

Westpac Securities NZ Limited

Financial statements

For the year ended 30 September 2011

Westpac Securities NZ Limited

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These financial statements cover Westpac Securities NZ Limited (the '**Company**') as an individual entity.

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

Westpac on Takutai Square
16 Takutai Square
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 3.

The members of the Board of Directors of the Company ('**Board**') at the date of these financial statements are:

Name	Principal activity outside the Company
Mariette Maria Bernadette van Ryn	General Manager, Regulatory Affairs & General Counsel NZ, Westpac New Zealand Limited (' WNZL ')
Leigh James Bartlett	Chief Financial Officer, WNZL
David Alexander McLean	General Manager, Wealth, Insurance, Private & Institutional Banking, WNZL, and Chief Executive, Westpac Banking Corporation - NZ Branch (' WBC NZ Branch ')
David Andrew Watts	Chief Risk Officer, WNZL

Changes to Directorate

- David Stuart Clement resigned as a Director of the Company with effect from 22 November 2010
- David Alexander McLean was appointed as a Director of the Company with effect from 23 February 2011
- Richard Warren Jamieson resigned as a Director of the Company with effect from 27 July 2011
- Leigh James Bartlett was appointed as a Director of the Company with effect from 27 July 2011

Westpac Securities NZ Limited

Disclosure regarding forward-looking statements

These financial statements contain 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. These financial statements use 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. 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. 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, leverage and capital requirements;
- the stability of New Zealand, Australian and international financial systems and disruptions to financial markets and any losses or business impacts WNZL, its customers or counterparties may experience as a result;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- adverse asset, credit or capital market conditions;
- changes to the credit ratings of WNZL or Westpac Banking Corporation ('WBC');
- levels of inflation, interest rates, exchange rates and market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in economic conditions, consumer spending, saving and borrowing habits in New Zealand and in other countries in which WNZL or its customers or counterparties conduct their operations and WNZL's ability to maintain or to increase market share and control expenses;
- the effects of competition in the geographic and business areas in which WNZL conducts its operations;
- reliability and security of WNZL's technology and risks associated with changes to technology systems;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- the effectiveness of WNZL's risk management policies, including its internal processes, systems and employees;
- the occurrence of environmental change or external events in countries in which WNZL or its customers or counterparties conduct their operations;
- internal and external events which may adversely impact WNZL's reputation;
- changes in political, social or economic conditions in any of the major markets in which WNZL or its customers or counterparties operate; and
- various other factors beyond WNZL's and the Company's control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made in these financial statements 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 these financial statements, whether as a result of new information, future events or otherwise, after the date of these financial statements.

Westpac Securities NZ Limited

Management report and responsibility statement

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

The principal activity of the Company (acting through its London branch) is to raise and manage offshore wholesale funding for WNZL.

The profit after income tax expense of the Company for the year ended 30 September 2011 was \$2,928,000 compared with the profit after income tax expense of \$2,569,000 for the year ended 30 September 2010, an increase of 14%.

Interest income increased by 14% to \$232,326,000 compared to the year ended 30 September 2010. The \$29,043,000 increase was due to an increased funding base.

Interest expense increased by 15% to \$230,019,000 compared to the year ended 30 September 2010. The \$30,185,000 increase was due to an increased funding base primarily driven by the new covered bond programme.

Net interest income decreased by 33% to \$2,307,000 compared to the year ended 30 September 2010. The \$1,142,000 decrease was due to the increased amortisation costs and debt issues related costs primarily driven by the covered bond programme.

Non-interest income increased by 144% to \$3,164,000 compared to the year ended 30 September 2010. The increase of \$1,867,000 was mainly due to an increase in recovery from WNZL relating to increased amortization costs and professional fees paid related to the covered bond programme.

Operating expenses increased by 18% to \$1,287,000.

Income tax expense of \$1,256,000 increased by 15% due to the increase in profit before income tax expense for the year.

Total debt issues as at 30 September 2011 was \$15,832,655,000 which was an increase of \$2,718,171,000 or 21%, compared to \$13,114,484,000 as at 30 September 2010. This increase was due to an increased funding requirement by WNZL.

For information regarding the Company's financial risk management objectives and policies, including the key financial risks that the Company is exposed to, refer to Note 15 Financial risk management of the Notes to the financial statements.

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

Significant events after the financial year ended 30 September 2011

Transfer of additional banking operations to WNZL

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

Following an independent review of the structure of the operating model of WBC's business in New Zealand, the Reserve Bank, WNZL and WBC reached agreement on changes to the operating model. On 1 November 2011, assets and liabilities associated with certain business activities formerly conducted by the WBC NZ Branch were transferred to WNZL. The transfer occurred pursuant to the Westpac New Zealand Act 2011.

The following business activities were transferred to WNZL:

- institutional customer deposits;
- institutional customer transactional banking;
- institutional customer lending (other than trade financing activities);
- debt capital markets activities carried out in assisting corporate customers to obtain funding, such as loan syndication and securitisation arrangements but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes;
- corporate advisory; and
- institutional customer foreign currency accounts.

WNZL credit rating changes

On 9 November 2011, Standard & Poor's released its new global bank rating criteria and Banking Industry Country Risk Assessments ('BICRA') methodology. Also, on 9 November 2011, Standard & Poor's announced the BICRA score for New Zealand of 3, down from a score of 2 under the previous methodology. On 1 December 2011, as a result of the Standard and Poor's bank rating criteria changes, WNZL's credit rating was lowered from AA to AA- with a 'stable' outlook. On 27 May 2011, WNZL's long-term senior unsecured credit rating issued by Moody's Investors Service ('Moody's') was downgraded from Aa2 to Aa3 with a 'stable' outlook. On 31 March 2010, WNZL's long-term senior unsecured credit rating issued by Fitch Ratings was upgraded from AA- to AA with a 'stable' outlook. There have been no other changes to WNZL's credit ratings or rating outlooks in the two years prior to 30 September 2011.

A credit rating is not a recommendation to buy, sell or hold securities of the Company or WNZL. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. Investors in the Company's or WNZL's securities are cautioned to evaluate each rating independently of any other rating.

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Management report and responsibility statement

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 that 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 risks and uncertainties described below are not the only ones the Company may face. Additional risks and uncertainties of which it may be unaware, or that it currently deems to be immaterial, may also become important factors that affect it. If any of the following risks occur, WNZL's business, results of operations, financial condition or future performance could be materially adversely affected.

WNZL's businesses are highly regulated and WNZL could be adversely affected by failing to comply with existing laws and regulations or by changes in laws and regulations and regulatory policy

As a financial institution, WNZL is subject to detailed laws and regulations in New Zealand and each of the other jurisdictions in which it obtains funding. It is supervised by a number of different regulatory authorities which have broad administrative power over its businesses. The RBNZ has supervisory oversight of WNZL's operations.

WNZL is responsible for ensuring that it complies with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which it operates or obtains funding, as well as meeting its ethical standards.

Compliance risk arises from these legal and regulatory requirements. If WNZL fails to comply with applicable laws and regulations, it may be subject to fines, penalties or restrictions on its ability to do business. An example of the broad administrative power available to regulatory authorities is the power available to the RBNZ in certain circumstances to investigate WNZL's affairs, issue a direction to WNZL (such as a direction to cease to carry on all or part of its business, consult with the RBNZ or take any action as directed to address a breach of its conditions of registration), or remove a director. Any such costs and restrictions could have a material adverse effect on WNZL's business, reputation, prospects, financial performance or financial condition.

As with other financial services providers, WNZL continues to face increased supervision and regulation, particularly in the areas of funding, liquidity, capital adequacy and prudential regulation. One example of this is the announcement in December 2010 by the Basel Committee on Banking Supervision of a revised global regulatory capital framework, known as Basel III. Basel III will, among other things, increase the required quality and quantity of capital held by banks and introduce new minimum standards for the management of liquidity risk. The Basel III framework comes into effect from 1 January 2013, subject to various transitional arrangements. However, the RBNZ has proposed that the new Tier 1 and Tier 2 capital requirements be incorporated into its prudential standards with effect from 1 January 2013 without a transitional period. Throughout the year ended 30 September 2011 there have also been a series of other regulatory releases proposing significant regulatory change for financial institutions. This includes global over-the-counter derivatives reform and proposals for implementing the RBNZ's Open Bank Resolution Policy. Other areas of potential change that could impact WNZL include changes to accounting and reporting requirements, tax legislation, regulation relating to remuneration, consumer protection and competition legislation, bribery and anti-money laundering laws and securities laws. In addition, further changes may occur driven by policy, prudential or political factors.

Regulation is becoming increasingly more extensive and complex. Some areas of potential regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach. 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 possible that the New Zealand government or other governments in jurisdictions in which WNZL or the Company obtains funding might revise their application of existing regulatory policies that apply to, or impact, WNZL's business or the Company, including for reasons relating to national interest and/or systemic stability.

Regulatory changes and the timing of their introduction continue to evolve and WNZL currently manages its businesses in the context of regulatory uncertainty. The nature and impact of future changes are not predictable and are beyond WNZL's control. Regulatory compliance and the management of regulatory change are an increasingly important part of WNZL's strategic planning. WNZL expects that it will be required to increase its expenditure on compliance and the management and implementation of regulatory change and, at the same time, significant management attention and resources will be required to update existing or implement new processes and procedures to comply with the new regulations.

Regulatory change may also impact WNZL's operations by requiring WNZL to have increased levels of liquidity and higher levels of, and better quality, capital as well as place restrictions on the businesses it conducts or require WNZL to alter its product and service offerings. If regulatory change has any such effect, it could adversely affect one or more of WNZL's businesses, restrict its flexibility, require it to incur substantial costs and impact the profitability of one or more of its business lines. Any such costs or restrictions could have a material adverse effect on WNZL's business, financial performance, financial condition or prospects.

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

WNZL relies on credit and capital markets to fund its business and as a source of liquidity. WNZL's liquidity and costs of obtaining funding are related to credit and capital market conditions.

New Zealand and international credit and capital markets have experienced extreme volatility, disruption and decreased liquidity in recent years. While there have been periods of stability in these markets, the environment has become more volatile and unpredictable. Recently there has been particular focus on the potential for sovereign debt defaults and/or banking failures in Europe. Widespread unease about the strength of the European banking system has resulted in large declines in stock prices and marked widening in credit spreads. Focus has also extended to the US following the Standard & Poor's downgrade of the sovereign credit rating of the United States. New Zealand's sovereign credit ratings were also downgraded by Standard & Poor's and Fitch Ratings in September 2011. The recent volatility in global financial markets has added to the uncertainty about the global economic outlook and a number of countries are experiencing slowing economic activity. WNZL's direct exposure to the affected European countries is small, with the main risk it faces being damage to market confidence, spending and access to, and costs of

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Management report and responsibility statement

funding and a slowing in the activity of its trading partners or through other impacts on entities with whom WNZL does business. The vulnerable nature of several sovereign nations and the associated impact on market conditions have resulted in a tightening of credit markets and wholesale funding conditions.

As of 30 September 2011, approximately 35% of WNZL's total net funding originated from wholesale markets, most of which are 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.

If market conditions continue to deteriorate due to economic, financial, political or other reasons, WNZL's funding costs may be adversely affected and its liquidity and funding and lending activities may be constrained.

As a result of the transfer of additional banking operations from the WBC NZ Branch to WNZL on 1 November 2011 WNZL is subject to increased funding requirements. If WNZL's current sources of funding prove to be insufficient, WNZL 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 credit market capacity. Even if available, the cost of these alternatives may be more expensive or on unfavourable terms, which could adversely affect WNZL's results of operations, liquidity, capital resources and financial condition. There is no assurance that WNZL will be able to obtain adequate funding and do so at acceptable prices.

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

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

Credit ratings are opinions on WNZL's creditworthiness. WNZL's credit ratings affect the cost and availability of funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating WNZL's products and services. Therefore, maintaining high quality credit ratings is important.

The credit ratings assigned to WNZL by rating agencies are based on an evaluation of a number of factors, including WNZL's financial strength, WNZL's position as part of the WBC Group and structural considerations regarding the New Zealand financial system. 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 including changes to the methodologies used by the rating agencies to determine ratings.

Standard & Poor's announced that it is changing its methodology for determining bank ratings and published its initial proposals on 6 January 2011. On 9 November 2011, Standard & Poor's released its new global bank rating criteria and BICRA methodology. Also, on 9 November 2011, Standard & Poor's announced the BICRA score for New Zealand of 3, down from a score of 2 under the previous methodology. On 1 December 2011, as a result of the Standard and Poor's bank rating criteria changes, WNZL's credit rating was lowered from AA to AA- with a 'stable' outlook.

On 27 May 2011, Moody's advised WNZL, along with the other major New Zealand banks, that its long-term, senior unsecured debt rating was downgraded to Aa3 from Aa2 with a 'stable' outlook.

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 which would adversely affect its cost of funds and related margins, liquidity, competitive position and access to capital markets.

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. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether WNZL ratings differ among agencies (split ratings) and whether any ratings changes also impact WNZL's peers or the sector.

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

There is a risk that a major systemic shock could occur that causes an adverse impact on the New Zealand, Australian or other financial systems.

As outlined above, the financial services industry and capital markets have been, and may continue to be, adversely affected by continuing market volatility and the negative outlook for global economic conditions. Recently there has been an increased focus on the potential for sovereign debt defaults and/or significant bank failures in the 17 countries comprising the Eurozone. There can be no assurance that the market disruptions in the Eurozone, including the increased cost of funding for certain Eurozone governments, will not spread, nor can there be any assurance that future assistance packages will be available or sufficiently robust to address any further market contagion in the Eurozone or elsewhere.

Any such market and economic disruptions could have a material adverse effect on financial institutions such as WNZL because consumer and business spending may decrease, unemployment may rise and demand for the products and services WNZL provides may decline, thereby reducing its earnings. These conditions may also affect the ability of WNZL's borrowers to repay their loans or WNZL's counterparties to meet their obligations, causing WNZL to incur higher credit losses. These events could also result in the undermining of confidence in the financial system, reducing liquidity and impairing WNZL's access to funding and impairing WNZL's customers and counterparties and their businesses. If this were to occur, WNZL's businesses, financial performance, financial condition and prospects could be adversely affected.

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.

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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 impact WNZL's asset holdings. Declining asset prices could impact 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 may also affect WNZL's level of provisioning which in turn impacts 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 2011, housing lending represented approximately two-thirds of WNZL's gross loans and advances.

A sustained 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.

For the year ended 30 September 2011, lending has remained subdued in line with New Zealand's economic conditions. WNZL's loan growth has reflected the softer market.

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 housing lending in New Zealand. These factors are in turn impacted by both domestic and international economic conditions, natural disasters and political events. A significant decrease in the New Zealand housing market or property valuations could adversely impact WNZL's housing lending activities because the ability of its borrowers to repay their loans may be affected, causing WNZL to incur higher credit losses, or the demand for WNZL's housing lending products may decline.

Adverse changes to the economic and business conditions in Australia, New Zealand's most significant trading partner, or other countries with which New Zealand has substantial trade, could also negatively impact the New Zealand economy and WNZL's customers. This could in turn result in reduced demand for WNZL's products and services and affect the ability of its borrowers to repay their loans. If this were to occur, it would negatively impact WNZL's business, financial performance, financial condition and prospects.

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. The risk arises from the likelihood that some customers and counterparties will be unable to honour their obligations to WNZL, including the repayment of loans and interest.

Credit risk also arises from certain derivative contracts WNZL enters into and from its dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies the financial conditions of which may be impacted to varying degrees by economic conditions in global financial markets.

WNZL holds collective and individually assessed provisions for its credit exposures. If economic conditions deteriorate, some customers and/or counterparties 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 events would diminish available capital and would adversely affect WNZL's operating results, liquidity, capital resources and financial condition.

WNZL faces intense competition in all aspects of its business

The financial services industry is highly competitive. WNZL competes with retail and commercial banks and, to a lesser extent, with non-bank lending institutions and other financial institutions. These include specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently.

If WNZL is unable to compete effectively in its various businesses and markets, its market share may decline. Increased competition may also materially adversely affect WNZL's results of operations by diverting business to its competitors or creating pressure to lower margins.

Increased competition for deposits could also increase WNZL's cost of funding and need to access other types of funding. WNZL relies on bank deposits to fund a significant portion of its balance sheet and deposits have been a relatively low cost and stable source of funding. WNZL competes with banks and other financial services firms for such deposits. To the extent that WNZL is not able to successfully compete for deposits, it would be forced to rely more heavily on more expensive global capital markets to fund its business, and its funding costs would increase.

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WNZL is also dependent on its ability to offer products and services that match evolving customer preferences. If WNZL is not successful in developing or introducing new products and services or responding or adapting to changes in customer preferences and habits, it may lose customers to its competitors. This could adversely affect its results of operations, financial performance and financial condition.

WNZL could suffer losses due to market volatility

WNZL is exposed to market risk as a consequence of adverse movements in levels and 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 may adversely affect its results of operations, liquidity, capital resources and financial condition.

The transfer to WNZL of additional banking operations involves operational challenges that could adversely affect WNZL's business, results of operations or financial condition

The transfer to WNZL on 1 November 2011 of certain banking activities formerly conducted by the WBC 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 the WBC NZ Branch to WNZL; unexpected losses of key personnel 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 transferred will be required to devote time and attention to the process of integrating the businesses 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, WNZL's ability to integrate the operations 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 transfer to WNZL of additional banking operations formerly conducted by the WBC NZ Branch involves financial risks that could adversely affect WNZL's business, results of operations or financial condition

The transfer to WNZL on 1 November 2011 of certain additional banking activities formerly conducted by the WBC 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 transferred. As at 1 November 2011, the institutional loan portfolio transferred to WNZL amounted to approximately \$6.3 billion. Consequently, following the transfer, WNZL could incur substantially higher total impairment charges, particularly in difficult economic environments, than 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.

The transfer to WNZL of additional banking operations will subject WNZL to increased funding and liquidity requirements which may increase WNZL's funding costs and could adversely affect WNZL's business, results of operations or financial condition

WNZL will have additional funding and liquidity requirements as a result of the transfer of the additional banking operations. These additional funding and liquidity requirements have initially been met through an intra-group loan from the WBC NZ Branch of \$3.1 billion, together with the proceeds of the issuance of ordinary shares to WNZL's parent company. However, WNZL's ability to obtain funding from WBC in the future, or its reliance upon WBC credit, is subject to regulatory limitations under applicable banking regulations. There is no assurance that WNZL will be able to fund any additional funding or liquidity 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.

WNZL could suffer losses due to technology failures

The reliability and security of WNZL's information and technology infrastructure and its customer databases are crucial in maintaining its banking applications and processes. There is a risk that these information and technology systems might fail to operate properly or become disabled as a result of events that are wholly or partially beyond WNZL's control or that its security measures may prove inadequate or ineffective. Any failure of these systems could result in business interruption, loss of customers, reputational damage and claims for compensation, which could adversely affect WNZL's results of operations and financial performance.

Further, 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 environment, improve productivity and provide for a better customer experience. Failure to implement these projects or manage associated change effectively could result in cost overruns, a failure to achieve anticipated productivity, operational instability, reputational damage or operating technology that could place WNZL at a competitive disadvantage and may adversely affect its results of operations.

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Management report and responsibility statement

An interruption in or breach of information systems provided by third-parties 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. There can be no assurance 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 there can be no assurance that WNZL 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.

WNZL could suffer losses due to operational risks

Operational risk is the risk of loss resulting from technology failure, inadequate or failed internal processes, people and systems or from external events. As a financial services organisation WNZL is exposed to a variety of operational risks.

WNZL's operations rely on the secure processing, storage and transmission of confidential and other information on WNZL's computer systems and networks. Although WNZL implements significant measures to protect the security and confidentiality of its information, there is a risk that its computer systems, software and networks may be subject to security breaches, unauthorised access, computer viruses, external attacks or internal breaches that could have an adverse security impact and compromise its confidential information or that of its customers and counterparties. Any such security breach could result in regulatory enforcement actions, reputational damage and reduced operational effectiveness. Such events could subsequently adversely affect WNZL's financial condition and results of operations.

WNZL is also highly dependent on the conduct of its employees. WNZL could, for example, be adversely affected if human error results in a process error or if an employee engages in fraudulent conduct. While WNZL has policies to minimise the risk of human error and employee misconduct, these policies may not always be effective.

Fraudulent conduct can also emerge from external parties seeking to access the bank's systems and customers' accounts. If systems, procedures and protocols for managing and minimising fraud fail, or are ineffective, they could lead to loss which could adversely affect WNZL's results of operations, financial performance or financial condition and its reputation.

Operational risks also arise when WNZL relies on external suppliers to provide services to it and its customers.

Operational risks could impact on WNZL's operations or adversely affect demand for its products and services. Operational risks can directly impact its reputation and result in financial losses which would adversely affect its financial performance or financial condition.

WNZL could suffer losses due to failures in risk management strategies

WNZL has implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor and mitigate the risks to which it is subject, including liquidity risk, credit risk, market risk (including interest rate and foreign exchange risk) and operational risk.

However, there are inherent limitations with any risk management framework as there may exist, or develop in the future, risks that WNZL has not anticipated or identified or controls may not operate effectively.

If any of WNZL's risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, WNZL could suffer unexpected losses and reputational damage which could adversely affect its financial performance or financial condition.

The Christchurch earthquakes could adversely affect WNZL's business, results of operations or financial condition

On 22 February 2011 Christchurch, New Zealand experienced a 6.3 magnitude earthquake which resulted in significant damage in the region. The extent of the damage was greater than that resulting from the earlier earthquake which affected Christchurch on 4 September 2010.

The precise financial impact of the earthquakes remains difficult to quantify accurately as, amongst other things, responses by local and central governments are still being developed and insurance recoveries are still being worked through. A provision of \$35 million is held to reflect the impact of the Christchurch earthquakes.

If the impact on WNZL, its customers or counterparties is greater than that currently estimated, WNZL's losses could be higher than currently anticipated which could adversely affect WNZL's business, results of operations or financial condition.

WNZL could suffer losses due to environmental factors

WNZL and its customers operate businesses and hold assets in a diverse range of geographical locations. Any significant environmental change or external event (including fire, storm, flood, volcanic eruption, earthquake or pandemic) in any of these locations has the potential to disrupt business activities, impact WNZL's operations, damage property and otherwise affect the value of assets held in the affected locations and WNZL's ability to recover amounts owing to it. The Christchurch earthquakes described above are an example of this type of event. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, the ability of WNZL's customers to pay interest or repay principal on their loans, or the levels of volatility in financial markets.

Westpac Securities NZ Limited

Management report and responsibility statement

Scientific observations and climate modeling are pointing to changes in the global climate system that may see extreme weather events increase in both frequency and severity. 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.

Reputational damage could harm WNZL's business and prospects

WNZL's ability to attract and retain customers and its prospects could be adversely affected if its reputation is damaged.

There are various potential sources of reputational damage including potential conflicts of interest, pricing policies, failing to comply with legal and regulatory requirements, ethical issues, failing to comply with money laundering laws, trade sanctions legislation or privacy laws, litigation, information security policies, improper sales and trading practices, failing to comply with personnel and supplier policies, improper conduct of companies in which WNZL holds strategic investments, technology failures, security breaches and risk management failures. WNZL's reputation could also be adversely affected by the actions of the financial services industry in general or from the actions of WNZL's customers and counterparties.

Failure to appropriately address issues that could or do give rise to reputational risk could also impact the regulatory change agenda, give rise to additional legal risk, subject WNZL to regulatory enforcement actions, fines and penalties, or harm WNZL's reputation among its customers, investors and the marketplace. This could lead to loss of business which could adversely affect WNZL's results of operations, financial performance or financial condition.

Wholesale Funding

The wholesale funding base is diversified with respect to term, investor base, currency and funding instrument. WNZL and the Company maintain funding programmes 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 programmes of WNZL and the Company as at balance date.

Markets	2011			2010		
	Issuer	Programme Type	Programme Limit	Issuer	Programme Type	Programme Limit
Euro market	WBC/ Company ¹	Euro Commercial Paper and Certificate of Deposit Programme	US\$20 billion	WBC/ Company ¹	Euro Commercial Paper and Certificate of Deposit Programme	US\$20 billion
Euro market	Company ¹	Programme for Issuance of Debt Instruments	US\$7.5 billion	Company ¹	Programme for Issuance of Debt Instruments	US\$7.5 billion
Euro market	Company ¹	Global Covered Bond Programme	€ 5.0 billion	n/a	n/a	n/a
United States	Company ¹	Section 4(2) US Commercial Paper Programme	US\$10 billion	Company ¹	Section 4(2) US Commercial Paper Programme	US\$10 billion
United States	Company ¹	Rule 144A US Medium-term Note Programme	US\$10 billion	Company ¹	Rule 144A US Medium-term Note Programme	US\$10 billion
New Zealand	WNZL	Medium-term Note and Registered Certificate of Deposit Programme	No limit	WNZL	Medium-term Note and Registered Certificate of Deposit Programme	No limit

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

Responsibility statement

The Directors of the Company confirm that to the best of their knowledge:

- 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 External Reporting 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
- the Management report includes a fair review of the information required by the Disclosure and Transparency Rules 4.1.8R to 4.1.11R of the United Kingdom Financial Services Authority.

Westpac Securities NZ Limited

Directors' report

The Board has pleasure in presenting the financial statements of Westpac Securities NZ Limited and the auditors' report for the year ended 30 September 2011.

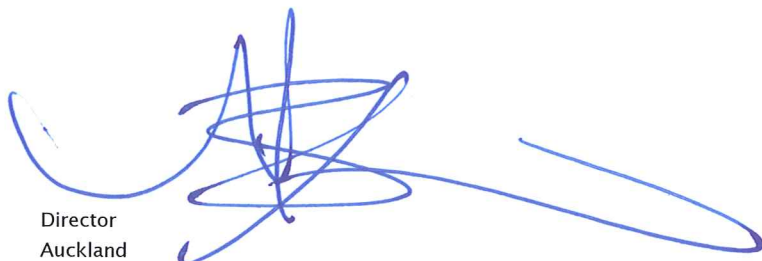
The shareholders of the Company have exercised their rights under section 211(3) of the Companies Act 1993 and unanimously agreed that these financial statements need not comply with any of the paragraphs (a) and (e) to (j) of section 211(1) of the Act.

The Board authorised these financial statements on 5 December 2011.

For and on behalf of the Board.

A handwritten signature in blue ink, appearing to read "David" followed by a stylized surname.

Director
Auckland
Date: 5 December 2011

A complex, stylized handwritten signature in blue ink, consisting of multiple overlapping loops and a long horizontal stroke.

Director
Auckland
Date: 5 December 2011

Westpac Securities NZ Limited

Statement of comprehensive income for the year ended 30 September

	Note	2011 \$'000	2010 \$'000
Interest income	3	232,326	203,283
Interest expense	3	(230,019)	(199,834)
Net Interest Income		2,307	3,449
Non-interest income	4	3,164	1,297
Net operating income		5,471	4,746
Operating expenses	5	(1,287)	(1,087)
Profit before income tax expense		4,184	3,659
Income tax expense	7	(1,256)	(1,090)
Profit after income tax expense		2,928	2,569
Other comprehensive income		-	-
Total comprehensive income, net of tax		2,928	2,569
Profit after income tax expense and total comprehensive income, net of tax, attributable to:			
Owners of the Company		2,928	2,569
		2,928	2,569

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

Westpac Securities NZ Limited

Statement of changes in equity for the year ended 30 September

	Attributable to owners of the Company		Total \$'000
	Share Capital \$'000	Retained Profits \$'000	
As at 1 October 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
As at 30 September 2010	651	7,366	8,017
Year ended 30 September 2011			
Profit after income tax expense	-	2,928	2,928
Total comprehensive income for the year ended 30 September 2011	-	2,928	2,928
As at 30 September 2011	651	10,294	10,945

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

Westpac Securities NZ Limited

Balance sheet as at 30 September

	Note	2011 \$'000	2010 \$'000
Assets			
Cash and cash equivalents		3,425	2,953
Due from related entities	14	16,120,596	13,179,520
Deferred tax assets	9	3,853	2,727
Total assets		16,127,874	13,185,200
Liabilities			
Current tax liabilities		1,256	1,098
Due to related entities	14	205,546	670
Debt issues	10	15,832,655	13,114,484
Other liabilities	11	77,472	60,931
Total liabilities		16,116,929	13,177,183
Net assets		10,945	8,017
Equity			
Share capital	13	651	651
Retained profits		10,294	7,366
Total equity attributable to owners of the Company		10,945	8,017

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

Westpac Securities NZ Limited

Statement of cash flows for the year ended 30 September

	2011 \$'000	2010 \$'000
Cash flows from operating activities		
Interest income received	215,771	189,897
Management fees received - related entities	3,064	2,279
Interest expense paid	(213,382)	(185,273)
Income tax paid	(2,224)	(1,233)
Management fees paid - related entities	(969)	(610)
Operating expenses paid	(355)	(23)
Net cash provided by operating activities	1,905	5,037
Cash flows from investing activities		
Net increase in due from related entities	(3,458,486)	(3,127,269)
Net cash used in investing activities	(3,458,486)	(3,127,269)
Cash flows from financing activities		
Net increase/(decrease) in due to related entities	199,453	(61,913)
Net proceeds from debt issues	3,257,600	3,185,643
Net cash provided by financing activities	3,457,053	3,123,730
Net increase in cash and cash equivalents	472	1,498
Cash and cash equivalents at beginning of the year	2,953	1,455
Cash and cash equivalents at end of the year	3,425	2,953
Reconciliation of profit after income tax expense to net cash flows cash provided by operating activities:		
Profit after income tax expense	2,928	2,569
<i>Adjustments:</i>		
Movement in accrued assets	(16,655)	(12,404)
Movement in accrued liabilities	16,600	15,015
Movement in deferred tax assets and current tax liabilities	(968)	(143)
Net cash provided by operating activities	1,905	5,037

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 1. General information

These financial statements were authorised for issue by the Board on 5 December 2011. 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. The Company is a wholly-owned, indirect subsidiary of WNZL.

Note 2. Summary of significant accounting policies

a. Statutory base

These financial statements are prepared and presented in accordance with the Financial Reporting Act 1993. These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'), applicable New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other authoritative pronouncements of the External Reporting 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.

b. Basis of preparation

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

The same accounting policies 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 2010, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in Note 2(f) Changes in accounting policies.

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

c. Rounding of amounts

Amounts in these financial statements have been rounded to the nearest thousand dollars unless otherwise stated.

d. Foreign currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company 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 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.

e. Particular accounting policies

Revenue recognition

Interest income

Interest income for all interest earning financial assets including those at fair value is recognised in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (e.g. prepayment options), but do not consider future credit losses. The calculation includes all fees and other amounts 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 loan's original effective interest rate based on the net carrying value of the impaired loan after giving effect to impairment charges or for a variable rate loan, the current effective interest rate determined under the contract. This rate is also used to discount the future cash flows for the purpose of measuring the impairment 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 relating 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 or loss on financial assets and liabilities at fair value

Realised gains or losses, and unrealised gains or losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are recognised as gains or 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.

Westpac Securities NZ Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial liabilities is recognised in the statement of comprehensive income using the effective interest method.

Commissions and other fees

Fees and commissions are recognised in the statement of comprehensive income over the period in which the related service is received.

Taxation

Income tax

Income tax expense on the profit for the year comprises current tax and movement in deferred tax balances.

Current tax is the expected tax payable on the taxable income for the financial year, 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 years.

Deferred tax is accounted for 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.

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. In these circumstances, the GST is recognised as part of the expense or the cost of the asset.

Assets

Financial assets

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

▪ *Financial assets at fair value through profit or loss*

This category has two sub-categories: first, financial assets held for trading and second, 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 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 contains an embedded derivative, 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.

▪ *Loans and receivables*

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

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers. Financial assets at fair value through profit or loss are recognised initially at fair value. Loans and receivables are recognised initially at fair value plus directly attributable transaction costs.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains or 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. Loans and receivables are carried at amortised cost using the effective interest method.

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 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.

Westpac Securities NZ Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a 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-through' arrangement and cannot sell or re-pledge the asset other than to the transferee; and
- 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 right to receive cash flows from an asset or has entered into a pass-through arrangement. In some such cases the Company would have neither 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.

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. They are accounted for as loans and receivables.

Due from related entities

Due from related entities include financial assets at fair value through profit or loss, loans, accrued interest receivable and other 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 accounted for as loans and receivables. 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 method.

Impairment of financial assets

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

The Company assesses 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 on loans and receivables 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 is the current effective interest rate determined under the contract.

Westpac Securities NZ Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

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

Estimates of changes in future cash flows for groups of assets reflect, and are directionally consistent with, changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Company and 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 uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of charge for loan impairment in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment charge 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.

Liabilities

Financial liabilities

The Company classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

- ***Financial liabilities at fair value through profit or loss***

This category has two sub-categories: first, financial liabilities held for trading and second, those designated at fair value through profit or loss at inception. A financial liability is classified in this category if incurred principally for repurchasing it in the near term, if it is part of a portfolio of financial liabilities that are managed together and for which there is evidence of a recent pattern of short-term profit taking or if so designated on initial recognition by management. This designation may only be made if the financial liability contains an embedded derivative, 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.

- ***Financial liabilities at amortised cost***

This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost.

Recognition and derecognition of financial liabilities

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

Due to related entities

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

Due to related entities includes borrowings, settlement account balances due to related entities and debt issues held by related entities. They are measured at amortised cost.

Debt issues

Debt issues are bonds, notes and commercial paper that have been issued by the Company. They are either accounted for at amortised cost or at fair value through profit or loss. If the liability is accounted for at amortised cost it is initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. Subsequently, the debt is measured using the effective interest method. If the liability is accounted for at fair value through profit or loss, the debt issue is initially recognised at the fair value of the consideration received. Debt issues are measured at fair value through profit or loss to reduce an accounting mismatch.

Other liabilities

Other liabilities include accrued interest payable on debt issues.

Equity

Ordinary shares

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

Westpac Securities NZ Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

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 the New Zealand equivalent to International Accounting Standard ('NZ IAS') 7 *Statement of Cash Flows* 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.

f. 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 2010 the following standards, interpretations and amendments have been adopted with effect from 1 October 2010 in the preparation of these financial statements:

- NZ IAS 1 *Presentation of Financial Statements* (revised) - 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.
- NZ IAS 7 *Statement of Cash Flows* - The amendments clarify that only expenditure which results in a recognised asset can be classified as cash flows from investing activities.

Adoption of these new and revised accounting standards has not resulted in any material change to the Company's result or financial position.

g. 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 Company:

- NZ IFRS 7 *Financial Instruments: Disclosures* ('NZ IFRS 7') - The following amendments:
 - Amendments issued in July 2010 and are applicable to the Company in the 2012 financial year. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, certain disclosure requirements have been amended and removed. It is not expected to have a material impact on the Company.
 - *Amendments to NZ IFRS 7 - Transfer of Financial Assets* were issued in November 2010 and are applicable to the Company in the 2012 financial year. The amendments require additional disclosures about the transfer of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them. It is not expected to have a material impact on 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:
 - it 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 instrument 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 an investment in asset-backed securities it must determine the classification of that investment by looking through to the underlying assets and assess the credit quality of the investment compared with the underlying portfolio of assets. If an entity is unable to look through, then the investment must be measured at fair value.

Westpac Securities NZ Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

The reissued version in December 2010 includes the requirements for classification and measurement of financial instruments including both financial assets and financial liabilities as well as recognition and derecognition requirements for financial instruments. The main additional change as a result of the reissued version relates to the measurement of financial liabilities. Specifically, the portion of a change of fair value relating to the entity's own credit risk for financial liabilities measured at fair value utilising the fair value option is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The standard will impact the classification and measurement of the Company's financial instruments.

- **NZ IFRS 13 *Fair Value Measurement* ('NZ IFRS 13')** - The new standard was issued in June 2011 and is applicable to the Company in the 2014 financial year. The new standard replaces existing guidance on fair value measurement in several standards with a single, unified definition of fair value and a framework for measuring and disclosing fair values. NZ IFRS 13 applies to all assets and liabilities measured at fair value, not just financial instruments. It is not expected to have a material impact on the Company.
- **NZ IAS 1 *Presentation of Financial Statements* ('NZ IAS 1')** - The amendments were issued in July 2010 and are applicable to the Company in the 2012 financial year. The amendments clarify that an analysis of other comprehensive income by item is required to be disclosed either in the statement of changes in equity or in the notes to the financial statements. It is not expected to have a material impact on the Company.
- **NZ IAS 24 *Related Party Disclosures*** - The revised standard was approved in November 2009 and is applicable to the Company 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 Company.
- **NZ IAS 34 *Interim Financial Reporting*** - The amendments were issued in July 2010 and are applicable to the Company in the 2012 financial year. The amendments add examples to the list of events or transactions that require disclosure under NZ IAS 34. It is not expected to have a material impact on the Company.

h. Critical accounting estimates, judgment and assumptions

The application of the Company's accounting policies necessarily requires the use of estimates, judgment and assumptions. Should different estimates, judgment 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 included in the policies below.

Fair value of financial instruments

Financial instruments classified as held-for-trading or designated at fair value through profit or loss are recognised in the financial statements 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 Fair value of financial instruments.

The fair value of substantially all securities positions carried at fair value is determined using valuation techniques with market observable inputs.

Critical accounting judgments

The judgments, 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 follows:

Income taxes

The Company is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgment 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 initially recorded, such differences impact the current and deferred tax provisions in the period when such determinations are made.

Westpac Securities NZ Limited

Notes to the financial statements

Note 3. Net interest income

	Year Ended 30 September 2011 \$'000	Year Ended 30 September 2010 \$'000
Interest income		
Due from related entities	232,326	203,283
Total interest income¹	232,326	203,283
Interest expense		
Debt issues	228,215	197,735
Due to related entities	1,804	1,954
Other	-	145
Total interest expense²	230,019	199,834
Net interest income	2,307	3,449

¹ Total interest income for financial assets that are not at fair value through profit or loss is \$200,064,000 (30 September 2010: \$168,266,000).

² Total interest expense for financial liabilities that are not at fair value through profit or loss is \$200,979,000 (30 September 2010: \$168,761,000).

Note 4. Non-interest income

	Year Ended 30 September 2011 \$'000	Year Ended 30 September 2010 \$'000
Fees and commissions		
Service fees received from related entities	3,164	1,297
Total fees and commissions	3,164	1,297
Gain/(loss) on financial assets and liabilities at fair value through profit or loss		
(Loss)/gain on financial assets designated at fair value through profit or loss	(60)	816
Gain/(loss) on debt issues designated at fair value through profit or loss	60	(816)
Total gain/(loss) on financial assets and liabilities at fair value through profit or loss	-	-
Total non-interest income	3,164	1,297

Note 5. Operating expenses

	Year Ended 30 September 2011 \$'000	Year Ended 30 September 2010 \$'000
Bank charges	45	41
Management fees paid - related entities	932	752
Purchased services	276	275
Sundry expenses	4	13
Travel expenses	30	6
Total operating expenses	1,287	1,087

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

Note 6. Auditors' remuneration

The audit fees for the year ended 30 September 2011 amounting to \$32,000 (30 September 2010: \$32,000) were borne by WNZL.

Westpac Securities NZ Limited

Notes to the financial statements

Note 7. Income tax expense

	Year Ended 30 September 2011 \$'000	Year Ended 30 September 2010 \$'000
Income tax expense		
Current tax:		
- Current year	1,256	1,098
- Prior year adjustments	-	(8)
Total income tax expense	1,256	1,090
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	4,184	3,659
Tax calculated at tax rate of 30%	1,256	1,098
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
Prior year adjustments	-	(8)
Total income tax expense	1,256	1,090

The balance of the dividend withholding payment account as at 30 September 2011 was nil (30 September 2010: nil) and there was no movement during the year ended 30 September 2011 (30 September 2010: 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 (30 September 2010: nil).

Note 8. Imputation credit account

	Year Ended 30 September 2011 \$'000	Year Ended 30 September 2010 \$'000
Imputation credit account		
Balance at beginning of the year	86	301
Income tax transfers	-	(212)
Other movements	-	(3)
Balance at end of the year	86	86

The availability of imputation credits is contingent on the Ultimate Parent Bank meeting the shareholder continuity rules. As a result of the merger of the Ultimate Parent Bank with St. George Bank Limited during the year ended 30 September 2009 there was a possibility that some of the credits may have been forfeited. This matter has now been resolved and no credits have been forfeited.

Note 9. Deferred tax assets

	2011 \$'000	2010 \$'000
Deferred tax assets attributable to the following:		
Overseas tax paid	3,853	2,727
Total deferred tax asset	3,853	2,727
Amounts expected to be recovered within 12 months	3,853	2,727
Total deferred tax asset	3,853	2,727
Movements		
Balance at beginning of the year	2,727	2,026
Other temporary differences	1,126	701
Balance at end of the year	3,853	2,727

Westpac Securities NZ Limited

Notes to the financial statements

Note 10. Debt issues

	2011 \$'000	2010 \$'000
Short-term debt		
Commercial paper	7,228,879	6,545,921
Total short-term debt	7,228,879	6,545,921
Long-term debt		
Non-domestic medium-term notes	8,603,776	6,568,563
Total long-term debt	8,603,776	6,568,563
Total debt issues	15,832,655	13,114,484
Debt issues measured at amortised cost	8,105,982	6,568,563
Debt issues measured at fair value	7,726,673	6,545,921
Total debt issues	15,832,655	13,114,484
Movement in debt issues		
Balance at beginning of the year	13,114,484	10,168,109
Issuances during the year	17,711,160	22,557,456
Repayments during the year	(14,458,924)	(19,371,813)
Effect of foreign exchange movements during the year	(533,682)	(240,200)
Effect of fair value movements during the year	(383)	932
Balance at end of the year	15,832,655	13,114,484
Amounts expected to be settled within 12 months	9,682,370	6,545,921
Amounts expected to be settled after 12 months	6,150,285	6,568,563
Total debt issues	15,832,655	13,114,484

As at 30 September 2011, the Company had New Zealand Government guaranteed debt of \$3,312,184,000 (30 September 2010: \$3,449,570,000).

Note 11. Other liabilities

	2011 \$'000	2010 \$'000
Accrued Interest payable on debt issues	77,472	60,931
Total other liabilities	77,472	60,931

The balance represents interest payable to be settled within 12 months.

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

Ordinary shares fully paid

	2011 Number of Issued Shares	2010 Number of Issued Shares
Balance at beginning of the year	651,185	651,185
Transactions during the year	-	-
Balance at end of the year	651,185	651,185

Ordinary shares

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 an equal share in dividends authorised by the Company and the right to an equal share in the distribution of the surplus assets of the Company in the event of liquidation.

Westpac Securities NZ Limited

Notes to the financial statements

Note 14. Related entities

Ultimate Holding Company

The Company is a wholly-owned subsidiary of Westpac NZ Operations Limited ('WNZOL'). The Company is also an indirect, wholly-owned subsidiary of WNZL. WNZL's Disclosure Statement is available, free of charge, at www.westpac.co.nz. The ultimate parent company is WBC, which is incorporated in Australia and whose financial statements are available, free of charge, 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 \$232,326,000 (30 September 2010: \$203,283,000) was received from WNZL.

Interest expense includes an amount relating to bonds bought back by WBC of \$116,000 in 2011 (30 September 2010: \$2,016,000)

The Company raises offshore wholesale funding and on-lends all amounts raised or borrowed to WNZL. Included within interest income is a funding margin of \$4,221,000 (30 September 2010: \$3,834,000) paid to the Company by WNZL.

Non-interest income comprises service fees of \$3,164,000 (30 September 2010: \$1,297,000) which were charged to WNZL to recover operating expenses incurred by the Company.

Within operating expenses are reimbursements of \$932,000 (30 September 2010: \$752,000) 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 \$3,331,000 (30 September 2010: \$2,732,000) held with WNZL.

WNZL guarantees the due and punctual payment of all sums payable to the holders of the debt securities issued the Company, the proceeds of which are immediately on-lent to WNZL. The aggregate amount of outstanding principal and interest as at 30 September 2011 was \$15,944,933,000 (30 September 2010: \$13,200,545,000). As the proceeds of the debt issuances are immediately on-lent to WNZL, the aggregate amount guaranteed by WNZL is already reflected in WNZL's balance sheet as part of the amounts due to related entities.

In June 2011 the Company issued bonds under WNZL's Global Covered Bond programme ('CB Programme'). Investors of debt issued by the Company under the CB Programme have dual recourse: first, to WNZL as WNZL guarantees all the debts issued by the Company and second, to Westpac NZ Covered Bond Limited ('WNZCBL'). WNZCBL is a special purpose entity which was set up to hold the residential mortgage loans and to provide a financial guarantee for the debts issued by WNZL under the CB Programme. Included in interest expense is the guarantee fee paid by the Company to WNZCBL amounting to \$1,300,000. Included in interest income is recovery from WNZL of guarantee fees paid to WNZCBL amounting to \$1,300,000.

Other transactions and balances with related entities are disclosed below.

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

Due from related entities

	2011 \$'000	2010 \$'000
Accrued interest	79,438	62,883
Accrued income - other	-	327
Financial assets at fair value through profit or loss	7,924,029	6,543,970
Loans	8,114,236	6,569,874
Other receivables	2,893	2,466
Total due from related entities	16,120,596	13,179,520
Amounts expected to be recovered within 12 months	9,961,229	6,610,957
Amounts expected to be recovered after 12 months	6,159,367	6,568,563
Total due from related entities	16,120,596	13,179,520

All amounts above are due from WNZL. Both 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 by related entities are normally settled within 90 days. Deal related amounts are settled in accordance with the terms of the transaction.

Due to related entities

	2011 \$'000	2010 \$'000
Loans and advances	9,048	-
Debt issues held by related entities at fair value through profit or loss	195,865	-
Other	633	670
Total due to related entities	205,546	670
Amounts expected to be settled within 12 months	205,546	670
Amounts expected to be settled after 12 months	-	-
Total due to related entities	205,546	670

The amounts disclosed as at 30 September 2011 are balances owing to WNZL, WBC and Westpac NZ Covered Bond Limited. The amounts disclosed as at 30 September 2010 are balances owing to WNZL.

Deal related advances are interest bearing and interest is charged on normal commercial terms. Non-deal related amounts owing to related entities are normally settled within 90 days. Other amounts due are in relation to services provided and are settled in accordance with the terms of the transaction.

Westpac Securities NZ Limited

Notes to the financial statements

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 the Company is a wholly-owned, indirect subsidiary. Debt issued by the Company is guaranteed by WNZL. All amounts raised by the Company are on-lent to WNZL. The risk exposures of the Company arise as a consequence of its debt funding activities.

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, as the Company's debt issuances are guaranteed by WNZL, and as all proceeds of such debt issuance are on-lent to WNZL, it is consequently affected by the same principal risks and uncertainties which affect WNZL. The principal risks and uncertainties which affect WNZL are set forth in the section "Principal risks and uncertainties" in the Management report and responsibility statement on page 4. There are no additional risk factors solely affecting the Company.

The principal risks and uncertainties are not the only ones the Company may face. Additional risks and uncertainties of which the Company may be unaware, or those that are deemed 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 financial risks that the Company is exposed to are discussed below:

- Credit risk - the potential for financial loss where a customer or counterparty fails to meet their financial obligations;
- Market risk - the risk of an adverse impact on earnings resulting 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; and
- 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.

Additional details surrounding the risk management activities relating to the management of the financial risks are discussed below.

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 WBC Credit Risk Committee.

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 WNZL's 30 September 2011 Disclosure Statement.

Credit ratings for WNZL

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA	Stable
Moody's	Aa3	Stable
Standard & Poor's	AA-	Stable

On 9 November 2011, Standard & Poor's released its new global bank rating criteria and BICRA methodology. Also, on 9 November 2011, Standard & Poor's announced the BICRA score for New Zealand of 3, down from a score of 2 under the previous methodology. On 1 December 2011, as a result of the Standard and Poor's bank rating criteria changes, WNZL's credit rating was lowered from AA to AA- with a 'stable' outlook. On 27 May 2011, WNZL's credit rating issued by Moody's was downgraded from Aa2 to Aa3 with a 'stable' outlook.

On 31 March 2010, WNZL's credit rating issued by Fitch Ratings was upgraded from AA- to AA with a 'stable' outlook.

There have been no other changes to WNZL's credit ratings or rating outlooks in the two years prior to 30 September 2011.

A credit rating is not a recommendation to buy, sell or hold securities of WNZL. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. Investors in the Bank's securities are cautioned to evaluate each rating independently of any other rating.

Westpac Securities NZ Limited

Notes to the financial statements

Note 15. Financial risk management (continued)

(ii) Fully performing

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

(iii) Concentration of credit exposure

This table below shows the Company's concentration of credit exposure which is also the Company's maximum exposure to credit risk. As discussed above, the Company is a wholly-owned, indirect subsidiary of WNZL and the principal activity of the Company is to raise and manage offshore wholesale funding for WNZL.

	2011 \$'000	2010 \$'000
On-balance sheet credit exposures consist of:		
Cash and cash equivalents	3,425	2,953
Due from related entities	16,120,596	13,179,520
Total credit exposures	16,124,021	13,182,473
Analysis of credit exposures by geographical area:		
Within New Zealand	16,124,021	13,182,473
Total credit exposures	16,124,021	13,182,473
Analysis of credit exposures by industry and economic sector:		
Finance and insurance	16,124,021	13,182,473
Total credit exposures	16,124,021	13,182,473

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 of an adverse impact on earnings resulting from changes in market risk factors. The Company is primarily exposed to interest rate risk and foreign currency risk.

(i) Interest rate risk

Interest rate risk is the potential loss arising from the changes in the value of financial instruments due to changes in market interest rates on their implied volatility. 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 interest repricing of financial instruments are as follows:

	30 September 2011						
	Up to 3 Months \$'000	Over 3 Months and Up to 6 Months \$'000	Over 6 Months and Up to 1 Year \$'000	Over 1 Year and Up to 2 Years \$'000	Over 2 Years \$'000	Non- Interest Bearing \$'000	Total \$'000
Financial assets							
Cash and cash equivalents	-	-	-	-	-	3,425	3,425
Due from related entities	7,635,018	910,483	1,954,740	651,580	4,886,444	82,331	16,120,596
Total financial assets	7,635,018	910,483	1,954,740	651,580	4,886,444	85,756	16,124,021
Non-financial assets							3,853
Total assets							16,127,874
Financial liabilities							
Other liabilities	-	-	-	-	-	77,472	77,472
Due to related entities	195,776	-	-	-	-	9,770	205,546
Debt issues	7,437,592	911,628	1,953,260	647,429	4,882,746	-	15,832,655
Total financial liabilities	7,633,368	911,628	1,953,260	647,429	4,882,746	87,242	16,115,673
Non-financial liabilities							1,256
Total liabilities							16,116,929
Net financial assets/(liabilities) subject to interest rate risk	1,650	(1,145)	1,480	4,151	3,698		

Westpac Securities NZ Limited

Notes to the financial statements

Note 15. Financial risk management (continued)

30 September 2010						
	Up to 3 Months \$'000	Over 3 Months and Up to 6 Months \$'000	Over 6 Months and Up to 1 Year \$'000	Over 1 Year and Up to 2 Years \$'000	Over 2 Years \$'000	Non- Interest Bearing \$'000
Financial assets						
Cash and cash equivalents	-	-	-	-	-	2,953
Due from related entities	6,431,321	728,602	14,524	2,031,974	3,907,423	65,676
Total financial assets	6,431,321	728,602	14,524	2,031,974	3,907,423	68,629
Non-financial assets						
Total assets						2,727
						13,185,200
Financial liabilities						
Other liabilities	-	-	-	-	-	60,931
Due to related entities	-	-	-	-	-	670
Debt issues	6,432,801	729,388	14,565	2,031,403	3,906,327	-
Total financial liabilities	6,432,801	729,388	14,565	2,031,403	3,906,327	61,601
Non-financial liabilities						
Total liabilities						1,098
						13,177,183
Net financial (liabilities)/assets subject to interest rate risk	(1,480)	(786)	(41)	571	1,096	

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.

c. Liquidity risk

Liquidity risk is the risk that the Company will not be able to fund assets and meet 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 financial assets and financial liabilities.

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.

30 September 2011							
	On Demand \$'000	Up to 1 Month \$'000	Over 1 Month to 3 Months \$'000	Over 3 Months to 1 year \$'000	Over 1 Year to 5 Years \$'000	Over 5 years \$'000	No specific maturity \$'000
Financial assets							
Cash and cash equivalents	3,425	-	-	-	-	-	-
Due from related entities	-	1,437,477	4,701,463	3,992,182	5,442,992	1,374,141	2,893
Total financial assets	3,425	1,437,477	4,701,463	3,992,182	5,442,992	1,374,141	2,893
Financial liabilities							
Other liabilities	-	1,446	18,656	57,370	-	-	-
Due to related entities	-	195,898	-	-	-	-	9,681
Debt issues	-	1,240,135	4,682,808	3,934,867	5,442,971	1,374,141	-
Total financial liabilities	-	1,437,479	4,701,464	3,992,237	5,442,971	1,374,141	9,681

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Notes to the financial statements

Note 15. Financial risk management (continued)

	On Demand \$'000	Up to 1 Month \$'000	Over 1 Month to 3 Months \$'000	30 September 2010 Over 3 Months to 1 year \$'000	Over 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

(ii) Concentration of funding

	2011 \$'000	2010 \$'000
Funding consists of:		
Other liabilities	77,472	60,931
Due to related entities	205,546	670
Debt issues	15,832,655	13,114,484
Total funding	16,115,673	13,176,085
Analysis of funding by product:		
US commercial paper	7,228,879	6,200,804
Euro commercial paper	-	345,117
Euro medium-term notes	8,603,776	6,568,563
Other liabilities	77,472	60,931
Due to related entities	205,546	670
Total funding	16,115,673	13,176,085
Analysis of funding by geographical areas:¹		
Within New Zealand	5,990	670
Overseas	16,109,683	13,175,415
Total funding	16,115,673	13,176,085
Analysis of funding by industry sector:		
Finance and insurance	16,115,673	13,176,085
Total funding	16,115,673	13,176,085

¹ The geographic region used for debt issues is the location of the original purchaser. These instruments may have subsequently been on-sold. Australian and New Zealand Standard Industrial Classifications have been used as the basis for disclosing industry sectors.

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 included in due from related entities

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.

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.

Westpac Securities NZ Limited

Notes to the financial statements

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 market 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-market 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 valuations rely on estimates from related markets or proxies.

As at 30 September 2011 there were no material amounts of financial assets and financial liabilities in the Company where the fair value had been derived using valuation techniques with non-market observable inputs (30 September 2010: nil).

There have been no transfers between Levels 1 and 2 during the year ended 30 September 2011 (30 September 2010: nil). There have also been no transfers into/out of Level 3 during the year ended 30 September 2011 (30 September 2010: nil).

Interest rates used for determining fair value

The following rates used to discount estimated cash flows, where applicable, are based on the wholesale markets yield curve at the reporting date plus an appropriate constant credit spread:

	2011 %	2010 %
Due from related entities	0.005% – 3.09%	0.0917% – 3.8925%
Debt issues	0.005% – 3.09%	0.0917% – 3.8925%

The tables below summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Company. The fair values of financial assets and financial liabilities designated at fair value through profit or loss were determined using Level 2 inputs.

	30 September 2011				
	Classified at fair value through profit or loss				
	Designated Upon Initial Recognition \$'000	Loans and Receivable \$'000	Financial Liabilities at Amortised Cost \$'000	Total Carrying Amount \$'000	Estimated Fair Value \$'000
Financial Assets					
Cash and cash equivalents	–	3,425	–	3,425	3,425
Due from related entities	7,924,029	8,196,567	–	16,120,596	15,893,947
Total financial assets	7,924,029	8,199,992	–	16,124,021	15,897,372
Financial Liabilities					
Other liabilities	–	–	77,472	77,472	77,472
Due to related entities	195,865	–	9,681	205,546	205,546
Debt issues	7,726,673	–	8,105,982	15,832,655	15,606,006
Total financial liabilities	7,922,538	–	8,193,135	16,115,673	15,889,024

Westpac Securities NZ Limited

Notes to the financial statements

Note 16. Fair value of financial instruments (continued)

30 September 2010					
	Classified at fair value through profit or loss				
	Designated Upon Initial Recognition \$000's	Loans and Receivable \$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

Note 17. Capital

The Company is a wholly-owned subsidiary of WNZOL which itself is a part of the banking group made up of Westpac New Zealand Limited and its controlled entities (referred to in WNZL's Disclosure Statement as the 'Banking Group'). Capital for the 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 these financial statements. For this reason, no additional operating segment disclosure is made.

The chief operating decision maker of the Company (i.e. the person or group that allocates resources to and assesses the performance of the operating segments of an entity) is the Board. The members of the Board are listed on page 1. This reflects that the Company is a wholly-owned, indirect subsidiary of WNZL and that the principal activity of the Company is to raise and manage offshore wholesale funding for WNZL.

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 for the year ended 30 September 2011 (30 September 2010: nil).

Note 20. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2011 (30 September 2010: nil).

Note 21. Events after the reporting date

On 1 December 2011, as a result of the Standard and Poor's bank rating criteria changes, WNZL's credit rating was lowered from AA to AA- with a 'stable' outlook.



Independent Auditors' Report to the shareholders 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 30, which comprise the balance sheet as at 30 September 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these 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 controls as the Directors determine are 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 auditors' 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 auditors consider the internal controls relevant to the Company'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 Company'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.

We have no relationship with, or interests in, Westpac Securities NZ Limited other than in our capacities as auditors and tax advisors. These services have not impaired our independence as auditors of the Company.



Independent Auditors' Report

Westpac Securities NZ Limited

Opinion

In our opinion, the financial statements on pages 11 to 30:

- (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 2011, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2011:

- (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.

A handwritten signature in blue ink that reads 'Price Waterhouse Coopers'. The signature is stylized and cursive, with a long horizontal line extending from the end of the word 'Coopers'.

Chartered Accountants
5 December 2011

Auckland