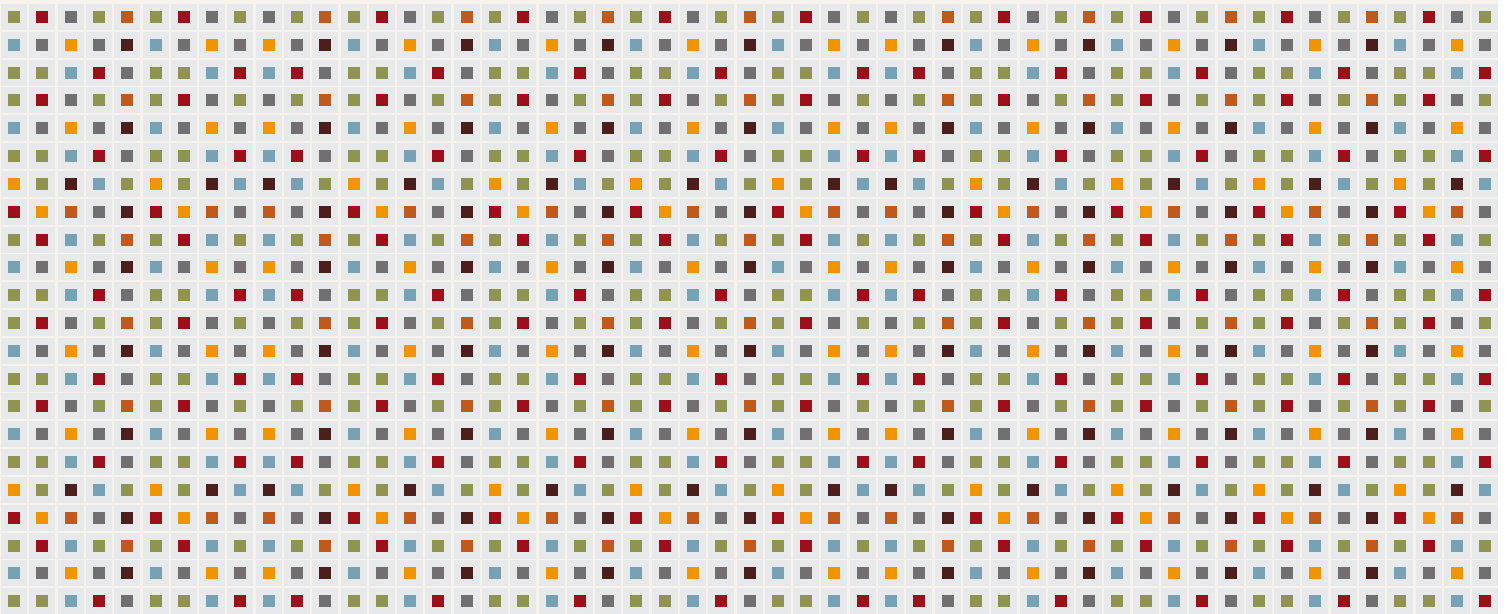


ANZ NATIONAL BANK LIMITED GROUP

GENERAL DISCLOSURE STATEMENT



For the year ended 30 September 2009

Number 55 Issued November 2009

ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES

GENERAL DISCLOSURE STATEMENT

FOR THE YEAR ENDED
30 SEPTEMBER 2009



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GENERAL DISCLOSURES

This Disclosure Statement has been issued in accordance with the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (“the Order”).

In this Disclosure Statement unless the context otherwise requires:

- (a) “Banking Group” means ANZ National Bank Limited and all its subsidiaries; and
- (b) any term or expression which is defined in, or in the manner prescribed by, the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 shall have the meaning given in or prescribed by that Order.

GENERAL MATTERS

The full name of the registered bank is ANZ National Bank Limited (“the Bank”) and its address for service is Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington, New Zealand.

The Bank was incorporated under the Companies Act 1955 by virtue of the ANZ Banking Group (New Zealand) Act 1979 on 23 October 1979, and was reregistered under the Companies Act 1993 on 13 June 1997.

The immediate parent company of the Bank is ANZ Holdings (New Zealand) Limited (incorporated in New Zealand). The immediate parent company is owned by ANZ Funds Pty Limited and Australia and New Zealand Banking Group Limited (both incorporated in Australia).

The Ultimate Parent Bank is Australia and New Zealand Banking Group Limited (“ANZ”), which is incorporated in Australia, and its address for service is Level 14, 100 Queen Street, Melbourne, Australia.

The Bank is wholly owned by its immediate parent company and ultimately the Ultimate Parent Bank. The immediate parent company has the power under the Bank’s Constitution to appoint any person as a Director of the Bank either to fill a casual vacancy or as an additional Director or to remove any person from the office of Director, from time to time by giving written notice to the Bank. No appointment of a new Director may occur unless the Reserve Bank of New Zealand (“RBNZ”) confirms that it does not object to the appointment.

A New Zealand Branch (“NZ Branch”) of the Australia and New Zealand Banking Group Limited was established on 5 January 2009. The full name of the NZ Branch is Australia and New Zealand Banking Group Limited-New Zealand Branch and its address for service is Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington, New Zealand.

NATURE OF BUSINESS

The principal activities of the Banking Group during the period were retail, corporate and rural banking, mortgage lending, asset and general finance, international and investment banking, and nominee and custodian services. Life insurance and funds management activities are carried out through the ING New Zealand joint venture.

MATERIAL FINANCIAL SUPPORT

In accordance with the requirements issued by the Australian Prudential Regulation Authority (“APRA”) pursuant to the Prudential Standards, Australia and New Zealand Banking Group Limited, as the Ultimate Parent Bank, may not provide material financial support to the Bank contrary to the following:

- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank;

- the Ultimate Parent Bank should not hold unlimited exposures (should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank’s obligations);
- the Ultimate Parent Bank should not enter into cross default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations;
- the Board of the Ultimate Parent Bank in determining limits on acceptable levels of exposure to the Bank should have regard to:
 - the level of exposure that would be approved to third parties of broadly equivalent credit status. In this regard, prior consultation (and in some cases approval) is required before entering exceptionally large exposures; and
 - the impact on the Ultimate Parent Bank’s capital and liquidity position and its ability to continue operating in the event of a failure by the Bank;
- the level of exposure to the Bank not exceeding:
 - 50% on an individual exposure basis; and
 - 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank)
 of the Ultimate Parent Bank’s capital base.

Additionally, the Ultimate Parent Bank may not provide material financial support in breach of the Australian Banking Act (1959). This requires APRA to exercise its powers and functions for the protection of a bank’s depositors and in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia shall be available to meet that bank’s deposit liabilities in Australia in priority to all other liabilities of the bank.

The Ultimate Parent Bank has not provided material financial support to the Bank contrary to any of the above requirements.

PENDING PROCEEDINGS OR ARBITRATION

Other than disclosed in the Disclosure Statement, there are no pending proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group as at the date of the General Disclosure Statement.

Further details on pending proceedings or arbitration are set out in Note 41 Contingent Liabilities and Credit Related Commitments.

OTHER MATERIAL MATTERS

There are no matters relating to the business or affairs of the Bank and the Banking Group which are not contained elsewhere in the General Disclosure Statement and which would, if disclosed, materially adversely affect the decision of a person to subscribe for debt securities of which the Bank or any member of the Banking Group is the issuer.

GUARANTORS

The Bank has guarantees under the:

- (a) New Zealand Deposit Guarantee Scheme (“Crown Retail Guarantee”); and
- (b) New Zealand Wholesale Funding Guarantee Facility (“Crown Wholesale Guarantee”).

GENERAL DISCLOSURES

(CONTINUED)

This section provides a brief description of the Crown Retail Guarantee and Crown Wholesale Guarantee and also sets out from where further information may be obtained. As at the date of this General Disclosure Statement the only material obligations of the Bank that are guaranteed are the debt securities (as defined in the Retail Deed) guaranteed under the Crown Retail Guarantee and debt securities for which the Crown has issued a Guarantee Eligibility Certificate under the Crown Wholesale Guarantee (copies of which are available on the Treasury website www.treasury.govt.nz).

Crown Retail Guarantee

The Crown Retail Guarantee is provided under a Crown Deed of Guarantee (Registered Bank) entered into by the Bank and the Crown on 14 November 2008 and supplemented on 9 December 2008 ("Retail Deed").

The Crown Retail Guarantee does not extend to subordinated debt securities issued by the Bank or debt securities that are issued by the Bank to Related Parties (as defined in the Retail Deed) of the Bank or to Financial Institutions.

As defined in the Retail Deed, "Financial Institutions" means a financial institution, as defined in section 2 of the Reserve Bank of New Zealand Act 1989, which carries on the business of borrowing and lending money, such as a life insurance company, a building society or a registered bank, and, without limiting the generality of the foregoing, includes:

- (a) a "collective investment scheme" as that term is defined in section 157B of the Reserve Bank of New Zealand Act 1989 (including any "superannuation fund" or "superannuation scheme");
- (b) an "insurer" as that term is defined in section 2 of the Insurance Companies (Rating and Inspections) Act 1994 or any other person carrying on the business of providing insurance cover (of whatever nature);
- (c) a person carrying on business as a sharebroker, an investment adviser or a fund manager (to the extent that person is acting in that capacity); or
- (d) a person who is a subsidiary of, or who is controlled by a financial institution within a), b), or c) above.

The Crown Retail Guarantee applies for a period commencing on 12 October 2008 and expiring on 12 October 2010 ("Guarantee Period").

Under the Crown Retail Guarantee the Crown absolutely and irrevocably guarantees:

- (a) all obligations of the Bank to pay money to a creditor under Debt Securities ("Indebtedness") that become due and payable during the Guarantee Period; and
- (b) if a Default Event, as defined in the Retail Deed, occurs during the Guarantee Period, all Indebtedness that exists on the date of that Default Event (whether or not that Indebtedness is due and payable during the Guarantee Period); and
- (c) all interest accruing on the amounts referred to in b) after the occurrence of the Default Event.

The Crown undertakes that if the Bank does not pay an amount referred to in a), b) or c) above, the Crown will pay that amount to the creditor when it is due and payable (except to the extent that that Indebtedness or interest is not paid solely as a result of an administrative error or technical error and is subsequently paid within 7 days of its due date).

The Crown's obligation to pay any amount under the Crown Retail Guarantee is subject to the Crown receiving a notice of claim from the creditor in respect of the relevant Indebtedness and to the Crown satisfying itself as to the amount of the relevant Indebtedness and such other matters as the Crown reasonably considers appropriate in order to ascertain the extent of its liability under the Crown Retail Guarantee in respect of that Indebtedness. Notice may be served on the Crown in respect of the Crown Retail Guarantee by service on The Treasury at 1 The Terrace, Wellington.

The maximum liability of the Crown to each creditor under the Crown Retail Guarantee is one million New Zealand dollars (\$1,000,000). For this purpose amounts owed to creditors by the Bank under any debt security will be aggregated with other amounts owed to the same creditor by the Bank which are supported by the Crown Retail Guarantee.

Crown Wholesale Guarantee

The Crown Wholesale Guarantee is provided under the Crown Wholesale Funding Guarantee in respect of the Bank entered into by the Crown on 23 December 2008 and supplemented on 19 February 2009 ("Wholesale Deed").

Newly issued senior unsecured (except for covered bonds, which are also eligible) negotiable or transferable debt securities issued by the Bank, or issued by a subsidiary of the Bank and guaranteed by the Bank, may be eligible to benefit from the Crown Wholesale Guarantee. For the Crown Wholesale Guarantee to apply, the Bank will need to apply to the Crown for a Guarantee Eligibility Certificate (as defined in the Wholesale Deed) in respect of the issue of debt securities. The decision to issue a Guarantee Eligibility Certificate in respect of any issue of debt securities is at the sole and absolute discretion of the Crown.

If a Guarantee Eligibility Certificate is issued in respect of any debt securities, the Crown (subject to any special conditions specified in a Guarantee Eligibility Certificate and provided the debt securities are not varied, amended, waived, released, novated, supplemented, extended or restated in any respect without the prior written consent of the Crown) irrevocably:

- (a) guarantees the payment by the Bank of any liability of the Bank to pay principal and interest (excluding any penalty interest or other amount only payable following a default) in respect of the debt securities for which the Crown has issued a Guarantee Eligibility Certificate; and
- (b) undertakes that if the Bank does not pay any such liability on the date on which it becomes due and payable, the Crown shall, within five Business Days of a demand being made in accordance with the Wholesale Deed and following the expiry of any applicable grace period, pay such liability.

The Crown Wholesale Guarantee does not extend to debt securities held by a Related Party (as defined in the Wholesale Deed) of the Bank.

In the event of a claim made on the Crown, the Crown will only pay the interest and principal due to the holders of the debt security on the originally scheduled dates for payment of interest and principal.

The Crown's obligations in respect of any debt security terminate on the date falling 30 days after the earlier of:

- (a) the scheduled maturity date for the debt security under which the guaranteed liability arises; and
- (b) the date falling five years after the date of issue of the debt security under which the guaranteed liability arises, unless valid demand has been made on the Crown prior to that time.

GENERAL DISCLOSURES

(CONTINUED)

Any demand on the Crown in respect of debt securities for which the Crown has issued a Guarantee Eligibility Certificate may only be made in the prescribed form by delivery by hand to the Minister of Finance, Parliament Buildings, Wellington, New Zealand or to one of the other addresses specified in the Wholesale Deed.

No Guarantee Eligibility Certificate shall be issued by the Crown in respect of any proposed debt security unless the aggregate amount of the proposed debt security and all of the Bank's outstanding liabilities to pay principal and interest in respect of the debt securities for which the Crown has issued a Guarantee Eligibility Certificate will not exceed the maximum amount as the Crown may from time to time determine and notify in writing to the Bank (which, at the date of this General Disclosure Statement, is set at \$65 billion).

Further information

Further information about the Crown Retail Guarantee and the Crown Wholesale Guarantee, including a copy of the Retail Deed and Wholesale Deed, and any Guarantee Eligibility Certificate issued by the Crown in respect of the Bank, is available on The Treasury website at www.treasury.govt.nz.

Further information about the Crown, including a copy of its most recent audited financial statements can be obtained at www.treasury.govt.nz.

The Crown's credit ratings are available on the New Zealand Debt Management Office website www.nzdmo.govt.nz. The Crown's long-term foreign-currency and domestic debt credit ratings have not changed in the two years immediately before the date of this General Disclosure Statement. The Crown's credit ratings are:

Foreign Currency

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA+	Outlook Stable
Moody's Investors Service	Aaa	Outlook Stable
Fitch Ratings	AA+	Outlook Negative

Domestic Currency

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AAA	Outlook Stable
Moody's Investors Service	Aaa	Outlook Stable
Fitch Ratings	AAA	Outlook Negative

Credit ratings are assigned to sovereigns and businesses by the international credit rating agencies. Credit ratings provide investors with an indication of the credit-worthiness of an entity in which they are considering investing. There are three major internationally recognised credit rating agencies: Standard & Poor's, Moody's Investors Service and Fitch Ratings. AAA is the highest rating level while a rating in the AA range is also seen as a very high level of credit-worthiness. Refer to "Credit Rating Information" for a full description of credit rating scales.

SUPPLEMENTAL DISCLOSURE STATEMENT

The most recent Supplemental Disclosure Statement for the year ended 30 September 2009 is available at no charge:

- on the Bank's websites www.anz.co.nz and www.nationalbank.co.nz;
- immediately if request is made at the Bank's head office, located at Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington, New Zealand; and
- within five working days of a request, if a request is made at any branch of ANZ or The National Bank of New Zealand.

The Bank's most recent Supplemental Disclosure Statement contains a copy of the bilateral netting agreement (refer Note 32) and a copy of the Crown Retail Guarantee and Crown Wholesale Guarantee.

DIRECTORATE

Since the authorisation date of the previous General Short Form Disclosure Statement on 27 August 2009, there have been no changes to Directors of the Bank.

SUMMARY OF FINANCIAL STATEMENTS

	Consolidated				
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to ¹ 30/09/2007 \$m	Year to ¹ 30/09/2006 \$m	Year to ¹ 30/09/2005 \$m
CONTINUING OPERATIONS					
Interest income	7,246	9,857	8,309	7,206	6,009
Interest expense	4,892	7,568	6,059	5,077	4,069
Net interest income	2,354	2,289	2,250	2,129	1,940
Other operating income	762	1,124	861	802	794
Operating income	3,116	3,413	3,111	2,931	2,734
Operating expenses	1,477	1,444	1,331	1,323	1,312
Profit before provision for credit impairment and income tax	1,639	1,969	1,780	1,608	1,422
Collective provision charge (credit)	264	112	20	(10)	121
Individual provision charge	610	190	54	28	-
Provision for credit impairment	874	302	74	18	121
Profit before income tax	765	1,667	1,706	1,590	1,301
Income tax expense	467	504	614	523	398
Profit after income tax from continuing operations	298	1,163	1,092	1,067	903
DISCONTINUED OPERATIONS					
Profit from discontinued operations (net of income tax)	-	-	76	5	14
Profit after income tax	298	1,163	1,168	1,072	917
Retained profits at beginning of the year	3,817	2,677	2,235	2,003	1,438
Adjustment on adoption of NZ IFRS on 1 October 2004	-	-	-	-	4
Adjustment on adoption of NZ IAS 39 on 1 October 2005	-	-	-	61	-
Total available for appropriation	4,115	3,840	3,403	3,136	2,359
Actuarial (loss) gain on defined benefit schemes after tax	(18)	(23)	2	(1)	4
Interim ordinary dividends paid	(1,000)	-	(728)	(900)	(360)
Retained profits at end of the year	3,097	3,817	2,677	2,235	2,003

	Consolidated				
	As at 30/09/2009 \$m	As at 30/09/2008 \$m	As at ¹ 30/09/2007 \$m	As at ¹ 30/09/2006 \$m	As at ¹ 30/09/2005 \$m
Total impaired assets (on-balance sheet and off-balance sheet)	1,210	333	121	159	220
Total assets	117,891	122,915	107,787	95,814	85,501
Total liabilities	107,803	113,108	99,084	87,581	77,555
Equity	10,088	9,807	8,703	8,233	7,946

The amounts included in this summary have been taken from the audited financial statements of the Banking Group.

1. Truck Leasing Limited has been classified as a discontinued operation for the comparative years ending 30 September 2007, 30 September 2006 and 30 September 2005.

INCOME STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Note	Consolidated		Parent	
		Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
Interest income	4	7,246	9,857	7,429	9,638
Interest expense	5	4,892	7,568	5,538	8,130
Net interest income		2,354	2,289	1,891	1,508
Net trading gains	4	187	271	185	269
Other operating income	4	562	742	1,570	787
Share of profit of equity accounted associates and jointly controlled entities	15	13	111	-	-
Operating income		3,116	3,413	3,646	2,564
Operating expenses	5	1,477	1,444	1,410	1,384
Profit before provision for credit impairment and income tax		1,639	1,969	2,236	1,180
Provision for credit impairment	14	874	302	840	278
Profit before income tax		765	1,667	1,396	902
Income tax expense	6	467	504	386	258
Profit after income tax		298	1,163	1,010	644

The notes on pages 11 to 118 form part of and should be read in conjunction with these financial statements.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Consolidated		Parent	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
AVAILABLE-FOR-SALE REVALUATION RESERVE:				
- Valuation gain taken to equity	2	26	2	26
- Cumulative gain transferred to the income statement on sale of financial assets	-	-	-	-
CASH FLOW HEDGING RESERVE:				
- Valuation loss taken to equity	(1)	(47)	(1)	(47)
- Transferred to income statement	(3)	(37)	(3)	(37)
Actuarial loss on defined benefit schemes	(25)	(33)	(25)	(33)
Income tax credit on items recognised directly in equity	10	34	10	34
Net expense recognised directly in equity	(17)	(57)	(17)	(57)
Profit after income tax	298	1,163	1,010	644
Total recognised income and expense for the year	281	1,106	993	587

The notes on pages 11 to 118 form part of and should be read in conjunction with these financial statements.

BALANCE SHEETS
AS AT 30 SEPTEMBER 2009

	Note	Consolidated		Parent	
		30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
ASSETS					
Liquid assets	7	2,762	4,838	2,758	4,837
Due from other financial institutions	8	4,514	5,032	4,361	4,527
Trading securities	9	4,166	2,624	4,166	2,624
Derivative financial instruments	10	11,408	7,533	11,449	7,544
Available-for-sale assets	11	1,513	109	1,511	107
Net loans and advances	12	88,259	97,679	85,952	95,241
Due from subsidiary companies	44	-	-	7,703	1,992
Shares in controlled entities, associates and jointly controlled entities	15	464	363	7,702	7,694
Current tax assets		65	57	168	214
Other assets	16	1,137	1,000	1,081	885
Deferred tax assets	17	-	121	-	100
Premises and equipment	18	278	242	63	53
Goodwill and other intangible assets	19	3,325	3,317	3,274	3,268
Total assets		117,891	122,915	130,188	129,086
LIABILITIES					
Due to other financial institutions	20	3,725	3,312	3,239	1,940
Deposits and other borrowings	21	71,764	77,136	62,835	62,800
Due to subsidiary companies	44	-	-	37,362	43,260
Due to parent company	26	930	404	930	404
Derivative financial instruments	10	10,762	6,710	10,769	6,710
Payables and other liabilities	22	1,809	1,841	1,278	1,531
Deferred tax liabilities	23	17	-	83	-
Provisions	24	283	190	275	186
Bonds and notes	25	15,917	20,695	1,516	1,123
Loan capital	27	2,596	2,820	2,596	2,820
Total liabilities		107,803	113,108	120,883	120,774
Net assets		10,088	9,807	9,305	8,312
EQUITY					
Ordinary share capital	28	6,943	5,943	6,943	5,943
Reserves	29	48	47	48	47
Retained earnings	29	3,097	3,817	2,314	2,322
Total equity		10,088	9,807	9,305	8,312

For and on half of the Board of Directors:


Sir Dryden Spring
Director
13 November 2009

Jennifer Fagg
Director
13 November 2009

The notes on pages 11 to 118 form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Consolidated		Parent	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
Note				
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	7,131	9,502	7,270	9,258
Dividends received	3	4	1,100	24
Fees and other income received	1,017	1,060	926	992
Interest paid	(4,884)	(6,959)	(5,465)	(7,504)
Operating expenses paid	(1,480)	(1,313)	(1,452)	(1,275)
Income taxes paid	(425)	(524)	(245)	(303)
Cash flows from operating profits before changes in operating assets and liabilities	1,362	1,770	2,134	1,192
Net changes in operating assets and liabilities:				
Increase in due from other financial institutions – term	(246)	(630)	(596)	(587)
Increase in trading securities	(1,505)	(617)	(1,505)	(617)
(Increase) decrease in derivative financial instruments	(3,936)	1,675	(3,842)	1,537
Increase in available-for-sale assets	(1,388)	(36)	(1,390)	(44)
Increase in loans and advances	(1,108)	(9,433)	(1,206)	(10,806)
Proceeds from sale of loans and advances to NZ Branch	9,863	-	9,863	-
Increase in due from subsidiary companies	-	-	(5,711)	(407)
Increase in due to subsidiary companies	-	-	978	3,500
(Increase) decrease in other assets	(164)	28	(174)	154
Increase in due to other financial institutions	509	26	1,299	254
Increase in customer deposits	672	2,044	818	2,809
(Decrease) increase in other borrowings and certificates of deposit	(4,637)	3,373	(1,086)	1,080
Increase (decrease) in payables and other liabilities	165	208	(98)	251
Net cash flows used in operating activities	36	(1,592)	(516)	(1,684)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of shares in associates and jointly controlled entities	-	-	-	9
Proceeds from sale of premises and equipment	33	2	2	1
Proceeds from sale of software	1	-	1	-
Purchase of shares in associates and jointly controlled entities	(92)	(48)	(29)	-
Purchase of intangible assets	(20)	(29)	(18)	(29)
Purchase of premises and equipment	(95)	(51)	(32)	(16)
Net cash flows used in investing activities	(173)	(126)	(76)	(35)

The notes on pages 11 to 118 form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2009¹

(CONTINUED)

	Consolidated		Parent	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from bonds and notes	5,012	9,263	500	615
Redemptions of bonds and notes	(7,751)	(5,250)	(270)	(109)
Proceeds from loan capital	-	835	-	835
Redemptions of loan capital	(225)	(100)	(225)	(100)
(Decrease) increase in due to subsidiary companies – term	-	-	(2,964)	3,507
Increase (decrease) in related party funding	526	(2,371)	526	(2,371)
Proceeds from share issue	1,000	-	1,000	-
Dividends paid	(1,000)	-	(1,000)	-
Net cash flows (used in) provided by financing activities	(2,438)	2,377	(2,433)	2,377
Net cash flows used in operating activities	(413)	(1,592)	(516)	(1,684)
Net cash flows used in investing activities	(173)	(126)	(76)	(35)
Net cash flows (used in) provided by financing activities	(2,438)	2,377	(2,433)	2,377
Net (decrease) increase in cash and cash equivalents	(3,024)	659	(3,025)	658
Cash and cash equivalents at beginning of the year	7,789	7,130	7,786	7,128
Cash and cash equivalents at end of the year¹	4,765	7,789	4,761	7,786

1. A reconciliation of cash and cash equivalents to the Banking Group's core liquidity portfolio is included in Note 36 Notes to the Cash Flow Statements.

The notes on pages 11 to 118 form part of and should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of preparation**i) Statement of compliance**

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the "Order"). The parent company's financial statements are for ANZ National Bank Limited (the "Bank" or "Parent") as a separate entity and the consolidated financial statements are for the ANZ National Bank Limited Group (the "Banking Group" or "reporting entity"), which includes subsidiaries, associate companies and jointly controlled entities.

These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Principles. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied by the Parent and all consolidated entities and to all periods presented in the consolidated financial statements.

These financial statements were authorised for issue by the Board of Directors on 13 November 2009.

ii) Use of estimates and assumptions

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates.

Discussion of the critical accounting treatments, which include complex or subjective decisions or assessments, are covered in Note 2. Such estimates may require review in future periods.

iii) Basis of measurement

The financial statements have been prepared on a going concern basis in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments, including in the case of fair value hedging, the fair value of any applicable underlying exposure;
- assets treated as available-for-sale;
- financial instruments held for trading;
- assets and liabilities designated at fair value through profit and loss; and
- defined benefit plan asset or liability.

iv) Changes in accounting policies and early adoption of new accounting statements

The Banking Group has chosen to early adopt the amendments to *NZ IFRS 7 Financial Instruments: Disclosures*. The amendments require expanded fair value measurement disclosures and enhanced disclosures about the nature and extent of liquidity risk arising from financial instruments. Adoption of these amendments did not result in any measurement or recognition differences.

There have been no material changes in accounting policies in the preparation or presentation of this financial report.

v) Rounding

The amounts contained in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

vi) Comparatives

Certain amounts in the comparative information have been reclassified to conform to current period financial statement presentations.

vii) Principles of consolidation**Subsidiaries**

The financial statements consolidate the financial statements of the Bank and all its subsidiaries where it is determined that there is a capacity to control.

Where subsidiaries have been sold or acquired during the year, their operating results have been included to the date of disposal or from the date of acquisition.

Control means the power to govern, directly or indirectly, decision making in relation to the financial and operating policies of an entity so as to obtain benefits from its activities. Control is usually present when an entity has:

- power over more than one-half of the voting rights of the other entity;
- power to govern the financial and operating policies of the other entity;
- power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the entity.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, potential voting rights that are presently exercisable or convertible are taken into account in determining whether control exists. However, all the facts of a particular situation are considered when determining whether control exists.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the Banking Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Banking Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Banking Group.

Associates and joint ventures

The Banking Group adopts the equity method of accounting for associates and the Group's interest in joint venture entities. The Parent adopts the fair value method of accounting for its interest in associates, and the cost method of accounting for its interest in joint ventures.

Associates are all entities over which the Banking Group has significant influence but not control, which generally accompany a shareholding of between 20% and 50% of the voting rights.

Joint ventures are entities over which the Banking Group has joint control. Joint control is the contractually agreed sharing of control and exists only when the strategic financial and operating decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The Banking Group's share of the post acquisition results of associates and joint venture entities is included in the consolidated income statement and its share of post-acquisition movements in reserves recognised in reserves. Shares in associates and joint venture entities are carried in the consolidated balance sheet at cost plus the Banking Group's share of post acquisition net assets.

Interests in associates and joint ventures are reviewed for any indication of impairment at least at each reporting date. This impairment review may use a discounted cash flow methodology and other methodologies to determine the reasonableness of the valuation, including the multiples of earnings methodology.

Special purpose and off-balance sheet entities

The Banking Group may invest in or establish special purpose entities ("SPEs") to enable it to undertake specific types of transactions. The main types of these SPEs are securitisation vehicles and structured finance entities.

Where the Banking Group has established SPEs which are controlled by the Banking Group to facilitate transactions undertaken for Banking Group purposes, these are consolidated in the Banking Group's financial statements.

The Banking Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Banking Group has control of an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

The table below summarises the main types of SPEs with which the Banking Group is involved, the reason for their establishment, and the control factors associated with the Bank's interest in them. Although there may be some indications of control, the Bank does not bear the majority of residual risks and rewards of the SPEs which are not consolidated.

Type of SPE	Reason for establishment	Control Factors
Securitisation vehicles	Securitisation is a financing technique whereby assets are transferred to an SPE which funds the purchase by issuing securities. This enables the Banking Group (in the case where transferred assets originate within the Banking Group) or customers to increase diversity of funding sources.	The Banking Group may manage these securitisation vehicles, service assets in the vehicle or provide liquidity or other support. The Banking Group retains the risks associated with the provision of these services. For any SPE which is not consolidated, credit and market risks associated with the underlying assets are not retained or assumed by the Bank except to the limited extent that the Banking Group provides arm's length services and facilities.
Structured finance entities	These entities are set up to assist the Banking Group's Corporate Finance function with the structuring of client financing. The resulting lending arrangements are at arm's length and the Banking Group typically has limited ongoing involvement with the entity.	The Banking Group may manage these vehicles, hold minor amounts of capital, provide financing or derivatives.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

viii) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Banking Group's financial statements are presented in New Zealand dollars, which is the Bank's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the income statement in the period in which they arise.

Translation differences on non-monetary items, such as derivatives, measured at fair value through profit or loss are reported as part of the fair value gain or loss on these items. Translation differences on non-monetary items measured at fair value through equity, such as equities classified as available-for-sale financial assets, are included in the available-for-sale revaluation reserve in equity.

B. Income Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that revenue can be reliably measured.

i) Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability so as to achieve a constant yield on the financial asset or liability.

For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience assessed on a regular basis.

ii) Fee and commission income

Fees and commissions received that are integral to the effective interest rate of a financial asset are recognised using the effective interest method as summarised in Note 1(B)(i). For example, loan commitment fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn. Commitment fees to originate a loan which is unlikely to be drawn down are recognised as fee income as the service is provided.

Fees and commissions that relate to the execution of a significant act (for example, advisory services or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed.

Fees charged for providing ongoing services that represent the recoupment of the costs of providing service (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

iii) Dividend income

Dividends are recognised as revenue when the right to receive payment is established.

iv) Leasing income

Finance income on finance leases is recognised on a basis that reflects a constant periodic return on the net investment in the finance lease.

v) Gain or loss on sale of property, plant and equipment

The gain or loss on the disposal of premises and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, and is recognised as an item of other income in the year in which the significant risks and rewards of ownership are transferred to the buyer.

C. Expense recognition

Expenses are recognised in the income statement on an accruals basis.

i) Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the income statement as it accrues using the effective interest method as described in Note 1(B)(i).

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Loan origination expenses

Certain loan origination expenses are an integral part of the effective interest rate of a financial asset measured at amortised cost. These loan origination expenses include:

- fees and commissions payable to brokers in respect of originating lending business; and
- other expenses of originating lending business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the issue of a financial asset.

Such loan origination expenses are initially recognised as part of the cost of acquiring the financial asset and amortised as part of the expected yield of the financial asset over its expected life using the effective interest method.

iii) Share-based compensation expense

The Banking Group has various equity settled share-based compensation plans. These are described in Note 42 and largely comprise the Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ Ordinary Shares

The fair value of ANZ ordinary shares granted under the Employee Share Acquisition Plan is measured at grant date, using the one-day volume weighted average market price of ANZ shares. The fair value is expensed immediately when shares vest immediately or on a straight-line basis over the relevant vesting period.

Share Options

The fair value of ANZ share options is measured at grant date, using an option pricing model. The fair value is expensed on a straight-line basis over the relevant vesting period. This is recognised as an employee compensation expense with a corresponding increase in the share options liability account.

The option pricing model takes into account the exercise price of the option, the risk free interest rate, the expected volatility of ANZ's ordinary share price and other factors. Market vesting conditions are taken into account in estimating the fair value.

Performance Rights

A Performance Right is a right to acquire a share at nil cost to the employee subject to satisfactorily meeting time and performance hurdles. Upon exercise, each Performance Right entitles the holder to one ordinary share in ANZ. The fair value of Performance Rights is determined at grant date using an option pricing model, taking into account market conditions. The fair value is expensed over the relevant vesting period with a corresponding increase in the share options liability account.

Other adjustments

Subsequent to the grant of an equity-based award, the amount recognised as an expense is adjusted for vesting conditions other than market conditions so that, ultimately, the amount recognised as an expense is based on the number of equity instruments that eventually vest.

iv) Lease payments

Leases entered into by the Banking Group as lessee are predominantly operating leases, and the operating lease payments are recognised as an expense on a straight-line basis over the lease term.

D. Income tax

i) Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law in each jurisdiction. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill.

ii) Current tax

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

iii) Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in controlled entities, branches, associates and joint ventures, except where the Banking Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets associated with these interests are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax related to fair value remeasurement of available-for-sale financial assets and cash flow hedges, which are charged or credited directly to equity, is also charged or credited directly to equity and subsequently recognised in the income statement together with the deferred gain or loss on the related asset or liability.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

iv) Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

E. Assets

Financial assets

i) Financial assets and liabilities at fair value through profit or loss

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. They comprise debt and equity securities and treasury notes purchased with the intent of being actively traded. Trading securities are initially recognised and subsequently measured in the balance sheet at their fair value. Changes in the fair value (gains or losses) of these securities are recognised in the income statement in the period in which they occur.

Derivatives that are neither financial guarantee contracts nor effective hedging instruments are carried at fair value through profit or loss. In addition, certain financial assets and liabilities are designated and measured at fair value through profit or loss where the following applies:

- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities, or recognising the gains or losses thereon, on different bases;
- a group of financial assets or financial liabilities or both is managed and its performance evaluated on a fair value basis; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The designation of a financial asset or liability at fair value through profit or loss is irrevocable. Changes in the fair value (gains or losses) of these financial instruments are recognised in the income statement in the period in which they occur.

Purchases and sales of trading securities are recognised on trade date.

ii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying price index or other variables. They include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons) or for hedging purposes (where the derivative instruments are used to hedge the Banking Group's exposures to interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions).

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement. Included in the determination of fair value of derivatives is a credit valuation adjustment to reflect the credit worthiness of the counterparty, modelled using the counterparty's credit spreads. The valuation adjustment is influenced by the mark-to-market of the derivative trades and by the movement in credit spreads.

Where the derivative is designated and is effective as a hedging instrument, the timing of the recognition of any resultant gain or loss in the income statement is dependent on the hedging designation. These hedging designations and associated accounting are as follows:

Fair value hedge

Where the Banking Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over a period to maturity of the hedged item. If the hedged item is sold or repaid, the unamortised adjustment is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash flow hedge

The Banking Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment, or a highly probable forecast transaction. The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is deferred to the hedging reserve, which forms part of shareholders' equity. Any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recognised in the income statement in the period during which the hedged forecast transactions take place.

When the hedge expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

When a forecast hedged transaction is no longer expected to occur, the amount deferred in equity is recognised immediately in the income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of funding instruments are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and accrued interest is included in net interest income. The remainder of the fair value movement is included in other income.

Set-off arrangements

Fair value gains/losses arising from trading derivatives are not offset against fair value gains/losses on the balance sheet unless a legal right of set-off exists and there is an intention to settle net.

For contracts subject to master netting agreements that create a legal right of set-off for which only the net revaluation amount is recognised in the income statement, net unrealised gains on derivatives are recognised as part of other assets and net unrealised losses are recognised as part of other liabilities.

iii) Available-for-sale assets

Available-for-sale assets comprise non-derivative financial assets which the Banking Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and includes equity investments, certain loans and advances, and quoted debt securities. They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve. When the asset is sold, the cumulative gain or loss relating to the asset is transferred to the income statement.

Where there is objective evidence of impairment on an available-for-sale asset, the cumulative loss related to that asset is removed from equity and recognised in the income statement, as an impairment expense for debt instruments or as non-interest income for equity instruments. If, in a subsequent period, the amount of an impairment loss relating to an available-for-sale debt instrument decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the income statement through impairment expense.

Purchases and sales of available-for-sale financial assets are recognised on trade date as with all regular way assets, being the date on which the Group commits to purchase or sell the asset.

iv) Net loans and advances

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Banking Group provides money to a debtor with no intention of trading the loans and advances. The loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method, unless specifically designated on initial recognition at fair value through profit or loss.

Net loans and advances include direct finance provided to customers such as bank overdrafts, credit cards, term loans, finance lease receivables and commercial bills.

Credit assessment

All loans are graded according to the level of credit risk. Loans are classified as either productive or impaired.

Impaired assets include loans where there is doubt as to full recovery, and loans that have been restructured. An individual provision is raised to cover the expected loss where full recovery of principal is doubtful.

A restructured asset is an impaired asset for which the terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulty in complying with the original terms, and where the yield on the asset following restructuring is still above the Banking Group's cost of funds. An asset is classified as an other individually impaired asset if following the restructure the yield on the asset is below the Banking Group's cost of funds.

Assets acquired through enforcement of security are those assets which are legally owned by the Banking Group as a result of enforcing security, other than any buildings occupied by the Banking Group.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A past due asset is any loan where the counterparty has failed to make a payment when contractually due, and which is not an impaired asset. A 90 days past due asset is any past due asset which has not been operated by the counterparty within its key terms for at least 90 days.

Other assets under administration are any loans, not being impaired or 90 days past due, where the customer is in any form of voluntary or involuntary administration, including receivership, liquidation, bankruptcy or statutory management.

Impairment of loans and advances

Loans and advances are reviewed at least at each reporting date for impairment. Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events, that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value loans) and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio.

The estimated impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of capitalised acquisition expenses is assessed through comparing the actual behaviour of the portfolio against initial expected life assumptions.

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement.

When a loan is uncollectible, either partially or in full, it is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off are taken to the income statement. Unsecured facilities are normally written-off when they become 180 days past due or earlier in the event of the customer's bankruptcy or similar legal release from the obligation. However, a certain level of recoveries is expected after the write-off, which is reflected in the amount of the provision for credit losses. In the case of secured facilities, remaining balances are written-off after proceeds from the realisation of collateral have been received, if there is a shortfall.

Where impairment losses recognised in previous periods have subsequently decreased or no longer exist, such impairment losses are reversed in the income statement.

A provision is also raised for off-balance sheet items such as commitments that are considered likely to result in an expected loss.

v) Lease receivables

Finance leases

Contracts to lease assets and hire purchase agreements are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. All other lease contracts are classified as operating leases.

Finance lease receivables include amounts due from lessees in relation to finance leases and hire purchase contracts.

The gross amount of contractual payments regarding lease finance to business customers that have a fixed rate and a fixed term are recorded as gross lease receivables and the unearned interest component is recognised as income yet to mature.

The finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments, plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and reduction in the lease receivable over the term of the finance lease, reflecting a constant periodic rate of return on the net investment outstanding in respect of the lease.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term as lessee.

vi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Banking Group, and a counterparty liability is disclosed under the classifications of due to other financial institutions or payables and other liabilities.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Banking Group does not acquire the risks and rewards of ownership, are recorded as receivables in liquid assets, net loans and advances, or due from other financial institutions, depending on the term of the agreement and the counterparty. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

Securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, at which point the obligation to repurchase is recorded as a financial liability at fair value with fair value movements included in the income statement.

vii) Derecognition

The Banking Group enters into transactions where it transfers financial assets recognised on its balance sheet yet retains either all the risks and rewards of the transferred assets or a portion of them. If all, or substantially all, the risks and rewards are retained, the transferred assets are not derecognised from the balance sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Banking Group derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Banking Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

Non-financial assets

viii) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. Goodwill is recognised as an asset and not amortised, but assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. This involves using the discounted cash flow ("DCF") or the capitalisation of earnings methodology ("CEM") to determine the expected future benefits of the cash generating units. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to the income statement. Any impairment of goodwill may not be subsequently reversed.

ix) Other intangible assets

Other intangible assets include costs incurred in acquiring and building software and computer systems ("software").

Software is amortised using the straight-line method over its expected useful life to the Banking Group. The period of amortisation is between 3 and 5 years, except for certain core infrastructure projects where the useful life has been determined to be 7 years.

At each reporting date, the software assets and other intangible assets are reviewed for impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

x) Premises and equipment

Premises and equipment are carried at cost less accumulated depreciation and impairment.

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The calculation of borrowing costs is based upon the Banking Group's internal cost of capital.

Assets other than freehold land are depreciated at rates based upon their expected useful lives to the Banking Group, using the straight-line method. The depreciation rates used for each class of asset are:

Buildings	1 - 1.5%
Building integrals	10%
Furniture & equipment	10%
Computer & office equipment	12.5% - 33%

Leasehold improvements are amortised on a straight-line basis over the shorter of their useful lives or remaining terms of the lease.

At each reporting date, the carrying amounts of premises and equipment are reviewed for impairment. If any such indication exists, the recoverable amount of the assets is estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement. If it is not possible to estimate the recoverable amount of an individual asset, the Banking Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Liabilities

Financial liabilities

i) Deposits and other borrowings

Deposits and other borrowings include certificates of deposit, interest bearing deposits, debentures, commercial paper and other related interest bearing financial instruments. Deposits and other borrowings, excluding commercial paper, are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost. The interest expense is recognised using the effective interest method as explained in Note 1(B)(i). Commercial paper is designated at fair value through profit or loss, with fair value movements recorded directly in the income statement, which reflects the basis on which it is managed.

ii) Bonds, notes and loan capital

Bonds, notes and loan capital are accounted for in the same way as deposits and other borrowings, except for those bonds and notes which are stated designated at fair value through profit or loss on initial recognition, with fair value movements recorded in the income statement.

iii) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are issued in the ordinary course of business, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given; typically this is the premium received.

Subsequent to initial recognition, the Banking Group's liabilities under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses.

iv) Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Non-financial liabilities

v) Employee benefits

Leave benefits

The amounts expected to be paid in respect of employees' entitlements to annual leave are accrued at expected salary rates including on-costs. Expected future payments for long service leave are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. Liability for long service leave is calculated and accrued for in respect of all applicable employees (including on-costs) using an actuarial valuation.

Superannuation schemes

The Banking Group operates a number of defined contribution schemes and also contributes, according to local law, to government and other plans that have the characteristics of defined contribution schemes. The Banking Group's contributions to these schemes are recognised as an expense in the income statement when incurred.

The Banking Group operates two defined benefit superannuation schemes. The liability and expense related to providing benefits to employees under each of the defined benefit schemes are calculated by independent actuaries. A defined benefit liability is recognised to the extent that the present value of the defined benefit obligation of each scheme, calculated using the Projected Unit Credit Method, is greater than the fair value of each scheme's assets. Where this calculation results in a benefit to the Banking Group, a defined benefit asset is recognised which is capped at the recoverable amount. The present value of the defined benefit obligation is determined by discounting the estimated future outflows by reference to New Zealand 10-year government bond rates.

In each subsequent reporting period, ongoing movements in the carrying value of the defined benefit liability or asset are treated as follows:

- the net movement relating to the current period's service cost, interest cost, expected return on scheme assets, past service costs and other costs (such as the effects of any curtailments and settlements), is recognised as an employee expense in the income statement;
- movements relating to actuarial gains and losses are recognised directly in retained earnings; and
- contributions incurred are recognised directly against the net defined benefit position.

The assets of the defined benefit and cash accumulation superannuation schemes are held in trust and are not included in these financial statements as the Banking Group does not have direct or indirect control of these schemes. The benefits under the schemes are provided from contributions by employee members and by the Banking Group, and from income earned by the assets of the schemes. Members' contributions are at varying rates. Actuarial valuations are carried out at minimum of every three years in accordance with the schemes' Trust Deeds and superannuation legislation.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

vi) Provisions

The Banking Group recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Any expected third party recoveries are recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

G. Equity

i) Ordinary shares

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

ii) Reserves

Available-for-sale revaluation reserve

This reserve includes changes in the fair value of available-for-sale financial assets, net of tax. These changes are transferred to the income statement (in non-interest income) when the asset is derecognised. Where the asset is impaired, the changes are transferred to the impairment expense line in the income statement for debt instruments and in the case of equity instruments to non-interest income.

Cash flow hedging reserve

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

H. Presentation

i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument;
- where gains and losses relating to fair value hedges are assessed as being effective; or
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

ii) Offsetting of assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

iii) Statement of cash flows

For cash flow statement presentation purposes the statement of cash flows has been prepared using the direct approach modified by the netting of the certain items as disclosed below.

Cash and cash equivalents include liquid assets, amounts due from other financial institutions, trading securities and available-for-sale assets held for the purpose of meeting short-term cash commitments that are readily convertible to cash and subject to insignificant risk of changes in value.

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 the customers rather than those of the Banking Group. These include customer loans and advances, customer deposits, certificates of deposit, related party balances and trading securities.

iv) Segment reporting

Business segments are distinguishable components of the Banking Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments.

Business segments are the Banking Group's primary reporting segments. For reporting purposes the three major business segments are Retail Banking, Commercial Banking and Institutional. The Banking Group operates primarily in one geographic segment, New Zealand.

v) Goods and services tax

Income, expenses and assets are recognised net of the amount of goods and services tax ("GST") except where the amount of GST incurred is not recoverable from the Inland Revenue Department ("IRD"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as other assets or other liabilities in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the IRD are classified as operating cash flows.

I. Other

i) Contingent liabilities

A contingent liability is a possible or present obligation where it is less than probable there will be an outflow of resources or it is not possible to measure the amount of the obligation with sufficient reliability.

Liabilities are no longer contingent, and are recognised on the balance sheet, when the following requirements are met:

- the transaction is probable in that the contingency is likely to occur; and
- the contingency can be reasonably estimated.

Further disclosure is made within Note 41 Contingent Liabilities and Credit Related Commitments, where the above requirements are not met, but there is a possible obligation that is higher than remote. Specific details of the nature of the contingent liability are provided and, where practicable, an estimate of its financial effect. Alternatively, where no disclosure is made of its financial effect because it is not practicable to do so, a statement to that effect is provided.

ii) Securitisation, funds under management and other fiduciary activities

Certain entities within the Banking Group act as trustees and/or managers for a number of unit trusts and superannuation investment funds. The Banking Group provides private banking services to customers including portfolio management. The assets of the managed funds and private banking clients are not included in these financial statements, as direct or indirect control of the assets is not held by the Banking Group. Commissions and fees earned in respect of the Banking Group's funds under management are included in net operating income.

Financial services provided by any member of the Banking Group to discretionary private banking activities or entities conducting funds management, and assets purchased from discretionary private banking activities or entities conducting funds management are on arm's length terms and conditions, and at fair value.

Securitised assets are derecognised when the right to receive cash flows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership.

iii) Discontinued operations

A discontinued operation is a component of the Banking Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is classified as held for sale, or is a subsidiary that has been disposed of or is classified as held for sale.

When an operation is classified as a discontinued operation the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

iv) Accounting Standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the Banking Group in these financial statements. The Banking Group does not intend to apply any of these pronouncements until their effective date which is 1 October 2009 in all instances.

The following standards/amendments are concerned with disclosure only and will have no impact on the financial results of the Bank or the Banking Group:

NZ IFRS 8 Operating Segments – requires the 'management approach' to identifying and disclosing information about reportable segments.

NZ IAS 1 Presentation of Financial Statements (revised) – requires the presentation of a Statement of Comprehensive Income and a Statement of Changes in Equity.

The following amendments to accounting standards are not expected to have a material impact on the financial results of the Bank or the Banking Group:

NZ IAS 23 Borrowing Costs (revised) – requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.

NZ IAS 27 Consolidated and Separate Financial Statements (amended) – changes aspects of accounting for non-controlling interests and clarifies the accounting for changes in a parent's ownership interest in a subsidiary.

NZ IAS 32 Financial Instruments: Presentation – defines puttable instruments and requires puttable instruments with certain characteristics to be classified as equity.

NZ IAS 39 Financial Instruments: Recognition and Measurement – clarifies the effect of using options as hedging instruments and the circumstances in which inflation risks can be hedged.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NZ IFRS 2 Share-based Payment – clarifies that vesting conditions only include service and performance conditions.

NZ IFRS 3 Business Combinations (revised) – changes certain aspects of accounting for business combinations occurring after the application date including the treatment of transaction costs and contingent consideration. These amendments apply prospectively so the initial application is expected to have no impact on the financial results of the Bank or the Banking Group.

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

These financial statements are prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and other authoritative accounting pronouncements. Notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Banking Group in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out below.

Critical accounting estimates and assumptions

Credit provisioning

The accounting policy, as explained in Note 1(E)(iv), relating to measuring the impairment of loans and advances, requires the Banking Group to assess impairment at least at each reporting date. The credit provisions raised (individual and collective) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement.

The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

Individual provisioning is applied when the full collectibility of one of the Group's loans is identified as being doubtful. Individual and collective provisioning is calculated using discounted expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are revised regularly to reduce any differences between loss estimates and actual loss experience.

As at 30 September 2009 for the Banking Group, total provision for credit impairment was \$1,272 million representing 1.44% of total net loans and advances (30/09/2008 \$666 million or 0.68%). Of the total provision for 30 September 2009, \$798 million represented collective provisions and \$474 million represented individual provisions (30/09/2008 \$534 million and \$132 million respectively).

As at 30 September 2009 for the Bank, total provision for credit impairment was \$1,212 million representing 1.41% of total net loans and advances (30/09/2008 \$612 million or 0.64%). Of the total provision for 30 September 2009, \$762 million represented collective provisions and \$450 million represented individual provisions (30/09/2008 \$497 million and \$115 million respectively).

Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment charge recorded in the financial statements.

Critical judgements in applying the Banking Group's accounting policies

Derivatives and hedging

The Banking Group buys and sells derivatives as part of its trading operations and to hedge its interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions. The derivative instruments used to hedge the Banking Group's exposures include:

- Swaps;
- Foreign exchange contracts;
- Forward rate agreements;
- Futures;
- Options; and
- Combinations of the above instruments.

Hedging

A hedging instrument is a designated derivative whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that (a) exposes the Banking Group to the risk of changes in fair value or future cash flows and (b) is designated as being hedged.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES (CONTINUED)

For a relationship to qualify for hedge accounting, the following criteria must be met:

- *Designation and Documentation:* The hedging relationship must be formally designated and documented at the inception of the hedge.
- *Prospective Effectiveness:* This is a forward-looking test of whether a hedging relationship is expected to be highly effective in future periods. The hedge must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship for hedge accounting to be achievable. The effectiveness of the hedge must be capable of being reliably measured, that is, the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured. Prospective hedge effectiveness testing is required at least quarterly.
- *Retrospective Effectiveness:* This is a backward-looking test of whether a hedging relationship has actually been highly effective throughout the reporting periods for which the hedge was designated (i.e. retrospectively). The actual results of the hedge must be within a range of 80 - 125 per cent. Hedge accounting is only achieved where both prospective and retrospective effectiveness is achieved.
- *External Counterparty:* For hedge accounting purposes, only instruments that involve a party external to the Banking Group can be designated as hedging instruments.

Judgement is required by management in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IAS 39 does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The Banking Group adopts the hypothetical derivative approach to determine hedge effectiveness in line with current risk management strategies. Hedge ineffectiveness can arise for a number of reasons, and whilst a hedge may pass the effectiveness tests above it may not be perfectly effective, thus creating volatility within the income statement through recognition of this ineffectiveness.

Fair values of financial instruments including derivatives

A significant portion of financial instruments, including derivatives which are entered into for trading and hedging purposes, are measured at fair value. Where liquid markets exist, fair value is based on quoted market prices. Where there is no active market, fair value is determined by the use of various valuation techniques including discounted cash flow models and option pricing models. To the extent possible models use only observable data, however such areas as counterparty risk, volatilities and correlations require management to make judgements and estimates. Changes in assumptions used in these models and projections of future cash flows could affect the reported fair value of financial instruments and have an impact on the income statement. The extent of usage of valuation techniques for financial instruments carried at fair value is disclosed in Note 34.

Goodwill

The carrying value of goodwill is subject to an impairment test to ensure that the current carrying value does not exceed its recoverable value at the balance sheet date. Any excess of carrying value over recoverable amount is taken to the income statement as an impairment writedown.

As at 30 September 2009, the balance of goodwill recorded as an asset on the Banking Group's consolidated balance sheet as a result of acquisitions was \$3,265 million (30/09/2008 \$3,265 million) of which \$3,230 million relates to the acquisition of NBNZ Group in December 2003 (30/09/2008 \$3,230 million).

As at 30 September 2009, the balance of goodwill recorded as an asset on the Bank's balance sheet as a result of acquisitions was \$3,217 million, which relates to the amalgamation of The National Bank of New Zealand Limited in June 2004 (30/09/2008 \$3,217 million).

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management reporting purposes. The cash-generating unit at which goodwill related to the National Bank Group is monitored is the NZ Geographic segment being ANZ National Bank Limited Group.

Impairment testing of purchased goodwill is performed annually, or more frequently where there is an indication that the goodwill may be impaired, by comparing the recoverable value of the Banking Group, being the smallest cash-generating unit, to which the goodwill is allocated, with the current carrying amount of its net assets, including goodwill. The recoverable amount is based on the higher of fair value less costs to sell and its value in use. Where the current carrying value is greater than the recoverable amount a charge for impairment of goodwill will be recorded in the income statement.

The Banking Group obtained an independent valuation of the ANZ National Bank Limited Group as at 31 March 2009. The recoverable amount was based on a value in use calculation using forecasts covering a four year period. Forecast cash flows beyond four years are based on the expected nominal growth in cash flows in perpetuity at the valuation date.

The results of the independent valuation indicated a recoverable amount in excess of current carrying value.

Changes in the assumptions upon which the valuation is based, together with changes in future cash flows could materially impact the valuation obtained. Based on this independent valuation, the current carrying value of the Banking Group's goodwill arising from acquisitions is considered recoverable and no impairment write-down is required.

Valuation of investment in ING (NZ) Holdings Ltd ("ING NZ")

The Banking Group adopts the equity method of accounting for its 49% interest in its jointly controlled entity, ING NZ. As at 30 September 2009, the carrying value of the Banking Group's investment in ING NZ was \$248 million (30/09/2008 \$212 million). The carrying value of the Bank's investment in ING NZ was \$231 million (30/09/2008 \$208 million).

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The carrying value of this investment is subject to an impairment test to ensure that the current carrying value does not exceed its recoverable value at the balance sheet date. Any excess of carrying value over recoverable amount is taken to the income statement as an impairment writedown.

The Banking Group obtained an independent valuation of ING NZ as at 31 March 2009. The valuation was based on a value-in-use methodology using a discounted cash flow approach. The results of the independent valuation indicated a value-in-use in excess of current carrying value.

Changes in the assumptions upon which the valuation is based, together with changes in future cash flows could materially impact the valuation obtained. Based on this independent valuation, the current carrying value of the Banking Group's investment in ING NZ is considered recoverable and no impairment write-down is required.

3. RISK MANAGEMENT POLICIES

The Banking Group recognises the importance of effective risk management to its business success. Management is committed to achieving strong control and a distinctive risk management capability that enables the Banking Group business units to meet their performance objectives.

The Banking Group approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The Risk function is independent of the business with clear delegations from the Board and operates within a comprehensive framework comprising:

- The Board, providing leadership, setting risk appetite/strategy and monitoring progress;
- A strong framework for development and maintenance of Banking Group-wide risk management policies, procedures and systems, overseen by an independent team of risk professionals;
- The use of sophisticated risk tools, applications and processes to execute the global risk management strategy across the Banking Group;
- Business Unit level accountability, as the "first line of defence", and for the management of risks in alignment with the Banking Group's strategy; and
- Independent oversight to ensure Business Unit level compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

The Banking Group manages risk through an approval, delegation and limits structure. Regular reviews of the policies, systems and risk reports, including the effectiveness of the risk management systems, discussions covering the Banking Group's response to emerging risk issues and trends, and that the requisite culture and practices are in place across the Banking Group, are conducted within the Banking Group and also by the Ultimate Parent Bank. The Board has responsibility for reviewing all aspects of risk management.

The Board has ultimate responsibility for overseeing the effective deployment of risk management frameworks, policies and processes within New Zealand. The Banking Group's Risk Committee assists the Board in this function. The role of the Committee is to assist the Board in the effective discharge of its responsibilities for business, market, credit, operational, compliance, liquidity and reputational risk management, and to liaise and consult with the Ultimate Parent Bank Risk Committee as required. The Banking Group has an independent Risk Management function, which via the Chief Risk Officer, coordinates risk management directly between Business Unit risk functions and Ultimate Parent Bank Group Risk Management functions.

The risk management process is subject to oversight by the Risk Committee of the Ultimate Parent Bank Board. This includes the review of risk portfolios and the establishment of prudential policies and controls.

The Banking Group's risk management policies are essentially the same as the Ultimate Parent Bank, but are tailored where required to suit the local New Zealand regulatory and business environment.

The Audit Committee, which is a sub-committee of the Board, has responsibility for reviewing all aspects of published financial statements and internal and external audit processes. The Committee has a quorum of two directors, both of whom must be non-executive directors. It meets at least four times a year, and reports directly to the Board.

Financial risk management

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations.

Market risk is the risk to the Banking Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices.

Liquidity risk is the risk that the Banking Group has insufficient capacity to fund increases in assets, or is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt.

Refer to Note 31 Financial Risk Management for detailed disclosures on the Banking Group's financial risk management policies.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

3. RISK MANAGEMENT POLICIES (CONTINUED)

Operational risk

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to the Bank's reputation.

Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Risk Management is responsible for establishing the Banking Group's operational risk framework and associated Banking Group-level policies. Business Units are responsible for the identification, analysis, assessment and treatment of operational risks on a day-to-day basis.

Business Units have primary responsibility for the identification and management of operational risk with executive oversight provided by the relevant Retail and Wholesale Risk Committees. The Banking Group's Operational Risk Executive Committee ("OREC") undertakes the governance function through the monthly monitoring of operational risk performance across the Banking Group. The Board and Risk Management conduct effective oversight through the approval of operational risk policies and frameworks and monitoring key operational risk metrics.

Compliance

The Banking Group conducts its business in accordance with all relevant compliance requirements in each point of representation. In order to assist the Banking Group identify, manage, monitor and measure its compliance obligations, the Banking Group has a comprehensive regulatory compliance framework in place, which addresses both external (regulatory) and internal compliance.

Risk Management, in conjunction with Business Unit staff ensure the Banking Group operates within a compliance infrastructure and framework that incorporates new and changing business obligations and processes.

The compliance policies and their supporting framework seek to minimise material risks to the Banking Group's reputation and value that could arise from non-compliance with laws, regulations, industry codes and internal standards and policies. Business Units have primary responsibility for the identification and management of compliance. The Banking Group's Risk Management division provides policy and framework, measurement, monitoring and reporting, as well as leadership in areas such as anti-money laundering procedures and matters of prudential compliance. The Banking Group's OREC, the Chief Risk Officer, the Board and the Risk Committee of the Ultimate Parent Bank Board conduct Board and Executive oversight.

Internal audit

The Banking Group's internal audit function, conducts independent reviews that assist the Board of Directors and management to meet their statutory and other obligations.

Internal Audit reports directly to the Chairman of the ANZ National Audit Committee. Under its Charter, Internal Audit conducts independent appraisals of:

- The continued operation and effectiveness of the internal controls in place to safeguard and monitor all material risks to the Banking Group;
- Compliance with Board policies and management directives;
- Compliance with the requirements of supervisory regulatory authorities;
- The economic and efficient management of resources; and
- The effectiveness of operations undertaken by the Banking Group.

In planning the audit activities, Internal Audit adopts a risk-based approach that directs and concentrates resources to those areas of greatest significance, strategic concern and risk to the business. This encompasses reviews of major credit, market, technology and operating risks within the wider Banking Group. Significant findings are reported quarterly to the Audit Committee.

The Internal Audit Plan is approved by the Audit Committee and endorsed by the ANZ Group Audit Committee.

All issues and recommendations reported to management are tracked and monitored internally to ensure completion and agreed actions are undertaken where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4. INCOME

	Consolidated		Parent	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
INTEREST INCOME				
Financial assets at fair value through profit or loss				
Trading securities	187	220	187	220
Due from subsidiary companies	-	-	380	-
	187	220	567	220
FINANCIAL ASSETS NOT AT FAIR VALUE THROUGH PROFIT OR LOSS				
Liquid assets	118	313	118	313
Other financial institutions	259	321	230	275
Available-for-sale assets	16	3	16	3
Lending on productive loans	6,563	8,978	6,354	8,758
Lending on impaired assets	8	6	8	6
Subsidiary companies	-	-	46	47
Related parties	-	-	-	-
Other	95	16	90	16
	7,059	9,637	6,862	9,418
Total interest income	7,246	9,857	7,429	9,638
OTHER OPERATING INCOME				
Net fee income ¹	674	646	650	594
Dividends received	1	4	1,100	24
Associate investments	-	-	-	88
Net gain on foreign exchange trading	201	166	199	164
Net gain on trading securities	43	44	43	44
Net (loss) gain on trading derivatives	(57)	61	(57)	61
Net loss on financial assets designated at fair value	-	-	(2)	-
Net gain on hedges not qualifying for hedge accounting	3	72	43	72
Net ineffectiveness on qualifying cash flow hedges	-	-	-	-
Net ineffectiveness on qualifying fair value hedges	71	(70)	71	(70)
Net cash flow hedge gains transferred to income statement	3	37	3	37
Net (loss) gain on financial liabilities designated at fair value through profit or loss	(21)	15	(59)	15
ING New Zealand Funds ²	(211)	-	(211)	-
Other income	42	38	(25)	27
Total other operating income	749	1,013	1,755	1,056
¹Net fee income comprises:				
Lending and credit facility fee income	161	134	162	135
Fee income on trust and other fiduciary activities	53	47	34	20
Other fee income	602	632	596	606
Total fee income	816	813	792	761
Direct fee expense	142	167	142	167
Net fee income	674	646	650	594

2. Refer to Note 41 Contingent Liabilities and Credit Related Commitments for further information on ING New Zealand Funds.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5. EXPENSES

	Consolidated		Parent	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
INTEREST EXPENSE				
Financial liabilities at fair value through profit or loss				
Commercial paper	561	997	-	-
Due to subsidiary companies	-	-	504	-
	561	997	504	-
Deposits at amortised cost				
Other financial institutions	242	195	115	99
Deposits and other borrowings	2,959	4,397	3,203	4,800
Subsidiary companies	-	-	1,300	2,730
Bonds and notes	819	1,532	108	57
Related party funding	28	151	28	151
Loan capital	207	207	207	207
Other	76	89	73	86
	4,331	6,571	5,034	8,130
Total interest expense	4,892	7,568	5,538	8,130
OPERATING EXPENSES				
Personnel costs	718	724	684	692
Employee entitlements	72	75	71	73
Pension cost				
- Defined contribution schemes	36	37	35	36
- Defined benefit schemes	8	7	8	7
Share-based payments expense	18	13	18	13
Building occupancy costs	42	38	10	9
Depreciation of premises and equipment	39	38	16	15
Leasing and rental costs	80	80	14	17
Related parties (Note 44)	91	82	200	178
Computer expenses	120	117	114	110
Administrative expenses	177	180	173	172
Other costs	76	53	67	62
Total operating expenses	1,477	1,444	1,410	1,384
	Year to 30/09/2009 \$'000	Year to 30/09/2008 \$'000	Year to 30/09/2009 \$'000	Year to 30/09/2008 \$'000
Auditors' remuneration to KPMG comprises:				
Audit or review of financial statements	1,994	1,942	1,508	1,583
Other audit-related services	369	500	448	298
Total auditors' remuneration	2,363	2,442	1,956	1,881

It is Banking Group policy that KPMG can provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. KPMG may not provide services that are perceived to be in conflict with the role of auditor. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work. However, non-audit services that are not perceived to be in conflict with the role of auditor may be provided by KPMG subject to the approval of the Ultimate Parent Bank Audit Committee.

Other audit-related services include services for the audit or review of financial information other than financial reports including prudential supervision reviews, prospectus reviews and other audits required for local regulatory purposes.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

6. INCOME TAX EXPENSE

	Consolidated		Parent	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
RECONCILIATION OF THE PRIMA FACIE INCOME TAX PAYABLE ON PROFIT WITH THE INCOME TAX EXPENSE CHARGED IN THE INCOME STATEMENT				
Profit before income tax	765	1,667	1,396	902
Prima facie income tax at 30% ¹	230	550	419	298
Rebateable and non-assessable dividends	(8)	(10)	(329)	(8)
Additional tax provision	240	-	240	-
Non-deductible expenses (non-assessable income)	6	(35)	56	(31)
	468	505	386	259
Tax effect of change in domestic tax rate ¹	-	(1)	-	(1)
Income tax under provided in prior years	(1)	-	-	-
Total income tax expense	467	504	386	258
Effective tax rate (%)	61.0%	30.2%	27.6%	28.6%
The major components of the income tax expense comprise:				
Amounts recognised in the income statement				
Current income tax charge				
Current income tax charge	426	590	299	341
Adjustments recognised in the current year in relation to current tax of prior periods	(1)	-	-	-
Deferred income tax				
Deferred tax expense (income) relating to the origination and reversal of temporary differences	141	(86)	186	(83)
Other (including indemnity)	(99)	-	(99)	-
Total income tax expense recognised in income statement	467	504	386	258
The following amounts were credited directly to equity:				
Current income tax				
Actuarial loss on defined benefit schemes	(7)	(10)	(7)	(10)
Deferred income tax				
Net loss on revaluation of financial instruments	(3)	(24)	(3)	(24)
Total income tax credit recognised directly in equity	(10)	(34)	(10)	(34)
Imputation Credit Account				
Balance at beginning of the year	696	831	446	595
Imputation credits attached to dividends received	31	33	285	18
Taxation paid	138	211	55	84
Imputation credits attached to dividends paid	(252)	(370)	(282)	(370)
Additions from companies joining the Imputation Group	-	-	-	121
Other	32	(9)	24	(2)
Balance at end of the year	645	696	528	446

The above amounts only include items that give rise to imputation credits that are available for use by the Banking Group and/or the Bank. The parent is a member of an Imputation Group with other members of the Banking Group. The figures shown for the Parent above include the imputation credits available for use by the Parent held by the Imputation Group.

1. In May 2007, legislation was passed to reduce the New Zealand corporate tax rate from 33% to 30%, effective for the 2009 income tax year. The tax effect shown is the impact on the value of deferred tax assets and liabilities as a result of the reduction in the corporate tax rate from 1 October 2008.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7. LIQUID ASSETS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Cash and balances with central banks	2,373	3,949	2,373	3,949
Securities purchased under agreement to resell	-	-	-	-
Money at call	341	807	340	806
Bills receivable and remittances in transit	48	82	45	82
Total liquid assets	2,762	4,838	2,758	4,837
Included within liquid assets is the following balance:				
Overnight balances with central banks	2,207	3,779	2,207	3,779
The Banking Group's core liquidity portfolio held for managing liquidity risk (Note 36)	11,077	8,736	11,077	8,736

8. DUE FROM OTHER FINANCIAL INSTITUTIONS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Able to be withdrawn without prior notice	172	437	172	435
Securities purchased under agreement to resell	1,083	304	1,083	304
Security settlements	370	1,328	370	1,328
Certificates of deposit	2,338	2,447	2,338	2,447
Reserve bank bills	398	-	398	-
Term loans and advances	153	516	-	13
Total due from other financial institutions	4,514	5,032	4,361	4,527
Included within due from other financial institutions is the following related party balance:				
Subsidiary of the Ultimate Parent Bank	-	1,328	-	1,328

There are no assets used to secure deposit obligations or assets encumbered through repurchase agreements at 30 September 2009 (30/09/2008 \$nil).

9. TRADING SECURITIES

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Government, Local Body stock and bonds	1,389	252	1,389	252
Certificates of deposit	191	926	191	926
Promissory notes	28	39	28	39
Other bank bonds	2,475	1,331	2,475	1,331
Other	83	76	83	76
Total trading securities	4,166	2,624	4,166	2,624
Included within trading securities is the following balance:				
Assets encumbered through repurchase agreements	159	97	159	97

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are contracts whose value is derived from one or more underlying variables or indices, require little or no initial net investment and are settled at a future date. Derivatives include contracts traded on registered exchanges and contracts agreed between counterparties, called "Over the Counter" or "OTCs". The use of derivatives and their sale to customers as risk management products is an integral part of the Banking Group's trading activities. Derivatives are also used to manage the Banking Group's own exposure to fluctuations in exchange and interest rates as part of its asset and liability management activities (i.e. balance sheet risk management).

Derivatives are subject to the same types of credit and market risk as other financial instruments and the Banking Group manages these risks in a consistent manner.

Types of derivative instruments

The principal foreign exchange rate contracts used by the Banking Group are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

The principal interest rate contracts used by the Banking Group are forward rate agreements, interest rate futures, interest rate swaps and options. Forward rate agreements are contracts for the payment of the difference between a specified interest rate and a reference rate on a notional deposit at a future settlement date. There is no exchange of principal. An interest rate future is an exchange traded contract for the delivery of a standardised amount of a fixed income security or time deposit at a future date. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. Interest rate options provide the buyer with the right but not the obligation either to receive or pay interest at a specified rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

The principal commodity contracts used by the Banking Group are commodity swaps. A commodity swap generally involves the exchange of the return on the commodity for a fixed or floating interest payment without the exchange of the underlying commodity or principal amount.

Equity related contracts are transacted by the Banking Group to offset the equity risk associated with financial instruments priced against various share indices.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification includes two categories of derivative instruments: those held as trading positions and those used for the Banking Group's balance sheet risk management.

Trading positions

Trading positions consist of both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products to customers which enable them to take or mitigate risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in price or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

Gains or losses, including any current period interest, from the change in fair value of trading positions are recognised in the income statement as other operating income in the period in which they occur.

Balance sheet risk management

The Banking Group designates balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions.

Gains or losses from the change in fair value of balance sheet risk management derivatives that form part of an effective hedging relationship are recognised in the income statement based on the hedging relationship. Any ineffectiveness is recognised in the income statement as other operating income in the period in which it occurs.

Gains or losses, excluding any current period interest, from the change in fair value of balance sheet risk management positions that are not designated into hedging relationships are recognised in the income statement as other operating income in the period in which they occur. Current period interest is included in interest income and expense.

The following tables provide an overview of the Banking Group's and the Bank's foreign exchange rate, interest rate and commodity derivatives. They include all trading and balance sheet risk management contracts. Notional principal amounts measure the amount of the underlying financial commodity and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and as a consequence the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held and notional principal amounts are set out as follows.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Consolidated			Parent		
	Notional Principal Amount \$m	Fair values		Notional Principal Amount \$m	Fair values	
		Assets \$m	Liabilities \$m		Assets \$m	Liabilities \$m
30/09/2009						
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	30,475	687	1,582	30,475	687	1,582
Swap agreements	69,971	2,900	3,831	70,062	2,900	3,838
Options purchased	1,018	42	-	1,018	42	-
Options sold	953	-	52	953	-	52
Collateral received / paid	n/a	(115)	(2,908)	n/a	(115)	(2,908)
	102,417	3,514	2,557	102,508	3,514	2,564
Interest rate derivatives						
Forward rate agreements	32,498	2	3	32,498	2	3
Swap agreements	390,183	7,400	7,275	396,033	7,441	7,275
Futures contracts	20,647	45	2	20,647	45	2
Options purchased	2,026	23	-	2,026	23	-
Options sold	2,034	-	23	2,034	-	23
	447,388	7,470	7,303	453,238	7,511	7,303
Commodity derivatives						
Fuel derivatives	23	1	1	23	1	1
Electricity derivatives	13	1	1	13	1	1
Total derivatives held for trading	549,841	10,986	9,862	555,782	11,027	9,869
Derivatives held for hedging						
(a) Designated as cash flow hedges						
Foreign exchange derivatives						
Spot and forward contracts	-	-	-	-	-	-
Interest rate derivatives						
Swap agreements	15,910	140	111	15,910	140	111
Total derivatives designated as cash flow hedges	15,910	140	111	15,910	140	111
(b) Designated as fair value hedges						
Foreign exchange derivatives						
Swap agreements	18	-	-	18	-	-
Interest rate derivatives						
Swap agreements	22,366	282	789	22,366	282	789
Total derivatives designated as fair value hedges	22,384	282	789	22,384	282	789
Total derivatives held for hedging	38,294	422	900	38,294	422	900
Total derivative financial instruments	588,135	11,408	10,762	594,076	11,449	10,769

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Consolidated			Parent		
	Notional Principal Amount \$m	Fair values		Notional Principal Amount \$m	Fair values	
		Assets \$m	Liabilities \$m		Assets \$m	Liabilities \$m
30/09/2008						
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	37,914	1,079	684	37,914	1,079	684
Swap agreements	68,158	3,129	1,802	68,246	3,138	1,802
Options purchased	1,828	58	-	1,828	58	-
Options sold	1,813	-	61	1,813	-	61
Collateral received / paid	n/a	(586)	(270)	n/a	(586)	(270)
	109,713	3,680	2,277	109,801	3,689	2,277
Interest rate derivatives						
Forward rate agreements ¹	40,536	22	17	40,536	22	17
Swap agreements	347,394	3,565	3,631	346,844	3,565	3,631
Futures contracts	20,328	15	6	20,328	15	6
Options purchased	2,158	11	-	2,158	11	-
Options sold	2,164	-	11	2,164	-	11
	412,580	3,613	3,665	412,030	3,613	3,665
Commodity derivatives						
Fuel derivatives	-	-	-	-	-	-
Electricity derivatives	36	4	4	36	4	4
Total derivatives held for trading	522,329	7,297	5,946	521,867	7,306	5,946
Derivatives held for hedging						
(a) Designated as cash flow hedges						
Foreign exchange derivatives						
Spot and forward contracts	-	-	-	-	-	-
Interest rate derivatives						
Swap agreements	12,160	161	142	12,160	161	142
Total derivatives designated as cash flow hedges	12,160	161	142	12,160	161	142
(b) Designated as fair value hedges						
Foreign exchange derivatives						
Swap agreements	58	1	-	58	1	-
Interest rate derivatives						
Swap agreements	31,299	74	622	31,899	76	622
Total derivatives designated as fair value hedges	31,357	75	622	31,957	77	622
Total derivatives held for hedging	43,517	236	764	44,117	238	764
Total derivative financial instruments	565,846	7,533	6,710	565,984	7,544	6,710

1. Restated to be comparable with current year treatment.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Hedging relationships

The Banking Group has two types of allowable hedging relationships entered into by the Banking Group: fair value hedges and cash flow hedges. Each has specific requirements when accounting for the fair value changes in the hedging relationship. For details on the accounting treatment of each type of hedging relationship refer to Note 1(E)(ii).

Fair value hedges

The risk being hedged in a fair value hedge is a change in the fair value of an asset or liability or unrecognised firm commitment that may affect the income statement. Changes in fair value might arise through changes in interest rates or foreign exchange rates. The Banking Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

The application of fair value hedge accounting results in the fair value adjustment on the hedged item attributable to the hedged risk being recognised in the income statement at the same time the hedging instrument impacts the income statement. If a hedging relationship is terminated, the fair value adjustment to the hedged item continues to be recognised as part of the carrying amount of the item or group of items and is amortised to the income statement as a part of the effective yield over the period to maturity. The table below shows the gain or loss on fair value hedges by hedging instrument and hedge item attributable to the hedged risk:

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Gain or (loss) arising from fair value hedges:				
- hedged item	263	733	263	733
- hedging instrument	(192)	(803)	(192)	(803)
Net ineffectiveness on qualifying fair value hedges	71	(70)	71	(70)

Cash flow hedges

The risk being hedged in a cash flow hedge is the potential volatility in future cash flows that may affect the income statement. Volatility in the future cash flows may result from changes in interest rates or changes in exchange rates arising from recognised financial assets and liabilities and highly probable forecast transactions. The Banking Group's cash flow hedges consist principally of interest rate swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The Banking Group primarily applies cash flow hedge accounting, where necessary, to its variable rate loan assets, variable rate liabilities and short term re-issuances of fixed rate customer and wholesale deposit liabilities. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is deferred to the cash flow hedging reserve which forms part of equity. Amounts deferred in equity are recognised in the income statement in the period during which the hedged forecast transactions take place and is fully amortised when the hedging relationship matures.

The table below shows the movements in the cash flow hedging reserve:

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Balance at beginning of the year	24	84	24	84
Transferred to income statement	(3)	(37)	(3)	(37)
Tax effect of items transferred to income statement	2	11	2	11
Valuation loss taken to equity	(1)	(47)	(1)	(47)
Tax effect of valuation loss taken to equity	1	13	1	13
Balance at end of the year	23	24	23	24

The mechanics of hedge accounting results in the gain or loss in the cash flow hedging reserve above being released into the income statement at the same time that the corresponding loss or gain attributable to the hedged item impacts the income statement. It will not necessarily be released to the income statement uniformly over the period of the hedging relationship as the fair value of the derivative is driven by changes in market rates over the term of the instrument. As market rates do not always move uniformly across all time periods, a change in market rates may drive more value in one forecast period than another, which impacts when the hedging reserve is released to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The table below shows the breakdown of the cash flow hedging reserve attributable to each type of cash flow hedging relationship:

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Variable rate loan assets	149	70	149	70
Variable rate liabilities	(29)	(1)	(29)	(1)
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	(97)	(45)	(97)	(45)
Total cash flow hedging reserve	23	24	23	24

All underlying hedged cash flows are expected to be recognised in the income statement in the year in which they occur which is anticipated to take place over the next 0 - 10 years (30/09/2008 0 - 10 years).

All gains and losses associated with the ineffective portion of the hedging derivatives are recognised immediately as other operating income in the income statement. The ineffectiveness recognised in the income statement in respect of cash flow hedges was less than \$1 million in the Banking Group (30/09/2008 less than \$1 million) and less than \$1 million in the Bank (30/09/2008 less than \$1 million).

There were no transactions where cash flow hedge accounting ceased in the year ended 30 September 2009 as a result of highly probable cash flows that were no longer expected to occur (30/09/2008 no transactions).

11. AVAILABLE-FOR-SALE ASSETS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Government, Local Body stock and bonds	1,394	3	1,394	3
Other debt securities	48	41	48	41
Equity securities	71	65	69	63
Total available-for-sale assets	1,513	109	1,511	107

12. NET LOANS AND ADVANCES

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Overdrafts	2,087	2,140	2,087	2,140
Credit card outstandings	1,402	1,434	1,402	1,435
Term loans – housing ¹	44,763	53,350	44,763	53,350
Term loans – non-housing	40,231	40,583	38,251	38,480
Finance lease receivables	683	777	30	36
Gross loans and advances	89,166	98,284	86,533	95,441
Provision for credit impairment (Note 14)	(1,272)	(666)	(1,212)	(612)
Unearned finance income	(262)	(346)	-	-
Fair value hedge adjustment	615	353	615	353
Deferred fee revenue and expenses	(51)	(55)	(47)	(50)
Capitalised brokerage/mortgage origination fees	63	109	63	109
Total net loans and advances	88,259	97,679	85,952	95,241

1. The Banking Group has entered into repurchase agreements for residential mortgage-backed securities with the Reserve Bank of New Zealand ("RBNZ") with a book value of \$1,806 million (30/09/2008 \$nil). The underlying collateral accepted by the RBNZ under this transaction are mortgages to the value of \$2,250 million (30/09/2008 \$nil). These loans have not been derecognised.

On 27 February 2009, the Banking Group sold \$4,877 million of residential mortgages to the Australia and New Zealand Banking Group Limited – New Zealand Branch. On 28 July 2009 a second tranche of \$4,986 million of residential mortgages was sold to the NZ Branch. These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets. Net loans and advances have decreased as a result of selling these assets.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13. IMPAIRED ASSETS, PAST DUE ASSETS AND OTHER ASSETS UNDER ADMINISTRATION

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
Individually impaired assets								
30/09/2009								
Balance at beginning of the year	83	30	214	327	83	14	191	288
Transfers from productive	576	243	882	1,701	576	235	802	1,613
Transfers to productive	(22)	(20)	(25)	(67)	(22)	(20)	(17)	(59)
Assets realised or loans repaid	(232)	(45)	(230)	(507)	(232)	(37)	(206)	(475)
Write offs	(28)	(149)	(101)	(278)	(28)	(141)	(81)	(250)
Individually impaired asset balance at end of the year	377	59	740	1,176	377	51	689	1,117
Restructured assets and other individually impaired assets	-	2	-	2	-	2	-	2
Total impaired assets	377	61	740	1,178	377	53	689	1,119
30/09/2008								
Balance at beginning of the year	7	20	88	115	7	7	79	93
Transfers from productive	103	122	228	453	103	97	200	400
Transfers to productive	(2)	-	(8)	(10)	(2)	-	(5)	(7)
Assets realised or loans repaid	(18)	(14)	(86)	(118)	(18)	(3)	(75)	(96)
Write offs	(7)	(98)	(8)	(113)	(7)	(87)	(8)	(102)
Individually impaired asset balance at end of the year	83	30	214	327	83	14	191	288
Restructured assets and other individually impaired assets	-	-	-	-	-	-	-	-
Total impaired assets	83	30	214	327	83	14	191	288

A restructured asset is an impaired asset for which the terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulty in complying with the original terms, and where the yield on the asset following restructuring is still above the Banking Group's cost of funds. An asset is classified as an other individually impaired asset if following the restructure the yield on the asset is below the Banking Group's cost of funds.

30/09/2009

Restructured assets

Balance at beginning of the year	-	-	-	-	-	-	-	-
Transfers to restructured assets	-	2	18	20	-	2	-	2
Transfers from restructured assets	-	-	(18)	(18)	-	-	-	-
Balance at end of the year	-	2	-	2	-	2	-	2

30/09/2008

Restructured assets

Balance at beginning of the year	-	-	-	-	-	-	-	-
Transfers to restructured assets	-	-	-	-	-	-	-	-
Transfers from restructured assets	-	-	-	-	-	-	-	-
Balance at end of the year	-	-	-	-	-	-	-	-

Renegotiated loans are loans that would otherwise be past due or impaired had their terms not been renegotiated. At 30 September 2009, loans and advances of \$266 million were renegotiated in the Banking Group (30/09/2008 \$9 million). In the Parent, loans and advances of \$196 million were renegotiated at 30 September 2009 (30/09/2008 \$3 million).

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13. IMPAIRED ASSETS, PAST DUE ASSETS AND OTHER ASSETS UNDER ADMINISTRATION (CONTINUED)

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
30/09/2009								
Past due assets (90 days past due assets)¹								
Balance at beginning of the year	244	54	11	309	244	47	5	296
Transfers to past due assets	852	149	448	1,449	852	104	399	1,355
Transfers from past due assets	(831)	(144)	(348)	(1,323)	(831)	(100)	(304)	(1,235)
Balance at end of the year	265	59	111	435	265	51	100	416
Other assets under administration								
Balance at beginning of the year	-	-	1	1	-	-	1	1
Transfers to other assets under administration	-	-	42	42	-	-	42	42
Transfers from other assets under administration	-	-	(43)	(43)	-	-	(43)	(43)
Balance at end of the year	-	-	-	-	-	-	-	-
Undrawn facilities with impaired customers								
Balance at beginning of the year	-	-	6	6	-	-	6	6
Transfers to undrawn facilities with impaired customers	-	-	26	26	-	-	26	26
Balance at end of the year	-	-	32	32	-	-	32	32
Interest foregone on impaired assets								
Gross interest receivable on impaired loans	22	4	42	68	22	4	42	68
Interest recognised	(4)	(1)	(7)	(12)	(4)	(1)	(7)	(12)
Net interest foregone on impaired loans	18	3	35	56	18	3	35	56

1. 90 day past due assets are not classified as impaired assets as they are either 90 days or more past due and well secured, or are portfolio managed facilities that can be held for up to 180 days past due.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13. IMPAIRED ASSETS, PAST DUE ASSETS AND OTHER ASSETS UNDER ADMINISTRATION (CONTINUED)

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
30/09/2008								
Past due assets (90 days past due assets)¹								
Balance at beginning of the year	57	19	26	102	57	17	21	95
Transfers to past due assets	696	146	14	856	696	90	12	798
Transfers from past due assets	(509)	(111)	(29)	(649)	(509)	(60)	(28)	(597)
Balance at end of the year	244	54	11	309	244	47	5	296
Other assets under administration								
Balance at beginning of the year	-	-	-	-	-	-	-	-
Transfers to other assets under administration	-	-	1	1	-	-	1	1
Transfers from other assets under administration	-	-	-	-	-	-	-	-
Balance at end of the year	-	-	1	1	-	-	1	1
Undrawn facilities with impaired customers								
Balance at beginning of the year	-	-	6	6	-	-	6	6
Transfers to (from) undrawn facilities with impaired customers	-	-	-	-	-	-	-	-
Balance at end of the year	-	-	6	6	-	-	6	6
Interest foregone on impaired assets								
Gross interest receivable on impaired loans	8	2	14	24	8	2	14	24
Interest recognised	(2)	-	(4)	(6)	(2)	-	(4)	(6)
Net interest foregone on impaired loans	6	2	10	18	6	2	10	18

Further analysis of past due assets can be found in Note 31 Financial Risk Management, including an ageing analysis of all past due assets 1 day and over where the counterparty has failed to make a payment when contractually due.

The Banking Group held no material assets acquired through enforcement of security (30/09/2008 \$nil).

1. 90 day past due assets are not classified as impaired assets as they are either 90 days or more past due and well secured, or are portfolio managed facilities that can be held for up to 180 days past due.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

14. PROVISION FOR CREDIT IMPAIRMENT

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
30/09/2009								
Collective provision								
Balance at beginning of the year	81	164	289	534	81	146	270	497
Charge (credit) to income statement	40	(5)	229	264	40	(6)	231	265
Balance at end of the year	121	159	518	798	121	140	501	762
Individual provision (individually impaired assets)								
Balance at beginning of the year	28	10	94	132	28	4	83	115
Charge to income statement	152	161	297	610	152	142	281	575
Recoveries of amounts previously written off	1	18	1	20	1	18	1	20
Bad debts written off	(28)	(149)	(101)	(278)	(28)	(141)	(81)	(250)
Discount unwind ¹	-	-	(10)	(10)	-	-	(10)	(10)
Balance at end of the year	153	40	281	474	153	23	274	450
Total provision for credit impairment	274	199	799	1,272	274	163	775	1,212
30/09/2008								
Collective provision								
Balance at beginning of the year	58	130	234	422	58	117	217	392
Charge to income statement	23	34	55	112	23	29	53	105
Balance at end of the year	81	164	289	534	81	146	270	497
Individual provision (individually impaired assets)								
Balance at beginning of the year	4	13	27	44	4	5	25	34
Charge to income statement	31	80	79	190	31	71	71	173
Recoveries of amounts previously written off	-	15	2	17	-	15	1	16
Bad debts written off	(7)	(98)	(8)	(113)	(7)	(87)	(8)	(102)
Discount unwind ¹	-	-	(6)	(6)	-	-	(6)	(6)
Balance at end of the year	28	10	94	132	28	4	83	115
Total provision for credit impairment	109	174	383	666	109	150	353	612

1. The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. The discount unwinds over the period the asset is held as interest income.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

14. PROVISION FOR CREDIT IMPAIRMENT (CONTINUED)

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
Provision movement analysis								
30/09/2009								
New and increased provisions	162	182	316	660	162	162	299	623
Provision releases	(9)	(3)	(18)	(30)	(9)	(2)	(17)	(28)
	153	179	298	630	153	160	282	595
Recoveries of amounts previously written off	(1)	(18)	(1)	(20)	(1)	(18)	(1)	(20)
Individual provision charge	152	161	297	610	152	142	281	575
Collective provision charge (credit)	40	(5)	229	264	40	(6)	231	265
Charge to income statement	192	156	526	874	192	136	512	840
30/09/2008								
New and increased provisions	31	95	97	223	31	86	86	203
Provision releases	-	-	(16)	(16)	-	-	(14)	(14)
	31	95	81	207	31	86	72	189
Recoveries of amounts previously written off	-	(15)	(2)	(17)	-	(15)	(1)	(16)
Individual provision charge	31	80	79	190	31	71	71	173
Collective provision charge	23	34	55	112	23	29	53	105
Charge to income statement	54	114	134	302	54	100	124	278

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

15. SHARES IN CONTROLLED ENTITIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Shares in controlled entities	-	-	7,377	7,398
Shares in associates	211	144	94	88
Shares in jointly controlled entities	253	219	231	208
Total shares in controlled entities, associates and jointly controlled entities	464	363	7,702	7,694
Shares in associates comprise:				
Balance at beginning of the year	144	10	88	2
Acquisitions	67	48	6	-
Disposals	-	-	-	-
Transfers to subsidiary company	-	-	-	-
Other	(2)	(2)	-	86
Share of profit of equity accounted associates ¹	2	88	-	-
Balance at end of the year	211	144	94	88

Shares in associates at 30 September 2009 includes goodwill of \$57 million (30/09/2008 \$57 million) for the Banking Group and \$nil (30/09/2008 \$nil) for the Parent.

Shares in jointly controlled entities comprise:

Balance at beginning of the year	219	196	208	208
Acquisitions	23	-	23	-
Disposals	-	-	-	-
Transfers to subsidiary company	-	-	-	-
Share of profit of equity accounted jointly controlled entities	11	23	-	-
Balance at end of the year	253	219	231	208

Shares in jointly controlled entities at 30 September 2009 includes goodwill of \$94 million (30/09/2008 \$97 million) for the Banking Group and \$90 million (30/09/2008 \$90 million) for the Parent.

1. The Banking Group, via its associate, Cards NZ Limited, acquired shares in Visa in March 2008, resulting in an equity accounted profit of \$88 million being recognised on the sale of the shares at fair value by Cards NZ Limited. Visa shares not sold into the initial public offering are held as an available-for-sale asset on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

16. OTHER ASSETS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Accrued interest and prepaid discounts	397	535	425	515
Accrued commission	19	20	16	16
Defined benefit schemes surplus	-	-	-	-
Share-based payments asset	52	50	52	50
Prepaid expenses	86	57	78	46
Security settlements	291	85	291	85
Other assets	292	253	219	173
Total other assets	1,137	1,000	1,081	885

17. DEFERRED TAX ASSETS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Deferred tax assets				
Balance at beginning of the year	121	11	100	-
Credited to income statement	251	59	209	57
Set-off of deferred tax liabilities pursuant to set-off provisions ¹	(372)	51	(309)	43
Balance at end of the year	-	121	-	100
Deferred tax assets comprise the following temporary differences:				
Provision for credit impairment	381	200	363	184
Deferred fee revenue and expenses	3	3	4	3
Premises and equipment	2	-	(3)	(3)
Software	5	11	4	12
Provisions and accruals	191	125	148	118
Derivative financial instruments	1	3	-	4
Defined benefit schemes	17	8	17	8
Other	4	3	3	1
	604	353	536	327
Set-off of deferred tax liabilities pursuant to set-off provisions ¹	(604)	(232)	(536)	(227)
Net deferred tax assets	-	121	-	100
The deferred tax credited (charged) to the income statement comprises the following temporary differences:				
Provision for credit impairment	181	60	179	55
Deferred fee revenue and expenses	-	-	1	-
Premises and equipment	2	(2)	-	(1)
Software	(6)	(21)	(8)	(20)
Provisions and accruals	66	22	30	23
Derivative financial instruments	(2)	-	(4)	-
Defined benefit schemes	9	8	9	8
Other	1	(8)	2	(8)
Total deferred tax credited to the income statement	251	59	209	57

There was no deferred tax asset charged or credited to equity as at 30 September 2009 (30/09/2008 \$nil). There were no unrecognised deferred tax assets as at 30 September 2009 (30/09/2008 \$nil).

The reduction in the corporate tax rate from 33% to 30% from the 2009 tax year has been taken into account in calculating the value of deferred tax assets as at 30 September 2008.

1. Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

18. PREMISES AND EQUIPMENT

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Freehold and leasehold land and buildings				
At cost	63	69	-	-
Accumulated depreciation	(11)	(12)	-	-
Total carrying amount	52	57	-	-
Leasehold improvements				
At cost	99	98	2	2
Accumulated depreciation	(78)	(75)	(1)	(1)
Total carrying amount	21	23	1	1
Furniture and equipment				
At cost	265	255	18	20
Accumulated depreciation	(191)	(176)	(11)	(12)
Total carrying amount	74	79	7	8
Computer and office equipment				
At cost	251	246	212	207
Accumulated depreciation	(200)	(196)	(170)	(169)
Total carrying amount	51	50	42	38
Work in progress	80	33	13	6
Total premises and equipment	278	242	63	53

Reconciliations of the carrying amounts for each class of premises and equipment are set out below:

Freehold and leasehold land and buildings				
Balance at beginning of the year	57	57	-	-
Additions	10	1	-	-
Disposals	(15)	-	-	-
Depreciation	-	(1)	-	-
Balance at end of the year	52	57	-	-
Leasehold improvements				
Balance at beginning of the year	23	24	1	1
Additions	3	3	-	-
Disposals	-	-	-	-
Depreciation	(5)	(4)	-	-
Balance at end of the year	21	23	1	1
Furniture and equipment				
Balance at beginning of the year	79	78	8	7
Additions	10	16	2	3
Disposals	(1)	-	(1)	-
Depreciation	(14)	(15)	(2)	(2)
Balance at end of the year	74	79	7	8
Computer and office equipment				
Balance at beginning of the year	50	50	38	39
Additions	24	18	23	12
Disposals	(4)	(1)	(4)	-
Depreciation	(19)	(17)	(15)	(13)
Balance at end of the year	51	50	42	38
Work in progress				
Balance at beginning of the year	33	23	6	7
Net additions	47	10	7	(1)
Balance at end of the year	80	33	13	6
Total premises and equipment	278	242	63	53

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Goodwill				
Gross carrying amount				
Balance at beginning and end of the year	3,265	3,265	3,217	3,217
Software				
Gross carrying amount				
Balance at beginning of the year	96	68	93	66
Additions from internal developments	19	28	17	27
Balance at end of the year	115	96	110	93
Accumulated amortisation				
Balance at beginning of the year	(47)	(39)	(45)	(39)
Amortisation expense ¹	(11)	(8)	(11)	(6)
Balance at end of the year	(58)	(47)	(56)	(45)
Total software	57	49	54	48
Other intangible assets	3	3	3	3
Total goodwill and other intangible assets	3,325	3,317	3,274	3,268

No impairment losses have been recognised against the gross carrying amount of goodwill for the year ended 30 September 2009 (30/09/2008 \$nil). During the year additions were made to other intangible assets of \$9 million (30/09/2008 \$nil) but subsequently a write-off was made for \$7 million (30/09/2008 \$nil).

1. Software amortisation expense is included in other costs in the income statement.

20. DUE TO OTHER FINANCIAL INSTITUTIONS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	497	1,002	12	1
Securities sold under agreements to repurchase from other financial institutions	159	97	159	97
Securities sold under agreements to repurchase from central banks ¹	1,806	-	1,806	-
Other financial institutions	1,263	2,213	1,262	1,842
Total due to other financial institutions	3,725	3,312	3,239	1,940
Included within due to other financial institutions is the following balance:				
Balances owing to the Ultimate Parent Bank by ANZ National (Int'l) Limited guaranteed by the Bank	485	1,001	-	-

Balances owing to the Ultimate Parent Bank are due within twelve months. Interest is paid at variable bank rates.

1. The Banking Group has entered into repurchase agreements for residential mortgage-backed securities with the RBNZ with a book value of \$1,806 million (30/09/2008 \$nil). The underlying collateral accepted by the RBNZ under this transaction are mortgages to the value of \$2,250 million (30/09/2008 \$nil).

These assets do not qualify for derecognition as the Bank retains a continuing involvement in the transferred assets, therefore the Banking Group's financial statements do not change as a result of establishing these facilities. The net effect on the Banking Group is to reflect additional cash or liquid assets and a liability being Securities sold under agreements to repurchase from central banks (refer Note 39 for further details).

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

21. DEPOSITS AND OTHER BORROWINGS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Amortised cost				
Certificates of deposit	4,441	5,527	4,441	5,527
Term deposits	32,997	31,260	32,997	31,260
Demand deposits bearing interest	21,024	22,085	21,024	22,085
Deposits not bearing interest	4,373	3,928	4,373	3,928
Secured debenture stock	1,537	1,683	-	-
Total deposits and other borrowings recognised at amortised cost	64,372	64,483	62,835	62,800
Fair value through the profit or loss				
Commercial paper	7,392	12,653	-	-
Total deposits and other borrowings recognised at fair value	7,392	12,653	-	-
Total deposits and other borrowings	71,764	77,136	62,835	62,800

The principal at maturity of commercial paper at fair value through the profit and loss is \$7,399 million (30/09/2008 \$12,755 million).

The Banking Group has not defaulted on any principal, interest or redemption amounts on its borrowed funds during the year ended 30 September 2009 (30/09/2008 \$nil). Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank 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 the claims of unsecured creditors.

Included within deposits and other borrowings are the following balances:

Commercial paper issued by ANZ National (Int'l) Limited guaranteed by ANZ National Bank Limited at amortised cost	7,388	12,670	-	-
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Registered secured debenture stock is constituted and secured by a trust deed between UDC Finance Limited and its independent trustee, Trustees Executors Limited. The trust deed creates floating charges over all the assets, primarily loans and advances, of UDC Finance Limited.

UDC Finance Limited secured debentures

Carrying value of total tangible assets	1,877	2,032	-	-
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22. PAYABLES AND OTHER LIABILITIES

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Creditors	81	77	38	42
Accrued interest and unearned discounts	687	982	559	811
Defined benefit schemes deficit	55	27	55	27
Share-based payments liability	28	29	28	29
Accrued charges	257	215	239	199
Security settlements	205	236	201	236
Equitable assignment of mortgages ¹	19	25	19	25
Other liabilities	477	250	139	162
Total payables and other liabilities	1,809	1,841	1,278	1,531

1. The ANZ FlexiMortgage Income Trust holds mortgages under an equitable assignment with the Bank. The ANZ FlexiMortgage Income Trust can at any time require the Bank to repurchase any mortgage. The Bank may also require repurchase in certain circumstances. The mortgages are included in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

23. DEFERRED TAX LIABILITIES

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Provision for deferred income tax				
Balance at beginning of the year	-	-	-	7
Charged (credited) to income statement	392	(27)	395	(26)
Credited directly to equity	(3)	(24)	(3)	(24)
Set-off of deferred tax liabilities pursuant to set-off provisions ¹	(372)	51	(309)	43
Balance at end of the year	17	-	83	-
Deferred tax liabilities comprise the following temporary differences:				
Lease finance	112	90	110	85
Other (including provisions)	509	142	509	142
	621	232	619	227
Set-off of deferred tax liabilities pursuant to set-off provisions ¹	(604)	(232)	(536)	(227)
Net deferred tax liabilities	17	-	83	-
The deferred tax charged (credited) to the income statement comprises the following temporary differences:				
Lease finance	22	(20)	25	(19)
Defined benefit schemes	-	(2)	-	(2)
Other (including provisions)	370	(5)	370	(5)
Total deferred tax charged (credited) to the income statement	392	(27)	395	(26)
The deferred tax credited to equity comprises the following temporary differences:				
Cash flow hedges	(3)	(24)	(3)	(24)
Total deferred tax credited directly to equity	(3)	(24)	(3)	(24)

The reduction in the corporate tax rate from 33% to 30% from the 2009 tax year has been taken into account in calculating the value of deferred tax liabilities as at 30 September 2008.

1. Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

24. PROVISIONS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Non-lending losses, frauds and forgeries	4	11	4	11
Employee entitlements¹				
Balance at beginning of the year	117	110	115	108
New provisions	60	62	59	61
Provisions utilised	(58)	(55)	(57)	(54)
Balance at end of the year	119	117	117	115
Personnel restructuring costs²				
Balance at beginning of the year	32	2	32	2
New provisions	17	30	17	30
Provisions utilised	(43)	-	(43)	-
Balance at end of the year	6	32	6	32
Redundant assets restructuring costs²				
Balance at beginning of the year	1	2	1	2
New provisions	17	-	17	-
Transfers from subsidiary companies	-	-	(4)	-
Provisions utilised	-	(1)	-	(1)
Balance at end of the year	18	1	14	1
Other provisions³				
Balance at beginning of the year	29	48	27	36
New provisions	257	11	257	9
Provisions utilised	(150)	(30)	(150)	(18)
Balance at end of the year	136	29	134	27
Total provisions	283	190	275	186

1. Employee entitlements

The provision for employee entitlements provides mainly for the cost of employee entitlements to annual leave, long service leave and retirement leave. The majority of employees utilise their annual leave in the year the entitlement accrued.

2. Personnel restructuring costs and redundant assets restructuring costs

Restructuring cost provisions arise from exit activities relating to material changes in the scope or manner of business undertaken by the Banking Group and includes termination benefits. Provisions are made when the Banking Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated. The majority of provisions recognised at 30 September 2009 are expected to be settled over the 2010 financial year, with the exception that provisions for losses arising from rental commitments on leased premises which have become vacant as a result of restructuring will be settled over the remaining term of the leases.

3. ING New Zealand Funds

Refer to Note 41 Contingent Liabilities and Credit Related Commitments for further information on ING New Zealand Funds.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

25. BONDS AND NOTES

					30/09/2009	30/09/2008
					\$m	\$m
Issued by ANZ National Bank Limited (Parent)						
Denomination	Face value		Maturity	Interest rate %		
NZD	150m	fixed rate notes	2009	6.82%	-	150
NZD	50m	floating rate notes	2009	3 month BKBM + 0.30%	-	50
NZD	70m	floating rate notes	2010	3 month BKBM + 0.35%	70	70
NZD	100m	fixed rate notes	2010	8.50%	100	100
NZD	75m	fixed rate notes	2010	8.50%	75	-
NZD	65m	fixed rate notes	2010	3 month BKBM + 0.80%	65	-
NZD	50m	floating rate notes	2011	3 month BKBM + 1.24%	50	-
NZD	150m	fixed rate notes	2011	6.80%	150	150
NZD	170m	floating rate notes	2011	3 month BKBM + 0.90%	170	170
NZD	50m	fixed rate notes	2011	8.25%	50	50
NZD	100m	floating rate notes	2012	3 month BKBM + 1.025%	100	-
NZD	150m	fixed rate notes	2012	5.63%	150	-
NZD	175m	fixed rate notes	2014	8.50%	175	175
NZD	60m	fixed rate notes	2014	8.50%	60	-
Index linked notes					78	146
Fair value hedge adjustment					223	62
					1,516	1,123

Issued by ANZ National (Int'l) Limited

Denomination	Face value		Maturity	Interest rate %		
GBP	300m	floating rate notes	2008	3 month GBP LIBOR + 0.01%	-	806
USD	120m	floating rate notes	2008	3 month LIBOR - 0.06%	-	179
USD	170m	floating rate notes ²	2008	1 month LIBOR + 0.01%	-	254
NZD	200m	fixed rate notes	2008	9.20%	-	200
JPY	15,000m	floating rate notes	2008	3 month JPY LIBOR	-	215
EUR	750m	floating rate notes	2009	3 month EURIBOR + 0.12%	-	1,607
HKD	1,000m	fixed rate notes	2009	4.40%	-	193
NZD	150m	floating rate notes	2009	3 month BKBM + 0.10%	150	150
HKD	300m	fixed rate notes	2009	4.93%	-	58
HKD	280m	fixed rate notes	2009	4.44%	-	54
USD	750m	floating rate notes	2009	3 month LIBOR + 0.04%	-	1,120
USD	250m	floating rate notes	2009	3 month Prime - 2.9125%	-	373
USD	300m	floating rate notes	2009	1 month LIBOR + 0.04%	416	448
NZD	20m	floating rate notes	2009	3 month BKBM + 0.05%	-	20
EUR	300m	floating rate notes	2009	3 month EUR LIBOR + 0.15%	-	643
JPY	17,770m	fixed rate notes	2009	0.055%	-	254
JPY	17,500m	floating rate notes	2009	3 month JPY LIBOR	-	250
USD	1m	floating rate notes ¹	2009	1 month LIBOR + 0.01%	-	1
USD	1,211m	floating rate notes ²	2009	3 month LIBOR + 0.22%	-	1,807
USD	789m	floating rate notes ²	2009	3 month LIBOR + 0.22%	1,093	1,178
JPY	8,640m	fixed rate notes	2009	0.114%	-	124
JPY	1,000m	fixed rate notes	2009	0.01%	-	14
JPY	6,000m	floating rate notes	2009	3 month JPY LIBOR	92	86
USD	8m	floating rate notes ¹	2010	1 month LIBOR + 0.02%	11	12
USD	750m	floating rate notes	2010	3 month LIBOR + 0.11%	1,039	1,120
NZD	100m	floating rate notes	2010	3 month BKBM + 0.05%	100	100

1. The interest rate payable on these notes is stepped as follows: Year 1 1 month LIBOR - 0.02%, Year 2 1 month LIBOR, Year 3 1 month LIBOR + 0.01%, Year 4 1 month LIBOR + 0.02% and Year 5 1 month LIBOR + 0.03%. The investors were able to elect to extend the maturity of the notes for a year on a monthly basis. These notes were originally for USD1.5billion, but between 7 August 2007 and 6 March 2009, investors elected not to extend these bonds. As a result these bonds carry a fixed maturity as follows: 7 August 2008 USD 89 million; 5 September 2008 USD 1,232 million; 7 October 2008 USD 164 million; 5 December 2008 USD 6 million; 7 May 2009 USD 1 million; and 5 March 2010 USD 8 million.

2. The interest rate payable on these notes is stepped as follows: Year 1 3 month LIBOR + 0.22%, Year 2 3 month LIBOR + 0.24% Year 3 3 month LIBOR + 0.26%, Year 4 3 month LIBOR + 0.28% and Year 5 3 month LIBOR + 0.29%. The investors were able to elect to extend the maturity of the notes for a year on a 3 monthly basis. On 10 June 2008 and 10 September 2008 and 10 December 2008, investors elected not to extend USD 686 million, USD 525 million and USD 789 million of bonds which has resulted in these bonds carrying a fixed maturity on 9 April 2009, 10 July 2009 and 9 October 2009 respectively.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

25. BONDS AND NOTES (CONTINUED)

					30/09/2009	30/09/2008
					\$m	\$m
CHF	275m	floating rate notes	2010	3 month CHF LIBOR + 0.75%	369	375
SGD	200m	fixed rate notes	2010	3.22%	196	209
USD	100m	floating rate notes	2010	3 month LIBOR + 0.55%	139	149
AUD	50m	floating rate notes	2010	3 month BBSW + 0.61%	61	60
USD	890m	floating rate notes ³	2010	3 month LIBOR + 1.03%	1,234	1,328
USD	300m	fixed rate notes	2011	5.50%	416	448
GBP	435m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	966	1,169
GBP	105m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	233	-
USD	500m	floating rate notes ⁴	2011	3 month LIBOR + 0.18%	693	-
USD	250m	floating rate notes	2011	3 month LIBOR + 0.70%	346	-
USD	100m	floating rate notes ⁴	2011	3 month LIBOR + 0.32%	139	-
USD	20m	floating rate notes ⁴	2011	3 month LIBOR + 0.20%	28	-
USD	100m	floating rate notes	2011	3 month LIBOR + 0.65%	139	-
HKD	155m	floating rate notes	2011	3 month HIBOR + 0.51%	28	-
GBP	450m	floating rate notes ³	2012	6 month GBP LIBOR + 0.08%	999	1,210
USD	1,500m	fixed rate notes ⁴	2012	3.25%	2,079	-
USD	100m	floating rate notes ⁴	2012	3 month LIBOR + 0.25%	139	-
USD	15m	floating rate notes	2012	3 month LIBOR + 0.80%	21	-
USD	2,000m	fixed rate notes	2013	6.20%	2,772	2,985
USD	100m	floating rate notes ⁴	2014	3 month LIBOR + 0.44%	139	-
HKD	100m	fixed rate notes	2014	3.40%	18	-
USD	250m	floating rate notes	2015	3 month LIBOR + 0.90%	346	373
					14,401	19,572
Total bonds and notes					15,917	20,695

Included within bonds and notes is the following related party balance:

Subsidiaries of the Australia and New Zealand Banking Group Limited	2,233	2,538
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Bonds and notes issued by ANZ National (Int'l) Limited are guaranteed by the Bank.

Bonds and notes are unsecured and rank equally with other unsecured liabilities of the Banking Group.

3. These notes were issued to subsidiaries of ANZ Group.

4. These notes are guaranteed by the NZ Banking Group and benefit from a supporting guarantee from the NZ Crown.

26. DUE TO PARENT COMPANY

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
ANZ Holdings (New Zealand) Limited (Parent Company)	930	404	930	404

These funds have been borrowed in New Zealand dollars on an overnight basis and are at call. Interest is payable monthly, based on New Zealand overnight deposit rates.

NOTES TO THE FINANCIAL STATEMENTS

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27. LOAN CAPITAL

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
AUD 207,450,000 term subordinated floating rate loan	-	248	-	248
AUD 265,740,000 perpetual subordinated floating rate loan	324	317	324	317
AUD 186,100,000 term subordinated floating rate loan	227	222	227	222
AUD 43,767,507 term subordinated floating rate loan	53	52	53	52
AUD 169,520,000 term subordinated floating rate loan	207	202	207	202
Term subordinated fixed rate bonds	950	950	950	950
Perpetual subordinated bond	835	835	835	835
Total loan capital issued	2,596	2,826	2,596	2,826
Less loan capital instruments held by the Banking Group	-	(6)	-	(6)
Total loan capital	2,596	2,820	2,596	2,820
Included within loan capital is the following related party balance:				
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	811	1,041	811	1,041

AUD 207,450,000 loan

This loan was drawn down on 31 August 2004 and had an ultimate maturity date of 31 August 2014. On 31 August 2009 the Bank repaid the loan. All interest was payable half yearly in arrears, with interest payments due 28 February and 31 August. Interest was based on BBSW + 0.40% p.a. up until, and including, 31 August 2009.

AUD 265,740,000 loan

This loan was drawn down on 27 September 1996 and has no fixed maturity. Interest is payable half yearly in arrears based on BBSW + 0.95% p.a., with interest payments due 15 March and 15 September.

AUD 186,100,000 loan

This loan was drawn down on 19 April 2005 with an ultimate maturity date of 20 April 2015. The Bank may elect to repay the loan on 19 April each year commencing from 2010 through to 2015. All interest is payable half yearly in arrears, with interest payments due 19 April and 19 October. Interest is based on BBSW + 0.32% p.a. to 19 April 2010 and increases to BBSW + 0.82% p.a. thereafter.

AUD 43,767,507 loan

This loan was drawn down on 15 September 2006 with an ultimate maturity date of 15 September 2016. The Bank may elect to repay the loan on 15 September each year commencing from 2011 through to 2016. All interest is payable half yearly in arrears, with interest payments due 15 March and 15 September. Interest is based on BBSW + 0.29% p.a. to 15 September 2011 and increases to BBSW + 0.79% p.a. thereafter.

AUD 169,520,000 loan

This loan was drawn down on 17 September 2007 with an ultimate maturity date of 17 September 2017. The Bank may elect to repay the loan on 17 September each year commencing from 2012 through to 2016. All interest is payable half yearly in arrears, with interest payments due 17 March and 17 September. Interest is based on BBSW + 0.68% p.a. to 17 September 2012 and increases to BBSW + 1.18% p.a. thereafter.

NZD subordinated bonds

The terms and conditions of the term subordinated fixed rate bonds are as follows:

Term subordinated fixed rate bonds

Issue date	Amount \$m	Coupon rate	Call date	Maturity date
15 September 2006	350	7.16%	15 September 2011	15 September 2016
2 March 2007	250	7.60%	2 March 2012	2 March 2017
23 July 2007	350	8.23%	23 July 2012	23 July 2017

As at 30 September 2009, these bonds carried an AA- rating by Standard & Poor's.

The Bank may elect to redeem the bonds on their call date. If the bonds are not called the Bank will continue to pay interest to maturity at the five year interest rate swap rate plus 0.75% p.a., 0.76% p.a. and 0.62% p.a. for the 15 September 2006; 2 March 2007 and 23 July 2007 bonds respectively. Interest is payable half yearly in arrears based on the fixed coupon rate.

The terms and conditions of the perpetual subordinated bond are as follows:

Perpetual subordinated bonds

Issue date	Amount \$m	Coupon rate	1 st Call date	2 nd Call date
18 April 2008	835	9.66%	18 April 2013	18 April 2018

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

27. LOAN CAPITAL (CONTINUED)

The Bank may elect to redeem the bonds on 18 April 2013, 18 April 2018 or any interest payment date subsequent to 18 April 2018. Interest is payable half yearly in arrears on 18 April and 18 October each year, beginning on 18 October 2008, up to and including the Second Call Date and then quarterly thereafter. If the bonds are not called at the First Call Date, the coupon rate will reset to the five year interest swap rate plus 2.00%. Should the bonds not be called at the Second Call Date, the Coupon Rate from the Second Call Date onwards will be set on a quarterly basis to the three month FRA rate plus 3.00%.

As at 30 September 2009, these bonds carried an A+ rating by Standard and Poor's.

Interest may not necessarily be paid on each interest payment date as under the terms of the Bonds, the Bank has a general right and in certain specified circumstances an obligation, to defer payment of interest on the Bonds.

All of the NZD subordinated bonds are listed on the NZX. The Market Surveillance Panel of the NZX granted the Bank a waiver from the requirements of Listing Rules 10.4 and 10.5. Rule 10.4 relates to the provision of preliminary announcements of half yearly and annual results to the NZX. Rule 10.5 relates to preparing and providing a copy of half yearly and annual reports to the NZX. The Bank has been granted a waiver from these rules on the conditions that the Bank's quarterly General Disclosure Statement ("GDS") is available on the Bank's website, at any branch and at the NZX; that bondholders are advised by letter that copies of the GDS are available at the above locations; that all bondholders are notified on an ongoing basis, by way of a sentence included on the notification of interest payments, that the latest GDS is available for review at the above locations; and that a copy of the GDS is sent to the NZX on an ongoing basis.

Loan capital is subordinated in right of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the Bank.

All subordinated debt qualifies as Lower Level Tier Two Capital for capital adequacy purposes except for the perpetual subordinated debt which qualifies as Upper Level Tier Two Capital.

28. ORDINARY SHARE CAPITAL

	Consolidated		Parent	
	30/09/2009 Number of Issued Shares	30/09/2008 Number of Issued Shares	30/09/2009 Number of Issued Shares	30/09/2008 Number of Issued Shares
Ordinary shares at beginning of the year	700,755,498	700,755,498	700,755,498	700,755,498
Ordinary shares issued during the year	1,000,000,000	-	1,000,000,000	-
Ordinary shares at end of the year	1,700,755,498	700,755,498	1,700,755,498	700,755,498

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Ordinary share capital at beginning of the year	5,943	5,943	5,943	5,943
Ordinary share capital issued during the year	1,000	-	1,000	-
Ordinary share capital at end of the year	6,943	5,943	6,943	5,943

The authorised share capital of the Bank comprises 1,700,755,498 ordinary shares. At the beginning and end of the year, 650,712 ordinary shares were uncalled (30/09/2008 650,712 shares).

On 24 March 2009, the bank paid a \$1 billion dividend to its parent company. At the same time, the Bank issued 1 billion ordinary shares to the value of \$1 billion.

Voting rights

At a meeting: on a show of hands or vote by voice every member who is present in person or by proxy or by representative shall have one vote.

On a poll: every member who is present in person or by proxy or by representative shall have one vote for every share of which such member is the holder.

NOTES TO THE FINANCIAL STATEMENTS

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29. RESERVES AND RETAINED EARNINGS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Available-for-sale revaluation reserve				
Balance at beginning of the year	23	(1)	23	(1)
Valuation gain recognised after tax	2	24	2	24
Balance at end of the year	25	23	25	23
Cash flow hedging reserve				
Balance at beginning of the year	24	84	24	84
Valuation loss recognised after tax	-	(34)	-	(34)
Transferred to income statement	(1)	(26)	(1)	(26)
Balance at end of the year	23	24	23	24
Total reserves	48	47	48	47
Retained earnings				
Balance at beginning of the year	3,817	2,677	2,322	1,701
Profit after income tax	298	1,163	1,010	644
Total available for appropriation	4,115	3,840	3,332	2,345
Actuarial loss on defined benefit schemes after tax	(18)	(23)	(18)	(23)
Interim ordinary dividend paid	(1,000)	-	(1,000)	-
Balance at end of the year	3,097	3,817	2,314	2,322

The paid dividend on ordinary shares was \$1.43 per share (30/09/2008 \$nil per share).

NOTES TO THE FINANCIAL STATEMENTS
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30. CAPITAL ADEQUACY

Adoption of Basel II Accord

The Bank received accreditation from the RBNZ to adopt the internal ratings based approach under the Basel II Accord for calculating capital adequacy ratios on 10 December 2007, effective from 31 March 2008. The objective of the Basel II Accord is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profiles of banks. Basel II consists of three pillars: Pillar I covers the capital requirements for banks for credit, operational and market risks; Pillar II covers all other material risks not already included in Pillar I; and Pillar III relates to market disclosure. These market disclosure requirements are set out below.

CAPITAL MANAGEMENT POLICIES

The Bank is subject to regulation by the RBNZ. The RBNZ specifies, in the Bank's Conditions of Registration, minimum capital requirements that the Bank must comply with. The Bank's Conditions of Registration require capital adequacy ratios for the Banking Group to be calculated under the Basel II framework, in accordance with the RBNZ document entitled 'Capital Adequacy Framework (Internal Models Based Approach)' ("BS2B"), dated March 2008.

The RBNZ defines total regulatory capital as tier one capital plus tier two capital less deductions from total capital. Tier one capital consists of equity less prescribed deductions such as goodwill. Tier two capital consists of subordinated loan capital less any prescribed deductions.

The Bank has an Internal Capital Adequacy Assessment Process ("ICAAP") which complies with the requirements under the Bank's Conditions of Registration, set out in the RBNZ document entitled 'Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")' ("BS12"). The Bank's ICAAP incorporates: overall capital policies and objectives; capital management policies and plans; allocation of capital to business units; and stress testing of both risk and capital positions.

The Bank's ICAAP policy outlines the core capital management principles that must be maintained to demonstrate that its capital levels: consider all material risks; are consistent with its overall risk appetite and profile; take account of the current operating environment and stage in business cycle; and that forward-looking stress testing of capital requirements is performed.

The Bank's core capital objectives are to:

- Protect the interests of depositors, creditors and the shareholder;
- Ensure the safety and soundness of the Bank's capital position; and
- Ensure that the capital base supports the Bank's risk appetite, and strategic business objectives, in an efficient and effective manner.

The Board holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes: setting, monitoring and obtaining assurance for the Bank's ICAAP policy and framework; standardised risk definitions for all material risks; materiality thresholds; capital adequacy targets; internal economic risk capital principles; and risk appetite.

The Board has set capital minimum, trigger and operating range targets for both tier one and total capital that ensure sufficient capital is maintained to:

- Meet minimum prudential requirements, as defined in the Bank's Conditions of Registration;
- Ensure consistency with the Bank's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- Support the economic risk capital requirements of the business.

The Bank aims to maintain capital consistent with a long-term Standard & Poor's AA credit rating and equivalent ratings from other rating agencies.

The Bank's Asset & Liability Committee and its related Capital Management sub-committee are responsible for developing, implementing and maintaining the Bank's ICAAP framework, including ongoing monitoring, reporting and compliance. The Bank's ICAAP is subject to independent and periodic review conducted by internal audit.

The Bank has complied with all externally imposed capital requirements which it is subject to during both the current and comparative period.

NOTES TO THE FINANCIAL STATEMENTS

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30. CAPITAL ADEQUACY (CONTINUED)

CAPITAL ADEQUACY RATIOS UNDER THE BASEL II INTERNAL MODELS BASED APPROACH

	Consolidated	
	Unaudited 30/09/2009	Unaudited 30/09/2008
Tier One Capital	9.03%	8.13%
RBNZ minimum Tier One Capital ratio	4.00%	4.00%
Minimum Tier One Capital ratio under Crown Wholesale Guarantee	6.00%	n/a
Total Capital	12.67%	11.72%
RBNZ minimum Total Capital ratio	8.00%	8.00%

CAPITAL OF THE BANKING GROUP AS AT 30 SEPTEMBER 2009 (UNAUDITED)

	\$m
Tier One Capital	
Ordinary share capital	6,943
Revenue and similar reserves	2,847
Current period's profit after tax	298
Less deductions from Tier One Capital	
- Goodwill	3,265
- Software and Other intangible assets	60
- Equity investment in ING NZ	248
- Future income tax benefits	47
- Cash flow hedging reserve	23
Total Tier One Capital	6,445
Tier Two Capital – Upper Level Tier Two Capital	
Perpetual subordinated debt	1,159
Tier Two Capital – Lower Level Tier Two Capital	
Term subordinated debt	1,437
	2,596
Plus additions to Tier Two Capital	
Expected loss to the extent lower than total eligible allowances for impairment	3
Total Tier Two Capital	2,599
Total Capital	9,044

TOTAL REQUIRED CAPITAL OF THE BANKING GROUP AS AT 30 SEPTEMBER 2009 (UNAUDITED)

	Exposure at default \$m	Risk weighted exposure or implied risk weighted exposure \$m	Total capital requirement \$m
Exposures subject to internal ratings based approach	123,527	51,286	4,102
Specialised lending exposures subject to slotting approach	6,966	7,147	573
Exposures subject to standardised approach	335	318	26
Equity exposures	289	1,152	92
Other exposures	3,048	715	57
Total credit risk	134,165	60,618	4,850
Operational risk	n/a	5,178	414
Market risk	n/a	3,898	312
Supervisory adjustment ¹	n/a	1,707	137
Total capital requirement	134,165	71,401	5,713

1. The supervisory adjustment includes an adjustment of 15% of risk-weighted retail mortgages and an adjustment, if required, in order to maintain the Basel II minimum capital requirement at no less than 90% of the Basel I minimum capital requirement, in accordance with the Bank's Conditions of Registration. No adjustment was required to maintain the Basel II minimum capital requirement at no less than 90% of the Basel I minimum capital requirement at 30 September 2009.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

30. CAPITAL ADEQUACY (CONTINUED)

CAPITAL ADEQUACY RATIOS UNDER THE BASEL I APPROACH

	Consolidated		Parent	
	Unaudited 30/09/2009	Unaudited 30/09/2008	Unaudited 30/09/2009	Unaudited 30/09/2008
Tier One Capital	8.43%	7.75%	8.34%	7.65%
Total Capital	11.82%	11.24%	11.66%	11.09%
Total risk-weighted exposures (\$m)	76,467	80,717	74,665	78,860
RBNZ minimum ratios:				
Tier One Capital	4.00%	4.00%	4.00%	4.00%
Total Capital	8.00%	8.00%	8.00%	8.00%

Basel I capital adequacy in respect of the Banking Group and Registered Bank has been derived in accordance with the RBNZ document entitled 'Capital Adequacy Framework (Basel I Approach)' ("BS2") dated March 2008.

IMPLEMENTATION OF THE ADVANCED INTERNAL RATINGS BASED APPROACH TO CREDIT RISK MEASUREMENT

The Banking Group adheres to the standards of risk grading and risk quantification as set out for Internal Ratings Based ("IRB") banks in the RBNZ document BS2B.

Under this IRB Framework banks use their own measures for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

Probability of Default ("PD") – an estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring. For Retail Mortgage exposures the Banking Group is required to adopt the RBNZ prescribed exposure weighted minimum PD of 1.25%;

Exposure at Default ("EAD") – the expected facility exposure at default; and

Loss Given Default ("LGD") – an estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to Loan To Value ("LVR") band as set out in BS2B. For Rural Banking exposures the Banking Group is required to adopt RBNZ prescribed downturn LGDs which are more conservative than internal estimates.

For exposures classified under Specialised Lending, the Banking Group uses slotting tables supplied by the RBNZ rather than internal estimates.

The exceptions to IRB treatment are five minor portfolios where, due to systems constraints or other reasons, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document entitled 'Capital Adequacy Framework (Standardised Approach)' ("BS2A").

Set out below is a schedule showing the classification of Banking Group exposures according to rating approach:

Internal Ratings Based Approach

IRB Asset Class	Borrower Type	Rating Approach
Sovereign	Crown	IRB - Advanced
	RBNZ	IRB - Advanced
	Any other sovereign and its central bank	IRB - Advanced
Bank	Registered banks	IRB - Advanced
Corporate	Corporation, partnerships or proprietorships that do not fit any other asset classification	IRB - Advanced
	Corporate Small to Medium Enterprises ("SME") with turnover of less than \$50 million	IRB - Advanced
Retail Mortgages	Individuals' borrowings against residential property	IRB - Advanced
Other Retail	Other lending to individuals (including credit cards)	IRB - Advanced
	SME business borrowers	IRB - Advanced
Corporate sub-class – Specialised lending	Project Finance	IRB - Slotting
	Income-Producing Real Estate	IRB - Slotting
Equity		IRB
Other assets	All other assets not falling within any of the above classes	IRB

NOTES TO THE FINANCIAL STATEMENTS

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30. CAPITAL ADEQUACY (CONTINUED)

Standardised Approach

Exposure Class	Exposure Type	Standardised	Future treatment
Residential Mortgages	ANZ Retail residential investment loans	System constraints	Move to IRB
Corporate	Purchased receivables	Nature of product	Remain Standardised
	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Mondex	Immaterial	Remain Standardised
Other Retail	Personal Credit Cards	System constraints	Move to IRB

CONTROLS SURROUNDING CREDIT RISK RATING SYSTEMS

The term "Rating Systems" covers all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

All material aspects of the Rating Systems and risk estimate processes are governed by the Risk Management Committee of the Banking Group. Risk grades are an integral part of reporting to senior management and executives. Management and staff of credit risk functions, in conjunction with the relevant Retail and Wholesale Risk Committees, regularly assess the performance of the rating systems, identify any areas for improvement and monitor progress on previously identified development work needed.

The Banking Group's Rating Systems are governed by a comprehensive framework of controls that operate at the business unit and support centres, and through central audit and validation processes. All policies, model designs, model reviews, methodologies, validations, responsibilities, systems and processes supporting the ratings systems are fully documented.

The Banking Group's Retail and Wholesale ratings functions work closely with the Ultimate Parent Bank's risk ratings functions, are independent of operational lending activities and are responsible for the ratings strategies and ongoing management of credit risk models within New Zealand. The annual validation of models used across the Banking Group is a function undertaken by the ANZ Decision Model Validation unit, which is also independent of credit risk operational functions and is responsible for overseeing the design, implementation and performance of all rating models in the Banking Group.

The target approach to modelling for the Banking Group is to deploy the model most suitable for the environment. At present this involves an approach to modelling that combines models developed in New Zealand and models developed by the Ultimate Parent Bank, tested and validated for use in New Zealand, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

30. CAPITAL ADEQUACY (CONTINUED)

CREDIT RISK EXPOSURES SUBJECT TO INTERNAL RATINGS BASED APPROACH

The following tables analyse the capital requirements by asset class under the IRB approach:

	Consolidated as at 30/09/2009 (Unaudited)					
	Total exposure or principal amount \$m	Exposure at default \$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
On-balance sheet exposures						
Corporate	36,599	36,460	37	63	24,207	1,936
Sovereign	4,850	4,850	5	1	46	4
Bank	5,743	4,688	62	14	709	57
Retail mortgages	41,904	41,904	21	24	10,668	853
Other retail	4,266	4,266	57	61	2,772	222
Total on-balance sheet exposures	93,362	92,168	30	39	38,402	3,072
Off-balance sheet exposures						
Corporate	13,723	11,396	47	54	6,502	521
Sovereign	23	23	5	1	-	-
Bank	716	630	47	17	115	9
Retail mortgages	5,692	5,143	20	26	1,393	111
Other retail	4,630	4,550	70	44	2,117	169
Total off-balance sheet exposures	24,784	21,742	45	44	10,127	810
Market related contracts						
Corporate	61,722	1,602	53	60	1,016	81
Sovereign	4,777	254	5	1	3	-
Bank	519,387	7,761	65	21	1,738	139
Total market related contracts	585,886	9,617	61	27	2,757	220
Total credit risk exposures subject to the internal ratings based approach	704,032	123,527	35	39	51,286	4,102

2. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

30. CAPITAL ADEQUACY (CONTINUED)

Consolidated as at 30/09/2009 (Unaudited)						
	Probability of default %	Exposure at default \$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
Corporate						
CCR rating						
0 - 2	0.05%	5,007	59	20	1,084	87
3 - 4	0.32%	21,121	37	36	8,127	650
5	0.99%	10,882	38	66	7,603	608
6	2.37%	6,982	39	89	6,592	527
7 - 8	7.35%	4,635	42	127	6,230	499
Default	100.00%	831	48	237	2,089	167
Total corporate credit risk exposures	3.06%	49,458	40	61	31,725	2,538
Sovereign						
CCR rating						
0	0.01%	5,078	5	1	46	4
1	n/a	-	-	-	-	-
2	n/a	-	-	-	-	-
3	n/a	-	-	-	-	-
4 - 8	0.59%	49	5	5	3	-
Default	n/a	-	-	-	-	-
Total sovereign credit risk exposures	0.02%	5,127	5	1	49	4
Bank						
CCR rating						
0	0.01%	9,735	65	18	1,822	146
1	0.02%	2,777	60	20	578	46
2 - 4	0.10%	483	41	23	115	9
5 - 6	1.14%	37	65	111	44	4
7 - 8	5.09%	1	65	193	3	-
Default	100.00%	46	65	-	-	-
Total bank credit risk exposures	0.37%	13,079	63	18	2,562	205
Retail mortgages						
CCR rating						
0 - 3	0.16%	7,012	22	7	549	44
4	0.48%	26,431	20	15	4,177	334
5	0.79%	2,768	22	24	702	56
6	2.14%	8,179	22	44	3,844	307
7 - 8	13.19%	1,848	24	115	2,260	181
Default	100.00%	809	29	62	529	42
Total residential mortgage credit risk exposures	2.95%	47,047	21	24	12,061	964
Other retail						
CCR rating						
0 - 2	0.10%	936	78	19	191	15
3 - 4	0.32%	3,844	65	34	1,384	111
5	1.09%	1,641	62	65	1,122	90
6	2.36%	1,332	52	69	980	78
7 - 8	10.33%	912	63	107	1,038	83
Default	100.00%	151	59	109	174	14
Total other retail credit risk exposures	3.49%	8,816	64	52	4,889	391

Credit risk exposures subject to the IRB approach have been derived in accordance with the RBNZ document BS2B and other relevant correspondence from the RBNZ setting out prescribed credit risk estimates.

2. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

30. CAPITAL ADEQUACY (CONTINUED)

SPECIALISED LENDING EXPOSURES SUBJECT TO THE SLOTTING APPROACH

Consolidated as at 30/09/2009 (Unaudited)				
Exposure amount \$m	Risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m	
On-balance sheet exposures³				
Strong	1,526	70	1,133	91
Good	2,447	90	2,334	187
Satisfactory	1,914	115	2,333	187
Weak	280	250	741	59
Default	182	-	-	-
Total on-balance sheet exposures subject to the slotting approach	6,349	97	6,541	524

	Exposure amount \$m	Exposure at default \$m	Average risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	632	513	92	499	40
Market related contracts	2,249	104	97	107	9
Total off-balance sheet exposures subject to the slotting approach	2,881	617	93	606	49

Specialised lending exposures subject to the slotting approach have been derived in accordance with the RBNZ document BS2B.

CREDIT RISK EXPOSURES SUBJECT TO THE STANDARDISED APPROACH

Consolidated as at 30/09/2009 (Unaudited)				
Exposure amount \$m	Risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m	
On-balance sheet exposures				
Corporates	55	100	58	5
Residential mortgages	53	39	22	2
Other retail	63	100	67	5
Default	7	150	11	1
Total on-balance sheet exposures subject to the standardised approach	178	84	158	13

	Exposure amount \$m	Average credit conversion factor \$m	Credit equivalent amount \$m	Average risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
Off-balance sheet exposures						
Undrawn commitments and other off balance sheet exposures	578	27	157	96	160	13

Credit risk exposures subject to the standardised approach have been calculated in accordance with the RBNZ document BS2A.

2. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

3. The supervisory categories of specialised lending above are associated with a specific risk-weight. These categories broadly correspond to the following external credit assessments using the Standard & Poor's rating scale, Strong: BBB- or better, Good: BB+ or BB, Satisfactory: BB- or B+ and Weak: B to C-.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

30. CAPITAL ADEQUACY (CONTINUED)

EQUITY EXPOSURES

Consolidated as at 30/09/2009 (Unaudited)				
Exposure amount	Risk weight	Risk weighted exposure ²	Total capital requirement	
\$m	%	\$m	\$m	\$m
All other equity holdings (not deducted from capital)	289	376	1,152	92

Equity exposures have been calculated in accordance with the RBNZ document BS2B.

OTHER EXPOSURES

Consolidated as at 30/09/2009 (Unaudited)				
Exposure amount	Risk weight	Risk weighted exposure ²	Total capital requirement	
\$m	%	\$m	\$m	\$m
Cash and gold bullion	166	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	2,207	-	-	-
Other assets	675	100	715	57
Total other IRB credit risk exposures	3,048	22	715	57

Other exposures have been calculated in accordance with the RBNZ document BS2B.

A risk weight of 100% applies to premises and equipment and all other exposures not otherwise defined in BS2B, except for cash, gold, New Zealand dollar denominated claims on the Crown and the RBNZ, which receive a 0% risk weight.

OPERATIONAL RISK

	Implied risk weighted exposure	Total operational risk capital requirement
	\$m	\$m
Operational risk capital requirement as at 30 September 2009 (Unaudited)		
Advanced Measurement Approach for operational risk	5,178	414

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with the RBNZ document BS2B.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk incorporates legal risk which includes, but is not limited to, exposures to fines, penalties, or punitive damages resulting from regulatory actions, as well as private settlements.

Operational Risk capital is modelled at a New Zealand divisional level and then distributed and adjusted for the business environment and internal controls down to the business units using the Risk Scenario Methodology. The Risk Scenario Methodology is a risk based methodology that ensures that there is sufficient operational risk capital held as a buffer for rare and severe unexpected operational loss events that may impact the New Zealand business. The methodology applies a combination of expert judgement, business unit risk profiles, audit findings, and internal and external loss events to derive a series of business specific Risk Scenarios that are applied to the capital model. The Risk Scenario approach:

- assesses the level of the Bank's exposure to specified risk scenarios;
- assesses the scope and quality of the Bank's internal control environment, key operational processes and risk mitigants; and

directly links the risk scenarios to operational risk capital.

The Banking Group's Operating Risk Capital is calculated using the Ultimate Parent Bank's methodology, but with standalone New Zealand inputs to ensure there are no diversification benefits.

The Banking Group does not incorporate any insurance mitigation impact into its capital number. Accordingly, there are no insurance related questions contained within the RDCA.

2. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

30. CAPITAL ADEQUACY (CONTINUED)

MARKET RISK

The aggregate market risk exposures below have been calculated in accordance with the RBNZ document BS2B.

The peak end-of-day market risk exposures for the quarter are measured over equity at the end of the quarter and are calculated separately for each category of exposure. The peak for all categories of exposure may not have occurred at the same time.

	Consolidated					
	Implied risk weighted exposure		Aggregate capital charge		Aggregate capital charge as a percentage of the Banking Group's Equity	
	As at \$m	Peak \$m	As at \$m	Peak \$m	As at %	Peak %
30/09/2009						
Interest rate risk	3,824	3,824	306	306	3.0%	3.0%
Foreign currency risk	5	301	-	24	0.0%	0.2%
Equity risk	69	82	6	7	0.1%	0.1%
	<u>3,898</u>		<u>312</u>			
30/09/2008						
Interest rate risk	3,736	3,984	299	319	3.0%	3.3%
Foreign currency risk	35	160	3	13	0.0%	0.1%
Equity risk	64	75	5	6	0.1%	0.1%
	<u>3,835</u>		<u>307</u>			

CREDIT RISK MITIGATION

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. The Banking Group generally takes collateral security in the form of real property or a security interest in personal property, except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance, in the form of housing loans, is generally secured against real estate while short term revolving consumer credit is generally unsecured.

Netting is defined as the set-off of two or more cash flows, assets or liabilities. The types of netting used by the Banking Group are payment or settlement, close-out, bilateral or multilateral. The Banking Group establishes its netting rights through various means including legally binding set-off agreements, collateral agreements, facility agreements, security agreements and the terms and conditions of trading (including ISDA Master Agreements when considered appropriate). Where documented rights to net have been established, a net limit may be used for exposure assessment and monitoring.

Guarantees used for credit risk mitigation may be provided by bank, sovereign, corporate or individual counterparties. Guarantors are separately rated, and their capacity to honour their commitments under the guarantee is also assessed. The obligor is also separately rated on a stand-alone basis, and then the rating of the obligor is adjusted to take into account the strength of the guarantor. The size of the adjustment reflects the Banking Group's assessment of the strength of the guarantor, but is capped at the guarantor's rating so there is no recognition of "double default". Guaranteed exposures are subject to Banking Group policy covering market and credit risk concentrations.

As at 30 September 2009, under the IRB approach, the Banking Group adjusted the PD on \$1,218 million of Corporate exposures covered by guarantees and \$nil of Corporate exposures covered by credit derivatives, where the presence of the guarantees or credit derivatives was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

30. CAPITAL ADEQUACY (CONTINUED)

RETAIL MORTGAGES BY LOAN-TO-VALUATION RATIO

As required by the RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Bank's valuation of the security property at origination of the exposure. The exposure amount used to calculate LVR excludes commitments to lend.

	Exposure amount \$m
LVR range	
0% - 59%	21,022
60% - 69%	6,671
70% - 79%	7,887
80% - 89%	5,032
Over 90%	4,985
Total retail mortgage exposures subject to the internal ratings based approach	<u>45,597</u>

PILLAR II CAPITAL FOR OTHER MATERIAL RISKS

The Banking Group has an Internal Capital Adequacy Assessment Process ("ICAAP") which complies with the requirements of the Bank's Conditions of Registration.

Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier one and total capital ratios. The other material risks identified by the Banking Group include premises and equipment risk and capitalised origination fees risk.

The Banking Group's internal capital allocation for these other material risks is:

	Total capital requirement	
	Unaudited 30/09/2009 \$m	Unaudited 30/09/2008 \$m
Internal capital allocation for other material risks	<u>148</u>	<u>145</u>

CAPITAL ADEQUACY OF ULTIMATE PARENT BANK

	Consolidated	
	Unaudited 30/09/2009	Unaudited 30/09/2008
Tier One Capital	10.6%	7.7%
Total Capital	13.7%	11.1%

For calculation of minimum capital requirements under Pillar I of the Basel II Accord, the Australian Prudential Regulation Authority ("APRA") has accredited the Ultimate Parent Bank to use the Advanced Internal Ratings Based ("AIRB") methodology for calculation of credit risk weighted assets and the Advanced Measurement Approach ("AMA") for the operational risk weighted asset equivalent. The Basel II Accord came into effect from 1 January 2008.

Under prudential regulations, the Ultimate Parent Bank is required to hold a minimum Prudential Capital Ratio ("PCR") as determined by APRA. The Ultimate Parent Bank met the minimum capital adequacy requirements set by APRA as at 30 September 2009 and for the comparative prior period.

The Ultimate Parent Bank is required to publicly disclose Pillar III financial information as at 30 September 2009. The Ultimate Parent Bank's Consolidated Financial Report, Dividend Announcement and Appendix 4E, for the Full Year to 30 September 2009, discloses capital adequacy ratios calculated under the Basel II methodology. These documents can be accessed at the following website: www.anz.com.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

Financial instruments are fundamental to the Banking Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Banking Group. Financial instruments create, modify or reduce the credit, market (including traded or fair value risks and non-traded or interest and foreign currency related risks) and liquidity risks of the Banking Group's balance sheet. These risks and the Banking Group's policies and objectives for managing such risks are outlined below. The Banking Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Banking Group.

CREDIT RISK

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and many jurisdictions. The credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

The Banking Group has an overall lending objective of sound growth for appropriate returns. The credit risk objectives of the Banking Group are set by the Board and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including asset writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations.

The credit risk management framework exists to provide a structured and disciplined process to support those objectives. The integrity of the credit risk function is maintained by the independence of the credit chain and is supported by comprehensive risk analysis, risk tools, monitoring processes and policies.

CREDIT RISK MANAGEMENT

The credit risk management framework is in place across the Banking Group with the aim of ensuring a structured and disciplined approach is maintained in achieving the objectives set by the Board. The framework focuses on policies, people, skills, vision, values, controls, risk concentrations and portfolio balance. It is supported by portfolio analysis and asset-writing strategies, which guide lending decisions and identify segments of the portfolio requiring attention. The effectiveness of the framework is monitored through a series of compliance and reporting processes.

An independent Risk Management function, at Banking Group, Divisional and Business Unit levels, is staffed by risk specialists. In regard to credit risk management, the objective is for Risk Management to provide robust credit policies, to make independent credit decisions, and to provide strong support to front line staff in the application of sound credit practices. In addition to providing independent credit assessment on lending decisions, Risk Management also performs key roles in portfolio management by development and validation of credit risk measurement systems, loan asset quality reporting, and development of credit standards and policies.

The credit risk management framework is top down. Where required, the framework is defined firstly by the Banking Group's Vision and Values and secondly, by Credit Principles and Policies. The effectiveness of the credit risk management framework is validated through the compliance and monitoring processes.

Risk Management's responsibilities for credit risk policy and management are executed through dedicated departments, which support the Banking Group's business units. All major Business Unit credit decisions require approval from both business writers and independent risk personnel.

Credit Risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent upon the level of risk. Credit risk policy and management is executed through the Chief Risk Officer who has various dedicated areas within the Risk Management division. Wholesale Risk services the Banking Group's corporate, investment banking and rural lending activities through dedicated teams. Retail Risk services the Banking Group's small business and consumer customers. The Portfolio Reporting team within Risk Management provides an independent overview of credit risk across the Bank at a portfolio level. The Banking Group allows sole discretion for transaction approvals at the Business Unit level in both the retail and wholesale lending sectors, with larger transactions approved by Retail Risk and Wholesale Risk.

The credit risk review function within Internal Audit also provides a further independent check mechanism to ensure the quality of credit decisions. This includes providing independent periodic checks on asset quality and compliance with the agreed standards and policies across the Banking Group.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Country risk management

Some customer credit risks involve country risk, whereby actions or events at a national or international level could disrupt servicing of commitments. Country risk arises when payment or discharge of an obligation will, or could, involve the flow of funds from one country to another or involve transactions in a currency other than the domestic currency of the relevant country.

Country ratings are assigned to each country where the Banking Group incurs country risk and have a direct bearing on the Banking Group's risk appetite for each country. The country rating is determined through a defined methodology based around external ratings agencies' ratings and internal specialist opinion. It is also a key risk consideration in the Banking Group's capital pricing model for cross border flows.

The recording of country limits provides the Banking Group with a means to identify and control country risk. Country limits ensure that there is a country-by-country ceiling on exposures that involve country risk. They are recorded by time to maturity and purpose of exposure, e.g. trade, markets, project finance. Country limits are managed centrally by the Ultimate Parent Bank, through a global country risk exposure management system managed by a specialist unit within Institutional Risk.

Portfolio stress testing

Stress testing is integral to strengthening the predictive approach to Risk Management and is a key component to managing risk appetite, asset writing strategies and business strategies. It creates greater understanding of impacts on financial performance through modelling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro economic scenarios.

The Ultimate Parent Bank has a dedicated stress testing team that assists business and risk executives in the Banking Group to model and report periodically to management and the Board Risk Committee on a range of scenarios and stress tests.

Portfolio analysis and reporting

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies.

Businesses incurring credit risk undertake regular and comprehensive analysis of their credit portfolios. Issue identification and adherence to performance benchmarks are reported to risk and business executives through a series of reports including monthly 'asset quality' reporting. This process is undertaken by or overseen by Banking Group Risk Management ensuring an efficient and independent conduit exists to quickly identify and communicate emerging credit issues to executives and the Board.

Collateral management

Banking Group credit principles specify to lend only what the counterparty has the capacity and ability to repay and the Banking Group sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (i.e. interest and capital repayments). Obtaining collateral is only used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured where appropriate. Banking Group policy sets out the types of acceptable collateral, including:

- Cash;
- Mortgages over property;
- Charges over business assets, e.g. premises, stock and debtors;
- Charges over financial instruments, e.g. debt securities and equities in support of trading facilities; and
- Financial guarantees.

In the event of customer default, any loan security is usually held as mortgagee in possession while action is taken to realise it. Therefore the Banking Group does not usually hold any real estate or other assets acquired through the enforcement of security.

The Banking Group uses International Swaps and Derivatives Association ("ISDA") Master Agreements to document derivatives' activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that, if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Further, it is the Banking Group's preferred practice to include all products covered by the ISDA in the Credit Support Annex ("CSA"), in order to achieve further credit exposure reduction. Under a CSA, collateral is passed between the parties, depending on the aggregate mark-to-market (positive or negative) of derivative trades between the two entities, to mitigate the market contingent counterparty risk inherent in the outstanding positions.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Banking Group monitors its portfolios to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks. Risk Management, Business Unit Executives and Senior Management monitor large exposure concentrations through a monthly list of the Banking Group's top Corporate exposures. The ANZ Credit and Market Risk Committee (six monthly) and Board Risk Committee (annually) review a comprehensive list of single customer concentration limits and customers' adherence to these limits.

Analyses of financial assets by industry sector are based on Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes.

Concentrations of credit risk analysis:

The composition of financial instruments that give rise to credit risk, by industry and geography:

	Consolidated						
	Liquid assets and due from other financial institutions \$m	Trading securities and available-for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Other financial assets \$m	Credit related commitments ³ \$m	Total \$m
30/09/2009							
Industry							
Agriculture, forestry, fishing	48	-	261	20,328	228	1,555	22,420
Business services	2	-	13	857	10	638	1,520
Construction	-	-	3	848	10	853	1,714
Entertainment, leisure and tourism	-	48	28	1,011	11	487	1,585
Finance and insurance	4,606	4,191	10,457	1,297	15	1,371	21,937
Government and local authority ¹	2,412	1,392	175	1,412	16	802	6,209
Manufacturing	83	1	96	2,786	31	3,835	6,832
Personal lending	-	-	1	45,930	516	10,461	56,908
Property services	3	-	36	8,231	92	1,723	10,085
Retail trade	91	-	74	1,592	18	1,206	2,981
Transport and storage	6	8	80	1,561	18	686	2,359
Wholesale trade	19	-	6	1,706	19	1,036	2,786
Other ²	6	39	178	1,357	15	1,341	2,936
	7,276	5,679	11,408	88,916	999	25,994	140,272
Individual provision for credit impairment	-	-	-	(474)	-	-	(474)
Collective provision for credit impairment	-	-	-	(798)	-	-	(798)
	-	-	-	(1,272)	-	-	(1,272)
Fair value hedge adjustment	-	-	-	615	-	-	615
Total financial assets	7,276	5,679	11,408	88,259	999	25,994	139,615
Geography							
New Zealand	6,213	3,272	2,951	86,784	999	25,994	126,213
Overseas	1,063	2,407	8,457	1,475	-	-	13,402
Total financial assets	7,276	5,679	11,408	88,259	999	25,994	139,615

1. Government and local authority includes exposures to government administration and defence, education and health and community services.

2. Other includes exposures to electricity, gas and water, communications, and personal services.

3. Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer. Credit related commitments for 2008 have been restated to be consistent with current year treatment.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Consolidated						
	Liquid assets and due from other financial institutions \$m	Trading securities and available-for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Other financial assets \$m	Credit related commitments ³ \$m	Total \$m
30/09/2008							
Industry							
Agriculture, forestry, fishing	105	-	74	17,925	163	2,169	20,436
Business services	-	-	9	1,201	11	426	1,647
Construction	-	-	1	921	8	510	1,440
Entertainment, leisure and tourism	-	28	7	1,051	10	132	1,228
Finance and insurance	5,104	2,423	6,809	1,817	17	1,737	17,907
Government and local authority ¹	3,966	255	277	642	6	1,238	6,384
Manufacturing	209	8	208	3,129	29	3,993	7,576
Personal lending	-	-	-	54,831	499	10,704	66,034
Property services	-	-	20	9,271	84	1,570	10,945
Retail trade	392	-	13	1,903	17	808	3,133
Transport and storage	31	4	20	1,392	13	858	2,318
Wholesale trade	23	-	11	1,849	17	1,265	3,165
Other ²	40	15	84	2,060	19	2,025	4,243
	9,870	2,733	7,533	97,992	893	27,435	146,456
Individual provision for credit impairment	-	-	-	(132)	-	-	(132)
Collective provision for credit impairment	-	-	-	(534)	-	-	(534)
	-	-	-	(666)	-	-	(666)
Fair value hedge adjustment	-	-	-	353	-	-	353
Total financial assets	9,870	2,733	7,533	97,679	893	27,435	146,143
Geography							
New Zealand	7,581	1,229	1,839	96,452	893	27,435	135,429
Overseas	2,289	1,504	5,694	1,227	-	-	10,714
Total financial assets	9,870	2,733	7,533	97,679	893	27,435	146,143

1. Government and local authority includes exposures to government administration and defence, education and health and community services.

2. Other includes exposures to electricity, gas and water, communications, and personal services.

3. Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer. Credit related commitments for 2008 have been restated to be consistent with current year treatment.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Parent							Total \$m
	Liquid assets and due from other financial institutions \$m	Trading securities and available- for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Due from subsidiary companies \$m	Other financial assets \$m	Credit related commitments ³ \$m	
30/09/2009								
Industry								
Agriculture, forestry, fishing	48	-	261	19,997	-	219	1,499	22,024
Business services	2	-	13	797	-	9	620	1,441
Construction	-	-	3	642	-	7	806	1,458
Entertainment, leisure and tourism	-	48	28	971	-	11	469	1,527
Finance and insurance	4,449	4,189	10,498	1,166	7,703	13	1,336	29,354
Government and local authority ¹	2,412	1,392	175	1,238	-	14	780	6,011
Manufacturing	83	1	96	2,599	-	29	4,561	7,369
Personal lending	-	-	1	45,618	-	501	10,461	56,581
Property services	3	-	36	8,135	-	89	1,667	9,930
Retail trade	91	-	74	1,457	-	16	1,073	2,711
Transport and storage	6	8	80	1,194	-	13	632	1,933
Wholesale trade	19	-	6	1,644	-	18	993	2,680
Other ²	6	39	178	1,091	-	12	1,302	2,628
	7,119	5,677	11,449	86,549	7,703	951	26,199	145,647
Individual provision for credit impairment	-	-	-	(450)	-	-	-	(450)
Collective provision for credit impairment	-	-	-	(762)	-	-	-	(762)
	-	-	-	(1,212)	-	-	-	(1,212)
Fair value hedge adjustment	-	-	-	615	-	-	-	615
Total financial assets	7,119	5,677	11,449	85,952	7,703	951	26,199	145,050
Geography								
New Zealand	6,056	3,270	2,992	84,477	7,703	951	26,199	131,648
Overseas	1,063	2,407	8,457	1,475	-	-	-	13,402
Total financial assets	7,119	5,677	11,449	85,952	7,703	951	26,199	145,050

1. Government and local authority includes exposures to government administration and defence, education and health and community services.

2. Other includes exposures to electricity, gas and water, communications, and personal services.

3. Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer. Credit related commitments for 2008 have been restated to be consistent with current year treatment.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Parent							Total \$m
	Liquid assets and due from other financial institutions \$m	Trading securities and available- for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Due from subsidiary companies \$m	Other financial assets \$m	Credit related commitments ³ \$m	
30/09/2008								
Industry								
Agriculture, forestry, fishing	105	-	74	17,604	-	145	2,146	20,074
Business services	-	-	9	1,078	-	9	424	1,520
Construction	-	-	1	689	-	6	481	1,177
Entertainment, leisure and tourism	-	28	7	1,026	-	8	128	1,197
Finance and insurance	4,599	2,421	6,820	1,648	1,992	14	1,737	19,231
Government and local authority ¹	3,965	255	277	560	-	5	1,237	6,299
Manufacturing	209	8	208	2,946	-	24	3,974	7,369
Personal lending	-	-	-	54,358	-	449	10,690	65,497
Property services	-	-	20	9,267	-	77	1,554	10,918
Retail trade	392	-	13	1,723	-	14	773	2,915
Transport and storage	31	4	20	1,009	-	8	808	1,880
Wholesale trade	23	-	11	1,797	-	15	1,251	3,097
Other ²	40	15	84	1,795	-	15	2,019	3,968
	9,364	2,731	7,544	95,500	1,992	789	27,222	145,142
Individual provision for credit impairment	-	-	-	(115)	-	-	-	(115)
Collective provision for credit impairment	-	-	-	(497)	-	-	-	(497)
	-	-	-	(612)	-	-	-	(612)
Fair value hedge adjustment	-	-	-	353	-	-	-	353
Total financial assets	9,364	2,731	7,544	95,241	1,992	789	27,222	144,883
Geography								
New Zealand	7,435	1,227	1,850	94,014	1,992	789	27,222	134,529
Overseas	1,929	1,504	5,694	1,227	-	-	-	10,354
Total financial assets	9,364	2,731	7,544	95,241	1,992	789	27,222	144,883

1. Government and local authority includes exposures to government administration and defence, education and health and community services.

2. Other includes exposures to electricity, gas and water, communications, and personal services.

3. Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer. Credit related commitments for 2008 have been restated to be consistent with current year treatment.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount. For contingent exposures, the maximum exposure to credit risk is the maximum amount that the Banking Group would have to pay if the contingency is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following table presents the maximum exposure to credit risk of on and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements and after deductions such as provision for credit impairment. The exposure is classified into summarised Basel II asset classes.

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total maximum exposure to credit risk \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total maximum exposure to credit risk \$m
30/09/2009								
On and off-balance sheet positions								
Liquid assets	-	-	2,762	2,762	-	-	2,758	2,758
Due from other financial institutions	-	-	4,514	4,514	-	-	4,361	4,361
Trading securities	-	-	4,166	4,166	-	-	4,166	4,166
Derivative financial instruments	-	-	11,408	11,408	-	-	11,449	11,449
Available-for-sale assets	-	-	1,513	1,513	-	-	1,511	1,511
Net loans and advances	42,692	4,456	41,111	88,259	42,692	3,889	39,371	85,952
Due from subsidiary companies	-	-	-	-	-	-	7,703	7,703
Other financial assets	-	-	999	999	-	-	951	951
Credit related commitments	5,692	4,769	15,533	25,994	5,692	4,769	15,738	26,199
Total exposure to credit risk	48,384	9,225	82,006	139,615	48,384	8,658	88,008	145,050
30/09/2008								
On and off-balance sheet positions								
Liquid assets	-	-	4,838	4,838	-	-	4,837	4,837
Due from other financial institutions	-	-	5,032	5,032	-	-	4,527	4,527
Trading securities	-	-	2,624	2,624	-	-	2,624	2,624
Derivative financial instruments	-	-	7,533	7,533	-	-	7,544	7,544
Available-for-sale assets	-	-	109	109	-	-	107	107
Net loans and advances	49,867	5,207	42,605	97,679	49,867	4,385	40,989	95,241
Due from subsidiary companies	-	-	-	-	-	-	1,992	1,992
Other financial assets	-	-	893	893	-	-	789	789
Credit related commitments	5,397	5,307	16,731	27,435	5,397	5,293	16,532	27,222
Total exposure to credit risk	55,264	10,514	80,365	146,143	55,264	9,678	79,941	144,883

4. Includes corporates, sovereigns and banks.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

CREDIT QUALITY

A core component of the Banking Group's credit risk management capability is the risk grading framework used across all major Business Units. A set of risk grading principles and policies are supported by a complementary risk grading methodology. Pronouncements by the International Basel Committee on Banking Supervision have been encapsulated in these principles and policies including governance, validation and modelling requirements.

The Banking Group's risk grade profile changes dynamically through new counterparty lending and/or existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review, including statistical and behavioural reviews in consumer and small business segments, and individual counterparty reviews in segments with larger single name borrowers.

Impairment and provisioning of financial assets

The Banking Group's policy relating to the recognition and measurement of impaired assets conforms with the RBNZ's guidelines.

Loans are classified as either performing or impaired. Impaired assets are credit exposures where: there is doubt as to whether the full contractual amount (including interest) will be received; a material credit obligation is 90 days past due but not well secured; a portfolio managed facility that can be held for up to 180 days past due; concessional terms have been provided due to the financial difficulties of the customer.

An exposure is classified as past due but not impaired (less than 90 days) where the value of collateral is sufficient to repay both the principal debt and all other potential interest and there is no concern as to the creditworthiness of the counterparty in question.

The past due but not impaired (over 90 days) classification applies where contractual payments are past due by 90 days or more, or where the facility remains outside of contractual arrangements for 90 or more consecutive days, but the Banking Group believes that impairment is not appropriate on the basis of the level of security/collateral available, or the facility is portfolio managed.

The provision for credit impairment represents management's best estimate of the losses incurred in the loan portfolio at balance date based on its experienced judgement.

Distribution of gross loans and advances assets by credit quality

The credit quality of the portfolio of loans and advances is assessed by reference to the Banking Group's risk grading principles and policies supported by a complementary risk grading methodology. The following table presents an analysis of gross loans and advances, prior to deducting the fair value hedge adjustment and provision for credit impairment, by summarised Basel II asset class into exposures neither past due nor impaired, past due but not impaired and impaired.

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total \$m
30/09/2009								
Neither past due nor impaired	39,948	3,822	41,343	85,113	39,948	3,166	39,786	82,900
Past due but not impaired (1 to 89 days)	1,213	315	662	2,190	1,213	266	635	2,114
Past due but not impaired (over 90 days)	265	59	111	435	265	51	100	416
Impaired	377	61	740	1,178	377	53	689	1,119
	41,803	4,257	42,856	88,916	41,803	3,536	41,210	86,549
30/09/2008								
Neither past due nor impaired	47,520	4,912	41,886	94,318	47,520	4,161	40,311	91,992
Past due but not impaired (1 to 89 days)	1,776	385	877	3,038	1,776	312	836	2,924
Past due but not impaired (over 90 days)	244	54	11	309	244	47	5	296
Impaired	83	30	214	327	83	14	191	288
	49,623	5,381	42,988	97,992	49,623	4,534	41,343	95,500

4. Includes corporates, sovereigns and banks.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit quality of gross loans and advances neither past due nor impaired

The credit quality of financial assets is assessed by the Banking Group using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Internal rating

Strong risk rating

Corporate customers demonstrating superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. Retail customers with low expected loss. This rating band broadly corresponds to ratings "Aaa" to "Ba1" and "AAA" to "BB+" of Moody's Investors Service and Standard & Poor's respectively.

Satisfactory risk rating

Corporate customers consistently demonstrating sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. Retail customers with moderate expected loss. This rating band broadly corresponds to ratings "Ba2" to "Ba3" and "BB" to "BB-" of Moody's Investors Service and Standard & Poor's respectively.

Substandard but not past due or impaired

Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band broadly corresponds to ratings "B1" to "Caa" and "B+" to "CCC" of Moody's Investors Service and Standard & Poor's respectively.

The rating bands presented below differ from the Note 30 Capital Adequacy credit risk exposures subject to the internal ratings based approach disclosures as RBNZ credit risk estimates are not used for these internal ratings. Movements in the rating categories between balance dates are due to both changes in the underlying internal ratings applied to customers and to new loans written or loans rolling off.

The following table presents an analysis of gross loans and advances neither past due nor impaired by the above internal ratings:

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total \$m
30/09/2009								
Strong risk rating	36,726	1,459	17,843	56,028	36,726	1,382	17,185	55,293
Satisfactory risk rating	2,646	2,010	19,078	23,734	2,646	1,446	18,346	22,438
Substandard but not past due or impaired	576	353	4,422	5,351	576	338	4,255	5,169
	39,948	3,822	41,343	85,113	39,948	3,166	39,786	82,900
30/09/2008								
Strong risk rating	43,866	1,849	19,827	65,542	43,866	1,807	19,437	65,110
Satisfactory risk rating	3,041	2,800	19,987	25,828	3,041	2,091	18,996	24,128
Substandard but not past due or impaired	613	263	2,072	2,948	613	263	1,878	2,754
	47,520	4,912	41,886	94,318	47,520	4,161	40,311	91,992

4. Includes corporates, sovereigns and banks.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit quality of financial assets that are past due but not impaired

Ageing analysis of past due loans is used by the Banking Group to measure and manage the retail portfolio's credit quality. Financial assets that are past due but not impaired include those:

- Assessed, approved and managed on a portfolio basis within a centralised environment (for example, credit cards and personal loans);
- Held on a productive basis until they are 180 days past due; and
- Managed on an individual basis.

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the fair value of associated security is sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

The following table presents an ageing analysis of past due loans that are not impaired:

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total \$m
30/09/2009								
1 to 5 days	270	104	397	771	270	104	397	771
6 to 29 days	586	136	122	844	586	104	106	796
30 to 59 days	237	49	71	357	237	38	64	339
60 to 89 days	120	26	72	218	120	20	68	208
90 days or over	265	59	111	435	265	51	100	416
	1,478	374	773	2,625	1,478	317	735	2,530
30/09/2008								
1 to 5 days	544	137	534	1,215	544	113	520	1,177
6 to 29 days	798	155	193	1,146	798	123	176	1,097
30 to 59 days	304	63	106	473	304	51	102	457
60 to 89 days	130	30	44	204	130	25	38	193
90 days or over	244	54	11	309	244	47	5	296
	2,020	439	888	3,347	2,020	359	841	3,220

4. Includes corporates, sovereigns and banks.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit quality of financial assets that are individually impaired

The Banking Group regularly reviews its portfolio and monitors adherence to contractual terms. When doubt arises as to the collectability of a credit facility, the financial asset is classified and reported as individually impaired and an individual provision is allocated against it. The following table presents an analysis of individually impaired assets, undrawn facilities with impaired customers and provision for credit impairment by summarised Basel II asset class:

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures ⁴ \$m	Total \$m
30/09/2009								
Impaired financial assets	377	61	740	1,178	377	53	689	1,119
Undrawn facilities with impaired customers	-	-	32	32	-	-	32	32
Individual provision balance	153	40	281	474	153	23	274	450
Net impaired financial assets	224	21	491	736	224	30	447	701
Collective provision balance	121	159	518	798	121	140	501	762
30/09/2008								
Impaired financial assets	83	30	214	327	83	14	191	288
Undrawn facilities with impaired customers	-	-	6	6	-	-	6	6
Individual provision balance	28	10	94	132	28	4	83	115
Net impaired financial assets	55	20	126	201	55	10	114	179
Collective provision balance	81	164	289	534	81	146	270	497

Security held by the Banking Group in respect of individually impaired financial assets, both drawn and undrawn, in the analysis above has an estimated fair value of \$736 million (30/09/2008 \$201 million).

Security held by the Bank in respect of individually impaired financial assets, both drawn and undrawn, in the analysis above has an estimated fair value of \$701 million (30/09/2008 \$179 million).

Restructured and other individually impaired assets

A restructured asset is an impaired asset for which the terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulty in complying with the original terms, and where the yield on the asset following restructuring is still above the Banking Group's cost of funds. An asset is classified as an other individually impaired asset if following the restructure the yield on the asset is below the Banking Group's cost of funds.

4. Includes corporates, sovereigns and banks.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Estimated value of collateral

The table below discloses the estimated value of collateral and other charges related to financial assets that are individually impaired. For the purposes of this disclosure, where security held is valued at more than the corresponding credit exposure, coverage is capped at the value of the credit exposure.

	Consolidated						
	Liquid assets and due from other financial institutions \$m	Trading securities and available-for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Other financial assets \$m	Credit related commitments ⁵ \$m	Total \$m
30/09/2009							
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	488	-	-	488
Other	-	-	-	216	-	32	248
Total value of collateral	-	-	-	704	-	32	736
Credit exposure	-	-	-	1,178	-	32	1,210
Unsecured portion of credit	-	-	-	474	-	-	474
30/09/2008							
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	112	-	-	112
Other	-	-	-	83	-	6	89
Total value of collateral	-	-	-	195	-	6	201
Credit exposure	-	-	-	327	-	6	333
Unsecured portion of credit	-	-	-	132	-	-	132
	Parent						
	Liquid assets and due from other financial institutions \$m	Trading securities and available-for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Other financial assets \$m	Credit related commitments ⁵ \$m	Total \$m
30/09/2009							
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	488	-	-	488
Other	-	-	-	181	-	32	213
Total value of collateral	-	-	-	669	-	32	701
Credit exposure	-	-	-	1,119	-	32	1,151
Unsecured portion of credit	-	-	-	450	-	-	450
30/09/2008							
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	113	-	-	113
Other	-	-	-	60	-	6	66
Total value of collateral	-	-	-	173	-	6	179
Credit exposure	-	-	-	288	-	6	294
Unsecured portion of credit	-	-	-	115	-	-	115

5. Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

MARKET RISK

Market risk is the risk to the Banking Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. Market risk arises when changes in market rates, prices and volatilities lead to a decline in the value of assets and liabilities, including financial derivatives. Market risk is generated through both trading activities and the interest rate risk inherent in the banking book.

The Banking Group conducts trading operations in interest rates, foreign exchange, commodities and debt securities. Trading operations largely focus on supporting customer hedging and investing activities, rather than outright proprietary trading. Consequently, the Board has set a medium market risk appetite for the Markets business which is reflected in the low/moderate market risk limit framework.

The Banking Group has a detailed risk management and control framework to support its trading and balance sheet activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios. This approach and related analysis identifies the range of possible outcomes that can be expected over a given period of time, establishes the relative likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

The market risk management and policy control framework applicable to the entities comprising the Banking Group has been set by the Board and Risk Committee of either ANZ National Bank Limited or the Ultimate Parent Bank, as appropriate. Likewise oversight and monitoring of material market risk exposures of the Banking Group is undertaken by the Market Risk functions of ANZ National Bank Limited and also the Ultimate Parent Bank. Throughout this document, references to the risk management of the operations within the entities comprising the Banking Group, implicitly involves oversight by both related entities.

Market risk management and control responsibilities

Banking Group-wide responsibility for the strategies and policies relating to the management of market risk lies with each Board Risk Committee. Responsibility for day to day management of both market risks and compliance with market risk policy is delegated by the Risk Committee to the ANZ Credit and Market Risk Committee ("CMRC") and the ANZ National Limited Asset & Liability Committee ("ALCO"). The CMRC, chaired by the ANZ Group Chief Risk Officer, is responsible for traded market risk, while the ALCO, chaired by the NZ Group Chief Executive Officer, is responsible for non-traded market risk (or balance sheet risk). All committees receive regular reporting on the range of trading and balance sheet market risks incurred.

Within overall strategies and policies, the control of market risk is the joint responsibility of Business Units and Risk Management, with the delegation of market risk limits from each Board and CMRC allocated to both Risk Management and the Business Units.

The management of market risk is supported by a comprehensive limit and policy framework to control the amount of risk that the Banking Group will accept. Market risk limits are allocated at various levels and are reported and monitored by Market Risk on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (e.g. interest rates, foreign exchange), risk factors (e.g. interest rates, volatilities) and P&L limits (to monitor and manage the performance of the trading portfolios).

These risks are monitored daily against a comprehensive limit framework that includes VaR, aggregate market position and sensitivity, product and geographic thresholds. To facilitate the management, control, measurements and reporting of market risk, the Banking Group has grouped market risk into two broad categories:

a) Traded market risk

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. They arise in trading transactions where the Banking Group acts as principal with clients or with the market. The principal risk categories monitored are:

- *Currency risk* is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- *Interest rate risk* is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- *Credit spread risk* is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a bench mark.

b) Non-traded market risk (or balance sheet risk)

This comprises the management of non-traded interest rate risk, liquidity, and the risk to capital and earnings as a result of foreign exchange rate movements.

Some instruments do not fall into either category but also expose the Banking Group to market risk. These include equity securities classified as available-for-sale. Regular reviews are performed to substantiate valuation of the investments within this portfolio.

The traded market risk function provides specific oversight of each of the main trading areas and is responsible for the establishment of a Value at Risk ("VaR") framework and detailed control limits. In all trading areas the Banking Group has implemented models that calculate VaR exposures, monitor risk exposures against defined limits on a daily basis, and 'stress test' trading portfolios. The Banking Group has an Asset and Liability Committee ("ALCO"), comprising executive management to provide monthly oversight of market risk.

The Chief Risk Officer is responsible for daily review and oversight of traded market risk reports. The Chief Risk Officer has the authority for instructing the business to close exposures and withdraw limits where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Value at Risk ("VaR") measure

A key measure of market risk is Value at Risk. VaR is a statistical estimate of the likely daily loss and is based on historical market movements. The confidence level is such that there is 97.5% or 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely there is a 2.5% or 1% probability of the decrease in market value exceeding the VaR estimate on any given day. The 99% confidence level encompasses a wider range of potential outcomes.

The Banking Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Banking Group calculates VaR using historical changes in market rates and prices over the previous 500 business days. Traded and Non-Traded VaR is calculated using a one-day holding period.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Banking Group could experience from an extreme market event. As a result of this limitation, the Banking Group utilises a number of other risk measures (e.g. stress testing) and associated detailed control limits to measure and manage market risk.

Traded and non-traded market risks are considered separately below.

Traded market risks

Trading activities are focused on customer trading, distribution and underwriting of a range of securities and derivative instruments. The principal activities include foreign exchange, interest rate and debt markets. These activities are managed on a global product basis.

Below are aggregate VaR exposures covering both derivative and non-derivative trading positions for the Banking Group.

	Consolidated				Parent			
	Value at Risk at 97.5% confidence				Value at Risk at 99% confidence			
	As at \$m	High for period \$m	Low for period \$m	Average for period \$m	As at \$m	High for period \$m	Low for period \$m	Average for period \$m
30/09/2009								
Foreign exchange risk	0.4	1.4	0.2	0.5	0.6	1.9	0.3	0.7
Interest rate risk	2.6	3.0	1.1	2.0	3.5	4.9	1.7	3.0
Credit spread risk	0.4	0.5	0.2	0.3	0.6	0.8	0.2	0.5
Diversification benefit	(0.8)	n/a	n/a	(0.8)	(1.2)	n/a	n/a	(1.2)
Total VaR	2.6	3.4	1.1	2.0	3.5	4.6	1.7	3.0
30/09/2008								
Foreign exchange risk	0.2	1.3	0.1	0.3	0.2	1.6	0.2	0.5
Interest rate risk	1.6	1.9	0.5	0.9	2.7	2.7	0.6	1.3
Credit spread risk	0.2	0.3	0.1	0.1	0.4	0.4	0.2	0.2
Diversification benefit	(0.3)	n/a	n/a	(0.5)	(0.6)	n/a	n/a	(0.7)
Total VaR	1.7	2.0	0.3	0.8	2.7	2.8	0.5	1.3

VaR is calculated separately for Foreign Exchange and for Interest Rate/Debt Markets businesses as well as for the Banking Group. The diversification benefit reflects the historical correlation between Foreign Exchange, Interest Rate and Debt Markets.

To supplement the VaR methodology, the Banking Group applies a wide range of stress tests, both on individual portfolios and at a Banking Group level. The Banking Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of the Banking Group.

Non-traded market risks (balance sheet risk)

The principal objectives of balance sheet management are to manage interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to manage the market value of the Banking Group's capital. Liquidity risk is dealt with in the next section.

Interest rate risk

The objective of balance sheet interest rate risk management is to mitigate the negative impact of movements in wholesale interest rates on the earnings of the Banking Group's banking book. Non-traded interest rate risk relates to the potential adverse impact to earnings principally from changes in swap market interest rates. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

As part of normal business activity the Banking Group has additional risks from fixed rate mortgage prepayments and basis risk where:

- *Prepayment risk* is the potential risk to earnings or market value from when a customer prepays all or part of a fixed rate mortgage and where any customer fee charged is not sufficient to offset the loss in value to the Banking Group of this financial asset due to movements in interest rates and other pricing factors. As far as possible the true economic cost is passed through to customers in line with their terms and conditions and relevant legislation.
- *Basis risk* is the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing. This is managed through active review of product margins.

Non-traded interest rate risk is managed to both value and earnings at risk limits. Interest rate risk is reported using three measures: VaR; scenario analysis (to a 1% shock); and interest rate sensitivity gap. This treatment excludes the effect of prepayment and basis risk.

a) VaR non-traded interest rate risk

Below are aggregate VaR figures covering non-traded interest rate risk.

	Consolidated			
	As at \$m	High for period \$m	Low for period \$m	Average for period \$m
30/09/2009				
Value at risk at 97.5% confidence	22.4	22.8	18.9	20.8
30/09/2008				
Value at risk at 97.5% confidence	12.8	13.0	10.4	11.9

To supplement the VaR methodology, the Banking Group applies a wide range of stress tests, both on individual portfolios and at the Banking Group level. The Banking Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of the Banking Group.

b) Scenario analysis – A 1% shock on the next 12 months' net interest income

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk quantification tool.

The figures in the table below indicate the outcome of this risk measure for the current and comparative periods – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

	Consolidated	
	30/09/2009	30/09/2008
Impact of 1% rate shock		
As at	0.2%	0.0%
Maximum exposure	0.7%	1.8%
Minimum exposure	-0.1%	0.0%
Average exposure (in absolute terms)	0.3%	0.8%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income. The Banking Group quantifies the potential variation in future net interest income as a result of these repricing mismatches each month using a static gap model.

The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the Banking Group's discretion), a profile based on historically observed and/or anticipated rate sensitivity is used. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing.

The majority of the Banking Group's non-traded interest exposure exists in New Zealand. A separate balance sheet simulation process supplements the static gap information. This allows the net interest income outcomes of a number of different scenarios – with different market interest rate environments and future balance sheet structures – to be identified. This better enables the Banking Group to quantify the interest rate risks associated with the balance sheet and to formulate strategies to manage current and future risk profiles.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate sensitivity gap

The interest rate sensitivity gap analysis provides information about the Banking Group's exposure to interest rate risk.

Repricing gaps are based upon contractual repricing information except where the contractual terms are not considered to be reflective of actual interest rate sensitivity, for example, those assets and liabilities priced at the Banking Group's discretion. In such cases, the rate sensitivity is based upon historically observed and/or anticipated rate sensitivity. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability funding. These mismatches are managed within policy guidelines for mismatch positions.

The majority of the Banking Group's loan business is conducted domestically in New Zealand. The majority of retail deposits are also raised in New Zealand but are either fixed or floating in nature. The mix of repricing maturities in this book is influenced by the underlying financial needs of customers.

The Banking Group's offshore operations are wholesale in nature and are able to minimise interest rate sensitivity through closely matching the maturities of loans and deposits. Given both the size and nature of this business, the interest rate sensitivity of this balance sheet contributes little to the aggregate risk exposure, which is primarily a reflection of the positions in New Zealand.

A combination of off-balance sheet instruments and pricing initiatives is used in the management of interest rate risk. For example, where a strong medium to long term rate view is held, hedging and pricing strategies are used to modify the profile's interest rate sensitivity so that it is positioned to take advantage of the expected movement in interest rates. However, such positions are taken within the overall risk limits specified by Banking Group policy.

The following tables represent the interest rate sensitivity of the Banking Group's assets, liabilities and off balance sheet instruments repricing (that is, when interest rates applicable to each asset or liability can be changed) in the periods shown.

	Consolidated						Not bearing interest \$m
	Total \$m	Less than 3 months \$m	3 to 6 months \$m	6 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	
30/09/2009							
Assets							
Liquid assets	2,762	2,596	-	-	-	-	166
Due from other financial institutions	4,514	4,013	300	-	63	-	138
Trading securities	4,166	429	66	418	2,575	678	-
Derivative financial instruments	11,408	-	-	-	-	-	11,408
Available-for-sale assets	1,513	149	1,286	-	9	-	69
Net loans and advances	88,259	48,408	6,503	12,269	21,118	55	(94)
Other financial assets	999	-	-	-	-	-	999
Total financial assets	113,621	55,595	8,155	12,687	23,765	733	12,686
Non-financial assets	4,270	-	-	-	-	-	4,270
Total assets	117,891	55,595	8,155	12,687	23,765	733	16,956
Liabilities							
Due to other financial institutions	3,725	2,866	428	277	22	-	132
Deposits and other borrowings	71,764	45,087	14,019	5,497	2,788	-	4,373
Due to parent company	930	930	-	-	-	-	-
Derivative financial instruments	10,762	-	-	-	-	-	10,762
Payables and other financial liabilities	1,414	64	-	-	-	-	1,350
Bonds and notes	15,917	9,488	187	371	5,871	-	-
Loan capital	2,596	227	584	-	1,785	-	-
Total financial liabilities	107,108	58,662	15,218	6,145	10,466	-	16,617
Non-financial liabilities	695	-	-	-	-	-	695
Equity	10,088	-	-	-	-	-	10,088
Total liabilities and equity	117,891	58,662	15,218	6,145	10,466	-	27,400
On-balance sheet interest sensitivity gap	-	(3,067)	(7,063)	6,542	13,299	733	(10,444)
Hedging instruments	-	6,075	6,419	(9,673)	(1,781)	(1,040)	-
Interest sensitivity gap – net	-	3,008	(644)	(3,131)	11,518	(307)	(10,444)
Interest sensitivity gap – cumulative	-	3,008	2,364	(767)	10,751	10,444	-

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Consolidated						
	Total \$m	Less than 3 months \$m	3 to 6 months \$m	6 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	Not bearing interest \$m
30/09/2008							
Assets							
Liquid assets	4,838	4,667	-	-	-	-	171
Due from other financial institutions	5,032	3,080	450	-	134	-	1,368
Trading securities	2,624	1,043	10	-	1,332	239	-
Derivative financial instruments	7,533	-	-	-	-	-	7,533
Available-for-sale assets	109	30	-	-	14	-	65
Net loans and advances	97,679	44,105	6,682	13,308	33,877	46	(339)
Other financial assets	893	-	-	-	-	-	893
Total financial assets	118,708	52,925	7,142	13,308	35,357	285	9,691
Non-financial assets	4,207	-	-	-	-	-	4,207
Total assets	122,915	52,925	7,142	13,308	35,357	285	13,898
Liabilities							
Due to other financial institutions	3,312	2,380	114	378	381	40	19
Deposits and other borrowings	77,136	54,827	10,671	6,813	896	1	3,928
Due to parent company	404	404	-	-	-	-	-
Derivative financial instruments	6,710	-	-	-	-	-	6,710
Payables and other financial liabilities	1,471	94	-	-	60	7	1,310
Bonds and notes	20,695	15,732	472	374	3,942	175	-
Loan capital	2,820	216	819	-	1,785	-	-
Total financial liabilities	112,548	73,653	12,076	7,565	7,064	223	11,967
Non-financial liabilities	560	-	-	-	-	-	560
Equity	9,807	-	-	-	-	-	9,807
Total liabilities and equity	122,915	73,653	12,076	7,565	7,064	223	22,334
On-balance sheet interest sensitivity gap	-	(20,728)	(4,934)	5,743	28,293	62	(8,436)
Hedging instruments	-	20,239	5,578	(6,078)	(19,486)	(253)	-
Interest sensitivity gap – net	-	(489)	644	(335)	8,807	(191)	(8,436)
Interest sensitivity gap – cumulative	-	(489)	155	(180)	8,627	8,436	-

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(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Parent						Not bearing interest \$m
	Total \$m	Less than 3 months \$m	3 to 6 months \$m	6 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	
30/09/2009							
Assets							
Liquid assets	2,758	2,592	-	-	-	-	166
Due from other financial institutions	4,361	3,923	300	-	-	-	138
Trading securities	4,166	429	66	418	2,575	678	-
Derivative financial instruments	11,449	-	-	-	-	-	11,449
Available-for-sale assets	1,511	150	1,283	-	9	-	69
Net loans and advances	85,952	47,426	6,378	11,915	20,281	45	(93)
Due from subsidiary companies	7,703	6,736	-	128	225	-	614
Other financial assets	951	-	-	-	-	-	951
Total financial assets	118,851	61,256	8,027	12,461	23,090	723	13,294
Non-financial assets	11,337	-	-	-	-	-	11,337
Total assets	130,188	61,256	8,027	12,461	23,090	723	24,631
Liabilities							
Due to other financial institutions	3,239	2,865	220	-	22	-	132
Deposits and other borrowings	62,835	41,414	9,813	4,653	2,582	-	4,373
Due to subsidiary companies	37,362	23,497	4,892	2,017	6,956	-	-
Due to parent company	930	930	-	-	-	-	-
Derivative financial instruments	10,769	-	-	-	-	-	10,769
Payables and other financial liabilities	909	65	-	-	-	-	844
Bonds and notes	1,516	756	-	175	585	-	-
Loan capital	2,596	227	584	-	1,785	-	-
Total financial liabilities	120,156	69,754	15,509	6,845	11,930	-	16,118
Non-financial liabilities	727	-	-	-	-	-	727
Equity	9,305	-	-	-	-	-	9,305
Total liabilities and equity	130,188	69,754	15,509	6,845	11,930	-	26,150
On-balance sheet interest sensitivity gap	-	(8,498)	(7,482)	5,616	11,160	723	(1,519)
Hedging instruments	-	6,065	6,419	(9,673)	(1,771)	(1,040)	-
Interest sensitivity gap – net	-	(2,433)	(1,063)	(4,057)	9,389	(317)	(1,519)
Interest sensitivity gap – cumulative	-	(2,433)	(3,496)	(7,553)	1,836	1,519	-

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Parent						Not bearing interest \$m
	Total \$m	Less than 3 months \$m	3 to 6 months \$m	6 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	
30/09/2008							
Assets							
Liquid assets	4,837	4,666	-	-	-	-	171
Due from other financial institutions	4,527	2,709	450	-	-	-	1,368
Trading securities	2,624	1,041	10	-	1,334	239	-
Derivative financial instruments	7,544	-	-	-	-	-	7,544
Available-for-sale assets	107	31	-	-	13	-	63
Net loans and advances	95,241	43,418	6,648	13,203	32,280	16	(324)
Due from subsidiary companies	1,992	614	85	-	530	-	763
Other financial assets	789	-	-	-	-	-	789
Total financial assets	117,661	52,479	7,193	13,203	34,157	255	10,374
Non-financial assets	11,425	-	-	-	-	-	11,425
Total assets	129,086	52,479	7,193	13,203	34,157	255	21,799
Liabilities							
Due to other financial institutions	1,940	1,863	8	-	10	40	19
Deposits and other borrowings	62,800	46,991	6,668	4,505	707	1	3,928
Due to subsidiary companies	43,260	33,153	4,120	2,198	3,789	-	-
Due to parent company	404	404	-	-	-	-	-
Derivative financial instruments	6,710	-	-	-	-	-	6,710
Payables and other financial liabilities	1,187	95	-	-	-	7	1,085
Bonds and notes	1,123	498	150	-	300	175	-
Loan capital	2,820	216	819	-	1,785	-	-
Total financial liabilities	120,244	83,220	11,765	6,703	6,591	223	11,742
Non-financial liabilities	530	-	-	-	-	-	530
Equity	8,312	-	-	-	-	-	8,312
Total liabilities and equity	129,086	83,220	11,765	6,703	6,591	223	20,584
On-balance sheet interest sensitivity gap	-	(30,741)	(4,572)	6,500	27,566	32	1,215
Hedging instruments	-	20,789	6,178	(6,073)	(20,641)	(253)	-
Interest sensitivity gap – net	-	(9,952)	1,606	427	6,925	(221)	1,215
Interest sensitivity gap – cumulative	-	(9,952)	(8,346)	(7,919)	(994)	(1,215)	-

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Equity securities classified as available-for-sale

The portfolio of financial assets, classified as available-for-sale for measurement and financial reporting purposes, also contains equity investment holdings which predominantly comprise investments held for longer term strategic intentions. These equity investments are also subject to market risk which is not captured by the VaR measures for traded and non-traded market risks. The fair value of these securities as at 30 September 2009 was \$71 million (30/09/2008 \$65 million). Regular reviews are performed to substantiate valuation of the investments within the portfolio. The fair value of the equity securities classified as available-for-sale can fluctuate considerably. A 10 per cent reduction in the value of the available-for-sale equity securities at 30 September 2009 would have reduced equity by \$7.1 million (30/09/2008 \$6.5 million).

Foreign currency related risks

This risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates.

For non-traded instruments in foreign currencies, the risk is monitored and is hedged in accordance with policy. Risk arising from individual funding and other transactions is actively managed. The total amounts of unmatched foreign currency assets and liabilities and consequent foreign currency exposures, arising from each class of financial asset and liability, whether recognised or unrecognised, within each currency are not material.

The net open position in each foreign currency, detailed in the table below, represents the net on-balance sheet assets and liabilities in that foreign currency aggregated with the net expected future cash flows from off-balance sheet purchases and sales from foreign exchange transactions in that foreign currency. The amounts are stated in New Zealand dollar equivalents translated using the spot exchange rates as at balance sheet date.

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Net open position				
Australian dollar	1	9	1	9
Canadian dollar	-	(2)	-	(2)
Swiss Franc	-	-	-	-
Euro	(1)	9	(1)	9
Pound sterling	-	-	-	-
US dollar	2	14	2	14
Other	(1)	2	(1)	2
Total net open position	1	32	1	32

LIQUIDITY RISK

Liquidity risk is the risk that the Banking Group has insufficient capacity to fund increases in assets or is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Banking Group.

The Banking Group's liquidity and funding risks are governed by a detailed policy framework which is approved by the Risk Committee of the Board of Directors. The core objective of the Banking Group's framework is to manage liquidity to meet obligations as they fall due, without incurring unacceptable losses. In response to the impact of the global financial crisis, the framework has been reviewed and updated.

Central to the Banking Group's liquidity risk management approach is the establishment of a liquidity risk appetite framework that the Banking Group must conform to at all times. The risk appetite for liquidity has been set as low and this objective is achieved by the Banking Group managing liquidity risks within the boundaries of the following requirements and principles:

- Maintaining the ability to meet all payment obligations in the immediate term.
- Ensuring the ability to meet "survival horizons" under a range of ANZ specific and general market liquidity stress scenarios.
- Maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the Banking Group's liquidity and funding risk profile.
- Limiting the potential earnings at risk implications associated with unexpected increases in funding costs or the liquidation of assets under stress.
- Ensuring the liquidity management framework is compatible with regulatory requirements.
- Daily liquidity reporting and scenario analysis, quantifying the Banking Group's positions.
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.
- Holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations.
- Establishing detailed contingency plans to cover different liquidity crisis events.

Management of liquidity and funding risks are overseen by the Asset and Liability Committee ("ALCO").

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Supervision and Regulation

The Reserve Bank of New Zealand requires the Banking Group to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. From 22 October 2009, the Reserve Bank has modified the Banking Group's conditions of registration with respect to liquidity policy. These revised conditions become effective from 1 April 2010 and are set out on page 123.

Scenario Modelling

A key component of the Banking Group's liquidity management framework is scenario modelling. Liquidity is assessed under different scenarios, including "going-concern" and "name-crisis" and various "survival horizons".

"Going-concern": reflects the normal behaviour of cash flows in the ordinary course of business. The Banking Group must be able to meet all commitments and obligations under a going concern scenario, within the Banking Group normal funding capacity ("available to fund" limit), over at least the following 30 calendar days.

In estimating the funding requirement, the Banking Group models expected cash flows by reference to historical behaviour and contractual maturity data. As of 30 September 2009 the Banking Group was in compliance with this scenario.

"Name-crisis": refers to a potential name-specific liquidity crisis which models the behaviour of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of the Banking Group or adverse rating changes.

Under this scenario the Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the Banking Group must be cash flow positive over an eight calendar day period. As of 30 September 2009 the Banking Group was in compliance with this scenario.

"Survival horizons": The global financial crisis has highlighted the importance of differentiating between stressed and normal market conditions in a name-specific crisis and the different behaviour that offshore and domestic wholesale funding markets can exhibit during market stress events. As a result, the Banking Group has enhanced its liquidity risk scenario modelling. The Banking Group has now linked its liquidity risk appetite to defined liquidity "survival horizons" (i.e. the time period under which the Banking Group must maintain a positive cash flow position). The following stressed scenarios are modelled:

- Extreme Short Term Crisis Scenario ("ESTC"): A name-specific stress during a period of market stress.
- Short Term Crisis Scenario ("NSTC"): A name-specific stress during a period of normal markets conditions.
- Global Funding Market Disruption ("GFMD"): Stressed global wholesale funding markets leading to a closure of domestic and offshore markets.
- Offshore Funding Market Disruption ("OFMD"): Stressed global wholesale funding markets leading to a closure of offshore markets only.

Banking Group Funding Composition

The Banking Group actively uses balance sheet disciplines to prudently manage the funding mix. The Banking Group employs funding metrics to ensure that an appropriate proportion of the Group's assets are funded from stable sources including customer liabilities, longer-dated wholesale debt (with remaining term exceeding one year) and equity. This approach recognises that long-term wholesale debt and other sticky liabilities have favourable liquidity characteristics.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below outlines the Banking Group's funding composition.

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Funding composition				
Customer deposits¹				
New Zealand	52,065	52,199	50,640	50,647
Overseas	7,866	6,757	7,754	6,626
Total customer deposits	59,931	58,956	58,394	57,273
Wholesale funding				
Bonds and notes	15,917	20,695	1,516	1,123
Loan capital	2,596	2,820	2,596	2,820
Certificates of deposit	4,441	5,527	4,441	5,527
Commercial paper	7,392	12,653	-	-
Due to subsidiary companies – ANZ National (Int'l) Limited	-	-	22,378	33,386
Due to subsidiary companies – other	-	-	14,984	9,874
Due to parent company	930	404	930	404
Secured deposits	-	-	-	-
Due to other financial institutions	3,725	3,312	3,239	1,940
Total wholesale funding	35,001	45,411	50,084	55,074
Total funding	94,932	104,367	108,478	112,347
Concentrations of funding by industry				
Households	37,738	36,239	36,208	34,571
Agriculture, forestry and fishing	3,872	4,517	3,872	4,517
Manufacturing	1,354	1,465	1,354	1,465
Entertainment, leisure and tourism	573	611	573	611
Finance and insurance	42,220	51,498	57,296	61,145
Retail trade	753	752	753	752
Wholesale trade	602	626	602	626
Business and property services	3,960	4,686	3,960	4,686
Transport and storage	614	594	614	594
Construction	736	722	736	722
Government and local authority	1,548	1,585	1,548	1,586
Other ²	962	1,072	962	1,072
Total concentrations of funding by industry	94,932	104,367	108,478	112,347
Concentrations of funding by geography³				
New Zealand	62,456	61,065	76,114	69,356
United States	17,031	24,178	17,019	23,797
Europe	7,511	11,484	7,486	11,466
Other countries	7,934	7,640	7,859	7,728
Total concentrations of funding by geography	94,932	104,367	108,478	112,347

Analyses of funding liabilities by industry sector are based on Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes.

1. Represents: term deposits, demand deposits bearing interest, deposits not bearing interest and secured debenture stock.

2. Other includes exposures to electricity, gas and water, communications, and personal services.

3. Funding of the Bank via ANZ National (Int'l) Limited is classified as either from the United States or Europe, as the company conducts overseas funding activities through its London branch.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through the Treasury and Markets operations. Long-term wholesale funding is managed and executed through Treasury operations.

The Banking Group also uses maturity concentration limits under the wholesale funding and liquidity management framework. Maturity concentration limits ensure that the Banking Group does not become reliant on issuing large volumes of new wholesale funding with a short time period. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

Funding capacity and debt issuance planning

Under the normal business conditions scenario, borrowing capacity is an estimate of the amount of funding that can be raised in the wholesale markets in normal market conditions. The Banking Group adopts a conservative approach to determine its funding capacity. Funding capacity limits are determined at the Ultimate Parent Bank level and allocated to individual sites based on their requirements.

Annually, a Funding Plan is ratified by the Banking Group's Senior Management. The plan is supplemented by monthly updates, and is linked to the Banking Group's three year strategic planning cycle.

Liquidity portfolio management

The Banking Group holds a diversified portfolio of cash and high-quality highly-liquid securities to support liquidity risk management.

The size of the Banking Group's liquidity portfolio is based on the amount of liquidity required to meet the liquidity policy outlined on pages 81 to 84.

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand government securities, securities issued by supranational agencies and securities issued by highly rated banks. These assets are accepted as collateral by the RBNZ in repurchase transactions. The post-"haircut" value of these assets at 30 September 2009 was \$10,690 million. The Banking Group also held unencumbered Internal RMBS (see Note 39 for detail on Internal RMBS) with a post-"haircut" value of \$2,538 million.

Liquidity crisis contingency planning

The Banking Group maintains liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity-threatening event at a Banking Group-wide basis. The framework includes:

- the establishment of crisis severity/stress levels;
- clearly assigned crisis roles and responsibilities;
- early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals;
- outlined action plans, and courses of action for altering asset and liability behaviour;
- procedures for crisis management reporting, and covering cash-flow shortfalls;
- guidelines determining the priority of customer relationships in the event of liquidity problems; and
- assigned responsibilities for internal and external communications.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Contractual maturity analysis of financial assets and liabilities

The tables below analyse the Banking Group's financial assets and liabilities, within relevant maturity groupings based on the earliest date on which the Bank or Banking Group may be required to pay. The amounts represent principal and interest cash flows and may differ compared to the amounts reported on the balance sheet.

The management of liquidity risk is detailed on pages 81 to 88. The analysis presented below has been made on an undiscounted basis.

The analysis, by remaining contractual maturities at balance date, of financial assets and liabilities represents the estimated obligation date expected for the asset and liability to be recovered or settled within one year, and greater than one year.

Contractual maturity analysis for financial assets and financial liabilities, including expected interest to maturity.

	Consolidated						
	Total \$m	At call \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
30/09/2009							
Assets							
Liquid assets	2,762	2,762	-	-	-	-	-
Due from other financial institutions	4,514	172	3,888	391	63	-	-
Trading securities	4,166	-	362	506	2,620	678	-
Derivative financial instruments	11,408	-	-	-	-	-	11,408
Available-for-sale assets	1,513	-	119	1,294	9	22	69
Net loans and advances	88,259	-	6,478	14,066	26,188	41,621	(94)
Other financial assets	999	-	999	-	-	-	-
Interest	46,417	-	1,600	4,019	14,423	26,375	-
Total financial assets (inclusive of interest)	160,038	2,934	13,446	20,276	43,303	68,696	11,383
Liabilities							
Due to other financial institutions	3,725	1,139	1,859	705	22	-	-
Deposits and other borrowings	71,764	25,397	22,757	20,835	2,775	-	-
Derivative financial instruments	10,762	-	-	-	-	-	10,762
Other financial liabilities	1,414	-	1,414	-	-	-	-
Bonds and notes	15,917	-	2,050	2,155	11,365	347	-
Due to parent company	930	930	-	-	-	-	-
Loan capital	2,596	-	-	-	-	1,437	1,159
Interest	3,264	-	745	785	1,470	264	-
Total financial liabilities (inclusive of interest)	110,372	27,466	28,825	24,480	15,632	2,048	11,921

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Consolidated						
	Total \$m	At call \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
30/09/2008							
Assets							
Liquid assets	4,838	4,838	-	-	-	-	-
Due from other financial institutions	5,032	436	3,628	462	506	-	-
Trading securities	2,624	-	1,009	-	1,376	239	-
Derivative financial instruments	7,533	-	-	-	-	-	7,533
Available-for-sale assets	109	-	-	-	14	30	65
Net loans and advances	97,679	-	8,822	12,849	27,579	48,762	(333)
Other financial assets	893	-	893	-	-	-	-
Interest	66,835	-	2,341	5,951	20,137	38,406	-
Total financial assets (inclusive of interest)	185,543	5,274	16,693	19,262	49,612	87,437	7,265
Liabilities							
Due to other financial institutions	3,312	1,713	686	492	381	40	-
Deposits and other borrowings	77,136	26,953	31,841	17,444	898	-	-
Derivative financial instruments	6,710	-	-	-	-	-	6,710
Other financial liabilities	1,471	-	1,404	-	60	7	-
Bonds and notes	20,695	-	1,862	6,719	11,566	548	-
Due to parent company	404	404	-	-	-	-	-
Loan capital	2,820	-	-	-	-	1,668	1,152
Interest	7,888	-	1,607	1,815	3,915	551	-
Total financial liabilities (inclusive of interest)	120,436	29,070	37,400	26,470	16,820	2,814	7,862

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Parent						
	Total \$m	At call \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
30/09/2009							
Assets							
Liquid assets	2,758	2,758	-	-	-	-	-
Due from other financial institutions	4,361	172	3,889	300	-	-	-
Trading securities	4,166	-	361	507	2,620	678	-
Derivative financial instruments	11,449	-	-	-	-	-	11,449
Available-for-sale assets	1,511	-	119	1,294	9	20	69
Net loans and advances	85,952	-	6,251	13,772	24,555	41,467	(93)
Due from subsidiary companies	7,703	-	1,414	181	235	5,873	-
Other financial assets	951	-	951	-	-	-	-
Interest	55,153	-	1,563	4,095	15,330	34,165	-
Total financial assets (inclusive of interest)	174,004	2,930	14,548	20,149	42,749	82,203	11,425
Liabilities							
Due to other financial institutions	3,239	1,116	1,881	220	22	-	-
Deposits and other borrowings	62,835	25,397	19,084	15,785	2,569	-	-
Due to subsidiary companies	37,362	-	13,223	6,933	11,565	5,641	-
Derivative financial instruments	10,769	-	-	-	-	-	10,769
Other financial liabilities	909	-	909	-	-	-	-
Bonds and notes	1,516	-	301	240	975	-	-
Due to parent company	930	-	930	-	-	-	-
Loan capital	2,596	-	-	-	-	1,437	1,159
Interest	5,108	-	771	1,347	2,782	208	-
Total financial liabilities (inclusive of interest)	125,264	26,513	37,099	24,525	17,913	7,286	11,928

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Parent						
	Total \$m	At call \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
30/09/2008							
Assets							
Liquid assets	4,837	4,837	-	-	-	-	-
Due from other financial institutions	4,527	440	3,637	450	-	-	-
Trading securities	2,624	-	1,009	-	1,376	239	-
Derivative financial instruments	7,544	-	-	-	-	-	7,544
Available-for-sale assets	107	-	-	-	14	30	63
Net loans and advances	95,241	-	8,914	12,590	25,430	48,626	(319)
Due from subsidiary companies	1,992	1,138	-	101	753	-	-
Other financial assets	789	-	789	-	-	-	-
Interest	66,427	-	2,243	5,767	20,028	38,389	-
Total financial assets (inclusive of interest)	184,088	6,415	16,592	18,908	47,601	87,284	7,288
Liabilities							
Due to other financial institutions	1,940	1,680	203	8	9	40	-
Deposits and other borrowings	62,800	26,013	24,906	11,172	709	-	-
Due to subsidiary companies	43,260	15,173	9,260	8,010	10,444	373	-
Derivative financial instruments	6,710	-	-	-	-	-	6,710
Other financial liabilities	1,187	-	1,187	-	-	-	-
Bonds and notes	1,123	-	208	200	540	175	-
Due to parent company	404	404	-	-	-	-	-
Loan capital	2,820	-	-	-	-	1,668	1,152
Interest	15,408	-	3,990	6,588	4,268	562	-
Total financial liabilities (inclusive of interest)	135,652	43,270	39,754	25,978	15,970	2,818	7,862

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

32. CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk to individual counterparties

The number of individual counterparties other than banks or groups of closely related counterparties of which a bank is a parent (excluding OECD Governments and connected persons), where the quarter end and peak end-of-day credit exposure equals or exceeds 10% of equity (as at the end of the quarter), in ranges of 10% of equity, on the basis of limits:

	Consolidated			
	30/09/2009		30/09/2008	
	Number of counterparties		Number of counterparties	
	As at	Peak for the quarter	As at	Peak for the quarter
10% to 20% of equity	1	1	1	1

The number of individual counterparties disclosed within the various equity ranges is based on counterparty limits rather than actual exposures outstanding. No account is taken of security and/or guarantees which the Banking Group may hold in respect of the various counterparty limits.

The amount and percentage of quarter end credit exposures to individual counterparties other than banks or groups of closely related counterparties of which a bank is a parent (excluding OECD Governments and connected persons) where the quarter end credit exposure equals or exceeds 10% of equity (as at the end of the quarter), by credit rating:

	Consolidated			
	30/09/2009		30/09/2008	
	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure
As at				
Investment grade credit rating ¹	1,194	100.0%	1,329	100.0%

Concentrations of credit risk to bank counterparties

The number of bank counterparties or groups of closely related counterparties of which a bank is the parent (excluding OECD Governments and connected persons) where the quarter end and peak end-of-day credit exposure equals or exceeds 10% of equity (as at the end of the quarter), in ranges of 10% of equity, on the basis of actual exposures:

	Consolidated			
	30/09/2009		30/09/2008	
	Number of counterparties		Number of counterparties	
	As at	Peak for the quarter	As at	Peak for the quarter
10% to 20% of equity	3	2	1	2
20% to 30% of equity	1	2	1	1
30% to 40% of equity	-	-	-	-

1. All of the individual and bank counterparties included in the above tables have an investment grade credit rating. An investment grade credit rating means a credit rating of BBB or Baa3 or above, or its equivalent. In the case of a group of closely related counterparties, the credit rating applicable is that of the entity heading the group of closely related counterparties. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars, or to an entity's long term senior unsecured foreign currency obligations.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

32. CONCENTRATIONS OF CREDIT RISK (CONTINUED)

The amount and percentage of quarter end credit exposures to bank counterparties or groups of closely related counterparties of which a bank is a parent (excluding OECD Governments and connected persons) where the quarter end credit exposures equals or exceeds 10% of equity (as at the end of the quarter), by credit rating:

	Consolidated			
	30/09/2009		30/09/2008	
	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure
As at				
Investment grade credit rating ¹	6,201	100.0%	3,416	100.0%

The number of individual counterparties disclosed within the various equity ranges and the total exposure as at the end of the quarter are gross exposures. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures. The peak number is calculated separately for each individual counterparty and the peak for all counterparties may not have occurred at the same time.

Concentrations of credit risk to connected persons

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis and partially on a gross basis. With effect from 11 August 2008, netting has occurred in respect of certain transactions which are the subject of a bilateral netting agreement disclosed in the Bank's most recent Supplemental Disclosure Statement for the year ended 30 September 2009. The amount of gross credit exposures to connected persons netted off must not be greater than 125% of the Banking Group's tier one capital.

	Consolidated			
	30/09/2009		30/09/2008	
	Amount \$m	% of Tier One	Amount \$m	% of Tier One
Aggregate at end of period ⁴				
Other connected persons (on gross basis, before netting) ²	4,503	69.9%	3,011	49.1%
Other connected persons (amount netted off) ²	3,010	46.7%	2,187	35.6%
Other connected persons (on partial bilateral net basis) ²	1,493	23.2%	824	13.5%
Non-bank connected persons ³	-	0.0%	-	0.0%
Peak end-of-day for the quarter ⁴				
Other connected persons (on gross basis, before netting)	5,490	85.2%	4,250	69.3%
Other connected persons (amount netted off)	2,693	41.8%	2,889	47.1%
Other connected persons (on partial bilateral net basis)	2,797	43.4%	1,361	22.2%
Non-bank connected persons	-	0.0%	-	0.0%
Rating-contingent limit ⁵				
Other connected persons	n/a	70.0%	n/a	70.0%
Non-bank connected persons	n/a	15.0%	n/a	15.0%

The credit exposure concentrations disclosed for connected persons are on the basis of actual gross exposures and exclusive of exposures of a capital nature. The peak end-of-day credit exposures for the quarter to connected persons are measured over tier one capital as at the end of the quarter. There were no individual provisions provided against credit exposures to connected persons as at 30 September 2009 (30/09/2008 \$nil). The Banking Group had no contingent exposures arising from risk lay-off arrangements to connected persons as at 30 September 2009 (30/09/2008 \$nil).

- All of the individual and bank counterparties included in the above tables have an investment grade credit rating. An investment grade credit rating means a credit rating of BBB or Baa3 or above, or its equivalent. In the case of a group of closely related counterparties, the credit rating applicable is that of the entity heading the group of closely related counterparties. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars, or to an entity's long term senior unsecured foreign currency obligations.
- The Banking Group has amounts due from its Parent Company and Ultimate Parent Bank and other entities within the Ultimate Parent Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 30 September 2009, the gross exposures to the Bank's Parent Company were \$522 million (30/09/2008 \$14 million). As at 30 September 2009, the gross exposures to the Bank's Ultimate Parent Bank were \$3,981 million (30/09/2008 \$2,997 million).
- Non-bank connected persons exposures consist of loans to directors of the Bank. Any loans are made in the ordinary course of business of the Bank, on an arm's length basis and on normal commercial terms and conditions.
- The Banking Group has complied with the limits on aggregate credit exposure (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, as set out in the Conditions of Registration, at all times during the quarter.
- Represents the maximum peak end-of-day aggregate credit exposures limit (of a non-capital nature and net of individual provisions) to all connected persons. This limit is based on the ratings applicable to the Bank's long term senior unsecured obligations payable in New Zealand in New Zealand dollars. Within the overall limit a sub-limit of 15% of Tier One Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

33. INTEREST EARNING AND DISCOUNT BEARING ASSETS AND LIABILITIES

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Interest earning and discount bearing assets	100,935	109,017	105,557	107,287
Interest and discount bearing liabilities	90,491	100,581	104,038	108,502

34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The determination of the fair value of financial instruments is fundamental to the financial reporting framework as all financial instruments are recognised initially at fair value and, with the exception of those financial instruments carried at amortised cost, are remeasured at fair value in subsequent periods.

The fair value of a financial instrument on initial recognition is normally the transaction price, however, in certain circumstances the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, fair value is determined using market accepted valuation techniques that employ observable market data. In limited cases where observable market data is not available, the input is estimated based on other observable market data, historical trends and other factors that may be relevant.

A significant number of financial instruments are carried at fair value in the balance sheet. Additional disclosure of the fair value of those financial instruments not carried at fair value has been provided below. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective such as income tax and intangible assets. The aggregate fair value amounts do not represent the underlying value of the Banking Group.

In the tables below, classes of financial assets have been allocated based on their accounting treatment. The significant accounting policies in Note 1 describe how the categories of financial assets and financial liabilities are measured and how income and expenses, including fair value gains and losses, are recognised.

Financial asset classes have been allocated into the following groups: amortised cost; financial assets at fair value through profit or loss; derivatives in effective hedging relationships; and available-for-sale financial assets. Similarly, each class of financial liability has been allocated into three groups: amortised cost; financial liabilities at fair value through profit or loss; and derivatives in effective hedging relationships.

The fair values are based on relevant information available as at the respective balance sheet dates and have not been updated to reflect changes in market conditions after the balance sheet date.

FINANCIAL ASSETS

Liquid assets and due from other financial institutions

The carrying values of these financial instruments are considered to approximate their net fair values as they are short-term in nature, defined as those that reprice or mature in 90 days or less, or are receivable on demand. When longer term in nature, fair value is based on quoted market prices.

Trading securities

Trading securities are carried at fair value. Fair value is generally based on quoted market prices, broker or dealer price quotations, or modelled valuations using prices for securities with similar credit risk, maturity and yield characteristics.

Derivative financial instruments

The fair values of derivative financial instruments are determined using market prices and market accepted valuation models as appropriate (including discounted cash flow models) based on current market yields for similar types of instruments and the maturity of each instrument.

Available-for-sale assets

Fair value is based on quoted market prices or broker or dealer price quotations. If this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, or market accepted valuation models as appropriate (including discounted cash flow models) based on current market yields for similar types of instruments and the maturity of each instrument.

Net loans and advances

The carrying value of loans and advances includes deferred fees and expenses, and is net of provision for credit impairment and income yet to mature. Fair value has been determined through discounting future cash flows. For fixed rate loans and advances, the discount rate applied incorporates changes in wholesale market rates, the Banking Group's cost of wholesale funding and movements in customer margin. For floating rate loans, only changes in wholesale market rates and the Banking Group's cost of wholesale funding are incorporated in the discount rate. For variable rate loans where the Banking Group sets the applicable rate at its discretion, the fair value is set equal to the carrying value.

The difference between estimated fair values for loans and advances and their carrying value reflects changes in interest rates and the credit worthiness of borrowers since loan origination.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Other financial assets

Included in this category are accrued interest and fees receivable. The carrying values of accrued interest and fees receivable are considered to approximate their net fair values as they are short term in nature or are receivable on demand.

Financial assets designated at fair value through profit or loss

The Banking Group has not reclassified any financial assets previously measured at amortised cost to fair value, or previously measured at fair value to amortised cost, during the year ended 30 September 2009 (30/09/2008 \$nil).

FINANCIAL LIABILITIES

Due to other financial institutions

The carrying value of short term financial instruments is their net fair value, or when longer term in nature, fair value is based on quoted market prices, or for those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument is used.

Deposits and other borrowings

For interest bearing fixed maturity deposits and other borrowings without quoted market prices, market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows. The fair value of a deposit liability without a specified maturity or at call is deemed to be the amount payable on demand at the reporting date. The fair value is not adjusted for any value expected to be derived from retaining the deposit for a future period of time.

At balance date, the carrying amount of deposits and other borrowings designated by the Banking Group at fair value through profit or loss was \$7,392 million (30/09/2008 \$12,653 million). This is \$4 million higher (30/09/2008 \$17 million lower) than their amortised cost.

The accumulated amount of the change in fair value attributable to changes in credit risk on these liabilities was less than \$3 million (30/09/2008 less than \$3 million). The change in fair value attributable to changes in credit risk has been determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risks (benchmark interest rate, and foreign exchange rates).

Bonds and notes, due to parent company and loan capital

The aggregate fair value of bonds and notes and loan capital is calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument is used.

Other financial liabilities

This category includes accrued interest and fees payable for which the carrying amount is considered to approximate the fair value.

Commitments and contingencies

As outlined in Note 41 Contingent Liabilities and Credit Related Commitments, the Banking Group and the Bank have various credit related commitments. Based upon the level of fees currently charged for granting such commitments, taking into account maturity and interest rates, together with any changes in the creditworthiness of counterparties since origination of the commitments, their estimated replacement or net fair value is not material.

Financial liabilities designated at fair value through profit or loss

Certain items included in deposits and other borrowings have been designated as financial liabilities at fair value through profit or loss in order to eliminate an accounting mismatch which would arise if the liabilities were otherwise carried at amortised cost. This mismatch arises where a derivative, which is required to be measured at fair value through profit or loss, has been acquired to mitigate a financial risk within the financial liability.

VALUATION METHODOLOGY

A significant number of financial instruments are carried on the balance sheet at fair value. The Banking Group has implemented controls that ensure that the fair value is either determined, or validated, by a function independent of the party that undertakes the transaction.

The best evidence of fair value is a quoted price in an active market. Accordingly, wherever possible fair value is based on quoted market prices for the financial instrument. The net position of non-derivative financial instruments with offsetting market risks and all derivative portfolios, are valued at the quoted bid price for assets and the quoted ask price for liabilities. The quoted market price is not adjusted for any potential impact that may be attributed to a large holding of the financial instrument.

Where quoted market prices are used, independent price determination or validation is utilised. The results of independent validation processes are reported to senior management, and adjustments to the fair values are made as appropriate.

In the event that there is no quoted market price for the instrument, fair values are based on present value estimates or other market accepted valuation techniques which include data from observable markets wherever possible. The majority of valuation techniques employ only observable market data however, for certain financial instruments the fair value cannot be determined in whole with reference to current market transactions or valuation techniques whose variables only include data from observable markets. In respect of the valuation component where market observable data is not available, the fair value is determined using valuation techniques based on data derived and extrapolated from market data and tested against historic transactions and observed market trends.

The valuation models incorporate the impact of the bid/ask spread, counterparty credit spreads and other factors that would influence the fair value determined by a market participant.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of: (i) valuation models; (ii) any inputs to those models; and (iii) any adjustments required outside of the valuation model, and, where possible, independent validation of model outputs.

Carrying amount	Consolidated						
	At amortised cost			At fair value through profit or loss	Hedging	Available-for-sale assets	Total \$m
	Loans and receivables \$m	Other financial assets at amortised cost \$m	Sub-total \$m	Held for trading \$m	\$m	\$m	
Financial assets							
30/09/2009							
Liquid assets	-	2,762	2,762	-	-	-	2,762
Due from other financial institutions	-	1,778	1,778	-	-	2,736	4,514
Trading securities	-	-	-	4,166	-	-	4,166
Derivative financial instruments ¹	-	-	-	10,986	422	-	11,408
Available-for-sale assets	-	-	-	-	-	1,513	1,513
Net loans and advances ²	88,259	-	88,259	-	-	-	88,259
Other financial assets	-	999	999	-	-	-	999
Total financial assets	88,259	5,539	93,798	15,152	422	4,249	113,621
30/09/2008							
Liquid assets	-	4,838	4,838	-	-	-	4,838
Due from other financial institutions	-	2,585	2,585	-	-	2,447	5,032
Trading securities	-	-	-	2,624	-	-	2,624
Derivative financial instruments ¹	-	-	-	7,297	236	-	7,533
Available-for-sale assets	-	-	-	-	-	109	109
Net loans and advances ²	97,679	-	97,679	-	-	-	97,679
Other financial assets	-	893	893	-	-	-	893
Total financial assets	97,679	8,316	105,995	9,921	236	2,556	118,708

The following table summarises the carrying amounts and fair values of those financial assets not presented in the Banking Group's balance sheet at their fair value:

	Consolidated			
	30/09/2009		30/09/2008	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Liquid assets	2,762	2,762	4,838	4,838
Due from other financial institutions	1,778	1,778	2,585	2,585
Net loans and advances ²	88,259	87,996	97,679	97,429
Other financial assets	999	999	893	893
Total financial assets at amortised cost	93,798	93,535	105,995	105,745

1. Derivative financial instruments classified as held for trading include derivatives entered into as economic hedges which are not designated as accounting hedges.

2. Fair value hedging is applied to financial assets within loans and advances. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Carrying amount Financial liabilities	Consolidated					Total \$m
	At amortised cost	At fair value through profit or loss			Hedging	
		Designated on initial recognition	Held for trading	Sub-total		
	\$m	\$m	\$m	\$m	\$m	\$m
30/09/2009						
Due to other financial institutions	3,725	-	-	-	-	3,725
Deposits and other borrowings	64,372	7,392	-	7,392	-	71,764
Derivative financial instruments ¹	-	-	9,862	9,862	900	10,762
Other financial liabilities	1,414	-	-	-	-	1,414
Bonds and notes ²	15,917	-	-	-	-	15,917
Due to parent company	930	-	-	-	-	930
Loan capital	2,596	-	-	-	-	2,596
Total financial liabilities	88,954	7,392	9,862	17,254	900	107,108
30/09/2008						
Due to other financial institutions	3,312	-	-	-	-	3,312
Deposits and other borrowings	64,483	12,653	-	12,653	-	77,136
Derivative financial instruments ¹	-	-	5,946	5,946	764	6,710
Other financial liabilities	1,471	-	-	-	-	1,471
Bonds and notes ²	20,695	-	-	-	-	20,695
Due to parent company	404	-	-	-	-	404
Loan capital	2,820	-	-	-	-	2,820
Total financial liabilities	93,185	12,653	5,946	18,599	764	112,548

The following table summarises the carrying amounts and fair values of those financial liabilities not presented in the Banking Group's balance sheet at their fair value:

	Consolidated			
	30/09/2009		30/09/2008	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Due to other financial institutions	3,725	3,725	3,312	3,296
Deposits and other borrowings	64,372	64,404	64,483	64,532
Other financial liabilities	1,414	1,414	1,471	1,471
Bonds and notes ²	15,917	16,051	20,695	20,448
Due to parent company	930	930	404	404
Loan capital	2,596	2,516	2,820	2,687
Total financial liabilities at amortised cost	88,954	89,040	93,185	92,838

- Derivative financial instruments classified as held for trading include derivatives entered into as economic hedges which are not designated as accounting hedges.
- Fair value hedging is applied to financial liabilities within bonds and notes. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Carrying amount Financial assets	Parent							
	At amortised cost			At fair value through profit or loss		Hedging	Available-for-sale assets	
	Loans and receivables \$m	Other financial assets at amortised cost \$m	Sub-total \$m	Designated on initial recognition \$m	Held for trading \$m	\$m	\$m	Total \$m
30/09/2009								
Liquid assets	-	2,758	2,758	-	-	-	-	2,758
Due from other financial institutions	-	1,625	1,625	-	-	-	2,736	4,361
Trading securities	-	-	-	-	4,166	-	-	4,166
Derivative financial instruments ¹	-	-	-	-	11,027	422	-	11,449
Available-for-sale assets	-	-	-	-	-	-	1,511	1,511
Net loans and advances ²	85,952	-	85,952	-	-	-	-	85,952
Due from subsidiary companies	-	1,865	1,865	5,838	-	-	-	7,703
Other financial assets	-	951	951	-	-	-	-	951
Total financial assets	85,952	7,199	93,151	5,838	15,193	422	4,247	118,851
30/09/2008								
Liquid assets	-	4,837	4,837	-	-	-	-	4,837
Due from other financial institutions	-	2,080	2,080	-	-	-	2,447	4,527
Trading securities	-	-	-	-	2,624	-	-	2,624
Derivative financial instruments ¹	-	-	-	-	7,306	238	-	7,544
Available-for-sale assets	-	-	-	-	-	-	107	107
Net loans and advances ²	95,241	-	95,241	-	-	-	-	95,241
Due from subsidiary companies	-	1,992	1,992	-	-	-	-	1,992
Other financial assets	-	789	789	-	-	-	-	789
Total financial assets	95,241	9,698	104,939	-	9,930	238	2,554	117,661

The following table summarises the carrying amounts and fair values of those financial assets not presented in the Bank's balance sheet at their fair value:

	Parent			
	30/09/2009		30/09/2008	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Liquid assets	2,758	2,758	4,837	4,837
Due from other financial institutions	1,625	1,625	2,080	2,080
Net loans and advances ²	85,952	85,675	95,241	94,972
Due from subsidiary companies	1,865	1,865	1,992	1,992
Other financial assets	951	951	789	789
Total financial assets at amortised cost	93,151	92,874	104,939	104,670

1. Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.

2. Fair value hedging is applied to financial assets within loans and advances. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Carrying amount Financial liabilities	Parent					Total \$m
	At amortised cost	At fair value through profit or loss			Hedging	
		Designated on initial recognition	Held for trading	Sub-total		
	\$m	\$m	\$m	\$m	\$m	\$m
30/09/2009						
Due to other financial institutions	3,239	-	-	-	-	3,239
Deposits and other borrowings	62,835	-	-	-	-	62,835
Due to subsidiary companies	31,675	5,687	-	5,687	-	37,362
Derivative financial instruments ¹	-	-	9,869	9,869	900	10,769
Other financial liabilities	909	-	-	-	-	909
Bonds and notes ²	1,516	-	-	-	-	1,516
Due to parent company	930	-	-	-	-	930
Loan capital	2,596	-	-	-	-	2,596
Total financial liabilities	103,700	5,687	9,869	15,556	900	120,156
30/09/2008						
Due to other financial institutions	1,940	-	-	-	-	1,940
Deposits and other borrowings	62,800	-	-	-	-	62,800
Due to subsidiary companies	43,260	-	-	-	-	43,260
Derivative financial instruments ¹	-	-	5,946	5,946	764	6,710
Other financial liabilities	1,187	-	-	-	-	1,187
Bonds and notes ²	1,123	-	-	-	-	1,123
Due to parent company	404	-	-	-	-	404
Loan capital	2,820	-	-	-	-	2,820
Total financial liabilities	113,534	-	5,946	5,946	764	120,244

The following table summarises the carrying amounts and fair values of those financial assets not presented in the Bank's balance sheet at their fair value:

	Parent			
	30/09/2009		30/09/2008	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Due to other financial institutions	3,239	3,239	1,940	1,940
Deposits and other borrowings	62,835	62,860	62,800	62,843
Due to subsidiary companies	31,675	31,997	43,260	43,027
Other financial liabilities	909	908	1,187	1,187
Bonds and notes ²	1,516	1,545	1,123	1,125
Due to parent company	930	930	404	404
Loan capital	2,596	2,516	2,820	2,687
Total financial liabilities at amortised cost	103,700	103,995	113,534	113,213

1. Derivative financial instruments classified as held for trading include derivatives entered into as economic hedges which are not designated as accounting hedges.
2. Fair value hedging is applied to financial liabilities within bonds and notes. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

The table below provides an analysis of the methodology used for valuing financial assets and financial liabilities that are required to be remeasured at fair value. The fair value of the financial instrument has been allocated in full to the category which most accurately reflects the determination of the fair value.

	Valuation technique			Total \$m
	Quoted market price \$m	Using observable inputs \$m	Using significant non-observable inputs \$m	
30/09/2009				
Consolidated				
Financial assets				
Due from other financial institutions	2,736	-	-	2,736
Trading securities	1,261	2,905	-	4,166
Available-for-sale assets	1,413	100	-	1,513
Derivative financial instruments	45	11,363	-	11,408
Total financial assets	5,455	14,368	-	19,823
Financial liabilities				
Derivative financial instruments	2	10,760	-	10,762
Commercial paper	-	7,392	-	7,392
Total financial liabilities	2	18,152	-	18,154

	Valuation technique			Total \$m
	Quoted market price \$m	Using observable inputs \$m	Using significant non-observable inputs \$m	
30/09/2009				
Parent				
Financial assets				
Due from other financial institutions	2,736	-	-	2,736
Trading securities	1,261	2,905	-	4,166
Available-for-sale assets	1,413	98	-	1,511
Due from subsidiary companies	-	5,838	-	5,838
Derivative financial instruments	45	11,404	-	11,449
Total financial assets	5,455	20,245	-	25,700
Financial liabilities				
Due to subsidiary companies	-	5,687	-	5,687
Derivative financial instruments	2	10,767	-	10,769
Total financial liabilities	2	16,454	-	16,456

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. SEGMENTAL ANALYSIS

For segment reporting purposes, the Banking Group is organised into three major business segments – Retail, Commercial and Institutional. Centralised back office and corporate functions support these segments.

A summarised description of each business segment is shown below:

Retail

Provides banking products and services to individuals and small businesses through separate ANZ and The National Bank of New Zealand branded distribution channels. Personal banking customers have access to a wide range of financial services and products. Small business banking services are offered to enterprises with annual revenues of less than \$5 million. Included in this segment is Private Banking, a stand-alone business unit, which offers a fully inclusive banking and investment service to high net worth individuals. This segment also includes profit centres supporting the Retail Banking segment (e.g. ING NZ joint venture).

Commercial

This segment provides services to Rural, Corporate and Commercial and UDC customers. A full range of banking products and services are provided to Rural customers. Corporate and Commercial customers consist of primarily privately owned medium to large businesses with annual revenues of \$2 million and greater. The Banking Group's relationship with these businesses ranges from simple banking requirements with revenue from deposit and transactional facilities, and cash flow lending, to more complex funding arrangements with revenue sourced from a wider range of products. UDC is primarily involved in the financing and leasing of plant, vehicles and equipment, primarily for small and medium sized businesses, as well as investment products.

Institutional

Institutional provides financial services to large multi-banked corporates, often global, who require sophisticated product and structuring solutions. The Institutional business unit includes the following specialised units:

- **Markets** – provides foreign exchange and commodity trading and sales-related services, origination, underwriting, structuring, risk management and sale of credit and derivative products globally.
- **Transaction Banking** – provides cash management, trade finance, international payments, clearing and custodian services.
- **Specialised Lending** – provides origination, credit analysis, structuring and execution of specific customer transactions.

Other

Includes Treasury and back office support functions, none of which constitutes a separately reportable segment.

As the composition of segments has changed over time, prior period comparatives have been adjusted to be consistent with the 2009 segment definitions.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

35. SEGMENTAL ANALYSIS (CONTINUED)

Business segment analysis – continuing operations^{1,2}

	Consolidated				Total \$m
	Retail Banking ⁴ \$m	Commercial Banking \$m	Institutional \$m	Other \$m	
30/09/2009					
External interest income	4,106	2,696	448	(4)	7,246
External interest expense	(1,765)	(533)	(731)	(1,863)	(4,892)
Net intersegment interest	(1,299)	(1,398)	742	1,955	-
Net interest income	1,042	765	459	88	2,354
Other external operating income ⁴	290	98	309	52	749
Share of profit of equity accounted associates and jointly controlled entities	13	-	(2)	2	13
Operating income	1,345	863	766	142	3,116
Other external expenses	624	160	111	492	1,387
Net intersegment and related party expenses ³	332	114	60	(416)	90
Operating expenses	956	274	171	76	1,477
Profit before provision for credit impairment and income tax	389	589	595	66	1,639
Provision for credit impairment	350	419	95	10	874
Profit before income tax	39	170	500	56	765
Income tax expense	7	50	143	267	467
Profit after income tax	32	120	357	(211)	298
Non-cash expenses					
Depreciation and amortisation	17	2	2	29	50
Balance sheet					
Total external assets	44,089	36,506	31,866	5,430	117,891
Share in associates and jointly controlled entities	327	-	-	137	464
Total external liabilities	37,781	10,509	30,249	29,264	107,803

1. Results are equity standardised.

2. Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.

3. Net intersegment expenses are eliminated at the Ultimate Parent Bank level.

4. Includes \$211 million charge in relation to ING New Zealand Funds. Refer to Note 41 Contingent Liabilities and Credit Related Commitments for future details.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

35. SEGMENTAL ANALYSIS (CONTINUED)

Business segment analysis – continuing operations^{1,2}

	Consolidated				Total \$m
	Retail Banking \$m	Commercial Banking \$m	Institutional \$m	Other \$m	
30/09/2008					
External interest income	4,729	3,219	1,873	36	9,857
External interest expense	(2,498)	(819)	(1,247)	(3,004)	(7,568)
Net intersegment interest	(951)	(1,618)	(472)	3,041	-
Net interest income	1,280	782	154	73	2,289
Other external operating income	506	82	413	12	1,013
Share of profit of equity accounted associates and jointly controlled entities	23	-	-	88	111
Operating income	1,809	864	567	173	3,413
Other external expenses	632	155	102	473	1,362
Net intersegment and related party expenses ³	337	114	55	(424)	82
Operating expenses	969	269	157	49	1,444
Profit before provision for credit impairment and income tax	840	595	410	124	1,969
Provision for credit impairment	179	108	13	2	302
Profit before income tax	661	487	397	122	1,667
Income tax expense	211	158	118	17	504
Profit after income tax	450	329	279	105	1,163
Non-cash expenses					
Depreciation and amortisation	16	1	2	27	46
Balance sheet					
Total external assets	55,779	36,153	26,723	4,260	122,915
Share in associates and jointly controlled entities	212	-	-	151	363
Total external liabilities	39,195	11,717	28,922	33,274	113,108

1. Results are equity standardised.

2. Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.

3. Net intersegment expenses are eliminated at the Ultimate Parent Bank level.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

36. NOTES TO THE CASH FLOW STATEMENTS

	Consolidated		Parent	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
Reconciliation of profit after income tax to net cash flows provided by (used in) operating activities				
Profit after income tax	298	1,163	1,010	644
Non-cash items:				
Depreciation and amortisation	50	46	27	22
Provision for credit impairment	874	302	840	278
Deferred fee revenue and expenses	(8)	(3)	(7)	(2)
Share-based payments expense	18	13	18	13
Amortisation of capitalised brokerage/ mortgage origination fees	50	57	50	57
Deferrals or accruals of past or future operating cash receipts or payments:				
Increase in operating assets and liabilities	(1,874)	(3,362)	(2,749)	(2,876)
Decrease (increase) in interest receivable	138	2	90	(28)
(Decrease) increase in interest payable	(295)	202	(252)	219
Decrease (increase) in accrued income	1	(8)	-	(7)
Increase in accrued expenses	42	45	41	37
Increase in provisions	100	25	96	35
Amortisation of premiums and discounts	76	56	76	56
Decrease (increase) in income tax assets	141	(20)	240	(45)
Items classified as investing/financing:				
Share of profit of equity accounted associates and jointly controlled entities	(11)	(111)	-	-
Other adjustments including associates	-	-	-	(88)
(Gain) loss on disposal of premises and equipment	(13)	1	4	1
Net cash flows used in operating activities	(413)	(1,592)	(516)	(1,684)

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

36. NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

Reconciliation of core liquidity portfolio to cash and cash equivalents

The Banking Group's core liquidity portfolio held for managing liquidity risk comprises:

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Cash and balances with central banks	2,207	3,779	2,207	3,779
Securities purchased under agreement to resell	1,075	134	1,075	134
Certificates of deposit	2,736	3,343	2,736	3,343
Government, Local Body stock and bonds	1,102	180	1,102	180
Available-for-sale assets	1,435	-	1,435	-
Other bank bonds	2,522	1,300	2,522	1,300
Total liquidity portfolio ¹	11,077	8,736	11,077	8,736
<i>Reconciliation to cash and cash equivalents:</i>				
Other cash items not included within liquidity portfolio:				
Liquid assets not with central banks	555	1,059	551	1,058
Due from other financial institutions – less than 90 days	550	1,948	550	1,946
<i>Non-cash items included within liquidity portfolio:</i>				
Trading securities	(3,624)	(2,376)	(3,624)	(2,376)
Available-for-sale assets	(1,435)	-	(1,435)	-
Due from other financial institutions – greater than 90 days	(2,358)	(1,578)	(2,358)	(1,578)
Total cash and cash equivalents	4,765	7,789	4,761	7,786
Reconciliation of cash and cash equivalents to the balance sheets				
Liquid assets	2,762	4,838	2,758	4,837
Due from other financial institutions – less than 90 days	2,003	2,951	2,003	2,949
Total cash and cash equivalents	4,765	7,789	4,761	7,786

1. Assets held for managing liquidity risk includes short term cash held with the RBNZ or other banks, government securities and other securities that are readily acceptable in repurchase agreements with the RBNZ and other New Zealand banks and securities issued by offshore supranational and highly rated banks.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

37. SIGNIFICANT CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES

Controlled entities	Ownership Interest %	Balance Date	Nature of business
Airlie Investments Limited	100	30 September	Investment company
Alos Holdings Limited	100	30 September	Investment company
ANZ Capital NZ Limited	100	30 September	Investment company
ANZ Investment Services (New Zealand) Limited	100	30 September	Funds management company
ANZ National (Int'l) Limited	100	30 September	Finance company
ANZ National Staff Superannuation Limited	100	30 September	Staff superannuation scheme trustee
APAC Investments Limited	65	30 September	Finance company
Arawata Assets Limited	100	30 September	Property company
Arawata Capital Limited	100	30 September	Investment company
Arawata Finance Limited	100	30 September	Investment company
Arawata Funding Limited	100	30 September	Investment company
Arawata Holdings Limited	100	30 September	Investment company
Arawata Securities Limited	100	30 September	Finance company
Arawata Trust	-	30 September	Finance entity
Arawata Trust Company	100	30 September	Investment company
BHI Limited	100	30 September	Investment company
CBC Finance Limited (incorporated in United Kingdom)	100	31 December	Finance company
Control Nominees Limited	100	30 September	Finance company
Cortland Finance Limited	100	30 September	Investment company
Corvine Investments Limited	100	30 September	Investment company
Culver Finance Limited	100	30 September	Investment company
Direct Broking Limited	100	30 September	On-line share broker
Direct Nominees Limited	100	30 September	Nominee company
EFTPOS New Zealand Limited	100	30 September	Eftpos service provider
Endeavour Finance Limited	100	30 September	Investment company
Endeavour Securities Limited	100	30 September	Investment company
General Finance Custodians Limited	-	31 March	Mortgage finance
Harcourt Corporation Limited	100	30 September	Investment company
Harcourt Investments Limited	100	30 September	Investment company
Karapiro Investments Limited	100	30 September	Non operative
Kingfisher NZ Trust 2008-1	-	30 September	Finance entity
National Bank of New Zealand Custodians Limited	100	30 September	Nominee and custody services
NBNZ Finance Limited	100	30 September	Finance company
NBNZ Holdings Hong Kong Limited (incorporated in Hong Kong)	100	31 December	Non operative
NBNZ Holdings Limited	100	30 September	Finance company
Origin Mortgage Management Services Limited	-	31 March	Mortgage finance
Origin Mortgage Management Services (2008) Limited	-	31 March	Mortgage finance
Private Nominees Limited	100	30 September	Nominee company
Radiola Corporation Limited	100	30 September	Distribution company
Rural Growth Fund Limited	100	30 September	Investment company
Sefton Finance Limited	100	30 September	Investment company
South Pacific Merchant Finance Limited	100	30 September	Investment company
Southpac Corporation Limited	100	30 September	Investment company
Trillium Holdings Limited	100	30 September	Finance company
Tui Endeavour Limited	100	30 September	Investment company
Tui Securities Limited	100	30 September	Investment company
UDC Finance Limited	100	30 September	Finance company

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

37. SIGNIFICANT CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

All controlled entities are incorporated in New Zealand, unless stated.

For all controlled entities, with the exception of General Finance Custodians Limited, Origin Mortgage Management Services Limited and Origin Mortgage Management Services (2008) Limited, the ownership interest percentage equates to the voting power held. In relation to these companies, control exists through the Banking Group having 100% of the voting rights.

In relation to Arawata Trust and Kingfisher NZ Trust 2008-1, control exists through ANZ National Bank Limited being trustee of the Trusts.

Movements in controlled entities

On 7 November 2007, the Banking Group exited its controlling interest in Amberley Investments (50% ownership).

On 7 November 2007, the Banking Group exited its controlling interest in Endeavour Caterpillar New Zealand Finance Company (50% ownership).

On 3 December 2007, Radiola NZ Limited was incorporated as a subsidiary of the Banking Group, and on 23 May 2008 changed its name to Radiola Corporation Limited.

On 8 January 2008, the Banking Group exited its controlling interest in Nerine Finance No. 2 (65% ownership).

On 5 March 2008, the Banking Group purchased a 100% interest in Technical Solutions Limited. On 9 April 2009, Technical Solutions Limited was amalgamated with Direct Broking Limited.

On 11 April 2008, Pioneer First Limited changed its name to Origin Mortgage Management Services (2008) Limited.

On 10 October 2008, Kingfisher NZ Trust 2008-1 was established.

On 17 October 2008, ETRADE New Zealand Limited, ETRADE New Zealand Securities Limited and ETRADE New Zealand Securities Nominees Limited were deregistered.

On 2 April 2009, the Bank ceased to control Marmion Trust. Control previously existed through the undertaking of the majority of risks and rewards relating to a particular transaction. This transaction was unwound on 2 April 2009.

Associates

Associates	30/09/2009 Book Value \$m	30/09/2008 Book Value \$m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Cards NZ Limited	85	86	30	15	30 September	Card services
Paymark Limited	2	2	25	25	31 March	Eftpos settlements
EXCL Limited (in receivership)	-	-	45	81	30 September	Plastics manufacturing and recycling
ING Diversified Yield Fund	46	-	49	49	30 June	Fixed income fund
ING Regular Income Fund	21	-	49	49	30 June	Fixed income fund
Mondex New Zealand Limited	-	-	40	40	31 December	Card services
NZ Poultry Enterprises Limited	41	40	20	20	30 April	Poultry processor
UCG Investments Limited	13	13	40	40	31 March	Rest home operator
Wyra Engineering (NZ) Limited	3	3	31	31	31 March	Agricultural machinery supplier
Total investment in associates	211	144				

All associates are incorporated in New Zealand, excluding the ING Diversified Yield Fund and ING Regular Income Fund which are incorporated in Australia.

Movements in associates

From 28 November 2007, ANZ Capital NZ Limited purchased five further tranches of UCG Investments Limited.

On 25 February 2008, ANZ Capital NZ Limited acquired a 20% ownership interest in NZ Poultry Enterprises Limited.

On 28 August 2009, the Banking Group acquired an interest in the ING Diversified Yield Field and ING Regular Income Fund.

On 21 September 2009, Electronic Transactions Services Limited changed its name to Paymark Limited.

Jointly controlled entities	30/09/2009 Book Value \$m	30/09/2008 Book Value \$m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Argenta Limited	2	2	21	21	31 July	Manufacture and marketing of animal remedies
BCS Group Limited	2	4	40	40	30 June	Manufacturer of baggage handling systems
ING (NZ) Holdings Limited	248	212	50	49	31 December	Funds management and insurance
JMI Aerospace Limited	1	1	33	33	31 March	Airline maintenance and service provider
Total investment in jointly controlled entities	253	219				

All jointly controlled entities are incorporated in New Zealand.

The Banking Group has joint control of all these entities due to a combination of control factors, none of which gives either party overall control.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

37. SIGNIFICANT CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

The summarised financial information relating to the Banking Group's investment in ING (NZ) Holdings Limited is as follows:

	Consolidated	
	30/09/2009 \$m	30/09/2008 \$m
Share of assets and liabilities		
Investments	91	78
Other assets	171	160
Total assets	262	238
Life insurance policy liabilities	(46)	(3)
Other liabilities	63	11
Total liabilities	17	8
Net assets	245	230
Share of revenue, expenses and results		
Net underwriting result	84	66
Other revenue	32	25
Total revenue	116	91
Expenses	108	75
Profit before income tax	8	16
Income tax expense	(5)	(6)
Profit after tax	13	22
Share of commitments		
Lease commitments	17	8

There are no unrecognised losses in respect of any of the Banking Group's jointly controlled entities. The Banking Group's share of the contingent liabilities of its joint ventures are incurred jointly with other investors. Other than as referred to in Note 41, there were no material contingent liabilities as at 30 September 2009 (30/09/2008 \$nil).

38. PARENT COMPANY AND ULTIMATE PARENT BANK

The Parent Company is ANZ Holdings (New Zealand) Limited which is incorporated in New Zealand. The Ultimate Parent Bank is Australia and New Zealand Banking Group Limited which is incorporated in Australia.

39. SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

Securitisation

The Bank enters into transactions in the normal course of business by which it transfers financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of those financial assets.

- Full derecognition occurs when the Bank transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. These risks include credit, interest rate, currency, prepayment and other price risks.
- Partial derecognition occurs when the Bank sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of the Bank's continuing involvement.

In May 2008 the RBNZ expanded the range of acceptable collateral that banks can pledge and borrow against as part of changes to its liquidity management arrangement designed to help ensure adequate liquidity for New Zealand financial institutions in the event that global market disruption was to intensify. From 31 July 2008, acceptable collateral includes residential mortgage backed securities ("RMBS") that satisfy RBNZ criteria.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

39. SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (CONTINUED)

On 10 October 2008, the Banking Group established an in-house RMBS facility that could issue securities meeting the RBNZ criteria. The establishment of the facility resulted in the Parent financial statements recognising a payable and receivable of equal amount totalling \$3,721 million to Kingfisher NZ Trust 2008-1 ("the Trust"), a newly established consolidated entity. On 12 December 2008, a further tranche totalling \$5,521 million was also sold to the Trust, creating a second payable and receivable of equal amount. These assets do not qualify for derecognition as the Bank retains a continuing involvement in the transferred assets, therefore the Consolidated Group's financial statements do not change as a result of establishing these facilities.

The RMBS facility is dynamic in nature reflecting the underlying movement in loan balances. To the extent that any loans are found to be ineligible in terms of the RBNZ criteria, they are automatically removed from the facility. Additional lending to existing RMBS customers is added into the facility on a monthly basis.

The establishment of this facility increases the Banking Group's contingent funding ability from the RBNZ.

On 27 February 2009, \$4,877 million of residential mortgage assets were sold to the Australia and New Zealand Banking Group Limited – New Zealand Branch. On 28 July 2009, a second tranche of \$4,986 million of residential mortgage assets were sold to the NZ Branch. These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets. The Banking Group's net loans and advances have reduced as a result of transferring these assets.

Funds management

Certain subsidiaries of the Bank act as trustee and/or manager for a number of unit trusts and investment and superannuation funds. The Bank provides private banking services to a number of clients, including investment advice and portfolio management. The Banking Group is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

As funds under management are not controlled by the Banking Group, they are not included in these financial statements. The Banking Group derives fee and commission income from the sale and management of investment funds and superannuation bonds, unit trusts and the provision of private banking services to a number of clients. The Banking Group derives commission income from the sale of third party funds management products.

Some funds under management are invested in products owned or securities issued by the Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2009, \$2,664 million of funds under management were invested in the Banking Group's own products or securities (30/09/2008 \$2,229 million).

Funds management activities conducted by the ING New Zealand joint venture are not included in the funds managed by the Banking Group, as the Banking Group does not have control of the ING New Zealand joint venture.

The aggregate value of funds managed by the Banking Group at balance date was:

	Consolidated	
	30/09/2009 \$m	30/09/2008 \$m
Bonus Bonds	2,889	2,417
Discretionary funds	4,360	3,440
Totals funds under management	7,249	5,857

On 1 October 2007, the Direct Broking Call Account was registered as a portfolio investment entity ("PIE").

On 25 March 2008, the UDC Superbonds Superannuation Scheme managed by UDC Finance Limited was wound up.

On 1 April 2008, the National Bank Call Fund, Private Banking Portfolio Call Fund and National Bank Private Banking Call Fund, all managed by ANZ Investments Services (New Zealand) Limited, commenced as PIEs. The funds invest in call deposits with the Bank.

On 9 April 2008, the Term Maximiser Fund and Call Maximiser Fund managed by UDC Finance Limited commenced as PIEs. The funds invest in secured debentures with UDC Finance Limited.

On 1 October 2008, the ANZ Call Fund and ANZ Term Fund, managed by UDC Finance Limited, commenced as PIEs. The funds invest in New Zealand dollar call and term deposits with the Bank.

Custodial services

The Banking Group provides custodial services to customers in respect of assets that are beneficially owned by those customers.

Marketing and distribution of insurance products

The Banking Group markets and distributes a range of insurance products which are underwritten by several insurance companies. These activities are managed in association with the ING New Zealand joint venture.

Insurance business

The Banking Group does not conduct any insurance business directly, although the Banking Group holds a 49% share in the ING New Zealand joint venture which does conduct insurance business.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

39. SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (CONTINUED)

Provision of financial services

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities, and to affiliated insurance companies which conduct marketing or distribution of insurance products, or on whose behalf the marketing or distribution of insurance products are conducted, are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value.

The Banking Group has not provided any funding to entities except standard lending facilities provided in the normal course of business on arm's length terms which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group (30/09/2008 \$nil).

Risk management

The Bank and subsidiaries of the Banking Group participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Bank. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

In addition, the following measures have been taken to manage any risk to the Bank of marketing and distributing insurance products:

Investment statements, prospectuses and brochures for insurance products include disclosures that the Bank and its subsidiaries do not guarantee the insurer, nor the insurer's subsidiaries, nor any of the products issued by the insurer or the insurer's subsidiaries.

Where the insurance products are subject to the Securities Act 1978, investment statements, prospectuses and brochures additionally include disclosures that:

- the policies do not represent deposits or other liabilities of the Bank or its subsidiaries;
- the policies are subject to investment risk, including possible loss of income and principal; and
- the Bank and its subsidiaries do not guarantee the capital value or performance of the policies.

Application forms for insurance products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures for insurance products noted above.

In addition, the following measures have been taken to manage any risk to the Bank of marketing and distributing fund management products:

Prospectuses, investment statements and brochures for funds management products include disclosures:

- that the securities do not represent deposits or other liabilities of the Bank;
- that the securities are subject to investment risk including possible loss of income and principal invested; and
- that the Bank does not guarantee the capital value or performance of the securities.

Application forms for funds management products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures for funds management products noted above.

40. COMMITMENTS

	Consolidated		Parent	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Capital expenditure				
Contracts for outstanding capital expenditure:				
Premises and equipment				
Not later than 1 year	19	26	-	-
Total capital expenditure commitments	19	26	-	-
Lease rentals				
Future minimum lease payments under non-cancellable operating leases:				
Premises and equipment				
Not later than 1 year	82	86	15	17
Later than 1 year but not later than 5 years	155	167	12	19
Later than 5 years	31	27	-	-
Total lease rental commitments	268	280	27	36
Total commitments	287	306	27	36

NOTES TO THE FINANCIAL STATEMENTS

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41. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS

For contingent exposures, the maximum exposure to credit risk is the maximum amount that the Banking Group would have to pay if the contingent is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Consolidated		Parent	
	Face or contract value		Face or contract value	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Credit related commitments				
Commitments with certain drawdown due within one year	735	659	735	659
Commitments to provide financial services	22,094	23,150	22,302	22,940
Total credit related commitments	22,829	23,809	23,037	23,599
Contingent liabilities				
Financial guarantees	1,753	2,017	1,753	2,017
Standby letters of credit	341	401	341	401
Transaction related contingent items	982	1,090	982	1,090
Trade related contingent liabilities	89	118	86	115
Total contingent liabilities	3,165	3,626	3,162	3,623

The Banking Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including its Ultimate Parent Bank. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio management and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

A summary of contingent liabilities is set out below.

Contingent tax liability

The New Zealand Inland Revenue Department ("IRD") is reviewing a number of structured finance transactions as part of an audit of the 2000 to 2005 tax years. A number of cases are before the courts and two decisions have been issued in the High Court, on 16 July 2009 and 7 October 2009, in favour of the IRD in respect of proceedings taken against other Banks.

The Banking Group has a provision which covers its exposure to primary tax and interest (tax-effected), net of an amount receivable from Lloyds Banking Group plc ("Lloyds") reflecting an indemnity given by Lloyds under the agreement by which the Banking Group acquired the NBNZ Holdings Limited Group.

The possible application of penalties has yet to be considered by the IRD. Having regard to the circumstances and advice received, the Bank considers the application of penalties to be both inappropriate and unlikely.

All of these transactions have now either matured or been terminated.

Other audits and risk reviews are being undertaken by the IRD and by revenue authorities in other jurisdictions, as part of normal revenue authority activity in those countries.

The Banking Group has assessed these and other taxation claims arising in New Zealand, including seeking independent advice where appropriate, and considers that it holds appropriate provisions.

Commerce Commission

In November 2006, the Commerce Commission brought proceedings under the Commerce Act 1986 against Visa, MasterCard and all New Zealand issuers of Visa and MasterCard credit cards, including ANZ National Bank Limited. The Commerce Commission alleged price fixing and substantially lessening competition in relation to the setting of credit card interchange fees.

Subsequently, several major New Zealand retailers issued proceedings against ANZ National Bank Limited and the other abovementioned defendants seeking unquantified damages, based on allegations similar to those contained in the Commerce Commission proceedings.

ANZ National Bank Limited settled the claims with the Commission and the retailers without any admission of liability. Similar settlements were reached by the other parties. The proceedings against all parties were discontinued in October 2009.

In addition, the Bank is aware that the Commerce Commission is looking closely at credit contract fees under the Credit Contracts and Consumer Finance Act 2003 ("CCCFA"). In its 2008-2011 Statement of Intent the Commission stated that:

"The Commission is turning more to litigation under the Credit Contracts and Consumer Finance Act to ensure credit contract fees are reasonable and disclosed. Currently the credit industry is not fully compliant with the legislation and taking more action through the courts will encourage better compliance and clarify any areas of the law that may be uncertain."

In particular the Bank is aware that the Commerce Commission is investigating the level of default fees charged on credit cards and the level of currency conversion charges on overseas transactions using credit cards under the CCCFA. The Commission is also investigating early repayment charges on fixed rate mortgages. At this stage the possible outcome of these investigations and any liability or impact on fees cannot be determined with any certainty.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

41. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS (CONTINUED)

ING New Zealand Funds

ANZ National Bank markets and distributes a range of wealth management products in New Zealand, which are managed by ING (NZ) Limited. Trading in the ING Diversified Yield Fund and the ING Regular Income Fund ("the Funds") was suspended on 13 March 2008, due to deterioration in the liquidity and credit markets. Units in these Funds were sold by the Bank to Bank customers.

On 5 June 2009, ING NZ AUT Investments Limited, a subsidiary of ING (NZ) Limited, made an offer to investors in the Funds. The offer closed on 13 July 2009. Investors holding approximately 99% of the funds accepted the offer and have received a payment of 60 cents per unit in the ING Diversified Yield Fund or 62 cents per unit in the ING Regular Income Fund, as applicable, either (i) in cash, or (ii) by way of deposit in an on-call account with the Bank, paying 8.30% per annum fixed for up to five years.

Although acceptance of this offer includes a waiver of claims, Bank customers were offered an additional opportunity to access the Bank customer complaints team (and, where still unsatisfied, the New Zealand Banking Ombudsman) even where the investors have accepted the offer. This opportunity was available until 31 July 2009 and approximately 1300 customers asked for their circumstances to be considered.

The Commerce Commission has sought information regarding the Funds and the sale of units in the Funds and is investigating this matter. At this stage it is not possible to predict the outcome of any investigation.

The Bank considers it has adequately provided for these obligations at this time. Allowance for the cost to the Bank is recognised as a reduction in other operating income in the income statement for the year ended 30 September 2009 with a corresponding provision in the balance sheet.

The ultimate cost to the Bank will depend on the final value of units in the Funds, any recoveries under insurance, the assessment and outcome of the customer complaints and the results of any litigation and regulatory proceedings that may be brought in connection with the Funds or their sale.

Further details on pending proceedings or arbitration are set out in Note 41 Contingent Liabilities and Credit Related Commitments.

Other contingent liabilities

The Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where appropriate. As at 30 September 2009, there were no other contingent assets or liabilities required to be disclosed (30/09/2008 nil).

42. EMPLOYEE SHARE AND OPTION PLANS

The Banking Group participates in the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan operated by the ANZ Banking Group. Any shares or options granted under these plans are shares in Australia and New Zealand Banking Group Limited.

The closing market price of one ordinary share of ANZ quoted on the ASX (Australian Stock Exchange) at 30 September 2009 was A\$24.39 (30/09/2008 A\$18.75).

ANZ EMPLOYEE SHARE ACQUISITION PLAN

The ANZ Employee Share Acquisition Plan includes the A\$1,000 Share Plan, the Deferred Share Plan and the Restricted Share Plan.

A\$1,000 share plan

Each permanent employee who has had continuous service for one year with the Banking Group is eligible to participate in a scheme enabling the issue of up to A\$1,000 of shares of ANZ in each financial year, subject to the approval of the Ultimate Parent Bank Board. The shares vest subject to satisfaction of a three year service period but may be forfeited in the event of resignation or termination for serious misconduct. On expiration of that period, an employee may sell the shares, transfer them into their name, or have them retained in trust. The issue price is based on the one-day volume weighted average price ("VWAP") of the shares traded on the ASX on the date of issue.

The Banking Group's employees are required to pay NZ 1 cent per share at the time the shares are transferred to them. During the year to 30 September 2009, 540,305 shares with an average issue price of A\$14.94 were issued under the A\$1,000 Share Plan (30/09/2008 267,523 shares with an average issue price of A\$27.96 were issued).

Deferred share plan

The Banking Group's last issue of shares under this plan was in November 2004. Selected employees were issued deferred shares, which vest subject to satisfaction of a minimum three year service period from the date of issue. Ordinary shares issued under this plan may be held in trust for up to 10 years, and may be required to meet performance hurdles before being able to be traded after the restriction period has expired. The issue price is based on the VWAP of the shares traded on the ASX in the five trading days leading up to and including the date of issue. Unvested shares are forfeited on resignation or dismissal, or if a performance condition has not been met.

Restricted share plan

Selected employees have the option to take some (or all) of their incentive payment as Restricted Shares. The shares are held in trust and may not be traded until the conclusion of the one-year restriction period, after which they may be transferred into the employee's name. Until they are transferred into the employee's name, they continue to be subject to forfeiture on termination for serious misconduct.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

42. EMPLOYEE SHARE AND OPTION PLANS (CONTINUED)

Shares valuations

The fair value of services received in return for shares in the ANZ Employee Share Acquisition Plan are measured by referring to the fair value of ANZ shares granted. The fair value of shares granted in the current period, measured at the date of grant of the shares, is NZ \$9.8 million based on 540,305 shares at a weighted average price of A\$14.94 converted at the exchange rate of 0.8232 (30/09/2008 NZ \$8.5 million based on 267,523 shares at a weighted average price of A\$27.96 converted at the exchange rate of 0.8809 were issued).

The average issue price of shares granted and the number of shares that are expected to ultimately vest to the employees at the end of the vesting period are used to calculate the fair value of shares. No dividends are incorporated into the measurement of the fair value of shares.

ANZ SHARE OPTION PLAN

Selected employees may be granted options, which entitle them to purchase ordinary fully paid shares in ANZ at a price fixed at the time when the options were issued. Voting and dividend rights will be attached to the unissued ordinary shares when the options have been exercised. Each option entitles a holder to purchase one ordinary share subject to any terms and conditions imposed on issue. The exercise price of the options (excluding zero-priced options) is determined in accordance with the rules of the plan, and is based on the weighted average price of the Ultimate Parent Bank's shares traded during the five business days preceding the date of granting the options.

The main schemes of the ANZ Share Option Plan are as follows:

Current option plans***Special Retention Deferred Share Rights***

This is a programme available to certain Banking Group employees. It grants the right to acquire ANZ shares at nil cost subject to satisfactorily meeting the time based hurdle. The Special Retention Deferred Share Rights can only be exercised between the third and fifth anniversary of their allocation (the "Exercise Period"). In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of termination on notice, retrenchment, retirement, death or total and permanent disablement, a grace period is provided in which to exercise all deferred share rights.

Performance rights plan

This scheme is a long term incentive program available to certain Banking Group employees since November 2005 and grants the right to acquire ANZ shares at nil cost, subject to a three year vesting period and a Total Shareholder Return ("TSR") performance hurdle. The proportion of rights that will become exercisable will depend upon the TSR achieved by ANZ relative to the companies in the comparator group, which consists of selected major financial services companies in the Standard & Poor's and ASX 100 Index. Performance equal to the median TSR of the comparator group will result in half the rights becoming exercisable. Performance above the median will result in further performance rights becoming exercisable, increasing on a straight line basis until all of the rights become exercisable where ANZ's TSR is at or above the 75th percentile in the comparator group.

The TSR hurdle will only be tested once at the end of the three-year vesting period. If the rights do not pass the hurdle on testing date, or if they pass the hurdle on testing date and are not exercised by the end of five years from the grant date, the rights will lapse. In the case of resignation or termination on notice, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of retrenchment or retirement, performance rights will be performance tested at the date of termination and where performance hurdles have been met, performance rights will be pro-rated and a grace period provided in which to exercise the rights. In case of death or total and permanent disablement, a grace period is provided in which to exercise all performance rights.

LTI Deferred Share Rights

This scheme is a long term incentive programme available to certain Banking Group employees and grants the right to acquire a share at nil cost, subject to satisfactorily meeting the time based hurdle. The LTI Deferred Share Rights can only be exercised between the third and fifth anniversary of their allocation (their "Exercise Period"). In the case of resignation, all unvested LTI Deferred Share Rights (in addition to any vested unexercised rights) as at the time notice of resignation is given, will be forfeited. In case of termination on notice by ANZ, all unvested LTI Deferred Share Rights as at the time of notice of termination of notice is received, will be forfeited. Any vested unexercised LTI Deferred Share Rights will be delivered as shares. In case of retrenchment (redundancy), any unvested LTI Deferred Share Rights as at the termination date will be pro-rated and be delivered as shares. In case of death or total and permanent disablement, all LTI Deferred Share Rights will vest and be delivered as shares.

Deferred share rights

This scheme is a short term incentive programme available to certain Banking Group employees since November 2004 and grants the right to acquire ANZ shares at nil cost after a specified vesting period ranging from one to three years. Deferred share rights must be exercised by the seventh anniversary of grant date. In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of termination on notice, retrenchment, retirement, death or total and permanent disablement, a grace period is provided in which to exercise all deferred share rights.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

42. EMPLOYEE SHARE AND OPTION PLANS (CONTINUED)

Deferred share options

This scheme is a part of the short term incentive programme available whereby certain Banking Group employees receive a mandatory deferred bonus under ANZ's Short Term Incentive ("STI") programme. The options can only be exercised between the first and fifth anniversary (one-year deferred options) and between the second and fifth anniversary (two-year deferred options) of the grant date (exercise period) and subject to the requirement that the share price is greater than the exercise price. In the case of dismissal for serious misconduct, irrespective of whether it is on notice or not, all unvested STI deferred options and any vested unexercised options will be forfeited. In the case of resignation, all unvested STI deferred options and any vested unexercised options as at the time notice of resignation is given will be forfeited. In the case of redundancy, retrenchment, death or total and permanent disablement, all STI deferred options will vest and a grace period is provided in which to exercise all deferred share options.

Legacy Option Plans

Performance options plan

This scheme is a long term incentive programme available to certain Banking Group employees. The options can only be exercised after a three year vesting period and before the seventh anniversary of the grant date. There are no other performance conditions attached to these options. All unexercised options are generally forfeited on resignation but any options to which the Banking Group employee is entitled will need to be exercised within a specified period of termination. On retrenchment, entitlements to options will be pro-rated over the three year vesting period. On death or total and permanent disablement, all unvested options will become available for exercise. No further performance options have been granted to Banking Group employees after November 2005.

Zero-price options ("ZPO")

A ZPO is a right to acquire an ANZ share at nil cost and is granted to certain employees as part of their employment contracts. The ZPO's have no time based vesting criteria, so can be exercised at any time during employment and within 6 months of termination of employment. ZPO's must be exercised within two years of grant date or they lapse.

Other past option plans which are no longer available to the Banking Group's employees, but continue to be amortised during their appropriate vesting periods are hurdled options and index linked options ("ILOs").

Details of the options over unissued ANZ ordinary shares and their related weighted average exercise prices as at the beginning and end of the year and movements during the year are set out below:

	Consolidated / Parent			
	30/09/2009		30/09/2008	
	Number of shares	Weighted average exercise price ¹ A\$	Number of shares	Weighted average exercise price ¹ A\$
Share options at beginning of the year	1,741,771	10.86	1,616,716	13.93
Share options granted	709,805	2.51	376,715	-
Share options exercised	(109,936)	5.73	(130,988)	16.13
Share options forfeited and expired	(274,295)	10.44	(120,672)	12.27
Share options at end of the year	2,067,345	8.32	1,741,771	10.86
Weighted average share price during the year		16.53		21.37
Range of exercise prices on share options at end of the year		0.00 - 23.49		0.00 - 23.49
Weighted average remaining contractual life on share options at end of the year		35 months		36 months

Options valuations

The fair value of services received in return for share options are measured by referring to the fair value of ANZ share options granted. The fair value of options granted in the current period, measured at the date of grant are calculated using one of the following models:

- Monte-Carlo simulation model utilising the assumptions underlying Black-Scholes. In terms of factoring in early exercise, the model assumes that deferred share rights and performance rights are exercised as soon as they vest so that the option holder can benefit from the dividends. It assumes that the performance options are exercised when the share price reaches twice the exercise price; or
- an adjusted form of the Binomial Option pricing model ("BOM"). In terms of factoring in early exercise, the model assumes that the expected life of vanilla options is 5 years, performance rights is 4 years and that deferred share rights are exercised immediately to account for lack of marketability.

In addition, both models are designed such that they take into account as appropriate, any performance hurdles and non-transferability of the options.

1. Calculation of weighted average exercise prices are affected by performance rights, deferred share rights and ZPO plans which have nil exercise prices.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

42. EMPLOYEE SHARE AND OPTION PLANS (CONTINUED)

The following inputs are used to measure the fair value of instruments granted during the year. All prices are quoted in Australian dollars:

Option type	Special retention deferred share rights	Performance rights	LTI deferred share rights	STI deferred share rights	STI restricted deferred share rights
Grant date	9-Dec-2008	31-Oct-2008	31-Oct-2008	31-Oct-2008	31-Oct-2008
Number of options	18,210	50,050	364,112	89,121	601
Option value	\$11.84	\$9.99	\$14.58	\$15.45	\$16.38
Exercise price (5 day VWAP)	\$nil	\$nil	\$nil	\$nil	\$nil
Share price at grant (\$A)	\$14.10	\$17.36	\$17.36	\$17.36	\$17.36
ANZ expected volatility ²	34%	30%	30%	30%	30%
Option term	5 years	5 years	5 years	5 years	5 years
Vesting period	3 years	3 years	3 years	2 years	1 year
Expected life	3 years	3 years	3 years	2 years	1 year
Expected dividends	6.00%	6.00%	6.00%	6.00%	6.00%
Risk free interest rate	3.49%	4.25%	4.48%	4.48%	4.28%

Option type	STI deferred share rights	STI restricted share rights	STI deferred share rights	STI deferred share rights
Grant date	31-Oct-2008	31-Oct-2008	31-Oct-2008	31-Oct-2008
Number of options	84,058	28,851	37,400	37,402
Option value	\$16.38	\$2.80	\$2.94	\$2.80
Exercise price (5 day VWAP)	\$nil	\$17.18	\$17.18	\$17.18
Share price at grant (\$A)	\$17.36	\$17.36	\$17.36	\$17.36
ANZ expected volatility ²	30%	30%	30%	30%
Option term	5 years	5 years	5 years	5 years
Vesting period	1 year	1 year	2 years	1 year
Expected life	1 year	1 year	2 years	1 year
Expected dividends	6.00%	6.00%	6.00%	6.00%
Risk free interest rate	4.28%	4.48%	4.64%	4.48%

2. Expected volatility is based on ANZ's historic volatility.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

43. RETIREMENT BENEFIT OBLIGATIONS

The Banking Group has established a number of pension and superannuation schemes. The Banking Group may be obliged to contribute to the schemes as a consequence of legislation and provision of trust deeds. Legal enforceability is dependent on the terms of the legislation and the requirements of Scheme Trust Deeds. The major schemes are:

Scheme	Scheme type	Contribution levels Employee	Contribution levels Employer
ANZ National Bank Staff Superannuation Scheme ¹	Defined Benefit Scheme ² or Defined Contribution Scheme	Nil 2.5% minimum of salary	Balance of cost ⁴ 7.5% of salary ⁶
The National Bank Staff Superannuation Fund ¹	Defined Benefit Scheme ³ or Defined Contribution Scheme	5% of salary 2.0% minimum of salary	Balance of cost ⁵ 11.5% of salary ⁷

Details of the defined benefit schemes are as follows:

Actuarial valuations for financial reporting purposes are undertaken every six months. The latest valuations were carried out as at 30 September 2009.

	Consolidated/Parent	
	30/09/2009 \$m	30/09/2008 \$m
The amounts recognised in the balance sheet arising from the Banking Group's obligation in respect of its defined benefit schemes are determined as follows:		
Defined benefit obligation at beginning of the year	179	181
Current service cost	3	3
Interest cost	11	12
Contributions by scheme participants	1	1
Actuarial (gains) losses	(2)	3
Benefits paid	(18)	(21)
Present value of funded defined benefit obligations	174	179
Fair value of scheme assets at beginning of the year	152	189
Expected return on scheme assets (net of tax)	8	10
Actuarial losses	(27)	(30)
Contributions by employer	3	3
Contributions by scheme participants	1	1
Benefits paid	(18)	(21)
Fair value of scheme assets	119	152
Net defined benefit liability recognised on balance sheet	(55)	(27)

The fair value of scheme assets include cash deposits and fixed interest investments of \$4 million with the Banking Group as at 30 September 2009 (30/09/2008 \$5 million).

The amounts recognised in the income statement in respect of defined benefit schemes are as follows:

Current service cost/contributions	3	3
Interest cost	11	12
Expected return on scheme assets (net of tax)	(8)	(10)
Contribution withholding tax	2	2
Total pension costs recognised in the income statement – defined benefit superannuation schemes	8	7

- These schemes provide for pension benefits and provide for lump sum benefits.
- Closed to new members on 31 March 1990. Operates to make pension payments to retirees who were members of that section of the scheme or to dependents of the members.
- Closed to new members on 1 October 1991.
- 30/09/2009: \$nil (30/09/2008 \$nil).
- 30/09/2009: 24.8% (30/09/2008 24.8%) of members' salaries.
- 30/09/2009: 7.5% (30/09/2008 7.5%) of members' salaries.
- 30/09/2009: 11.5% (30/09/2008 11.5%) of members' salaries.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

43. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The actuarial gains and losses recognised directly in equity via the statement of recognised income and expense are as follows:

	Consolidated/Parent	
	30/09/2009 \$m	30/09/2008 \$m
Actuarial (loss) gains (pre-tax) at beginning of the year	(25)	8
Actuarial loss (pre-tax) incurred during the year	(25)	(33)
Balance of actuarial losses (pre-tax) at end of the year	(50)	(25)
Income tax credit recognised directly in equity	15	8
Balance of actuarial losses at end of the year	(35)	(17)

The principal actuarial assumptions used were as follows:

	The National Bank Staff Superannuation Fund		ANZ National Bank Staff Superannuation Fund	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
Defined benefits calculation				
Discount rate (gross of tax)	6.0%	6.0%	6.0%	6.0%
Future price inflation	2.5%	2.5%	2.5%	2.5%
Future pension increases	2.5%	2.5%	2.5%	2.5%
Future salary increases		3.7%	n/a	n/a
2009 & 2010	2.5%			
Post 2010	3.0%			
Scheme assets calculation				
Expected return on scheme assets (net of tax)	5.5%	5.5%	4.5%	4.5%

The overall expected return on scheme assets is determined by reference to market expectations at the beginning of the relevant period of asset performance applicable to the period over which the defined benefit obligation is to be settled. The overall expected return on scheme assets reflects an aggregation of the expected returns on the underlying asset classes.

The actual return on scheme assets (net of tax) for The National Bank Staff Superannuation Fund was -0.7% for the year ended 30 September 2009 (30/09/2008 -9.0%). The actual return on scheme assets (net of tax) for the ANZ National Bank Staff Superannuation Scheme was 0.0% for the year ended 30 September 2009 (30/09/2008 -6.0%).

The investment return on scheme assets is taxed at 30% (30/09/2008 33%).

The major categories of scheme assets as a percentage of the fair value of scheme plan assets are as follows:

	The National Bank Staff Superannuation Fund		ANZ National Bank Staff Superannuation Fund	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
Cash and short term debt instruments	14.1%	19.9%	8.1%	17.1%
New Zealand fixed interest	12.6%	14.5%	22.4%	23.2%
Overseas fixed interest	24.3%	16.1%	30.6%	20.8%
Australasian shares	10.4%	9.7%	10.2%	9.3%
Overseas shares	38.6%	39.8%	24.2%	23.9%
Property fund units	0.0%	0.0%	4.5%	5.7%
	100.0%	100.0%	100.0%	100.0%

The benchmark weightings of each asset class are determined by the Trustee in conjunction with the investment manager.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

43. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Historical summary

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred in the period) and the effects of changes in actuarial assumptions on valuation date. The history of the schemes' net position and experience adjustments is as follows:

	Consolidated/Parent				
	30/09/2009 \$m	30/09/2008 \$m	30/09/2007 \$m	30/09/2006 \$m	30/09/2005 \$m
Defined benefit obligation	(174)	(179)	(181)	(190)	(187)
Fair value of scheme assets	119	152	189	196	195
Net benefit (liability) asset	(55)	(27)	8	6	8
Experience adjustments on scheme liabilities	1	5	(1)	3	-
Experience adjustment on scheme assets	(20)	(21)	(7)	5	11

Employer contributions

To ensure the defined benefit schemes remain solvent, the schemes' independent actuaries recommend an employer contribution rate to the Banking Group annually for The National Bank Staff Superannuation Fund and every three years for the ANZ National Bank Staff Superannuation Scheme. The funding methods and current contribution rates of the individual schemes are determined in accordance with NZ IAS 19 Employee Benefits ("NZ IAS 19") for annual periods beginning on or after 1 January 2007.

The National Bank Staff Superannuation Fund deficit for funding purposes was valued at \$18.8m in the most recent actuarial review at 1 April 2008 determined in accordance with NZ IAS 19. The ANZ National Bank Staff Superannuation Scheme surplus was valued at \$0.2 million in the most recent actuarial valuation at 31 December 2007 determined in accordance with NZ IAS 19.

The Banking Group contributed \$3 million (net of contributions withholding tax) to its defined benefit schemes in the year to 30 September 2009 (30/09/2008 \$3 million). Employer contributions are taxed at a maximum rate of 33% (30/09/2008 33%).

Contingent liabilities

The National Bank Staff Superannuation Fund

Under the Fund's Trust Deed, if this scheme were wound up, the Banking Group is required to pay the Trustee of the Fund an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled.

ANZ National Bank Staff Superannuation Scheme

If the Scheme is wound up then its assets must be cashed up and applied to all members' benefits. If Scheme funds are insufficient to pay all members' benefits then the Banking Group must pay to the Scheme such amounts as the Scheme Actuary determines are necessary to pay those benefits.

44. RELATED PARTY TRANSACTIONS

	Consolidated		Parent	
	Year to 30/09/2009 \$'000	Year to 30/09/2008 \$'000	Year to 30/09/2009 \$'000	Year to 30/09/2008 \$'000
Key management personnel				
Key management personnel compensation				
Salaries and short-term employee benefits	10,748	11,919	10,748	11,518
Post-employment benefits	373	786	373	780
Other long-term benefits	782	127	782	107
Termination benefits	58	-	58	-
Share-based payments	4,339	2,665	4,339	2,633
Total compensation of key management personnel	16,300	15,497	16,300	15,038
Loans to key management personnel	4,424	7,272	4,424	7,272
Deposits from key management personnel	5,543	3,594	5,543	3,594

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

44. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel are defined as being Directors and senior management of the Banking Group, those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The information above relating to key management personnel includes transactions with those individuals, their close family members and their controlled entities.

Loans made to and deposits held by key management personnel are made in the course of ordinary business on normal commercial terms and conditions no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed, variable and interest only, all of which have been made in accordance with the Bank's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (30/09/2008 \$nil).

All other transactions with key management personnel (including personally related parties) are conducted on an arm's length basis in the ordinary course of business and on commercial terms and conditions. These transactions principally consist of the provision of financial and investment services.

Transactions with the Parent Company, Ultimate Parent Bank and subsidiaries

Details of amounts provided by/to the Parent Company, Ultimate Parent Bank and subsidiaries of the Banking Group during the ordinary course of business are set out in the relevant notes to these financial statements. No provision for credit impairment has been recognised during the year ended 30 September 2009 (30/09/2008 \$nil).

On 27 February 2009, \$4,877 million of residential mortgage assets were sold to the ANZ Banking Group Limited NZ Branch. On 28 July 2009, a further \$4,986 million of residential mortgage assets were sold to the NZ Branch. These assets qualify for derecognition as the Bank does not retain the risks and rewards associated with these mortgages. The Banking Group's financial statements have reduced as a result of transferring these assets.

	Consolidated		Parent	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
Interest income				
- Subsidiary companies	-	-	426	47
- Parent Company	43	-	43	-
- Ultimate Parent Bank	-	4	-	4
Interest expense				
- Subsidiary companies	-	-	1,300	2,730
- Parent Company	71	151	71	151
- Ultimate Parent Bank	176	199	58	83
Operating expenses				
- Subsidiary companies	-	-	109	96
- Ultimate Parent Bank	91	82	91	82
Dividends received				
- Subsidiary companies	-	-	1,098	-

Amounts related to Kingfisher NZ Trust 2008-1 have not been included in the table above, but separately disclosed on the following page.

Due from and due to subsidiary companies

The Bank has purchased securities issued by the Kingfisher NZ Trust 2008-1 as part of the securitisation detailed in Note 39. These are in exchange for the transfer of residential mortgages to the Trust and forms part of the due from and due to subsidiary company balances. These assets, the associated liabilities and items recognised in operating income are eliminated on consolidation as they are part of an in-house residential mortgage-backed securities facility.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

44. RELATED PARTY TRANSACTIONS (CONTINUED)

	Parent	
	As at 30/09/2009 \$m	As at 30/09/2008 \$m
Residential mortgage-backed securities		
Carrying amount of assets securitised during the year		
Due from subsidiary companies	5,838	-
Carrying amount of associated liabilities		
Due to subsidiary companies	5,687	-
Other	151	-
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
Associated items recognised in operating income		
Interest received	380	-
Fees received	17	-
Gains from hedging activity	106	-
Interest paid	503	-

Transactions with associates and joint venture entities

During the year the Banking Group conducted transactions with associates and joint venture entities on normal commercial terms and conditions as shown below:

	Consolidated		Parent	
	As at 30/09/2009 \$m	As 30/09/2008 \$m	As at 30/09/2009 \$m	As at 30/09/2008 \$m
Amounts receivable				
- associates	21	28	-	-
- joint venture entities	36	36	-	-
Amounts payable				
- associates	85	85	85	85
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
Interest income				
- associates	2	2	-	-
- joint venture entities	3	4	-	-
Interest expense				
- associates	4	4	4	4
Dividends received				
- associates	-	-	2	-
Commission received from ING NZ joint venture	39	23	39	23
Costs recovered from ING NZ joint venture	1	1	1	1

The Banking Group provides general administration, strategic and governance services to ING (NZ) Limited under a Technical Services Agreement.

A provision for credit impairment of \$10 million is recognised for amounts outstanding from associates as at 30 September 2009 (30/09/2008 \$5 million). A credit impairment loss of \$5 million was charged during the year ended 30 September 2009 (30/09/2008 \$nil charged).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

45. SUBSEQUENT EVENTS

On 25 September 2009, the Ultimate Parent Bank announced it had reached agreement with ING Groep to acquire ING Groep's 51% shareholdings in the ANZ-ING wealth management and life insurance joint ventures in Australia and New Zealand for AUD1,760 million, taking its ownership interest to 100%. As part of this agreement the Banking Group acquired ING Groep's interests in the NZ joint venture, the Diversified Yield Fund ("DYF") and the Regular Income Fund ("RIF") for \$246 million. Completion is subject to various conditions, including regulatory approval, and is expected to occur during the fourth quarter of calendar 2009.

Once completed, the acquisition will result in the Banking Group fully consolidating the assets, liabilities and operations of ING (NZ) Holdings Limited ("ING NZ") and its subsidiary companies and the DYF and the RIF into the Banking Group's results. At acquisition date, under the step acquisition provisions of NZ IFRS3, the Banking Group will remeasure its existing 49% interests in ING NZ, the DYF and the RIF, which are all accounted for under the equity method, at their acquisition date fair values and will recognise the resulting gain or loss in the income statement.

The 49% interest in ING NZ, the DYF and the RIF were all equity accounted at 30 September 2009. The interest in ING NZ was assessed for impairment by comparing the carrying values to both the fair market value and the value in use, which is based on a discounted cash flow analysis. The investment was not considered impaired as the value in use exceeded the carrying value. The investment in DYF and RIF were not considered impaired comparing the carrying value to fair value.

On 6 November 2009, the Bank agreed to sell a further \$1,528 million of residential mortgage assets to the Australia and New Zealand Banking Group Limited – New Zealand Branch.

DIRECTORATE AND AUDITORS

DIRECTORATE AND AUDITORS

The address to which any document or communication may be sent to any Director is ANZ National Bank Limited, Level 14, 215-229 Lambton Quay, Wellington, New Zealand. The document or communication should be marked for the attention of that Director.

Directors' Interests

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the following procedures are adopted:

- (a) At least once in each year, Directors are requested to complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- (b) Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

In addition to the written disclosures referred to in paragraphs (a) and (b) above, Directors disclose relevant interest which they have before discussion of particular business items.

The Companies Act 1993 (subject to any different provision in the Bank's Constitution) allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. The Bank's Constitution does not alter that situation. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

Transactions with Directors

No Director has disclosed that he/she or any immediate relative or professional associate has any dealing with the Banking Group which has been either entered into on terms other than those which would in the ordinary course of business be given to any other person of like circumstances or means or which could otherwise be reasonably likely to influence materially the exercise of the Director's duties as a Director of the Bank.

Changes in Directorships

Since the authorisation date of the previous General Short Form Disclosure Statement on 27 August 2009, there have been no changes to Directors of the Bank.

BOARD MEMBERS AS AT 13 NOVEMBER 2009

Independent Non-Executive Director, Chairman

Sir Dryden Spring

DSc

Company Director

Matamata, New Zealand

Directorships

Director: SkyCity Entertainment Group Limited, SkyCity Investments Australia Limited, Port of Tauranga Limited, Fletcher Building Limited, Fletcher Building Finance Limited

Executive Director

Jennifer Anne Fagg

Ph.D, BEc (Hons)

Chief Executive

ANZ National Bank Limited

Wellington, New Zealand

Directorships

Director: ING (NZ) Holdings Limited, ING (NZ) Limited, ING Insurance Holdings Limited

DIRECTORATE AND AUDITORS

(CONTINUED)

Non-Executive Directors

Michael Roger Pearson Smith, OBE

BSc (Hons)

Chief Executive Officer

Australia and New Zealand Banking Group Limited

Melbourne, Australia

Directorships

Director: Australia and New Zealand Banking Group Limited,

The Financial Markets Foundation for Children

Shayne Cary Elliott

B.Com

Group Managing Director, Institutional

Australia and New Zealand Banking Group Limited

Melbourne, Australia

Directorships

Director: ANZ Securities Limited

Peter Ralph Marriott

B.Ec (Hons), FCA

Chief Financial Officer

Australia and New Zealand Banking Group Limited

Melbourne, Australia

Directorships

Director: ANZ Capital Hedging Pty Limited, ANZ (Delaware) Inc.,

ANZ Holdings (New Zealand) Limited, Esanda Finance Corporation

Limited, ANZEST Pty Limited, ANZ Funds Pty Limited, ANZ Investments

Pty Limited, ASX Limited, LFD Pty Limited, RFDL Pty Limited

Independent Non-Executive Directors

Norman Michael Thomas Geary, CBE

B.Com, FACA, FNZIM, FCIT

Company Director

Auckland, New Zealand

Directorships

Director: Otago Innovation Limited

John Frederick Judge

B.Com, FICA

Company Director

Auckland, New Zealand

Directorships

Director: Fletcher Building Limited, Fletcher Building Finance Limited,

Aquatx Holdings Limited, Aquatx Limited, Janohn Limited, Sebca

Limited, John Judge Limited, Health TV Limited, Sails Friday Limited,

Crop Solutions 2009 Limited, Hortigro Home & Garden Limited,

Hortigro Limited, Hortigro Group Limited, Elisio Limited, Formerly

Fuel Equipment Limited

Dr Donald Thomas Brash

MA Econ

Company Director

Auckland, New Zealand

Directorships

Director: Brash Forestry Limited, Eljeans Orchard Limited, Huljich

Limited, Huljich (New Zealand) Limited, Huljich Wealth Management

(New Zealand) Limited, Brash Consultancy Services Limited, Ocean

Group Holdings Limited, Ocean Partners Limited, Oceania Dairy Group

Limited, Oceania Milk Limited, Oceania Dairy Limited, Transpower

New Zealand Limited, Troika Family Trust Nominees Limited

Audit Committee Members as at 13 November 2009

N M T Geary (Chairman)

Independent Non-Executive Director

Sir Dryden Spring

Independent Non-Executive Director

Dr D T Brash

Independent Non-Executive Director

J F Judge

Independent Non-Executive Director

P R Marriott

Non-Executive Director

The Audit Committee, which is a sub-committee of the Board, has responsibility for reviewing and approving the published financial statements.

The Audit Committee Charter provides that the membership of the Audit Committee shall be not less than three non-executive Directors. The

quorum shall be not less than two non-executive Director members.

Auditors

KPMG

Chartered Accountants

10 Customhouse Quay, PO Box 996

Wellington, New Zealand

CONDITIONS OF REGISTRATION

Conditions of Registration, applicable as at 13 November 2009. These Conditions of Registration have applied from 22 October 2009.

The Bank's Conditions of Registration were revised on 22 October 2009 in order to implement a new set of liquidity risk management conditions. Condition 11 was amended and conditions 13 and 14 were added.

The registration of ANZ National Bank Limited ("the Bank") as a registered bank is subject to the following conditions:

1. That the Banking Group complies with the following requirements:

- (a) the total capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is not less than 8%;
- (b) the tier one capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is not less than 4%; and
- (c) the capital of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is not less than \$30 million.

For the purposes of this condition of registration the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is 1.06.

For the purposes of this condition of registration, the supervisory adjustment referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is the sum of:

- (a) 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008; and
- (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where
 - (i) "adjusted Basel I capital" means 8% of total risk-weighted exposures, plus deductions from tier one capital, plus deductions from total capital, all calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated March 2008;
 - (ii) "adjusted Basel II capital" means 8% of total Basel II risk-weighted exposures plus deductions from tier one capital, plus deductions from total capital, less any amount included in tier two capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008; and
 - (iii) "total Basel II risk-weighted exposures" means scalar x (risk-weighted on and off balance sheet credit exposures) + 12.5 x total capital charge for market risk exposure + 12.5 x total capital requirement for operational risk + 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008.

1A. That -

- (a) the Bank has an internal capital adequacy assessment process ("ICAAP"); that with effect from 31 August 2008 the Bank's ICAAP accords with the requirements set out in the document "Guidelines on a Bank's internal capital adequacy process ("ICAAP")" (BS12) dated December 2007;
- (b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008; and
- (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008.

1C. That the Bank complies with the following requirements:

- The total capital ratio of the Bank is not less than 8%.
- The tier one capital ratio of the Bank is not less than 4%.

For the purposes of this condition of registration:

- the total capital ratio is defined as capital as a percentage of risk-weighted exposures where capital and risk-weighted exposures are as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated March 2008; and
- the tier one capital ratio is defined as tier one capital as a percentage of risk-weighted exposures where tier one capital and risk-weighted exposures are as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated March 2008.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

CONDITIONS OF REGISTRATION

(CONTINUED)

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:
- (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
 - (ii) In measuring the size of the Banking Group's insurance business:
 - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
 - The total consolidated assets of the group headed by that entity;
 - Or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
 - (b) otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
 - (c) the amounts measured in relation to parts a) and b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts a) and b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
 - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit Rating ¹	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the Banking Group's Tier One capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposure Policy" (BS8) dated March 2008.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the board of the Bank contains at least two independent directors and that alternates for those directors, if any, are also independent. In this context an independent director (or alternate) is a director (or alternate) who is not an employee of the Bank, and who is not a director, trustee, or employee of any holding company (as that term is defined in section 5 of the Companies Act 1993) of the Bank, or any other entity capable of controlling or significantly influencing the Bank.
7. That the chairperson of the Bank's board is not an employee of the Bank.
8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).
9. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
10. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made in respect of the Bank unless:
 - (i) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee, and
 - (ii) The Reserve Bank has advised that it has no objection to that appointment.

1. This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

CONDITIONS OF REGISTRATION (CONTINUED)

11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:

- (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;
- (b) that the Bank's financial risk positions on a day can be identified on that day;
- (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
- (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.

12. (a) That the business and affairs of the Bank are managed by, or under the direction and supervision of, the board of the Bank.
- (b) That the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decision relating to the employment or termination of employment of the CEO are made by, the board of the Bank.
- (c) That all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.

13. That the Banking Group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:

- (a) the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;
- (b) the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and
- (c) the one-year core funding ratio of the Banking Group is not less than 65 percent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated 20 October 2009 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2009.

14. That, with effect from 1 April 2010, the Registered Bank has an internal framework for liquidity risk management that is adequate in the Registered Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:

- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

For the purposes of these conditions of registration, the term "Banking Group" means ANZ National Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

CREDIT RATING INFORMATION

Credit Ratings applicable as at 13 November 2009

The Bank has three current credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. The credit ratings are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA	Outlook Stable
Moody's Investors Service	Aa2	Outlook Stable
Fitch Ratings	AA-	Outlook Stable

During the two-year period ended 30 September 2009, the Standard & Poor's credit rating and qualification remained at AA and Outlook Stable.

During the two-year period ended 30 September 2009, the Moody's Investors Service credit rating and qualification remained at Aa2 and Outlook Stable.

During the two-year period ended 30 September 2009, the Fitch Ratings credit rating and qualification remained at AA- and Outlook Stable. Fitch Ratings were formally engaged by the Bank on 18 March 2008 to provide credit rating services. Previously Fitch Ratings had rated the Bank on an unsolicited basis as AA-.

	Standard & Poor's	Moody's Investors Service	Fitch Ratings
The following grades display investment grade characteristics:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	BB
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC to C
Obligations currently in default.	D	-	RD & D

Credit ratings from Standard & Poor's and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the 'AA' to 'B' categories. Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the 'Aa' to 'Caa' classifications, with 1 indicating the higher end and 3 the lower end of the rating category.

DIRECTORS' STATEMENT

DIRECTORS' STATEMENT

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

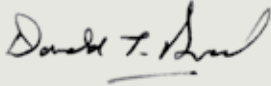
- (i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008;
- (ii) The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2009, after due enquiry, each Director believes that:

- (i) ANZ National Bank Limited has complied with the Conditions of Registration;
- (ii) Credit exposures to connected persons were not contrary to the interests of the Banking Group;
- (iii) ANZ National Bank Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This General Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on, 13 November 2009. On that date, the Directors of the Bank were:

Dr DT Brash



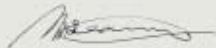
S C Elliott



JA Fagg



N MT Geary, CBE



J F Judge



P R Marriott



M R P Smith, OBE



Sir Dryden Spring



INDEPENDENT AUDIT REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2009



REPORT TO THE SHAREHOLDER OF ANZ NATIONAL BANK LIMITED

We have audited the financial statements on pages 6 to 118 prepared and disclosed in accordance with Clause 22 of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the "Order") and the supplementary information prescribed in Schedules 3 to 9 of the Order and reviewed the supplemental information in respect of Schedule 5B. The financial statements, and supplementary information, provide information about the past financial performance and cash flows of ANZ National Bank Limited (the "Bank") and its related entities (the "Banking Group") and their financial position as at 30 September 2009. This information is stated in accordance with the accounting policies set out on pages 11 to 22.

DIRECTORS' RESPONSIBILITIES

The Directors of ANZ National Bank Limited are responsible for the preparation and presentation of financial statements in accordance with Clause 22 of the Order which give a true and fair view of the financial position of the Bank and Banking Group as at 30 September 2009 and their financial performance and cash flows for the year ended on that date.

They are also responsible for the preparation of supplementary information which gives a fair view, in accordance with the Order, of the matters to which it relates; and complies with Schedules 3 to 9 of the Order.

AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial statements, including the supplementary information disclosed in accordance with Schedules 4, 6 to 9, and Clause 17 of Schedule 3 and presented to us by the Directors and report our opinion to you in accordance with Clause 19 of the Order.

It is also our responsibility to express an independent opinion on the supplementary information in respect to capital adequacy as required by Schedule 5B of the Order in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the information disclosed in accordance with Schedule 5B is not in all material respects prepared in accordance with the Bank's Conditions of Registration and with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand and disclosed in accordance with Schedule 5B and for reporting our findings to you.

BASIS OF OPINION

Audit of the financial statements and supplementary information

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

- the significant estimates and judgments made by the Directors in the preparation of the financial statements and supplementary information; and
- whether the accounting policies are appropriate to the Bank's and Banking Group's circumstances, consistently applied and adequately disclosed.

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

We conducted our audit of the supplementary information (excluding capital adequacy disclosures required under Schedule 5B) in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the supplementary information that is required to be disclosed under Schedules 4, 6 to 9, and Clause 17 of Schedule 3 (as applicable) fairly states the matters to which it relates in accordance with those schedules. In forming our opinion we also evaluated the overall adequacy of the presentation of the supplementary information.

Review of capital adequacy

We conducted our review of the supplementary information relating to capital adequacy disclosures in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. A review is limited primarily to enquiries of the Bank and the Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed audit procedures in respect of the capital adequacy disclosures and accordingly, we do not express an audit opinion in relation to the capital adequacy disclosures. The Review Engagement Standards require that we plan and perform our review to obtain moderate assurance as to whether the capital adequacy disclosures are free of material misstatement, whether caused by fraud or error. We also evaluated the overall adequacy of the presentation of supplementary information relating to capital adequacy disclosures.

Our firm has provided other services to the Bank and Banking Group in relation to audit related services. Partners and employees of our firm may also deal with the Bank and Banking Group on normal terms within the ordinary course of trading activities of the business of the Bank and Banking Group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the Bank and Banking Group. These matters have not impaired our independence as auditors of the Bank and Banking Group. The firm has no other relationship with, or interest in, the Bank and Banking Group.

INDEPENDENT AUDIT REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2009
(CONTINUED)

UNQUALIFIED OPINION

Audit Opinion

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

In our opinion:

- proper accounting records have been kept by the Bank and Banking Group as far as appears from our examination of those records;
- the financial statements on pages 6 to 118 (excluding the supplementary information included in Notes 30, 32, 33 and 39):
 - comply with New Zealand generally accepted accounting practice; and
 - give a true and fair view of the balance sheets of the Bank and Banking Group as at 30 September 2009 and the results of their operations and cash flows for the year ended on that date;
- the supplementary information included within the financial statements has been prepared in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration, and is in accordance with the books and records of the Bank and Banking Group;
- the supplementary information disclosed in Notes 32, 33 and 39 prescribed by Schedules 4, 6 to 9 and Clause 17 of Schedule 3 fairly states the matters to which it relates in accordance with those Schedules;

Review Opinion

- nothing has come to our attention that causes us to believe that the supplementary information, disclosed in Note 30 Capital Adequacy that is required to be disclosed under Schedule 5B, is not in all material respects prepared in accordance with the Bank's Conditions of Registration, with the Reserve Bank of New Zealand document Capital Adequacy Framework (Internal Models Based Approach) (BS2B), and with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand, and disclosed in accordance with Schedule 5B.

Our audit and review was completed on 13 November 2009 and our unqualified opinion is expressed as at that date.

KAMG

Wellington

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