note 16. Fair value of financial instruments

Quoted market prices, when available, are used as the measure of fair values. Where quoted market prices do not exist, fair values presented are estimated 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.

NZ IFRS 7 *Financial Instruments: Disclosure* requires the disclosure of the fair value of those financial instruments not already carried at fair value in the balance sheet. Fair value for financial instruments has been determined as follows:

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 remaining 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 tables below summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Company.

30 September 2010

	Classified at fair value through profit or loss: Held for Trading $000's	Designated upon Initial Recognition $000's	Hedging $000's	Loans and Receivable $000's	Available for sale Financial Assets $000's	Financial Liabilities at Amortised Cost $000's	**Total Carrying Amount $000's**	**Estimated Fair Value $000's**
Financial Assets								
Cash and cash equivalents	-	-	-	2,953	-	-	2,953	2,953
Due from related entities	-	6,543,970	-	6,635,550	-	-	13,179,520	13,318,714
Total financial assets	-	6,543,970	-	6,638,503	-	-	13,182,473	13,321,667
Financial Liabilities								
Other liabilities	-	-	-	-	-	60,931	60,931	60,931
Due to related entities	-	-	-	-	-	670	670	670
Debt issues	-	6,545,921	-	-	-	6,568,563	13,114,484	13,253,677
Total financial liabilities	-	6,545,921	-	-	-	6,630,164	13,176,085	13,315,278

The $6.5 billion of due from related entities and $6.5 billion of debt issues classified at fair value through profit or loss are valued in accordance with valuation techniques using observable inputs (Level 2).

30 September 2009

	Classified at fair value through profit or loss: Held for Trading $000's	Designated upon Initial Recognition $000's	Hedging $000's	Loans and Receivable $000's	Available for sale Financial Assets $000's	Financial Liabilities at Amortised Cost $000's	Total Carrying Amount $000's	Estimated Fair Value $000's
Financial Assets								
Cash and cash equivalents	-	-	-	1,455	-	-	1,455	1,455
Due from related entities	-	6,064,803	-	4,214,312	-	-	10,279,115	10,312,899
Total financial assets	-	6,064,803	-	4,215,767	-	-	10,280,570	10,314,354
Financial Liabilities								
Other liabilities	-	-	-	-	-	43,685	43,685	43,685
Due to related entities	-	-	-	-	-	64,814	64,814	64,814
Debt issues	-	6,082,468	-	-	-	4,085,641	10,168,109	10,201,893
Total financial liabilities	-	6,082,468	-	-	-	4,194,140	10,276,608	10,310,392

The $6.1billion of due from related entities and $6.1 billion of debt issues classified at fair value through profit or loss are valued in accordance with valuation techniques using market observable inputs (Level 2).

Notes to the financial statements (continued)

Note 16. Fair value of financial instruments (continued)

Determination of fair value

There are three primary methods of determining fair value according to the following hierarchy:

Quoted market price (Level 1)

This valuation technique uses recent unadjusted quoted prices for identical assets or liabilities in active markets where the price represents actual and regularly occurring market transactions on an arm's length basis.

Valuation technique using observable inputs (Level 2)

This valuation technique is used for financial instruments where quoted market prices are not available, so prices are derived from standard valuation models, and inputs to these models are directly observable. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Valuation technique with significant non-observable inputs (Level 3)

This valuation technique is used where at least one significant input is not observable and reliance is placed on reasonable assumptions based on market conditions. These estimates are calibrated against industry standards, economic models and observable transaction prices where possible. Financial instruments included in this category show illiquidity in the market. Some validations rely on estimates from related markets or proxies.

As at 30 September 2010 there were no material amounts of financial assets and financial liabilities in the Company where the fair value had been derived using non-market observable inputs (30 September 2009: nil).

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 statement of comprehensive income during the year ended 30 September 2010 in the Company was nil (30 September 2009: nil).

There have been no transfers between Levels 1 and 2 during the year ended 30 September 2010 (30 September 2009: nil). There have also been no transfers into/out of Level 3 during the year ended 30 September 2010 (30 September 2009: 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 and its controlled entities (otherwise referred to as the 'Banking Group'). Capital for this Company is managed as part of the Banking Group.

Note 18. Segment information

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

The Company has determined that the WNZL executive team is its chief operating decision maker (i.e. the person or group that allocates resources to and assesses the performance of the operating segments of an entity).

Revenue from Products and Services

The Company does not generate any revenue from external customers.

Secondary reporting – geographic segments

All revenue is generated within New Zealand. On this basis, no geographical segment information is provided.

Note 19. Key management personnel compensation

No compensation was paid by the Company to its key management personnel during 2010 (2009: nil).

Note 20. Contingent assets, contingent liabilities and commitments

Capital expenditure commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2010 (2009: Nil).

Operating lease commitments

There were no operating lease commitments as at 30 September 2010 (2009: nil).

Note 21. Events occurring after reporting date

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

PRICEWATERHOUSECOOPERS

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Independent Auditors' Report
to the shareholder of Westpac Securities NZ Limited

Report on the Financial Statements

We have audited the financial statements of Westpac Securities NZ Limited on pages 11 to 33, which comprise the balance sheet as at 30 September 2010, the statement of comprehensive income, and statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditor we have no relationship with, or interests in, Westpac Securities NZ Limited.

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Independent Auditors' Report
Westpac Securities NZ Limited

Opinion

In our opinion, the financial statements on pages 11 to 33:

(i) comply with generally accepted accounting practice in New Zealand;

(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 2010 and its financial performance and its cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2010:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

PricewaterhouseCoopers

3 December 2010

Chartered Accountants Auckland