ANZ NATIONAL BANK LIMITED GROUP

General Disclosure Statement

for the year ended 30 September 2006

Number 43 Issued November 2006

ANZ National Bank Limited

Contents

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 2005 ('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 2005 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 (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 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 confirms that it does not object to the appointment.

Nature of Business
The principal activities of the Banking Group during the year were retail, corporate and rural banking, mortgage lending, leasing, hire purchase and general finance, international and investment banking, nominee and custodian services, and life insurance and funds management activities through the ING New Zealand joint venture.

There have been no significant changes in the nature of the principal activities of the Banking Group during the year.

Material Financial Support
In accordance with the requirements issued by the Australian Prudential Regulatory Authority pursuant to the Prudential Statements, 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 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 the Australian Prudential Regulatory Authority 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.

The Banking Group has received amended tax assessments from the New Zealand Inland Revenue Department ('IRD') in respect of its review of certain structured finance transactions. The Banking Group is confident, based on independent tax and legal advice obtained, that its tax treatment of these transactions is correct and disagrees with the IRD's position.

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 material obligations of the Bank are not guaranteed.

SUMMARY OF FINANCIAL STATEMENTS

			Consolidated		
	NZ IFRS 30/09/2006 $m	NZ IFRS[1] 30/09/2005 $m	Previous GAAP 30/09/2004 $m	Previous GAAP 30/09/2003 $m	Previous GAAP 30/09/2002 $m
Continuing operations					
Interest income	**7,206**	6,009	4,481	1,980	1,829
Interest expense	**5,077**	4,069	2,797	1,220	1,112
Net interest income	**2,129**	1,940	1,684	760	717
Other operating income	**802**	794	751	453	500
Net operating income	**2,931**	2,734	2,435	1,213	1,217
Operating expenses	**1,323**	1,312	1,265	559	545
Profit before provision for credit impairment and income tax	**1,608**	1,422	1,170	654	672
Collective provision (credit) charge	**(10)**	121	133	61	65
Individual provision charge[2]	**28**	–	–	–	–
Provision for credit impairment	**18**	121	133	61	65
Profit before income tax	**1,590**	1,301	1,037	593	607
Income tax expense	**523**	398	357	176	177
Profit after income tax from continuing operations	**1,067**	903	680	417	430
Discontinued operation					
Profit from discontinued operation (net of income tax)	**5**	14	–	–	–
Profit after income tax	**1,072**	917	680	417	430
Retained profits at beginning of the year	**2,003**	1,438	958	841	786
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	**3,136**	2,359	1,638	1,258	1,216
Actuarial (loss) gain on defined benefit schemes after tax	**(1)**	4	–	–	–
Appropriation					
Interim ordinary dividends paid	**(900)**	(360)	(200)	(300)	(375)
Retained profits at end of the year	**2,235**	2,003	1,438	958	841

			Consolidated		
	NZ IFRS 30/09/2006 $m	NZ IFRS 30/09/2005 $m	Previous GAAP 30/09/2004 $m	Previous GAAP 30/09/2003 $m	Previous GAAP 30/09/2002 $m
Total impaired assets (on-balance sheet and off-balance sheet)	**159**	220	123	25	43
Total assets	**96,024**	85,501	74,212	29,362	27,353
Total liabilities	**87,791**	77,555	66,831	27,998	26,106
Equity	**8,233**	7,946	7,381	1,364	1,247

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

Due to the adoption of NZ IAS 32: Financial Instruments: Disclosure and Presentation (NZ IAS 32), NZ IAS 39: Financial Instruments: Recognition and Measurement (NZ IAS 39) and NZ IFRS 4: Insurance Contracts (NZ IFRS 4) on 1 October 2005, some numbers in the current financial period may not be comparable to the prior period. Refer to Note 1 Accounting Policies and Note 52 Explanation of Transition to NZ IFRS for further details.

[1]Refer to Note 52 Explanation of Transition to NZ IFRS for an explanation of the Group's transition to New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and the adjustments required to comply with NZ IFRS. Since the transition to NZ IFRS, the financial statements for the year ended 30 September 2005 have been restated for the classification of Truck Leasing Limited as a discontinued operation. A reconciliation of NZ IFRS profit for the year ended 30 September 2005, before and after this restatement is also provided in Note 52 Explanation of Transition to NZ IFRS.

[2]The Reserve Bank of New Zealand's guidelines require the Banking Group to show the individual provision charge to profit as the 'impaired asset expense'. Prior to adopting NZ IFRS on 1 October 2005, under the Banking Group's Bad and Doubtful Debts policy, the required individual provision was not charged to profit, but was transferred from the collective provision balance. The Banking Group's provision for credit impairment, which represented the expected average annual loss on principal over the economic cycle for the lending portfolio, was credited to the collective provision. Under NZ IFRS, there is no longer a transfer between the collective and individual provisions. Further detail on the provision for credit impairment is set out in Note 15 Provision for Credit Impairment.

INCOME STATEMENTS for the year ended 30 September 2006

	Note	Consolidated 30/09/2006 $m	Consolidated 30/09/2005 $m	Parent 30/09/2006 $m	Parent 30/09/2005 $m
Continuing operations					
Interest income	**4**	**7,206**	6,009	**6,892**	5,532
Interest expense	**5**	**5,077**	4,069	**5,589**	4,254
Net interest income		**2,129**	1,940	**1,303**	1,278
Other operating income	**4**	**780**	793	**885**	5,776
Share of profit of equity accounted associates and jointly controlled entities	**16**	**22**	1	**22**	–
Net operating income		**2,931**	2,734	**2,210**	7,054
Operating expenses	**5**	**1,323**	1,312	**1,273**	6,184
Profit before provision for credit impairment and income tax		**1,608**	1,422	**937**	870
Provision for credit impairment	**15**	**18**	121	**16**	110
Profit before income tax		**1,590**	1,301	**921**	760
Income tax expense	**6**	**523**	398	**310**	216
Profit after income tax from continuing operations		**1,067**	903	**611**	544
Discontinued operation					
Profit from discontinued operation (net of income tax)	**10**	**5**	14	**–**	–
Profit after income tax		**1,072**	917	**611**	544

The notes on pages 8 to 89 form part of and should be read in conjunction with these financial statements.

Due to the adoption of NZ IAS 32, NZ IAS 39 and NZ IFRS 4 on 1 October 2005, some numbers in the current financial year may not be comparable to the prior year. Refer to Note 1 Accounting Policies and Note 52 Explanation of Transition to NZ IFRS for further details.

STATEMENTS OF RECOGNISED INCOME AND EXPENSES for the year ended 30 September 2006

		Consolidated		Parent	
	Note	30/09/2006 $m	30/09/2005 $m	30/09/2006 $m	30/09/2005 $m
Available-for-sale revaluation reserve:					
Valuation gain taken to equity	30	3	–	3	–
Cash flow hedges:					
Valuation gain taken to equity	30	18	–	18	–
Actuarial (loss) gain on defined benefit schemes	30, 51	(2)	6	(2)	6
Income tax on items recognised directly in equity		(5)	(2)	(5)	(2)
Net income recognised directly in equity		14	4	14	4
Profit after income tax		1,072	917	611	544
Total recognised income and expenses for the year		1,086	921	625	548

The notes on pages 8 to 89 form part of and should be read in conjunction with these financial statements.

Due to the adoption of NZ IAS 32, NZ IAS 39 and NZ IFRS 4 on 1 October 2005, some numbers in the current financial year may not be comparable to the prior year. Refer to Note 1 Accounting Policies and Note 52 Explanation of Transition to NZ IFRS for further details.

BALANCE SHEETS as at 30 September 2006

	Note	Consolidated 30/09/2006 $m	Consolidated 30/09/2005 $m	Parent 30/09/2006 $m	Parent 30/09/2005 $m
Assets					
Liquid assets	7	**2,698**	1,857	**2,698**	1,857
Due from other financial institutions	8	**5,617**	5,472	**5,111**	4,056
Trading securities	9	**1,596**	912	**1,596**	912
Held for sale assets	10	**538**	–	**–**	–
Derivative financial instruments	11	**2,020**	1,270	**2,019**	1,246
Investment securities	12	**–**	1,270	**–**	1,270
Available-for-sale assets	12	**359**	–	**349**	–
Net loans and advances	13, 14, 15	**78,063**	69,139	**74,361**	65,788
Due from subsidiary companies		**–**	–	**1,505**	1,430
Shares in controlled entities, associates and jointly controlled entities	16	**177**	158	**7,684**	7,496
Current tax assets		**114**	66	**242**	166
Other assets	17	**982**	945	**889**	855
Deferred tax assets	18	**332**	415	**307**	395
Premises and equipment	19	**240**	718	**59**	114
Goodwill and other intangible assets	20	**3,288**	3,279	**3,239**	3,233
Total assets		**96,024**	85,501	**100,059**	88,818
Liabilities					
Due to other financial institutions	21	**3,987**	4,204	**2,828**	2,151
Deposits and other borrowings	22	**63,176**	59,546	**53,594**	47,959
Due to subsidiary companies		**–**	–	**28,648**	23,878
Derivative financial instruments	11	**1,997**	1,660	**1,992**	1,636
Payables and other liabilities	23	**1,240**	1,589	**1,015**	1,414
Held for sale liabilities	10	**53**	–	**–**	–
Deferred tax liabilities	24	**210**	150	**202**	120
Provisions	25	**135**	142	**131**	137
Bonds and notes	26	**12,468**	6,139	**475**	604
Related party funding	27	**2,720**	2,650	**2,720**	2,650
Loan capital	28	**1,805**	1,475	**1,805**	1,475
Total liabilities		**87,791**	77,555	**93,410**	82,024
Net assets		**8,233**	7,946	**6,649**	6,794
Equity					
Ordinary share capital	29	**5,943**	5,943	**5,943**	5,943
Reserves	30	**55**	–	**55**	–
Retained profits	30	**2,235**	2,003	**651**	851
Total equity		8,233	7,946	6,649	6,794

For and on behalf of the Board of Directors:

Sir Dryden Spring
Director
1 November 2006

N M T Geary, CBE
Director
1 November 2006

The notes on pages 8 to 89 form part of and should be read in conjunction with these financial statements.

Due to the adoption of NZ IAS 32, NZ IAS 39 and NZ IFRS 4 on 1 October 2005, some numbers in the current financial year may not be comparable to the prior year. Refer to Note 1 Accounting Policies and Note 52 Explanation of Transition to NZ IFRS for further details.

CASH FLOW STATEMENTS for the year ended 30 September 2006

	Note	Consolidated 30/09/2006 $m	Consolidated 30/09/2005 $m	Parent 30/09/2006 $m	Parent 30/09/2005 $m
Cash flows from operating activities					
Interest received		**6,562**	5,861	**6,290**	5,414
Dividends received		**1**	1	**153**	5,019
Fees and other income received		**953**	941	**774**	709
Interest paid		**(4,669)**	(3,589)	**(5,229)**	(3,799)
Operating expenses paid		**(1,276)**	(1,279)	**(1,230)**	(1,220)
Income taxes paid		**(466)**	(521)	**(285)**	(397)
Cash flows from operating profits before changes in operating assets and liabilities		**1,105**	1,414	**473**	5,726
Net changes in operating assets and liabilities:					
Increase in due from other financial institutions – term		**(128)**	(840)	**(807)**	(507)
Increase in trading securities		**(576)**	(232)	**(576)**	(232)
Decrease (increase) in derivative financial instruments		**412**	(456)	**393**	(434)
Decrease in available-for-sale assets		**957**	–	**967**	–
Increase in loans and advances		**(8,550)**	(8,870)	**(8,553)**	(9,186)
Increase in due from subsidiary companies		**–**	–	**(75)**	(1,400)
Decrease in other assets		**180**	222	**186**	251
(Decrease) increase in due to other financial institutions – term		**(386)**	785	**(107)**	46
Increase in deposits and other borrowings		**2,883**	5,301	**5,301**	3,587
Decrease in payables and other liabilities		**(375)**	(344)	**(399)**	(338)
Net cash flows used in operating activities	45	**(4,478)**	(3,020)	**(3,197)**	(2,487)
Cash flows from investing activities					
Proceeds from sale of shares in associates and jointly controlled entities		**12**	9	**–**	–
Proceeds from sale of shares in subsidiaries		**–**	158	**1,091**	158
Proceeds from sale of premises and equipment		**87**	54	**57**	1
Decrease (increase) in investment securities		**–**	296	**–**	(7)
Purchase of shares in associates and jointly controlled entities		**(7)**	(166)	**(5)**	(166)
Acquisition of shares in subsidiary companies		**(5)**	–	**(1,235)**	–
Purchase of intangible assets		**(10)**	–	**(9)**	–
Purchase of premises and equipment		**(228)**	(248)	**(25)**	(37)
Net cash flows (used in) provided by investing activities		**(151)**	103	**(126)**	(51)
Cash flows from financing activities					
Proceeds from bonds and notes		**6,337**	3,425	**312**	–
Redemptions of bonds and notes		**(663)**	(82)	**(482)**	(25)
Proceeds from loan capital		**400**	200	**400**	200
Redemptions of loan capital		**(100)**	(100)	**(100)**	(100)
Increase in due to subsidiaries		**–**	–	**4,156**	3,950
Increase (decrease) in related party funding		**70**	(127)	**70**	(127)
Dividends paid		**(900)**	(360)	**(900)**	(360)
Net cash flows provided by financing activities		**5,144**	2,956	**3,456**	3,538
Net cash flows used in operating activities		**(4,478)**	(3,020)	**(3,197)**	(2,487)
Net cash flows (used in) provided by investing activities		**(151)**	103	**(126)**	(51)
Net cash flows provided by financing activities		**5,144**	2,956	**3,456**	3,538
Net increase in cash and cash equivalents		**515**	39	**133**	1,000
Cash and cash equivalents at beginning of the year		**2,213**	2,174	**3,227**	2,227
Cash and cash equivalents at end of the year		**2,728**	2,213	**3,360**	3,227
Reconciliation of cash and cash equivalents to the balance sheets					
Liquid assets		**2,698**	1,857	**2,698**	1,857
Due from other financial institutions – less than 90 days		**3,998**	3,405	**3,471**	3,395
Due to other financial institutions – less than 90 days		**(3,968)**	(3,049)	**(2,809)**	(2,025)
Total cash and cash equivalents		**2,728**	2,213	**3,360**	3,227

The notes on pages 8 to 89 form part of and should be read in conjunction with these financial statements.

The cash flow statement has not been restated for the classification of Truck Leasing Limited as a discontinued operation. Disclosure of the net cash flows attributable to the operating, investing and financing activities of the discontinued operations are presented in Note 10 Discontinued Operations.

Due to the adoption of NZ IAS 32, NZ IAS 39 and NZ IFRS 4 on 1 October 2005, some numbers in the current financial year may not be comparable to the prior year. Refer to Note 1 Accounting Policies and Note 52 Explanation of Transition to NZ IFRS for further details.

1. ACCOUNTING POLICIES

(i) Basis of preparation

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 Banks) Order 2005 (the 'Order'). The parent company's financial statements are for ANZ National Bank Limited (the 'Bank') as a separate entity and the consolidated financial statements are for the ANZ National Bank Limited Group (the 'Banking Group' and reporting entity), which includes subsidiaries and associate companies disclosed in Note 47 Controlled Entities, Associates and Interests in 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 and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ('IFRS').

These financial statements should be read in conjunction with the consolidated financial statements for the year ended 30 September 2005. The financial statements for the year ended 30 September 2005 were prepared based on previous New Zealand Generally Accepted Accounting Principles ('previous GAAP'). These financial statements include a comprehensive summary of the Banking Group's revised accounting policies adopted under NZ IFRS and include reconciliations to previous GAAP (refer Note 52 Explanation of Transition to NZ IFRS).

These financial statements were authorised for issue by the Board of Directors on 1 November 2006.

(ii) Presentation currency and rounding

The amounts contained in the financial statements are presented in millions of New Zealand dollars, unless otherwise stated.

(iii) Changes in accounting policies / adoption of NZ IFRS

The Ultimate Parent Company, Australia and New Zealand Banking Group Limited, adopted the Australian equivalents to IFRS for the reporting period commencing 1 October 2005. Hence, from this date, the Banking Group has elected to prepare financial statements using NZ IFRS as issued by the International Accounting Standards Board and approved by the Accounting Standards Review Board ('ASRB').

These financial statements for the year ended 30 September 2006 form part of the first year in which financial statements have been prepared in accordance with NZ IFRS and NZ IFRS 1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards (IFRS 1) has been applied. An explanation of how the transition from previous GAAP to NZ IFRS has impacted the Banking Group's previously reported financial position, financial performance and cash flows is set out in Note 52 Explanation of Transition to NZ IFRS.

The accounting policies set out below have been consistently applied to all years presented in these financial statements and in preparing an opening NZ IFRS balance sheet as at 1 October 2004, except for those policies relating to NZ IFRS for which comparatives are not restated as permitted under the first time adoption transitional provisions. NZ IFRS for which comparatives are not restated are NZ IAS 32, NZ IAS 39 and NZ IFRS 4. The accounting policies for financial instruments and insurance contracts applicable to the comparative information are consistent with those applied in the 30 September 2005 financial statements.

The Banking Group has not early adopted NZ IFRS 7: Financial Instruments: Disclosures ('NZ IFRS 7'), issued in November 2005. This standard is effective for annual accounting periods beginning on or after 1 January 2007. Application of NZ IFRS 7 will result in changes to disclosures about the risks arising from financial instruments. A revised NZ IFRS 7 was issued by the Financial Standards Review Board and approved by the ASRB in September 2006. The Banking Group already meets the majority of the qualitative and quantitative requirements of NZ IFRS 7.

(iv) Measurement base

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value: derivative financial instruments, securities treated as available for sale, financial instruments held for trading, certain financial liabilities designated at fair value through profit or loss, certain assets and liabilities designated as part of fair value hedging arrangements and defined benefit scheme assets and liabilities.

(v) Accounting estimates

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.

For further discussion on the judgements and estimates made by the Banking Group, in the process of applying its accounting policies, that have the most effect on the amounts recognised in the financial statements refer to Note 2 Critical Estimates and Judgements Used in Applying Accounting Policies.

(vi) Consolidation

These financial statements consolidate the financial statements of ANZ National Bank Limited (the 'Bank') and its subsidiaries (the 'Banking Group').

<u>Subsidiaries</u>

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.

Where subsidiaries have been sold or acquired during the year, their operating results have been included to the date control ceases or from the date control is transferred to the Banking Group.

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.

1. ACCOUNTING POLICIES (continued)

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 subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Banking Group.

Associates and joint ventures

Associates are all entities over which the Banking Group has significant influence but not control, generally accompanying 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 business activities of the joint venture require the unanimous consent of the parties sharing control. The Banking Group adopts the equity method of accounting for associates and jointly controlled entities. The Banking Group's investment in equity accounted associates and jointly controlled entities is initially recognised at cost and includes any attributable goodwill (net of accumulated impairment losses) identified on acquisition.

The Banking Group's share of the post acquisition results of associates and jointly controlled entities is included in the consolidated income statement and its share of post-acquisition movements in reserves recognised in reserves. Shares in associates and jointly controlled entities are stated in the consolidated balance sheet at cost plus the Banking Group's share of post acquisition net assets. Unrealised gains on transactions between the Banking Group and its associates and jointly controlled entities are eliminated to the extent of the Banking Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of an associate or jointly controlled entity have been changed where necessary to ensure consistency with the policies adopted by the Banking Group.

Interests in associates and jointly controlled entities are reviewed at each reporting date for impairment. Any impairment is recognised in the income statement.

All significant activities of the Banking Group, with the exception of the ING New Zealand Joint Venture, are operated through wholly owned and controlled entities.

The Banking Group may invest in or establish special purpose entities to enable it to undertake specific types of transactions. Where the Banking Group controls such vehicles, they are consolidated into the Banking Group's financial results.

(vii) Foreign currency

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.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Foreign exchange gains and losses resulting from (i) the settlement of such transactions, and (ii) the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

From 1 October 2005, translation differences on non-monetary items held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement.

(viii) Revenue and expense 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. Expenses are recognised in the income statement on an accruals basis.

(ix) Interest income and interest expense

Interest income and interest expense are recognised in the income statement as they accrue, 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. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

Loan commitment fees (together with related direct costs), are deferred and recognised as an adjustment to the effective interest on the loan once drawn or immediately to the income statement for expired commitments.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

(x) Fee and commission income

Fees and commission income integral to the effective yield of a financial asset or liability are recognised as an adjustment to the effective interest calculation and included in net interest income.

Fees and commissions that relate to the execution of a significant act (for example, advisory 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 revenue over the period the service is provided.

(xi) 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 gains and losses relating to fair value hedges are assessed as being effective;
- where gains and losses from a group of similar transactions are reported on a net basis such as foreign exchange gains and losses;

1. ACCOUNTING POLICIES (continued)

- where amounts are collected on behalf of third parties where the Banking Group is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Banking Group is reimbursed.

(xii) Recognition and derecognition of financial assets and financial liabilities

The Banking Group recognises a financial asset or liability on its balance sheet when, and only when, the Banking Group becomes a party to the contractual provisions of the financial asset or liability. The Banking Group derecognises a financial asset from its balance sheet when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Banking Group has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the financial asset. The Banking Group derecognises a financial liability from its balance sheet, when and only when, it is extinguished.

(xiii) Trading securities

Trading securities are those financial assets classified as held for trading and comprise debt and equity securities and treasury notes purchased with the intent of being actively traded. Trading securities are initially recognised at fair value on trade date with transaction costs taken to the income statement. Gains and losses on subsequent revaluation are taken to the income statement. The assets are derecognised when the rights to receive cash flows have expired, or the Banking Group has transferred substantially all of the risks and rewards of ownership.

Fair value for listed and unlisted securities is determined by the price displayed by a willing buyer in a liquid market at the reporting date. Where a market price in a liquid market is not readily available, the fair value is determined by reference to the market price available for a security with similar credit, maturity and yield characteristics or by using industry standard pricing models.

(xiv) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. 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 and subsequently remeasured at fair value. Fair values are obtained from quoted prices in active markets (including recent transactions) and valuation techniques including discounted cash flow models and option pricing models, as appropriate. Movements in the fair value of derivative financial instruments are recognised in the income statement, unless the derivative financial instrument meets the requirement for hedge accounting.

Where the derivative financial instrument is designated as, and 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:

<u>(a) Fair value hedge</u>

Where the Banking Group hedges the change in fair value of a recognised asset or liability or firm commitment, any change in the fair value of derivatives designated as fair value hedges are recognised in the income statement. Changes in the fair value of the hedged asset or liability are also recognised in the income statement with a corresponding adjustment to the carrying value of the hedged item.

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. If the hedged item is sold or repaid, the balance of the adjustment to the carrying value of the hedged item is recognised in the income statement immediately.

<u>(b) Cash flow hedge</u>

The Banking Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges are deferred to the cash flow hedging reserve, which forms part of shareholders' equity. Any ineffective portion is recognised in the income statement. Amounts deferred in equity are recognised in the income statement in the year during which the hedged forecast transactions take place. Where the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gain or loss previously deferred in equity is transferred from equity and included in the initial measurement of the cost of the asset or liability.

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

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

<u>Derivatives that do not qualify for hedge accounting</u>

Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in the income statement.

<u>Embedded derivatives</u>

Derivatives embedded in financial instruments or other host contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contracts, and the host contracts are not measured at fair value. The embedded derivative is reported at fair value with changes in fair value recognised in the income statement.

1. ACCOUNTING POLICIES (continued)

(xv) Investment securities and available-for-sale assets

Investment securities are classified as available-for-sale securities. They comprise those securities which the Banking Group intends to hold for an indefinite period such as certain fixed term securities, normally until maturity, but which may be sold in response to liquidity needs. They are initially recorded at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity called the 'available-for-sale revaluation reserve'. When the asset is sold the cumulative gain or loss related to the asset is transferred from equity to the income statement.

Where there is objective evidence of impairment, the cumulative loss previously recognised in equity from the decline in fair value of the asset is removed from equity and recognised in the income statement. If in a subsequent period the amount of an impairment loss for a security decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss previously recognised in the income statement is reversed through the income statement.

Premiums and discounts are included within the calculation of the fair value of the security. Interest is accrued and recognised in accordance with the effective yield method.

Financial assets previously disclosed as investments securities are now treated as available-for-sale assets.

(xvi) 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 and not classified as available-for-sale. The loans and advances are initially recognised at fair value including 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, less any impairment loss. They are derecognised when the rights to receive cash flows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership.

Net loans and advances include direct finance provided to customers such as bank overdrafts, credit cards, term loans, finance lease receivables and commercial bills. Overdrafts, credit cards and term loans are carried at principal balances outstanding.

Customer financing through redeemable preference shares is included within net loans and advances. Dividends received on redeemable preference shares are taken to the income statement as part of interest income, when there is a right to receive income.

<u>Finance lease receivables</u>

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.

<u>Credit assessment</u>

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

Impaired assets include non-performing loans, restructured loans and assets acquired through the enforcement of security.

Non-performing loans 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.

Restructured loans are those loans where the counterparty had difficulty complying with the original terms of the contract and the original terms have been modified to grant the counterparty concessional terms where the yield of the loan is equal to or greater than the Banking Group's average cost of funds and below the yield applicable to a customer of equal credit standing.

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.

Cash receipts on non-performing loans are initially applied as a reduction in principal.

Past due assets are any loans that have 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 past due, where the customer is in any form of voluntary or involuntary administration.

<u>Impairment of loans and advances</u>

Loans and advances are regularly reviewed for impairment loss. Credit impairment provisions are raised for exposures that are known to be impaired. Loans are impaired and impairment losses incurred 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 that loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the individual loan or the collective portfolio of loans.

Impairment is assessed initially 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.

For those exposures that are assessed collectively, these 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.

1. ACCOUNTING POLICIES (continued)

The estimated individual impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value at the original effective interest rate. As this discount unwinds during the period between recognition of impairment and recovery of the written down amount, it is recognised in the income statement. 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.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off are taken to the income statement.

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

(xvii) Operating leases

Leases as lessee

Operating lease payments are recognised as an expense on a systematic basis over the lease term.

Leases as lessor

Operating lease rentals are included in the income statement on a systematic basis over the lease term. Gross operating lease income comprises amounts received under the lease contracts.

Operating lease assets are stated at cost less accumulated depreciation and are included as part of premises and equipment. Depreciation is calculated using a systematic basis over the estimated useful lives of those assets after deducting any residual values. Residual values are reviewed at each reporting date to ensure they represent the amounts that the Banking Group would currently obtain from disposing of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of the lease expiry. The estimated lives of lease assets vary up to 10 years.

(xviii) 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 deposits and other borrowings. The difference between the sale price and the repurchase price is amortised 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 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.

(xix) Goodwill and other intangible assets

Goodwill

Purchased goodwill, representing 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, is recognised as an asset. Goodwill has an indefinite life. The carrying value of goodwill is reviewed for impairment at each reporting period and tested for impairment annually, or more frequently where there is an indication that the goodwill may be impaired. This involves, where required, using discounted cash flow or capitalisation of earnings methodology to determine the expected future benefits of the cash generating unit to which goodwill has been allocated. Where the assessment results in the current carrying value of goodwill exceeding the value of expected future benefits, the difference is charged to the income statement. Any impairment writedown of goodwill is not reversed in subsequent periods.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets

Other intangible assets comprise costs incurred in acquiring and building software and computer systems (referred to as software) and an intangible asset relating to the ING New Zealand Joint Venture acquisition.

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 the branch front-end applications where 7 years is used.

At each reporting date, the software assets and other intangible assets are reviewed for impairment against impairment indicators. If any indication of impairment 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.

(xx) Premises and equipment

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

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 included in the income statement in the period of disposal.

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%
Building integrals	10%
Furniture & equipment	10%
Computer & office equipment	12.5% – 33%
Motor vehicles	20%

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

1. ACCOUNTING POLICIES (continued)

At each reporting date, the carrying amounts of premises and equipment are reviewed for indications of impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the asset's existing carrying value exceeds its recoverable amount the difference is charged to the income statement. Where the asset does not generate cash flows that are independent from other assets, the Banking Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An impairment loss recognised in prior periods may be reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

(xxi) 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 Accounting Policy (ix). From 1 October 2005, commercial paper has been designated at fair value through profit or loss, with fair value movements recorded directly in the income statement.

(xxii) Bonds, notes and loan capital

Bonds, notes and loan capital are initially recognised at fair value plus transaction costs and subsequently stated at amortised cost. Interest expense is recognised in the income statement using the effective interest method.

(xxiii) Income tax

Income tax expense

Income tax on profits for the period comprises current and deferred tax. 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.

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).

Deferred tax

Deferred tax is accounted for using the tax base balance sheet liability method. Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

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.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those in relation to taxable temporary differences arising from goodwill. In addition deferred tax liabilities are 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.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised.

Deferred tax related to fair value re-measurement 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.

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 and there is a legal right and intention to settle on a net basis and it is allowed under the tax law.

(xxiv) Employee benefits

The Banking Group has elected to apply the amendments to NZ IAS 19 Employee Benefits (issued May 2005) early, with effect from 1 October 2005. As a result, defined benefit superannuation scheme actuarial gains and losses are taken directly to retained profits. Comparatives have also been restated on this basis.

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. 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's contributions to its defined contribution cash accumulation scheme are recognised as a personnel expense in the income statement when due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Banking Group has no further payment obligations once the contributions have been paid.

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. 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:

1. ACCOUNTING POLICIES (continued)

- 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 profits; and
- cash contributions incurred are recognised directly against the net defined benefit liability or asset.

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 a minimum of every three years in accordance with the schemes' Trust Deed and superannuation legislation.

Share-based compensation

The Banking Group's employees participate in various equity-settled share-based compensation plans operated by the ANZ and largely comprise the Employee Share Acquisition Plan and the ANZ Share Option Plan. The Banking Group purchases ANZ shares and share options for the benefit of its employees from the ANZ, and as such accounts for share-based compensation plans as cash-settled.

(a) 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. Where shares are subject to a vesting period, the Banking Group initially recognises a net share compensation asset reflecting the fair value of unvested shares issued to employees of the Banking Group. The fair value of unvested shares is amortised to profit and loss on a straight-line basis over the vesting period (normally three years) as employee services are received.

(b) Share Options

The fair value of ANZ share options is measured at grant date, using a Black-Scholes 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 the ANZ ordinary share price and other factors. Market vesting conditions are taken into account in estimating the fair value.

Other adjustments

The amount of expense recognised during the vesting period is adjusted for the number of shares or options expected to vest. Non-market vesting conditions (e.g. service conditions) are taken into account, so that ultimately the expense recognised in the income statement reflects the number of shares or share options that actually vest.

(xxv) Capitalised expenses

Direct external expenses, comprising direct and incremental costs related to the acquisition of interest earning assets, including structured institutional lending, mortgages and finance leases, are initially recognised as part of the cost of acquiring the asset and written off as an adjustment to its expected yield over its expected life using the effective interest method. The writeoff is to interest income as part of the effective interest rate.

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

(xxvi) 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, taking into account the risks and uncertainties surrounding the obligation. 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.

(xxvii) Goods and services tax

Revenues, 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.

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 net 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.

(xxviii) 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
- There is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(xxix) Contingent liabilities

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 are provided together with an estimate of the range or a statement that such an estimate is not possible.

1. ACCOUNTING POLICIES (continued)

(xxx) Segment reporting

Business segments are distinguished 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 four major business segments are Retail Banking, Relationship Banking, Institutional and UDC. The Banking Group operates primarily in one geographic segment, New Zealand.

(xxxi) Statement of cash flows

Basis of preparation

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

Cash and cash equivalents include liquid assets and amounts due from/(to) other financial institutions with an original term to maturity of less than three months.

Netting of cash flows

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

(xxxii) Securitisation, funds under management, and other fiduciary activities

Certain subsidiaries of the Bank act as trustees and/or managers for a number of unit trusts and superannuation investment funds. The Bank 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 cashflows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership.

(xxxiii) Life insurance

The Banking Group's life insurance business was conducted through NBNZ Life Insurance Limited until 30 September 2005 and its results consolidated until that date. On 30 September 2005, NBNZ Life Insurance Limited was sold to ING (NZ) Holdings Limited, a jointly controlled entity of the Bank, which is accounted for in accordance with the equity method of accounting.

The operating results have been determined in accordance with the "Margin on Services" methodology. Insurance premiums on policies are included in the income statement. Surrenders/ cancellations are recognised when paid. Claims are recognised when the liability to the policyholder under the policy contract has been established.

Policy liabilities and other liabilities are measured at the net present value of estimated future cash flows, in accordance with the "Margin on Services" methodology. Changes in the net present values are recognised in the income statement as revenue or expenses in the period in which they occur.

Independent actuaries Melville Jessup Weaver are employed to determine the valuation of the policy liabilities, in accordance with the standards of the New Zealand Society of Actuaries. Actuarial valuations are carried out annually.

(xxxiv) 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.

(xxxv) Comparatives

To ensure consistency with the current year, all comparative figures have been restated where appropriate for the changes resulting from the adoption of NZ IFRS except for those policies for which comparatives are not restated as permitted under the first time adoption transitional provisions (refer Accounting Policy (iii)).

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

These financial statements are prepared in accordance with New Zealand 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.

(a) Credit provisioning

Provisions for impairment in customer loans and advances are raised by management to cover actual and expected losses arising from past events. Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on loans assessed collectively. Losses expected from future events, no matter how likely, are not recognised. The amount of the impairment loss is recognised as an expense in the income statement.

The calculation of impairment provisions includes consideration of all expected cash flows associated with the loan. This includes any expected cash flows from realisation of security and interest and takes into account any costs expected to be incurred, including security realisation costs, legal and administration costs.

Individual provisions

An individual provision is raised where there is an expectation of a loss of principal, interest and/or fees and there is objective evidence of impairment.

At each balance date, the Banking Group reviews individually significant loans for evidence of impairment. All relevant information, including the economic situation, solvency of the customer/guarantor, enforceability of guarantees, current security values and the time value of future cash flows are taken into account in determining individual provisions. At a minimum, individual provisions are reassessed on a quarterly basis, upon receipt of a significant asset realisation or when there is a change in customer circumstances/business strategy.

Collective provisions

A collective provision is calculated for:

- Loans subject to individual assessment to cover losses which have been incurred but not yet identified; and
- For homogenous portfolios of loans that are not considered individually significant (e.g. retail portfolios such as mortgages, credit cards and some small business loans).

The collective 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 then adjusted for the impact of current observable data.

For individually significant loans, historical loss experience used to calculate the collective provision is determined by taking into account historical information on probability of default and loss given default by risk grade. The collective provision on homogeneous or portfolio managed exposures is calculated by applying an expected loss factor to the outstanding drawn and undrawn balances in each loan portfolio. The expected loss factor is determined from internal historical loss data.

The long-term historical loss experience is reviewed by management and adjustments made to reflect current economic and credit conditions as well as taking into account such factors as concentration risk in an individual portfolio. In addition, management recognise that a certain level of imprecision exists in any model used to generate risk grading and provisioning levels. As such an adjustment is applied for model risk.

As at 30 September 2006 for the Banking Group, total provision for credit impairment was $460 million representing 0.59% of total net loans and advances (30/09/2005 $666 million or 0.96%). Of the total provision for 30 September 2006, $402 million represented collective provisions and $58 million represented individual provisions.

As at 30 September 2006 for the Bank, total provision for credit impairment was $415 million representing 0.56% of total net loans and advances (30/09/2005 $646 million or 0.98%). Of the total provision for 30 September 2006, $364 million represented collective provisions and $51 million represented individual provisions.

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.

(b) 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.

The Banking Group enters into derivatives for trading (including customer-related reasons) or for hedging purposes.

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.

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.

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

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 value of derivatives

Derivatives which are entered into as part of the Banking Group's trading operations and those derivatives which are part of fair value hedges are measured at fair value, with any changes in fair value recognised in the income statement. 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 derivative financial instruments.

(c) 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 2006, the balance of goodwill recorded as an asset on the Banking Group's consolidated balance sheet as a result of acquisitions was $3,266 million, of which $3,230 million relates to the acquisition of NBNZ Holdings Limited in December 2003 (30/09/2005 $3,263 million).

As at 30 September 2006, the balance of goodwill recorded as an asset on the Bank's consolidated 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 (30/09/2005 $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 to which goodwill related to the National Bank Group 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 fair value less costs to sell. Where the current carrying value is greater than the recoverable amount a charge for impairment of goodwill will be recorded in the income statement.

In determining the fair value of the Banking Group, an independent valuation is obtained based on a capitalisation of earnings approach. Under this methodology valuation multiples (such as the price to earnings (PE) ratio) observed from previous transactions in the banking sector and current price/cash earnings multiples from similar businesses are used to determine an appropriate price/earnings multiple for the Banking Group. This multiple is then applied to the Banking Group's adjusted cash earnings to determine a fair value for the Banking Group.

In determining an appropriate price multiple for the Banking Group from that of similar companies or transactions, judgement is applied in assessing comparability, particularly with respect to the mix of business, geographic location, growth prospects, riskiness of future earnings and size of the overall business.

The results of the independent valuation carried out as at 31 March 2006 and used at balance date resulted in a fair value in excess of the current carrying value for the Banking Group and hence the current carrying value of the Banking Group goodwill is not considered impaired.

(d) 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 2006, the carrying value of the Banking Group's investment in ING NZ was $167 million (30/09/2005 $145 million). The carrying value of the Bank's investment in ING NZ was $186 million (30/09/2005 $164 million).

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 2006. The valuation was based on a value-in-use methodology using a discounted cash flow approach. The results of the independent valuation resulted in 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 writedown 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 Management 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 Management Committee to assist it to discharge its responsibilities. 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 Management Committee of the Ultimate Parent Bank Board. This includes the review of risk portfolios and the establishment of prudential policies and controls. Associated with this, the Ultimate Parent Bank auditor, KPMG, and the Australian Prudential Regulatory Authority regularly review the risk management function of the Ultimate Parent Bank Group, including the Banking Group.

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.

Credit Risk
The Banking Group has an overall lending objective of sound growth for appropriate returns. The credit risk management framework exists to provide a structured and disciplined process to support this objective.

This framework is top down, being 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 compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.

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 includes concentrations of credit risk, intra day credit risk, credit risk to bank counterparties and related party credit risk, and is the potential loss arising from the non-performance by the counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual agreements, and encompasses both on and off-balance sheet instruments. 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 on 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 Credit services the Banking Group’s corporate and investment banking activities, Rural Credit services the Banking Group’s rural lending activities, Retail Credit services the Banking Group’s small business and consumer customers and Portfolio Risk Management in turn 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 the retail and rural lending sectors, with larger transactions approved by Retail Credit or Rural Credit.

Market Risk
The Banking Group has a detailed market risk management and control framework, to support trading and non-trading activities, which incorporates an independent risk measurement approach to quantify the magnitude of market risk within the trading and non-trading books. This approach, along with related analysis, identifies the range of possible outcomes that can be expected over a given period of time, and establishes the relative likelihood of those outcomes.

3. RISK MANAGEMENT POLICIES (continued)

Traded market risk is the risk of loss from changes in value of financial instruments due to movements in price factors for both physical and derivative trading positions. These risks are monitored daily against a comprehensive limit framework that includes VaR, aggregate market position and sensitivity, product and geographic thresholds. The principal risk components of this monitoring process 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 decline in value of an instrument due to a deterioration in the creditworthiness of the issuer of the instrument.

VaR Methodology: All the above risks are measured using a VaR methodology. The VaR methodology is a statistical estimate of the maximum daily decrease in market value with a 97.5% confidence. Conversely there is a 2.5% probability of the decrease in market value exceeding the VaR estimate on any given day. The Banking Group has adopted the historical simulation methodology as its standard for the calculation of VaR. This methodology is based on assessing the change in value of portfolios each day against historical prices.

Within overall strategies and policies, control of market risk exposures at Banking Group level is the responsibility of Market Risk, who work closely with the Markets, and Treasury business units.

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.

Balance Sheet Risk Management embraces the management of non-traded interest rate risk, liquidity and the risk to capital and earnings as a result of exchange rate movements. A specialist balance sheet management unit manages these, and is overseen by Risk Management and the Banking Group Asset and Liability Committee.

- ***Interest rate risk*** management's objective is to produce strong and stable net interest income over time. The Banking Group uses simulation models to quantify the potential impact of interest rate changes on earnings and the market value of the balance sheet. Interest rate risk management focuses on two principal sources of risk: 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. Non-traded interest rate risk is managed to both value and earnings at risk limits.
- ***Currency 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.
- ***Liquidity risk*** is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. The Banking Group maintains sufficient liquid funds to meet its commitments based on historical and forecasted cash flow requirements. Liquidity risk is measured through cash flow modelling, with profiles produced for both normal business and short-term crisis conditions.
- ***Equity risk*** is the potential loss arising from the decline in the value of equity instruments held by the Banking Group due to changes in their equity market prices or implied volatilities.

Operational Risk

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.

A Risk Drivers and Controls (or "Scorecards") Approach to operational risk measurement is used to measure the operational risk profile of individual business units, and to allocate operational risk economic capital. This approach gives business managers a strong and clear incentive to reduce 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.

Business Units have primary responsibility for the identification and management of operational risk. The Banking Group's Risk Management Committee provides policy and framework, measurement, monitoring and reporting, as well as leadership in areas such as technology risk and payments risk. The Board and Risk Management conduct effective monitoring and oversight.

3. RISK MANAGEMENT POLICIES (continued)

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.

In addition, Compliance, a discrete function within Risk Management, is responsible for working in conjunction with Business Unit Compliance teams and other risk management areas to provide a compliance infrastructure and framework to facilitate planning, reporting and management of new and changing business obligations and processes.

Compliance seeks 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 Risk Management Committee, the Chief Risk Officer, the Board and the Risk Management 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 has no reporting line to ANZ Management. Internal Audit reports directly to the Chairman of the 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;
- The completeness and accuracy of the financial and other records of 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 performing this role, Internal Audit adopts a risk-based approach, encompassing reviews of the major credit, market and operating risks within the Banking Group. Significant findings are reported quarterly to the Audit Committee of the Banking Group. The Head of Internal Audit of the Banking Group makes a quarterly attestation on the adequacy of controls to satisfy the quarterly General Disclosure Statement requirements.

A Strategic Audit Plan is prepared annually covering each business area of the Banking Group, with greater emphasis placed on those areas where the highest risk exists. The Plan is endorsed by the Audit Committees of the Banking Group and the Ultimate Parent Banking Group.

Integration Review

The Bank has confirmed to the Reserve Bank of New Zealand ('RBNZ') that it has achieved compliance with the Bank's Condition of Registration 13(i) which requires that by no later than 31 December 2005, the Bank should locate and continue to operate in New Zealand the Bank's domestic system and that the board of directors of the Bank will have legal and practical ability to control the management and operation of the domestic system.

Plans to achieve compliance with Condition 13(ii), which relates to the board of directors having legal and practical ability to control the management and operation of the international system, have been reassessed in light of the release of the RBNZ's final Outsourcing Policy (BS11). The Bank is continuing to work with the RBNZ to agree a plan to achieve compliance with the Outsourcing Policy (which will eventually be embodied in replacement Condition(s) of Registration for the existing Condition 13) particularly with respect to the Bank's international system.

As part of this process, the RBNZ has:

- Advised that it is satisfied with the Bank's *Self Assessment* of outsourced business functions and governance arrangements;
- Commenced reviewing the Bank's revised *Compliance Plan*; and
- Advised the Bank of a proposed extension to the completion date for condition 13(ii) to 30 June 2007, with effect from 1 December 2006.

The Bank is confident of reaching agreement with the RBNZ within such an extended timeframe.

4. INCOME

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
Continuing operations	**$m**	$m	**$m**	$m
Interest income				
Other financial institutions	**412**	286	**355**	160
Trading securities	**156**	62	**156**	62
Investment securities	**–**	80	**–**	80
Available-for-sale assets	**52**	–	**51**	–
Lending on productive loans	**6,435**	5,506	**6,100**	5,127
Lending on impaired assets (Note 14)	**7**	6	**7**	6
Subsidiary companies	**–**	–	**79**	30
Related parties	**11**	9	**11**	9
Other	**133**	60	**133**	58
Total interest income	**7,206**	6,009	**6,892**	5,532
Other operating income				
Net fee income[1]	**543**	594	**504**	567
Dividends received	**1**	1	**153**	5,019
Net gain on foreign exchange trading	**152**	122	**152**	122
Net gain (loss) on trading securities	**13**	(10)	**13**	(10)
Net (loss) gain on trading derivatives	**(6)**	15	**(6)**	15
Net gain on hedges not qualifying for hedge accounting	**3**	–	**4**	–
Net ineffectiveness on qualifying hedges	**1**	–	**1**	–
Net gain on financial liabilities designated at fair value through profit or loss	**3**	–	**3**	–
Net life insurance income	**–**	23	**–**	–
Gain on disposal of insurance and funds management activities	**–**	16	**–**	39
Writedown of investment in associates	**–**	(7)	**–**	(1)
Other income	**70**	39	**61**	25
Total other operating income	**780**	793	**885**	5,776
[1]Net fee income comprises:				
Lending and credit facility fee income	**92**	142	**94**	140
Management services fee income	**42**	42	**25**	42
Other fee income	**559**	539	**535**	514
Total fee income	**693**	723	**654**	696
Direct Fee expense	**150**	129	**150**	129
Net fee income	**543**	594	**504**	567

5. EXPENSES

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
Continuing operations	**$m**	$m	**$m**	$m
Interest expense				
Other financial institutions	**213**	82	**119**	62
Deposits and other borrowings	**3,716**	3,260	**3,221**	2,887
Subsidiary companies	**–**	–	**1,824**	855
Bonds and notes	**744**	271	**46**	42
Related party funding	**190**	176	**190**	176
Loan capital	**117**	102	**117**	102
Other	**97**	178	**72**	130
Total interest expense	**5,077**	4,069	**5,589**	4,254
Operating expenses				
Personnel costs	**623**	590	**592**	563
Employee entitlements	**63**	48	**61**	46
Pension costs				
– Defined contribution schemes	**35**	34	**35**	33
– Defined benefit schemes	**6**	7	**6**	7
Share-based payments expense	**10**	8	**10**	8
Building occupancy costs	**34**	31	**42**	30
Depreciation of premises and equipment	**43**	45	**24**	31
Leasing and rental costs	**73**	65	**80**	67
Integration costs	**49**	111	**49**	111
Related parties	**67**	63	**57**	55
Writedown of investment in subsidiary company	**–**	–	**1**	4,928
Other costs	**320**	310	**316**	305
Total operating expenses	**1,323**	1,312	**1,273**	6,184

Related party and integration operating expenses are predominantly recharges from Australia and New Zealand Banking Group Limited (Ultimate Parent Company).

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$'000	$'000	**$'000**	$'000
Auditors' remuneration to KPMG comprises:				
Audit or review of financial statements	**1,798**	1,764	**1,308**	1,335
Other audit-related services	**486**	235	**362**	229
Total auditors' remuneration	**2,284**	1,999	**1,670**	1,564

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 materially 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 their own work. However, non-audit services that are not perceived to be materially 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, trust audits and other audits required for local regulatory purposes.

6. INCOME TAX EXPENSE

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Reconciliation of the prima facie income tax payable on profit with the income tax expense charged in the income statement				
Continuing operations				
Profit before income tax	**1,590**	1,301	**921**	760
Prima facie income tax at 33%	**525**	429	**304**	251
Rebateable and non-assessable dividends	**(7)**	(24)	**(51)**	(1,656)
Writedown of investment in subsidiary company	**–**	–	**–**	1,626
Profit on sale of controlled entity	**–**	(7)	**–**	(13)
Life insurance accounting	**–**	(5)	**–**	–
Other permanent items	**9**	7	**60**	10
	527	400	**313**	218
Income tax over provided in prior years	**(4)**	(2)	**(3)**	(2)
Total income tax expense from continuing operations	**523**	398	**310**	216
Discontinued operation				
Income tax expense from discontinued operations (Note 10)	**3**	7	**–**	–
Effective tax rate (%)	**32.9%**	30.6%	**33.7%**	28.4%
The major components of the income tax expense comprise:				
Amounts recognised in the income statement				
Current income tax charge				
Current income tax charge	**426**	378	**213**	198
Adjustments recognised in the current year in relation to current tax of prior years	**(4)**	(2)	**(3)**	(2)
Deferred income tax				
Deferred tax expense relating to the origination and reversal of temporary differences	**101**	22	**100**	20
Total income tax expense recognised in income statement – continuing operations	**523**	398	**310**	216
The following amounts were (credited) or charged directly to equity:				
Current income tax				
Actuarial loss on defined benefit schemes	**(1)**	–	**(1)**	–
Deferred income tax				
Actuarial gain on defined benefit schemes	**–**	2	**–**	2
Net gain on revaluation of cash flow hedges	**6**	–	**6**	–
Total income tax expense recognised directly in equity	**5**	2	**5**	2
Imputation Credit Account				
Balance at beginning of the year	**492**	270	**286**	159
Imputation credits attached to dividends received	**17**	23	**56**	2
Taxation paid	**211**	368	**135**	295
Imputation credits attached to dividends paid	**(247)**	(177)	**(247)**	(177)
Imputation credits transferred to Imputation Credit Group	**169**	–	**253**	–
Imputation credits reinstated	**–**	8	**–**	8
Prior year adjustment	**–**	–	**–**	(1)
Balance at end of the year	**642**	492	**483**	286

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.

7. LIQUID ASSETS

	Consolidated		Parent	
	30/09/2006 $m	30/09/2005 $m	**30/09/2006 $m**	30/09/2005 $m
Cash and balances with central banks	**1,046**	266	**1,046**	266
Money at call	**1,493**	1,438	**1,493**	1,438
Bills receivable and remittances in transit	**159**	153	**159**	153
Total liquid assets	**2,698**	1,857	**2,698**	1,857
Included within liquid assets are the following balances:				
Overnight balances with central banks	**806**	–	**806**	–

8. DUE FROM OTHER FINANCIAL INSTITUTIONS

	Consolidated 30/09/2006 $m	Consolidated 30/09/2005 $m	Parent 30/09/2006 $m	Parent 30/09/2005 $m
Able to be withdrawn without prior notice	**1,019**	666	**1,017**	656
Securities purchased under agreement to resell	**657**	930	**657**	930
Loans and advances	**3,941**	3,876	**3,437**	2,470
Total due from other financial institutions	**5,617**	5,472	**5,111**	4,056
Included within due from other financial institutions is the following related party balance:				
Australia and New Zealand Banking Group Limited (Ultimate Parent Company)	**51**	126	**51**	126

As at 30 September 2006, assets of $1,164 million were encumbered through repurchase agreements (30/09/2005 $643 million).

9. TRADING SECURITIES

	Consolidated 30/09/2006 $m	Consolidated 30/09/2005 $m	Parent 30/09/2006 $m	Parent 30/09/2005 $m
Government, Local Body stock and bonds	**198**	332	**198**	332
Certificates of deposit	**1,112**	316	**1,112**	316
Promissory notes	**212**	246	**212**	246
Other	**74**	18	**74**	18
Total trading securities	**1,596**	912	**1,596**	912

As at 30 September 2006, assets of $198 million were encumbered through repurchase agreements (30/09/2005 $332 million).

10. DISCONTINUED OPERATIONS

On 1 September 2006, UDC Finance Limited ('UDC') agreed to sell Truck Leasing Limited ('TLL') to Nikko Principal Investments Australia Limited, a private equity business of Nikko Cordial Corporation. The sale was completed on 31 October 2006.

As the sale agreement was signed on 1 September 2006, in accordance with accounting requirements the assets and liabilities of TLL have been classified as held for sale as at 30 September 2006 and TLL treated as a discontinued operation.

TLL's unsecured bank borrowings with UDC were repaid on the sale date and have been excluded from TLL's liabilities classified as held for sale. As at 30 September 2006 this balance was $423 million.

The income statement for the year ended 30 September 2005 has been restated to show the discontinued operation separately from continuing operations. A reconciliation of the profit for the year ended 30 September 2005 before and after this restatement is presented in Note 52 Explanation of Transition to NZ IFRS.

Profits attributable to the discontinued operation were as follows:

	Truck Leasing Limited	
Result of discontinued operation	**30/09/2006 $m**	30/09/2005 $m
Interest income	**1**	–
Interest expense	**28**	24
Net interest expense	**(27)**	(24)
Other operating income[1]	**45**	57
Net operating income	**18**	33
Operating expenses	**9**	11
Profit before provision for credit impairment and income tax	**9**	22
Provision for credit impairment	**1**	1
Profit before income tax	**8**	21
Income tax expense	**3**	7
Profit after income tax	**5**	14
Cash flows from discontinued operation		
Net cash flows provided by operating activities	**114**	142
Net cash flows used in investing activities	**(116)**	(136)
Net cash flows provided by financing activities	**–**	–
Net (decrease) increase in cash and cash equivalents	**(2)**	6
Assets classified as held for sale		
Net loans and advances	**3**	
Current tax assets	**2**	
Other assets	**40**	
Deferred tax assets	**6**	
Premises and equipment (including operating lease assets)	**486**	
Goodwill	**1**	
Total assets	**538**	
Liabilities classified as held for sale		
Payables and other liabilities	**23**	
Provisions	**1**	
Deferred tax liabilities	**29**	
Total liabilities	**53**	
[1]Other operating income includes:		
Gross operating lease income	**162**	156
Less direct income related expenses		
– Operating lease depreciation	**90**	75
– Other direct income related expenses	**28**	30
Net operating lease income	**44**	51

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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 and are classified predominantly as hedging activities. 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.

The principal 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 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.

Credit risk of derivatives
The credit risk of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligation. Credit risk arises when market movements are such that the derivative has a positive value to the Banking Group. It is the cost of replacing the contract in the event of counterparty default. The Banking Group limits its credit risk within a conservative framework by dealing with creditworthy counterparties, settling credit limits on exposures to counterparties, and obtaining collateral where appropriate.

The following table provides an overview of the Banking Group's exchange rate, credit, commodity and interest rate derivatives. It includes all trading and hedging contracts. Notional principal amounts measure the amount of the underlying physical or financial commodity and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative.

The credit equivalent amount is calculated in accordance with the Reserve Bank of New Zealand's capital adequacy guidelines. It combines the aggregate gross replacement cost with an allowance for the potential increase in value over the remaining term of the transaction should market conditions change.

The fair value of a derivative represents the aggregate net present value of the cash inflows and outflows required to extinguish the rights and obligations arising from the derivative in an orderly market as at the reporting date. Fair value does not indicate future gains or losses, but rather the unrealised gains and losses arising from marking to market all derivatives at a particular point in time.

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Consolidated				Parent			
	Notional Principal Amount	Credit Equivalent Amount	Fair values		Notional Principal Amount	Credit Equivalent Amount	Fair values	
As at 30 September 2006	$m	$m	Assets $m	Liabilities $m	$m	$m	Assets $m	Liabilities $m
Derivatives held for trading								
Foreign exchange derivatives								
Spot and forward contracts	26,325	636	340	449	26,325	636	340	449
Swap agreements	40,205	2,114	695	1,234	40,205	2,114	695	1,234
Options	6,366	83	49	46	6,366	83	49	46
	72,896	2,833	1,084	1,729	72,896	2,833	1,084	1,729
Interest rate derivatives								
Forward rate agreements	24,080	12	12	9	24,080	12	12	9
Swap agreements	177,045	1,398	772	847	177,209	1,398	773	847
Futures contracts	17,097	–	1	1	17,097	–	1	1
Options	2,697	7	4	4	2,697	7	4	4
	220,919	1,417	789	861	221,083	1,417	790	861
Equity derivatives								
Options	30	22	20	–	30	22	20	–
Total derivatives held for trading	293,845	4,272	1,893	2,590	294,009	4,272	1,894	2,590
Derivatives held for hedging								
(a) Designated as cash flow hedges								
Interest rate derivatives								
Swap agreements	5,199	40	20	19	5,199	40	20	19
Total derivatives designated as cash flow hedges	5,199	40	20	19	5,199	40	20	19
(b) Designated as fair value hedges								
Foreign exchange derivatives								
Swap agreements	121	7	3	–	121	7	3	–
Interest rate derivatives								
Swap agreements	27,412	208	104	173	26,839	207	102	168
Total derivatives designated as fair value hedges	27,533	215	107	173	26,960	214	105	168
Total derivatives held for hedging	32,732	255	127	192	32,159	254	125	187
	326,577	4,527	2,020	2,782	326,168	4,526	2,019	2,777
Collateral paid			–	785			–	785
Total derivative financial instruments	326,577	4,527	2,020	1,997	326,168	4,526	2,019	1,992

Hedge accounting

Cash flow hedges
The Banking Group hedges the cash flows from floating rate customer deposits and floating rate wholesale funding arrangements that fund fixed rate lending using cross currency and interest rate swaps. There were no transactions where cash flow hedge accounting ceased in the year ended 30 September 2006 as a result of highly probable cash flows that were no longer expected to occur.

Fair valuation gains and losses deferred in the cash flow hedging reserve will be transferred to the income statement over the next two years, as the cash flows under the hedge transaction occur.

Fair value hedges
The Banking Group is exposed to interest rate risk by providing fixed rate lending to customers. The Banking Group hedges this risk through the use of interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate assets and interest rate swaps.

The fair value gains and losses are recorded through the income statement as incurred. The opposing fair value adjustments to the carrying balance sheet value are amortised to the income statement as the fixed rate asset and interest rate swap near maturity.

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Due to the Banking Group utilising the exemption from the requirement to restate comparative information for NZ IAS 32 and NZ IAS 39, all derivatives prior to 1 October 2005 are classified as off-balance sheet financial instruments, split between trading and hedging activities.

The estimated face or contract values and credit exposures for off-balance sheet financial instruments are as follows:

	Consolidated		**Parent**	
	30/09/2005	30/09/2005	30/09/2005	30/09/2005
	Notional Principal Amount	Credit Equivalent Amount	**Notional Principal Amount**	Credit Equivalent Amount
As at 30 September 2005	**$m**	$m	**$m**	$m
Derivatives held for trading				
Foreign exchange derivatives				
Spot and forward contracts	16,881	467	16,881	467
Swap agreements	17,898	777	17,898	777
Options	4,182	52	4,182	52
Interest rate derivatives				
Forward rate agreements	8,146	4	8,146	4
Swap agreements	87,400	789	87,399	784
Futures contracts	10,965	–	10,965	–
Options	7,357	18	7,357	18
Total derivatives held for trading	152,829	2,107	152,828	2,102
Derivatives held for hedging				
Foreign exchange derivatives				
Spot and forward contracts	5,359	86	5,359	86
Swap agreements	15,071	700	15,071	700
Interest rate derivatives				
Forward rate agreements	1,950	1	1,950	1
Swap agreements	34,674	292	33,667	295
Equity derivatives				
Options	39	15	39	15
Total derivatives held for hedging	57,093	1,094	56,086	1,097
Total derivative financial instruments	209,922	3,201	208,914	3,199

The fair value of foreign exchange and interest rate contracts that are entered into for trading purposes are reflected in the financial statements. The estimated fair value adjustment for balance sheet hedging contracts not recognised in the financial statements is a $133 million fair value gain as at 30 September 2005 for the Banking Group and a $145 million fair value gain as at 30 September 2005 for the Bank.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENT SECURITIES AND AVAILABLE-FOR-SALE ASSETS[1]

	Consolidated		Parent	
	Available-for-sale assets 30/09/2006 $m	Investment securities 30/09/2005 $m	**Available-for-sale assets 30/09/2006 $m**	Investment securities 30/09/2005 $m
Investment securities				
Government, Local Body stock and bonds	**–**	1,250	**–**	1,250
Floating rate notes	**–**	20	**–**	20
Recognised at amortised cost	**–**	1,270	**–**	1,270
Available-for-sale assets				
Government, Local Body stock and bonds	**316**	–	**316**	–
Floating rate notes	**39**	–	**29**	–
Other	**4**	–	**4**	–
Recognised at fair value	**359**	–	**349**	–
Total investment securities and available-for-sale assets	**359**	1,270	**349**	1,270
Included within investments securities and available-for-sale assets is the following balance:				
Assets used to secure deposit obligations	**221**	222	**221**	222

[1]On adoption of NZ IAS 39 from 1 October 2005
With effect from 1 October 2005, investment securities have been classified as available-for-sale and recorded at fair value, with gains or losses arising from changes in fair value recognised directly in equity in the available-for-sale revaluation reserve.

13. NET LOANS AND ADVANCES

	Consolidated		Parent	
	30/09/2006 $m	30/09/2005 $m	**30/09/2006 $m**	30/09/2005 $m
Overdrafts	**1,907**	1,811	**1,907**	1,811
Credit card outstandings	**1,238**	1,128	**1,238**	1,128
Term loans – housing	**43,353**	38,338	**43,353**	38,306
Term loans – non-housing	**31,547**	28,187	**28,282**	25,118
Finance lease receivables	**776**	891	**44**	353
Gross loans and advances	**78,821**	70,355	**74,824**	66,716
Provision for credit impairment (Note 15)	**(460)**	(666)	**(415)**	(646)
Unearned finance income	**(248)**	(550)	**–**	(282)
Deferred fee revenue and expenses[2]	**(50)**	–	**(48)**	–
Total net loans and advances	**78,063**	69,139	**74,361**	65,788
Included within net loans and advances is the following related party balance:				
ANZ Holdings (New Zealand) Limited (Parent Company)	**58**	126	**62**	126

The balance owing by the Parent Company is due within the next twelve months. Interest is received at variable bank rates.

[2]Deferred fee revenue and expenses is a new balance sheet category arising from adoption of NZ IAS 39 from 1 October 2005.

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

	Consolidated		Parent	
	30/09/2006 $m	30/09/2005 $m	**30/09/2006 $m**	30/09/2005 $m
On-balance sheet impaired assets, past due assets and other assets under administration				
Impaired assets (excluding restructured assets)				
Balance at the beginning of the year	**213**	123	**186**	93
Transfers from productive	**190**	306	**150**	259
Transfers to productive	**(10)**	(21)	**(8)**	(11)
Assets realised or loans repaid	**(165)**	(85)	**(135)**	(61)
Write offs	**(77)**	(110)	**(64)**	(94)
Balance at the end of the year	**151**	213	**129**	186
Restructured assets				
Balance at the beginning of the year	**–**	–	**–**	–
Transfers to restructured items	**–**	18	**–**	18
Transfers from restructured items	**–**	(18)	**–**	(18)
Balance at the end of the year	**–**	–	**–**	–
Past due assets (90 days past due assets)				
Balance at the beginning of the year	**72**	83	**63**	75
Transfers to past due assets	**306**	309	**268**	279
Transfers from past due assets	**(292)**	(320)	**(253)**	(291)
Balance at the end of the year	**86**	72	**78**	63
Other assets under administration				
Balance at the beginning of the year	**–**	–	**–**	–
Transfers to other assets under administration	**–**	3	**–**	3
Transfers from other assets under administration	**–**	(3)	**–**	(3)
Balance at the end of the year	**–**	–	**–**	–
Total on-balance sheet impaired assets, past due assets and other assets under administration	**237**	285	**207**	249
Off-balance sheet impaired assets				
Balance at the beginning of the year	**7**	–	**7**	–
Transfers to unproductive assets	**1**	7	**1**	7
Total off-balance sheet impaired assets	**8**	7	**8**	7
Interest foregone on impaired assets[1]				
Gross interest receivable on impaired loans	**15**	10	**14**	8
Interest received	**–**	(6)	**–**	(6)
Discount unwind[2]	**(7)**	–	**(7)**	–
Net interest foregone on impaired loans	**8**	4	**7**	2

[1]Interest foregone is the amount of interest income that would have been recorded had interest been accrued. It has been estimated using average rates for a range of facilities.

[2]Under NZ IFRS from 1 October 2005 the impairment loss on an impaired loan is calculated as the difference between the asset's carrying amount and the estimated cash flows discounted to their present value. As this discount unwinds during the year between recognition of impairment and recovery of the written down amount, it is recognised in the income statement as interest income. The comparatives do not reflect this change and represent interest received.

15. PROVISION FOR CREDIT IMPAIRMENT

	Consolidated		Parent	
	30/09/2006 $m	30/09/2005 $m	**30/09/2006 $m**	30/09/2005 $m
Collective provision				
Balance at beginning of the year	**568**	560	**565**	550
Adjustment on adoption of NZ IAS 39 on 1 October 2005	**(154)**	–	**(197)**	–
Transfer to held for sale assets	**(2)**	–	**–**	–
(Credit) charge to income statement – continuing operations	**(10)**	121	**(4)**	110
Charge to income statement – discontinuing operations	**–**	1	**–**	–
Transfer to individual provision[1]	**–**	(135)	**–**	(114)
Recoveries	**–**	21	**–**	19
Balance at end of the year	**402**	568	**364**	565
Individual provision (impaired assets)				
Balance at beginning of the year	**98**	73	**81**	61
Adjustment on adoption of NZ IAS 39 on 1 October 2005	**(6)**	–	**(6)**	–
Transfer to held for sale assets	**(1)**	–	**–**	–
Transfers from subsidiary company	**–**	–	**7**	–
Charge to income statement – continuing operations	**28**	–	**20**	–
Charge to income statement – discontinuing operations	**1**	–	**–**	–
Recoveries	**22**	–	**20**	–
Bad debts written off	**(77)**	(110)	**(64)**	(94)
Discount unwind[2]	**(7)**	–	**(7)**	–
Transfer from collective provision[1]	**–**	135	**–**	114
Balance at end of the year	**58**	98	**51**	81
Total provision for credit impairment	**460**	666	**415**	646

Total provision for credit impairment has been deducted from gross loans and advances.

	Consolidated		Parent	
	30/09/2006 $m	30/09/2005 $m	**30/09/2006 $m**	30/09/2005 $m
Provision movement analysis				
New and increased provisions	**91**	157	**80**	142
Provision releases	**(41)**	(21)	**(40)**	(19)
	50	136	**40**	123
Recoveries	**(22)**	(21)	**(20)**	(19)
Individual provision charge	**28**	115	**20**	104
Collective provision (credit) charge	**(10)**	6	**(4)**	6
Provision for credit impairment – continuing operations	**18**	121	**16**	110
Provision for credit impairment – discontinued operations	**1**	1	**–**	–
Provision for credit impairment	**19**	122	**16**	110

[1]Under NZ IFRS, there is no transfer between the collective and individual provisions from 1 October 2005, due to the change in impairment methodology from this date.

[2]Under NZ IFRS from 1 October 2005 the impairment loss on an impaired loan is calculated 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 year between recognition of impairment and recovery of the written down amount, it is recognised in the income statement as interest income.

16. INVESTMENT IN CONTROLLED ENTITIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	Consolidated		Parent	
	30/09/2006 $m	30/09/2005 $m	**30/09/2006 $m**	30/09/2005 $m
Shares in controlled entities				
Unquoted at cost	**–**	–	**7,490**	7,329
Shares in associates				
Unquoted at cost plus equity accounted adjustments	**3**	13	**3**	3
Shares in jointly controlled entities				
Unquoted at cost plus equity accounted adjustments	**174**	145	**191**	164
Total shares in controlled entities, associates and jointly controlled entities	**177**	158	**7,684**	7,496
Shares in associates comprises:				
Balance at beginning of the year	**13**	21	**3**	2
Acquisitions	**–**	2	**–**	2
Share of profit of equity accounted associates	**–**	1	**–**	–
Disposals	**(10)**	(4)	**–**	–
Impairment writedown	**–**	(7)	**–**	(1)
Balance at end of the year	**3**	13	**3**	3

Shares in associates at 30 September 2006 includes goodwill of $nil (30/09/2005 $nil).

	Consolidated		Parent	
Shares in jointly controlled entities comprise:				
Balance at beginning of the year	**145**	–	**164**	–
Acquisitions	**7**	164	**5**	164
Unrecognised gain on disposal of insurance and funds management activities	**–**	(19)	**–**	–
Share of profit of equity accounted jointly controlled entities	**22**	–	**22**	–
Balance at end of the year	**174**	145	**191**	164

Shares in jointly controlled entities at 30 September 2006 includes goodwill of $90 million (30/09/2005 $90 million).

17. OTHER ASSETS

	Consolidated 30/09/2006 $m	Consolidated 30/09/2005 $m	Parent 30/09/2006 $m	Parent 30/09/2005 $m
Accrued interest and prepaid discounts	**443**	201	**383**	162
Accrued commission	**103**	76	**100**	75
Defined benefit superannuation schemes surplus	**6**	8	**6**	8
Share-based payments asset	**36**	10	**36**	10
Prepaid expenses	**25**	81	**18**	78
Security settlements	**310**	448	**310**	448
Other assets	**59**	121	**36**	74
Total other assets	**982**	945	**889**	855

18. DEFERRED TAX ASSETS

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Deferred tax assets				
Balance at beginning of the year	**415**	406	**395**	384
Adjustment on adoption of NZ IAS 39 on 1 October 2005	**(30)**	–	**(43)**	–
Transfer from deferred tax liabilities	**(6)**	–	**(6)**	–
Transfer to held for sale assets	**(6)**	–	**–**	–
(Charged) credited to income statement – continuing operations	**(41)**	9	**(39)**	11
Balance at end of the year	**332**	415	**307**	395
Deferred tax assets comprise the following temporary differences:				
Provision for credit impairment	**152**	219	**137**	213
Deferred fee revenue and expenses	**5**	–	**5**	–
Premises and equipment	**4**	4	**(1)**	4
Software	**32**	18	**31**	18
Provisions and accruals	**99**	99	**95**	87
Derivative financial instruments	**9**	29	**9**	29
Other	**31**	46	**31**	44
Total deferred tax assets	**332**	415	**307**	395
The deferred tax (charged) credited to the income statement comprises the following temporary differences:				
Provision for credit impairment	**(14)**	11	**(9)**	12
Deferred fee revenue and expenses	**(4)**	–	**(3)**	–
Premises and equipment	**(2)**	(4)	**(6)**	(3)
Software	**16**	(4)	**15**	(4)
Provisions and accruals	**6**	15	**8**	12
Derivative financial instruments	**(30)**	(6)	**(30)**	(5)
Other	**(13)**	(3)	**(14)**	(1)
Total deferred tax (charged) credited to the income statement – continuing operations	**(41)**	9	**(39)**	11

There was no deferred tax asset charged or credited to equity as at 30 September 2006 (30/09/2005 $nil).

There were no unrecognised deferred tax assets as at 30 September 2006 (30/09/2005 $nil).

19. PREMISES AND EQUIPMENT

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Freehold and leasehold land and buildings				
At cost	**68**	68	**–**	3
Accumulated depreciation	**(11)**	(10)	**–**	–
Total carrying amount	**57**	58	**–**	3
Leasehold improvements				
At cost	**98**	96	**3**	75
Accumulated depreciation	**(71)**	(68)	**(2)**	(54)
Total carrying amount	**27**	28	**1**	21
Operating lease assets				
At cost	**–**	709	**–**	–
Accumulated depreciation	**–**	(225)	**–**	–
Total carrying amount	**–**	484	**–**	–
Furniture and equipment				
At cost	**233**	221	**19**	87
Accumulated depreciation	**(158)**	(155)	**(12)**	(57)
Total carrying amount	**75**	66	**7**	30
Computer and office equipment				
At cost	**238**	263	**198**	222
Accumulated depreciation	**(193)**	(207)	**(164)**	(177)
Total carrying amount	**45**	56	**34**	45
Work in progress	**36**	26	**17**	15
Total premises and equipment	**240**	718	**59**	114

19. PREMISES AND EQUIPMENT (continued)

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Reconciliation 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	**58**	57	**3**	2
Additions	**–**	1	**–**	1
Transfers to subsidiary company	**–**	–	**(3)**	–
Depreciation	**(1)**	–	**–**	–
Balance at end of the year	**57**	58	**–**	3
Leasehold improvements				
Balance at beginning of the year	**28**	22	**21**	16
Additions	**6**	14	**–**	7
Transfer to held for sale assets	**(1)**	–	**–**	–
Transfers to subsidiary company	**–**	–	**(19)**	–
Depreciation	**(6)**	(8)	**(1)**	(2)
Balance at end of the year	**27**	28	**1**	21
Operating lease assets				
Balance at beginning of the year	**484**	419	**–**	–
Additions	**176**	189	**–**	–
Transfer to held for sale assets	**(485)**	–	**–**	–
Disposals	**(85)**	(49)	**–**	–
Depreciation	**(90)**	(75)	**–**	–
Balance at end of the year	**–**	484	**–**	–
Furniture and equipment				
Balance at beginning of the year	**66**	59	**30**	23
Additions	**22**	18	**2**	12
Transfers to subsidiary company	**–**	–	**(22)**	–
Depreciation	**(13)**	(11)	**(3)**	(5)
Balance at end of the year	**75**	66	**7**	30
Computer and office equipment				
Balance at beginning of the year	**56**	69	**45**	61
Additions	**14**	13	**10**	8
Disposals	**(2)**	–	**(1)**	–
Depreciation	**(23)**	(26)	**(20)**	(24)
Balance at end of the year	**45**	56	**34**	45
Work in progress				
Balance at beginning of the year	**26**	13	**15**	6
Transfers to subsidiary company	**–**	–	**(11)**	–
Net additions	**10**	13	**13**	9
Balance at end of the year	**36**	26	**17**	15
Total premises and equipment	**240**	718	**59**	114

20. GOODWILL AND OTHER INTANGIBLE ASSETS

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Goodwill				
Gross carrying amount				
Balance at beginning of the year	**3,263**	3,544	**3,217**	3,378
Adjustment on adoption of NZ IFRS on 1 October 2004	**–**	(163)	**–**	(43)
Adjusted gross carrying amount	**3,263**	3,381	**3,217**	3,335
Additions	**3**	–	**–**	4
Derecognised on disposal	**–**	(113)	**–**	(117)
Reversal of goodwill recognised on acquisition	**–**	(5)	**–**	(5)
Transfer to held for sale assets	**(1)**	–	**–**	–
Balance at end of the year	**3,265**	3,263	**3,217**	3,217
Software				
Gross carrying amount				
Balance at beginning of the year	**41**	57	**41**	57
Additions from internal developments	**10**	–	**9**	–
Disposals	**–**	(16)	**–**	(16)
Balance at end of the year	**51**	41	**50**	41
Accumulated amortisation				
Balance at beginning of the year	**(25)**	(26)	**(25)**	(26)
Amortisation expense[1]	**(7)**	(9)	**(7)**	(9)
Disposals	**–**	10	**–**	10
Balance at end of the year	**(32)**	(25)	**(32)**	(25)
Total software	**19**	16	**18**	16
Other intangible assets	**4**	–	**4**	–
Total goodwill and other intangible assets	**3,288**	3,279	**3,239**	3,233

No impairment losses have been recognised against the gross carrying amount of goodwill, software and other intangible assets for the year ended 30 September 2006 (30/09/2005 $nil).

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

21. DUE TO OTHER FINANCIAL INSTITUTIONS

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Australia and New Zealand Banking Group Limited (Ultimate Parent Company)	**1,082**	1,134	**–**	–
Other financial institutions	**2,905**	3,070	**2,828**	2,151
Total due to other financial institutions	**3,987**	4,204	**2,828**	2,151

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

22. DEPOSITS AND OTHER BORROWINGS[1]

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Amortised cost				
Certificates of deposit	**3,941**	4,652	**3,941**	4,652
Term deposits	**26,293**	22,957	**26,293**	22,957
Demand deposits bearing interest	**19,856**	16,324	**19,441**	16,324
Deposits not bearing interest	**3,919**	4,026	**3,919**	4,026
Commercial paper	**–**	9,255	**–**	–
Secured debenture stock	**2,077**	2,132	**–**	–
Secured deposits	**200**	200	**–**	–
Total deposits and other borrowings – recognised at amortised cost	**56,286**	59,546	**53,594**	47,959
Fair value through the profit or loss				
Commercial paper	**6,890**	–	**–**	–
Total deposits and other borrowings – recognised at fair value	**6,890**	–	**–**	–
Total deposits and other borrowings	**63,176**	59,546	**53,594**	47,959

UDC Finance Limited secured debentures

Registered secured debenture stock is constituted and secured by trust deeds between certain companies within the UDC Group and independent trustees. The trust deeds create floating charges over all the assets, primarily loans and advances and operating lease assets, of those companies. The book value of total tangible assets as at 30 September 2006 was $2,382 million (30/09/2005 $2,461 million).

Commercial paper

Commercial paper issued by ANZ National (Int'l) Limited is guaranteed by the Bank.

All changes in the fair value of commercial paper is attributable to changes in the benchmark interest rates.

The principal at maturity of commercial paper at fair value through the profit and loss is $6,995 million.

[1]Adoption of NZ IAS 39 on 1 October 2005

With effect from 1 October 2005, commercial paper has been recognised at fair value, with fair value movements recognised in the income statement.

23. PAYABLES AND OTHER LIABILITIES

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Creditors	**68**	110	**45**	93
Accrued interest and unearned discounts	**546**	472	**416**	390
Share-based payments liability	**33**	4	**33**	4
Accrued charges	**166**	166	**160**	152
Security settlements	**184**	618	**184**	618
Equitable assignment of mortgages	**44**	59	**44**	59
Other liabilities	**199**	160	**133**	98
Total payables and other liabilities	**1,240**	1,589	**1,015**	1,414

24. DEFERRED TAX LIABILITIES

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Provision for deferred income tax				
Balance at beginning of the year	**150**	112	**120**	84
Adjustment on transition to NZ IFRS on 1 October 2004	**–**	3	**–**	3
Adjustment on adoption of NZ IAS 39 on 1 October 2005	**21**	–	**21**	–
Transfer to deferred tax assets	**(6)**	–	**(6)**	–
Transfer to held for sale liabilities	**(29)**	–	**–**	–
Charged to income statement – continuing operations	**60**	33	**61**	31
Charged to income statement – discontinuing operations	**8**	–	**–**	–
Charged directly to equity	**6**	2	**6**	2
Balance at end of the year	**210**	150	**202**	120
Deferred income tax liabilities comprise the following temporary differences:				
Lease finance	**90**	72	**82**	42
Share compensation	**4**	4	**4**	4
Defined benefit schemes	**2**	2	**2**	2
Other	**114**	72	**114**	72
Total deferred tax liabilities	**210**	150	**202**	120
The deferred tax charged (credited) to the income statement comprises the following temporary differences:				
Lease finance	**39**	25	**40**	22
Share compensation	**–**	2	**–**	2
Defined benefit schemes	**(1)**	(1)	**(1)**	(1)
Other	**22**	7	**22**	8
Total deferred tax charged to the income statement – continuing operations	**60**	33	**61**	31
The deferred tax charged to equity comprises the following temporary differences:				
Defined benefit schemes	**–**	2	**–**	2
Cash flow hedges	**6**	–	**6**	–
Total deferred tax charged directly to equity	**6**	2	**6**	2

25. PROVISIONS

	Consolidated		Parent	
	30/09/2006 $m	30/09/2005 $m	**30/09/2006 $m**	30/09/2005 $m
Non-lending losses, frauds and forgeries	**4**	3	**4**	3
Employee entitlements (Note 1)				
Balance at beginning of the year	**109**	90	**107**	89
New provisions	**52**	38	**50**	36
Provisions utilised	**(53)**	(19)	**(51)**	(18)
Transfer to held for sale liabilities	**(1)**	–	**–**	–
Balance at end of the year	**107**	109	**106**	107
Personnel restructuring costs (Note 2)				
Balance at beginning of the year	**6**	11	**6**	11
Fair value adjustment on acquisition of subsidiaries	**–**	(2)	**–**	(2)
New provisions	**8**	3	**8**	3
Provisions utilised	**(4)**	(4)	**(4)**	(4)
Unused amounts reversed	**(1)**	(2)	**(1)**	(2)
Balance at end of the year	**9**	6	**9**	6
Redundant assets restructuring costs (Note 2)				
Balance at beginning of the year	**16**	29	**13**	22
Fair value adjustment on acquisition of subsidiaries	**–**	(3)	**–**	(3)
New provisions	**1**	2	**1**	2
Provisions utilised	**(4)**	(8)	**(3)**	(5)
Unused amounts reversed	**(8)**	(4)	**(9)**	(3)
Balance at end of the year	**5**	16	**2**	13
Other provisions	**10**	8	**10**	8
Total provisions	**135**	142	**131**	137

Note 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 accrues.

Note 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 provisions recognised at 30 September 2006 are expected to be settled over the 2007 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.

26. BONDS AND NOTES

					Consolidated		Parent	
					30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
					$m	$m	**$m**	$m
Issued by ANZ National Bank Limited								
Denomination	**Face value**		**Maturity**	**Interest rate %**				
USD	300m	floating rate bond	2006	LIBOR + 0.05%	**–**	433	**–**	433
NZD	150m	fixed rate notes	2009	6.82%	**150**	–	**150**	–
NZD	150m	fixed rate notes	2011	6.80%	**150**	–	**150**	–
Other bonds and notes[1]					**175**	172	**175**	171
					475	605	**475**	604
Issued by ANZ National (Int'l) Limited								
Denomination	**Face value**		**Maturity**	**Interest rate %**				
HKD	156m	floating rate notes	2006	HIBOR + 0.1125%	**–**	29	**–**	–
HKD	260m	fixed rate notes	2006	2.56%	**–**	48	**–**	–
USD	10m	fixed rate notes	2006	4.045%	**–**	14	**–**	–
USD	50m	floating rate notes	2006	LIBOR – 0.11%	**–**	72	**–**	–
HKD	234m	fixed rate notes	2006	4.95%	**46**	44	**–**	–
GBP	100m	floating rate notes	2007	GBP LIBOR – 0.03%	**288**	254	**–**	–
GBP	250m	floating rate notes[2]	2007	LIBOR – 0.01%	**719**	–	**–**	–
USD	100m	floating rate notes	2007	LIBOR – 0.10%	**153**	–	**–**	–
EUR	25m	floating rate notes	2007	EURIBOR – 0.08%	**49**	–	**–**	–
EUR	100m	floating rate notes	2008	EURIBOR + 0.02%	**195**	174	**–**	–
GBP	300m	floating rate notes	2008	GBP LIBOR + 0.01%	**863**	–	**–**	–
HKD	80m	fixed rate notes	2008	3.93%	**16**	15	**–**	–
NZD	150m	fixed rate notes	2008	6.50%	**150**	100	**–**	–
USD	27.02m	fixed rate notes[3]	2008	3.50%	**41**	39	**–**	–
USD	250m	fixed rate notes	2008	4.265%	**383**	361	**–**	–
USD	750m	floating rate notes	2008	LIBOR + 0.07%	**1,149**	1,082	**–**	–
GBP	40m	floating rate notes	2008	GBP LIBOR – 0.065%	**115**	–	**–**	–
JPY	9,000m	floating rate notes	2008	JPY LIBOR	**117**	–	**–**	–
EUR	750m	floating rate notes	2009	EURIBOR + 0.12%	**1,461**	1,304	**–**	–
HKD	1,000m	fixed rate notes	2009	4.40%	**197**	186	**–**	–
NZD	150m	floating rate notes	2009	BKBM + 0.10%	**150**	150	**–**	–
HKD	300m	fixed rate notes	2009	4.93%	**59**	–	**–**	–
USD	700m	floating rate notes	2009	LIBOR + 0.04%	**1,073**	–	**–**	–
USD	50m	floating rate notes	2009	LIBOR + 0.04%	**77**	–	**–**	
NZD	20m	floating rate notes	2009	BKBM + 0.05%	**20**	–	**–**	–
HKD	130m	floating rate notes[4]	2010	HIBOR + 0.46%	**26**	–	**–**	–
HKD	150m	floating rate notes[5]	2010	HIBOR + 0.60%	**30**	28	**–**	–
HKD	190m	floating rate notes[6]	2010	HIBOR + 0.60%	**37**	35	**–**	–
HKD	200m	floating rate notes[7]	2010	HIBOR + 0.60%	**39**	37	**–**	–
HKD	200m	floating rate notes[8]	2010	HIBOR + 0.405%	**39**	–	**–**	–
USD	750m	floating rate notes	2010	LIBOR + 0.11%	**1,149**	1,082	**–**	–
USD	1,500m	floating rate notes[9]	2010	1 month LIBOR – 0.02%	**2,297**	–	**–**	–
USD	75m	fixed rate notes[10]	2011	5.182%	**115**	–	**–**	–
USD	300m	fixed rate notes	2011	5.50%	**460**	–	**–**	–
					11,513	5,054	**–**	–
Issued by NBNZ Holdings Limited								
Denomination	**Face value**		**Maturity**	**Interest rate %**				
NZD	480m	floating rate notes[11]	2008	BKBM	**480**	480	**–**	–
Total bonds and notes					**12,468**	6,139	**475**	604
Included within bonds and notes is the following related party balance:								
Australia and New Zealand Banking Group Limited (Ultimate Parent Company)					**719**	**–**	**–**	–

[1]Other bonds and notes includes index linked notes, equity linked notes and other fixed rate and fixed term bonds.
[2]These notes were issued to Australia and New Zealand Banking Group Limited.
[3]The interest rate payable on these notes is stepped as follows: Year 1 3.00%, Year 2 3.25%, Year 3 3.50%, Year 4 4.25% and Year 5 5.00%. The issuer may elect to redeem the notes annually from May 2004.
[4]The interest rate payable on these notes is stepped as follows: Year 1 HIBOR + 0.46%, Years 2 – 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 4.60% after Year 1 and stepping up 0.25% every 6 months. The issuer exercised their option to call the note on 6 October 2006.
[5]The interest rate payable on these notes is stepped as follows: Year 1 3.77%, Years 2 – 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 3.75% after Year 1 and stepping up 0.25% every 6 months. The issuer has the right to redeem the notes on every coupon date from 28 April 2006.
[6]The interest rate payable on these notes is stepped as follows: Year 1 3.77%, Years 2 – 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 3.75% after Year 1 and stepping up 0.25% every 6 months. The issuer has the right to redeem the notes on every coupon date from 28 April 2006.
[7]The interest rate payable on these notes is stepped as follows: Year 1 HIBOR + 1.26%, Years 2 – 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 4.00% after Year 1 and stepping up 0.25% every 6 months. The issuer has the right to redeem the notes on every coupon date from 26 May 2006.
[8]The interest rate payable on these notes is stepped as follows: Year 1 HIBOR + 0.405%, Years 2 – 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 4.60% after Year 1 and stepping up 0.25% every 6 months. The issuer exercised their option to call the note on 6 October 2006.
[9]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 investor may elect to extend the maturity of the notes for a year on a monthly basis.
[10]These notes can be redeemed at the option of the issuer on 1 February 2007.
[11]These notes can be redeemed by giving not less than 30 days notice by the note holder.

Bonds and notes issued by ANZ National (Int'l) Limited are guaranteed by the Bank.

27. RELATED PARTY FUNDING

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
ANZ Holdings (New Zealand) Limited (Parent Company)	**2,720**	2,650	**2,720**	2,650

The following amounts have been provided by the Parent Company:

Date advanced	*Underlying currency*
September 2003	AUD 1,000,000,000
November 2003	USD 1,100,000,000

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. The New Zealand dollar equivalents of the AUD and USD funds have been hedged by the Parent Company until 17 September 2007 and 15 December 2006 respectively.

28. LOAN CAPITAL

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
AUD 207,450,000 term subordinated floating rate loan	**238**	228	**238**	228
AUD 265,740,000 perpetual subordinated floating rate loan	**304**	292	**304**	292
AUD 186,100,000 term subordinated floating rate loan	**213**	205	**213**	205
AUD 43,767,507 term subordinated floating rate loan	**50**	–	**50**	–
NZD term subordinated fixed rate bonds	**1,000**	750	**1,000**	750
Total loan capital	**1,805**	1,475	**1,805**	1,475
Included within loan capital is the following related party balance:				
Australia and New Zealand Banking Group Limited (Ultimate Parent Company)	**805**	725	**805**	725

AUD 207,450,000 loan
This loan was drawn down on 31 August 2004 and has an ultimate maturity date of 31 August 2014. The Bank may elect to repay the loan on 31 August each year commencing from 2009 through to 2014. All interest is payable half yearly in arrears, with interest payments due 28 February and 31 August. Interest is based on BBSW + 0.40% p.a. up until, and including, 31 August 2009 and increases to BBSW + 0.90% p.a. thereafter.

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.

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

New Zealand Exchange listed bonds

Issue date	*Amount $m*	*Coupon rate*	*Call date*	*Maturity date*
23 July 2002	300	7.04%	23 July 2007	23 July 2012
15 September 2006	350	7.16%	15 September 2011	15 September 2016

The Bank may elect to redeem the bonds on their call date. If the bonds are not called they will continue to pay interest to maturity at the five year interest rate swap rate plus 0.80% p.a. and 0.75%p.a for the $300m and $350m bonds, respectively. Interest is payable half yearly in arrears based on the fixed coupon rate.

As at 30 September 2006 these bonds carried an A+ rating by Standard & Poor's.

These 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.

Non listed bonds

Issue date	*Amount $m*	*Coupon rate*	*Call date*	*Maturity date*
15 March 2002	125	7.61%	16 April 2007	16 April 2012
15 July 2002	125	7.40%	17 September 2007	17 September 2012
20 February 2003	100	6.46%	20 August 2008	20 August 2013
	350			

The Bank may elect to redeem the bonds on their call date. If the bonds are not called they will continue to pay interest to maturity at the five year interest rate swap rate plus 1.00% p.a., apart from the 20 August 2013 bonds, which will continue to pay interest to maturity at the five year interest rate swap rate plus 0.97% p.a. Interest is payable half yearly in arrears based on the fixed coupon rate. On 18 April 2006, the Bank redeemed bonds with face value of $100 million and a coupon rate of 6.87%.

As at 30 September 2006 these bonds carried an A+ rating by Standard & Poor's.

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.

29. ORDINARY SHARE CAPITAL

	Consolidated		Parent	
	Number of Issued Shares	Number of Issued Shares	**Number of Issued Shares**	Number of Issued Shares
Ordinary shares at beginning and end of the year	**700,755,498**	700,755,498	**700,755,498**	700,755,498

	Consolidated		Parent	
	30/09/2006 $m	30/09/2005 $m	**30/09/2006 $m**	30/09/2005 $m
Ordinary share capital at beginning and end of the year	**5,943**	5,943	**5,943**	5,943

The authorised share capital of the Bank comprises 700,755,498 ordinary shares.
At beginning and end of the year 650,712 ordinary shares were uncalled (30/09/2005 650,712 shares).

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.

30. RESERVES AND RETAINED PROFITS

	Consolidated		Parent	
	30/09/2006 $m	30/09/2005 $m	**30/09/2006 $m**	30/09/2005 $m
Available-for-sale revaluation reserve				
Adjustment on adoption of NZ IAS 39 on 1 October 2005	**–**	–	**–**	–
Valuation gain recognised after tax	**3**	–	**3**	–
Balance at end of the year	**3**	–	**3**	–
Cash flow hedging reserve				
Adjustment on adoption of NZ IAS 39 on 1 October 2005	**40**	–	**40**	–
Valuation gain recognised after tax	**12**	–	**12**	–
Balance at end of the year	**52**	–	**52**	–
Total reserves	**55**	–	**55**	–
Retained profits				
Balance at beginning of the year	**2,003**	1,438	**851**	659
Adjustment on transition to NZ IFRS on 1 October 2004	**–**	4	**–**	4
Adjustment on adoption of NZ IAS 39 on 1 October 2005	**61**	–	**90**	–
Profit after income tax	**1,072**	917	**611**	544
Total available for appropriation	**3,136**	2,359	**1,552**	1,207
Actuarial (loss) gain on defined benefit schemes after tax	**(1)**	4	**(1)**	4
Interim ordinary dividends paid	**(900)**	(360)	**(900)**	(360)
Balance at end of the year	**2,235**	2,003	**651**	851

The dividend on ordinary shares was $1.28 per share (30/09/2005 $0.51 per share).

31. CAPITAL ADEQUACY

	Consolidated		Parent	
	NZ IFRS 30/09/2006	Previous GAAP[1] 30/09/2005	NZ IFRS 30/09/2006	Previous GAAP[1] 30/09/2005
Capital Adequacy Ratios				
Tier 1 Capital	**7.34%**	7.84%	**6.96%**	7.66%
Total Capital	**10.14%**	10.40%	**8.80%**	9.17%
Reserve Bank of New Zealand minimum ratios:				
Tier 1 Capital	**4.00%**	4.00%	**4.00%**	4.00%
Total Capital	**8.00%**	8.00%	**8.00%**	8.00%

The information contained in the table below has been derived in accordance with the Conditions of Registration imposed pursuant to section 74 (4) (b) of the Reserve Bank of New Zealand Act 1989 and the capital adequacy framework issued by the Reserve Bank of New Zealand.

For the purposes of calculating the capital adequacy ratios for the Parent Bank ("solo basis"), wholly owned and wholly funded subsidiaries of ANZ National Bank Limited are consolidated with the Bank. In this context, wholly funded by the Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Department of Inland Revenue and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity. Wholly owned by the Bank means that all equity issued by the subsidiary is held by the Bank.

	Consolidated		Parent	
	NZ IFRS 30/09/2006 $m	Previous GAAP[1] 30/09/2005 $m	NZ IFRS 30/09/2006 $m	Previous GAAP[1] 30/09/2005 $m
Tier 1 Capital				
Ordinary share capital	**5,943**	5,943	**5,943**	5,943
Revenue and similar reserves	**1,218**	1,078	**979**	826
Current year's profit after tax	**1,072**	735	**1,001**	717
Less deductions from Tier 1 Capital				
– Goodwill	**3,266**	3,081	**3,262**	3,072
– Other intangible assets	**23**	–	**22**	–
– Equity investment in ING NZ	**167**	145	**167**	145
– Cash flow hedging reserve	**52**	–	**52**	–
Total Tier 1 Capital	**4,725**	4,530	**4,420**	4,269
Tier 2 Capital – Upper Level Tier 2 Capital				
Perpetual subordinated debt	**304**	292	**304**	292
Tier 2 Capital – Lower Level Tier 2 Capital				
Term subordinated debt	**1,501**	1,183	**1,501**	1,183
Total Tier 2 Capital	**1,805**	1,475	**1,805**	1,475
Total Tier 1 Capital Plus Tier 2 Capital	**6,530**	6,005	**6,225**	5,744
Less deductions from Total Capital				
– Equity investments in subsidiaries	**–**	–	**642**	637
– Revaluation losses on security holdings	**–**	1	**–**	1
Capital	**6,530**	6,004	**5,583**	5,106
Total risk-weighted exposures				
On-balance sheet exposures	**60,160**	54,624	**59,283**	52,608
Off-balance sheet exposures	**4,223**	3,124	**4,185**	3,087
	64,383	57,748	**63,468**	55,695

[1]2005 comparative figures are calculated based on previous NZ GAAP prior to adoption of NZ IFRS. The impacts of adopting NZ IFRS have not been retrospectively applied.

31. CAPITAL ADEQUACY (continued)

Total Risk Weighted Exposures of the Banking Group as at 30 September 2006:

On-balance sheet exposures	Principal Amount $m	Risk Weight %	Risk Weighted $m
Cash and short term claims on Government	2,328	0	–
Long term claims on Government	824	10	82
Claims on banks	6,481	20	1,296
Claims on public sector entities	425	20	85
Residential mortgages	43,526	50	21,763
Other	36,934	100	36,934
Total on-balance sheet exposures	90,518		60,160

Off-balance sheet exposures	Notional Principal Amount $m	Credit Conversion Factor %	Credit Equivalent Amount $m	Average Risk Weight %	Risk Weighted $m
Direct credit substitutes	2,056	100	2,056	46	946
Commitments with certain drawdown	1,259	100	1,259	61	771
Transaction related contingent liabilities	376	50	188	100	188
Short term self liquidating trade related contingencies	89	20	18	94	17
Other commitments to provide financial services which have an original maturity of one year or more	2,351	50	1,175	100	1,175
Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time	17,987	0	–	100	–
Market related contracts[1]					
– Foreign exchange	73,017		2,840	26	745
– Interest rate	253,530		1,665	23	377
– Equity	30		22	20	4
Total off-balance sheet exposures	350,695		9,223		4,223

[1]The credit equivalent amounts for market related contracts are calculated using the current exposure method.

31. CAPITAL ADEQUACY (continued)

Total Risk Weighted Exposures of the Banking Group as at 30 September 2005:

On-balance sheet exposures	Principal Amount $m	Risk Weight %	Risk Weighted $m
Cash and short term claims on Government	1,810	0	–
Long term claims on Government	623	10	62
Claims on banks	5,821	20	1,164
Claims on public sector entities	345	20	69
Residential mortgages	38,402	50	19,201
Other	34,128	100	34,128
Total on-balance sheet exposures	81,129		54,624

Off-balance sheet exposures	Notional Principal Amount $m	Credit Conversion Factor %	Credit Equivalent Amount $m	Average Risk Weight %	Risk Weighted $m
Direct credit substitutes	1,623	100	1,623	44	721
Commitments with certain drawdown	1,120	100	1,120	65	726
Transaction related contingent liabilities	306	50	153	100	153
Short term self liquidating trade related contingencies	236	20	47	89	42
Other commitments to provide financial services which have an original maturity of one year or more	1,339	50	669	100	669
Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time	16,295	0	–	100	–
Market related contracts[1]					
– Foreign exchange	59,391		2,082	26	547
– Interest rate	150,492		1,104	24	263
– Equity	39		15	20	3
Total off-balance sheet exposures	230,841		6,813		3,124

[1]The credit equivalent amounts for market related contracts are calculated using the current exposure method.

31. CAPITAL ADEQUACY (continued)

Total Risk Weighted Exposures of the Parent Bank as at 30 September 2006:

On-balance sheet exposures	Principal Amount $m	Risk Weight %	Risk Weighted $m
Cash and short term claims on Government	2,028	0	–
Long term claims on Government	824	10	82
Claims on banks	5,950	20	1,190
Claims on public sector entities	425	20	85
Residential mortgages	43,526	50	21,763
Other	36,163	100	36,163
Total on-balance sheet exposures	88,916		59,283

Off-balance sheet exposures	Notional Principal Amount $m	Credit Conversion Factor %	Credit Equivalent Amount $m	Average Risk Weight %	Risk Weighted $m
Direct credit substitutes	2,056	100	2,056	46	946
Commitments with certain drawdown	1,221	100	1,221	60	733
Transaction related contingent liabilities	376	50	188	100	188
Short term self liquidating trade related contingencies	87	20	17	97	17
Other commitments to provide financial services which have an original maturity of one year or more	2,351	50	1,175	100	1,175
Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time	17,805	0	–	100	–
Market related contracts[1]					
– Foreign exchange	73,016		2,840	26	745
– Interest rate	253,122		1,665	23	377
– Equity	30		22	20	4
Total off-balance sheet exposures	350,064		9,184		4,185

[1]The credit equivalent amounts for market related contracts are calculated using the current exposure method.

31. CAPITAL ADEQUACY (continued)

Total Risk Weighted Exposures of the Parent Bank as at 30 September 2005:

On-balance sheet exposures	Principal Amount $m	Risk Weight %	Risk Weighted $m
Cash and short term claims on Government	1,509	0	–
Long term claims on Government	623	10	62
Claims on banks	4,450	20	890
Claims on public sector entities	345	20	69
Residential mortgages	38,370	50	19,185
Other	32,402	100	32,402
Total on-balance sheet exposures	77,699		52,608

Off-balance sheet exposures	Notional Principal Amount $m	Credit Conversion Factor %	Credit Equivalent Amount $m	Average Risk Weight %	Risk Weighted $m
Direct credit substitutes	1,623	100	1,623	44	721
Commitments with certain drawdown	1,085	100	1,085	64	690
Transaction related contingent liabilities	306	50	153	100	153
Short term self liquidating trade related contingencies	229	20	46	91	42
Other commitments to provide financial services which have an original maturity of one year or more	1,339	50	669	100	669
Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time	15,825	0	–	100	–
Market related contracts[1]					
– Foreign exchange	59,385		2,082	26	547
– Interest rate	149,456		1,102	24	262
– Equity	39		15	20	3
Total off-balance sheet exposures	229,287		6,775		3,087

[1]The credit equivalent amounts for market related contracts are calculated using the current exposure method.

32. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

By their nature, the Banking Group's activities are principally related to the use of financial instruments including derivatives. The Banking Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn an interest margin by investing these funds in high quality assets. The Banking Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Banking Group also seeks to raise its interest margins through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Banking Group also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Banking Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency and interest rate prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Credit Risk

The Banking Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Banking Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Banking Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a portion is personal lending (i.e. credit cards) where no such facilities can be obtained.

a) Derivatives

The Banking Group maintains strict control limits on net open derivatives positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Banking Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Banking Group requires margin deposits from counterparties.

b) Master netting arrangements

The Banking Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Banking Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

c) Credit–related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit (which represent irrecoverable assurances that the Banking Group will make payments in the event that a customer cannot meet its obligations to third parties) carry the same credit risk as loans. Documentary and commercial letters of credit (which are written undertakings by the Banking Group on behalf of a customer authorising a third party to draw drafts on the Banking Group up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Banking Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Banking Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Foreign currency related risk

The risk related to mismatching of non-traded foreign currency assets and liabilities is presented in Note 37 Foreign Currency Risk.

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The table below summarises the carrying amounts and fair values of each class of financial assets and liabilities. The methods and significant assumptions applied in determining fair values are outlined on the following page.

	30/09/2006		30/09/2005	
Consolidated	**Carrying Amount $m**	**Fair Value $m**	Carrying Amount $m	Fair Value $m
Financial assets				
Liquid assets	**2,698**	**2,698**	1,857	1,857
Due from other financial institutions	**5,617**	**5,617**	5,472	5,471
Trading securities	**1,596**	**1,596**	912	912
Derivative financial instruments	**2,020**	**2,020**	1,270	1,270
Investment securities	**–**	**–**	1,270	1,270
Available-for-sale assets	**359**	**359**	–	–
Net loans and advances[1]	**78,063**	**77,786**	69,139	68,957
Other financial assets	**915**	**915**	846	846
Total financial assets	**91,268**	**90,991**	80,766	80,583
Financial liabilities				
Due to other financial institutions	**3,987**	**3,987**	4,204	4,204
Deposits and other borrowings	**63,176**	**63,162**	59,546	59,504
Derivative financial instruments	**1,997**	**1,997**	1,660	1,660
Payables and other financial liabilities	**965**	**965**	1,354	1,354
Bonds and notes	**12,468**	**12,469**	6,139	6,139
Related party funding	**2,720**	**2,720**	2,650	2,650
Loan capital	**1,805**	**1,802**	1,475	1,474
Total financial liabilities	**87,118**	**87,102**	77,028	76,985
Parent				
Financial assets				
Liquid assets	**2,698**	**2,698**	1,857	1,857
Due from other financial institutions	**5,111**	**5,111**	4,056	4,055
Trading securities	**1,596**	**1,596**	912	912
Derivative financial instruments	**2,019**	**2,019**	1,246	1,246
Investment securities	**–**	**–**	1,270	1,270
Available-for-sale assets	**349**	**349**	–	–
Net loans and advances[1]	**74,361**	**74,100**	65,788	65,609
Due from subsidiary companies	**1,505**	**1,505**	1,430	1,430
Other financial assets	**829**	**829**	759	759
Total financial assets	**88,468**	**88,207**	77,318	77,138
Financial liabilities				
Due to other financial institutions	**2,828**	**2,828**	2,151	2,151
Deposits and other borrowings	**53,594**	**53,583**	47,959	47,927
Due to subsidiary companies	**28,648**	**28,656**	23,878	23,878
Derivative financial instruments	**1,992**	**1,992**	1,636	1,636
Payables and other financial liabilities	**755**	**755**	1,197	1,197
Bonds and notes	**475**	**472**	604	604
Related party funding	**2,720**	**2,720**	2,650	2,650
Loan capital	**1,805**	**1,802**	1,475	1,474
Total financial liabilities	**92,817**	**92,808**	81,550	81,517

[1]From 1 October 2005, a methodology change in the calculation of the fair value of net loans and advances has resulted in the collective provision being deducted from the discounted amount of estimated future cash flows to calculate fair value. Comparative information has been restated for this change, with the general provision being deducted in the fair value calculation.

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Methodologies

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 fair values are based on relevant information available as at balance date. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement, and changes in underlying assumptions could significantly affect these estimates. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

Liquid assets and due from other financial institutions

The carrying values of these financial instruments are considered to approximate their fair values.

Trading securities

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

Available-for-sale assets

Available-for-sale assets are carried at fair value. Fair value is based on quoted market prices, or broker or dealer price quotations. If this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Derivative financial instruments

Derivative financial instruments are carried at fair value. The fair values of derivative financial instruments such as interest rate swaps and currency swaps were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. Foreign exchange contracts and interest rate option contracts were valued using market prices and option valuation models as appropriate.

Loans and advances

The carrying value of net loans and advances includes deferred fees and expenses, and is net of provision for credit impairment and income yet to mature. The estimated fair value of net loans and advances is based on the discounted amount of estimated future cash flows and accordingly has been adjusted for provision for credit impairment.

Estimated contractual cash flows for performing loans are discounted at estimated current bank credit spreads to determine fair value. For loans with doubt as to collection, expected cash flows (inclusive of the value of security) are discounted using a rate which includes a premium for the uncertainty of the flows.

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

Other financial assets

The carrying value of accrued interest and fees receivable approximate their fair values, as they are short term in nature or are receivable on demand. Deferred tax assets and prepaid expenses are not considered financial assets.

Due to other financial institutions

The carrying value of amounts due to other financial institutions is considered to approximate their fair value.

Deposits and other borrowings

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.

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.

Creditors and other financial liabilities

This category includes accrued interest and fees payable for which the carrying amount is considered to approximate their fair value. Income tax liabilities, other provisions and accrued charges are not considered financial liabilities.

Bonds and notes, related party funding and loan capital

The fair value of bonds and notes and loan capital was 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 instrument was used. The carrying value of related party funding is considered to approximate their fair value.

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Liquidity risk is the risk that the Banking Group and Bank will encounter difficulty in meeting commitments associated with its financial liabilities, e.g. overnight deposits, current accounts, and maturing deposits; and future commitments, e.g. loan draw-downs and guarantees. The Banking Group manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitments based on historical and forecasted cash flow requirements.

The following maturity analysis of assets and liabilities has been prepared on the basis of the remaining period to contractual maturity as at balance date. The majority of the longer term loans and advances are housing loans, which are likely to be repaid earlier than their contractual terms. Deposits include substantial customer deposits which are repayable on demand. However, historical experience has shown such balances to provide a stable source of long term funding for the Banking Group. When managing liquidity risks, the Banking Group adjusts this contractual profile for expected customer behaviour.

Consolidated – 30/09/2006	**Total Carrying Value $m**	**Less Than 3 Months $m**	**3-12 Months $m**	**1-5 Years $m**	**Beyond 5 Years $m**	**No Specified Maturity $m**
Assets						
Liquid assets	**2,698**	**2,677**	**21**	**–**	**–**	**–**
Due from other financial institutions	**5,617**	**5,010**	**378**	**229**	**–**	**–**
Trading securities	**1,596**	**1,239**	**211**	**51**	**95**	**–**
Derivative financial instruments	**2,020**	**–**	**–**	**–**	**–**	**2,020**
Available-for-sale assets	**359**	**313**	**–**	**42**	**–**	**4**
Net loans and advances	**78,063**	**10,537**	**7,942**	**20,529**	**39,364**	**(309)**
Other assets	**5,671**	**535**	**–**	**–**	**–**	**5,136**
Total assets	**96,024**	**20,311**	**8,552**	**20,851**	**39,459**	**6,851**
Liabilities						
Due to other financial institutions	**3,987**	**3,987**	**–**	**–**	**–**	**–**
Deposits and other borrowings	**63,176**	**47,095**	**13,186**	**2,895**	**–**	**–**
Derivative financial instruments	**1,997**	**–**	**–**	**–**	**–**	**1,997**
Other liabilities	**1,638**	**53**	**–**	**–**	**–**	**1,585**
Bonds and notes	**12,468**	**111**	**725**	**11,632**	**–**	**–**
Related party funding	**2,720**	**2,720**	**–**	**–**	**–**	**–**
Loan capital	**1,805**	**–**	**550**	**951**	**304**	**–**
Total liabilities	**87,791**	**53,966**	**14,461**	**15,478**	**304**	**3,582**
Net liquidity gap	**8,233**	**(33,655)**	**(5,909)**	**5,373**	**39,155**	**3,269**
Net liquidity gap – cumulative	**8,233**	**(33,655)**	**(39,564)**	**(34,191)**	**4,964**	**8,233**

Consolidated – 30/09/2005						
Assets						
Liquid assets	1,857	1,857	–	–	–	–
Due from other financial institutions	5,472	3,888	182	219	1,183	–
Trading securities	912	585	151	175	1	–
Derivative financial instruments	1,270	–	–	–	–	1,270
Investment securities	1,270	827	375	20	48	–
Net loans and advances	69,139	11,044	3,292	20,488	34,768	(453)
Other assets	5,581	–	–	–	–	5,581
Total assets	85,501	18,201	4,000	20,902	36,000	6,398
Liabilities						
Due to other financial institutions	4,204	3,355	3	14	832	–
Deposits and other borrowings	59,546	48,501	9,783	1,262	–	–
Derivative financial instruments	1,660	–	–	–	–	1,660
Other liabilities	1,881	219	–	–	–	1,662
Bonds and notes	6,139	9	613	5,517	–	–
Related party funding	2,650	2,650	–	–	–	–
Loan capital	1,475	–	–	–	1,475	–
Total liabilities	77,555	54,734	10,399	6,793	2,307	3,322
Net liquidity gap	7,946	(36,533)	(6,399)	14,109	33,693	3,076
Net liquidity gap – cumulative	7,946	(36,533)	(42,932)	(28,823)	4,870	7,946

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

Parent – 30/09/2006	Total Carrying Value $m	Less Than 3 Months $m	3-12 Months $m	1-5 Years $m	Beyond 5 Years $m	No Specified Maturity $m
Assets						
Liquid assets	**2,698**	**2,677**	**21**	**–**	**–**	**–**
Due from other financial institutions	**5,111**	**4,728**	**378**	**5**	**–**	**–**
Trading securities	**1,596**	**1,239**	**211**	**51**	**95**	**–**
Derivative financial instruments	**2,019**	**–**	**–**	**–**	**–**	**2,019**
Available-for-sale assets	**349**	**313**	**–**	**32**	**–**	**4**
Net loans and advances	**74,361**	**10,311**	**7,483**	**17,502**	**39,344**	**(279)**
Due from subsidiary companies	**1,505**	**691**	**5**	**809**	**–**	**–**
Other assets	**12,420**	**–**	**–**	**–**	**–**	**12,420**
Total assets	**100,059**	**19,959**	**8,098**	**18,399**	**39,439**	**14,164**
Liabilities						
Due to other financial institutions	**2,828**	**2,828**	**–**	**–**	**–**	**–**
Deposits and other borrowings	**53,594**	**41,532**	**9,340**	**2,722**	**–**	**–**
Due to subsidiary companies	**28,648**	**13,580**	**3,376**	**11,692**	**–**	**–**
Derivative financial instruments	**1,992**	**–**	**–**	**–**	**–**	**1,992**
Other liabilities	**1,348**	**–**	**–**	**–**	**–**	**1,348**
Bonds and notes	**475**	**–**	**10**	**465**	**–**	**–**
Related party funding	**2,720**	**2,720**	**–**	**–**	**–**	**–**
Loan capital	**1,805**	**–**	**550**	**951**	**304**	**–**
Total liabilities	**93,410**	**60,660**	**13,276**	**15,830**	**304**	**3,340**
Net liquidity gap	**6,649**	**(40,701)**	**(5,178)**	**2,569**	**39,135**	**10,824**
Net liquidity gap – cumulative	**6,649**	**(40,701)**	**(45,879)**	**(43,310)**	**(4,175)**	**6,649**
Parent – 30/09/2005						
Assets						
Liquid assets	1,857	1,857	–	–	–	–
Due from other financial institutions	4,056	3,836	118	19	83	–
Trading securities	912	585	151	175	1	–
Derivative financial instruments	1,246	–	–	–	–	1,246
Investment securities	1,270	827	375	20	48	–
Net loans and advances	65,788	10,462	2,809	18,246	34,731	(460)
Due from subsidiary companies	1,430	43	536	579	272	–
Other assets	12,259	–	–	–	–	12,259
Total assets	88,818	17,610	3,989	19,039	35,135	13,045
Liabilities						
Due to other financial institutions	2,151	2,130	3	14	4	–
Deposits and other borrowings	47,959	39,514	7,647	798	–	–
Due to subsidiary companies	23,878	9,398	4,991	9,444	45	–
Derivative financial instruments	1,636	–	–	–	–	1,636
Other liabilities	1,671	219	–	–	–	1,452
Bonds and notes	604	8	450	146	–	–
Related party funding	2,650	2,650	–	–	–	–
Loan capital	1,475	–	–	–	1,475	–
Total liabilities	82,024	53,919	13,091	10,402	1,524	3,088
Net liquidity gap	6,794	(36,309)	(9,102)	8,637	33,611	9,957
Net liquidity gap – cumulative	6,794	(36,309)	(45,411)	(36,774)	(3,163)	6,794

35. INTEREST SENSITIVITY GAP AND WEIGHTED AVERAGE INTEREST RATES

The following tables represents the interest rate sensitivity of the Banking Group's and Bank'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.

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.

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 and is priced on a fixed rate basis. 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 operation is wholesale in nature and is 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.

In New Zealand, a combination of pricing initiatives and off-balance sheet instruments are 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.

Effective interest rates on hedged transactions within classes of financial assets or liabilities are disclosed inclusive of the impact of the hedging transaction. However, the financial assets or liabilities carrying values do not incorporate the values of the hedging transactions.

Consolidated – 30/09/2006	Weighted Effective Interest Rate	Total Carrying Value $m	At Call Or Less Than 3 Months $m	3-6 Months $m	6-12 Months $m	1-5 Years $m	Beyond 5 Years $m	Not Bearing Interest $m
Assets								
Liquid assets	6.60%	2,698	2,384	13	8	–	–	293
Due from other financial institutions	7.28%	5,617	5,021	320	8	229	–	39
Trading securities	7.38%	1,596	1,245	209	1	46	95	–
Derivative financial instruments	n/a	2,020	–	–	–	–	–	2,020
Available-for-sale assets	6.96%	359	342	–	–	13	–	4
Net loans and advances	8.81%	78,063	32,359	4,822	9,736	31,307	148	(309)
Other financial assets	n/a	915	–	–	–	–	–	915
Total financial assets		91,268	41,351	5,364	9,753	31,595	243	2,962
Non-financial assets	n/a	4,756	–	–	–	–	–	4,756
Total assets		96,024	41,351	5,364	9,753	31,595	243	7,718
Liabilities								
Due to other financial institutions	5.86%	3,987	3,906	–	–	–	–	81
Deposits and other borrowings	6.20%	63,176	41,973	7,540	5,845	3,899	–	3,919
Derivative financial instruments	n/a	1,997	–	–	–	–	–	1,997
Payables and other financial liabilities	n/a	965	5	10	–	32	90	828
Bonds and notes	7.60%	12,468	10,681	115	41	1,631	–	–
Related party funding	7.25%	2,720	2,720	–	–	–	–	–
Loan capital	7.88%	1,805	213	592	550	450	–	–
Total financial liabilities		87,118	59,498	8,257	6,436	6,012	90	6,825
Non-financial liabilities	n/a	673	–	–	–	–	–	673
Equity	n/a	8,233	–	–	–	–	–	8,233
Total liabilities and equity		96,024	59,498	8,257	6,436	6,012	90	15,731
On-balance sheet interest sensitivity gap		–	(18,147)	(2,893)	3,317	25,583	153	(8,013)
Hedging instruments		–	24,662	1,627	(2,901)	(23,568)	180	–
Interest sensitivity gap – net		–	6,515	(1,266)	416	2,015	333	(8,013)
Interest sensitivity gap – cumulative		–	6,515	5,249	5,665	7,680	8,013	–

35. INTEREST SENSITIVITY GAP AND WEIGHTED AVERAGE INTEREST RATES (continued)

Consolidated – 30/09/2005	Weighted Effective Interest Rate	Total Carrying Value $m	At Call Or Less Than 3 Months $m	3-6 Months $m	6-12 Months $m	1-5 Years $m	Beyond 5 Years $m	Not Bearing Interest $m
Assets								
Liquid assets	5.52%	1,857	1,438	–	–	–	–	419
Due from other financial institutions	6.38%	5,472	3,766	111	71	219	1,183	122
Trading securities	6.69%	912	585	51	100	175	1	–
Derivative financial instruments	n/a	1,270	–	–	–	–	–	1,270
Investment securities	6.29%	1,270	827	340	35	20	48	–
Net loans and advances	8.20%	69,139	30,160	4,478	8,973	25,656	325	(453)
Other financial assets	n/a	846	–	–	–	–	–	846
Total financial assets		80,766	36,776	4,980	9,179	26,070	1,557	2,204
Non-financial assets	n/a	4,735	–	–	–	–	–	4,735
Total assets		85,501	36,776	4,980	9,179	26,070	1,557	6,939
Liabilities								
Due to other financial institutions	5.97%	4,204	3,230	–	–	–	828	146
Deposits and other borrowings	5.78%	59,546	43,227	6,577	3,785	1,886	45	4,026
Derivative financial instruments	n/a	1,660	–	–	–	–	–	1,660
Payables and other financial liabilities	n/a	1,354	219	–	–	–	–	1,135
Bonds and notes	7.05%	6,139	5,313	48	14	764	–	–
Related party funding	6.75%	2,650	2,650	–	–	–	–	–
Loan capital	7.54%	1,475	–	725	100	650	–	–
Total financial liabilities		77,028	54,639	7,350	3,899	3,300	873	6,967
Non-financial liabilities	n/a	527	–	–	–	–	–	527
Equity	n/a	7,946	–	–	–	–	–	7,946
Total liabilities and equity		85,501	54,639	7,350	3,899	3,300	873	15,440
On-balance sheet interest sensitivity gap		–	(17,863)	(2,370)	5,280	22,770	684	(8,501)
Hedging instruments	n/a	–	28,112	(2,210)	(7,099)	(18,209)	(594)	–
Interest sensitivity gap – net		–	10,249	(4,580)	(1,819)	4,561	90	(8,501)
Interest sensitivity gap – cumulative		–	10,249	5,669	3,850	8,411	8,501	–

35. INTEREST SENSITIVITY GAP AND WEIGHTED AVERAGE INTEREST RATES (continued)

Parent – 30/09/2006	Weighted Effective Interest Rate	Total Carrying Value $m	At Call Or Less Than 3 Months $m	3-6 Months $m	6-12 Months $m	1-5 Years $m	Beyond 5 Years $m	Not Bearing Interest $m
Assets								
Liquid assets	6.60%	2,698	2,384	13	8	–	–	293
Due from other financial institutions	7.18%	5,111	4,739	320	8	5	–	39
Trading securities	7.38%	1,596	1,245	209	1	46	95	–
Derivative financial instruments	n/a	2,019	–	–	–	–	–	2,019
Available-for-sale assets	6.96%	349	342	–	–	3	–	4
Net loans and advances	8.80%	74,361	31,649	4,691	9,493	28,680	134	(286)
Due from subsidiary companies	4.23%	1,505	472	140	–	240	–	653
Other financial assets	n/a	829	–	–	–	–	–	829
Total financial assets		88,468	40,831	5,373	9,510	28,974	229	3,551
Non-financial assets	n/a	11,591	–	–	–	–	–	11,591
Total assets		100,059	40,831	5,373	9,510	28,974	229	15,142
Liabilities								
Due to other financial institutions	5.40%	2,828	2,744	–	–	–	–	84
Deposits and other borrowings	6.03%	53,594	36,206	5,818	4,125	3,526	–	3,919
Due to subsidiary companies	7.49%	28,648	23,698	1,607	1,211	2,132	–	–
Derivative financial instruments	n/a	1,992	–	–	–	–	–	1,992
Payables and other financial liabilities	n/a	755	5	10	–	32	90	618
Bonds and notes	7.07%	475	175	–	–	300	–	–
Related party funding	7.25%	2,720	2,720	–	–	–	–	–
Loan capital	7.88%	1,805	213	592	550	450	–	–
Total financial liabilities		92,817	65,761	8,027	5,886	6,440	90	6,613
Non-financial liabilities	n/a	593	–	–	–	–	–	593
Equity	n/a	6,649	–	–	–	–	–	6,649
Total liabilities and equity		100,059	65,761	8,027	5,886	6,440	90	13,855
On-balance sheet interest sensitivity gap		–	(24,930)	(2,654)	3,624	22,534	139	1,287
Hedging instruments		–	24,785	1,627	(2,901)	(23,691)	180	–
Interest sensitivity gap – net		–	(145)	(1,027)	723	(1,157)	319	1,287
Interest sensitivity gap – cumulative		–	(145)	(1,172)	(449)	(1,606)	(1,287)	–

35. INTEREST SENSITIVITY GAP AND WEIGHTED AVERAGE INTEREST RATES (continued)

Parent – 30/09/2005	Weighted Effective Interest Rate	Total Carrying Value $m	At Call Or Less Than 3 Months $m	3-6 Months $m	6-12 Months $m	1-5 Years $m	Beyond 5 Years $m	Not Bearing Interest $m
Assets								
Liquid assets	5.52%	1,857	1,438	–	–	–	–	419
Due from other financial institutions	6.15%	4,056	3,714	111	7	19	83	122
Trading securities	6.69%	912	585	51	100	175	1	–
Derivative financial instruments	n/a	1,246	–	–	–	–	–	1,246
Investment securities	6.29%	1,270	827	340	35	20	48	–
Net loans and advances	8.14%	65,788	28,936	4,340	8,707	23,948	317	(460)
Due from subsidiary companies	4.39%	1,430	285	–	–	365	272	508
Other financial assets	n/a	759	–	–	–	–	–	759
Total financial assets		77,318	35,785	4,842	8,849	24,527	721	2,594
Non-financial assets	n/a	11,500	–	–	–	–	–	11,500
Total assets		88,818	35,785	4,842	8,849	24,527	721	14,094
Liabilities								
Due to other financial institutions	5.20%	2,151	2,001	–	–	–	–	150
Deposits and other borrowings	5.50%	47,959	34,085	5,326	2,900	1,622	–	4,026
Due to subsidiary companies	6.81%	23,878	21,640	1,161	327	705	45	–
Derivative financial instruments	n/a	1,636	–	–	–	–	–	1,636
Payables and other financial liabilities	n/a	1,197	219	–	–	–	–	978
Bonds and notes	6.59%	604	546	–	–	58	–	–
Related party funding	6.75%	2,650	2,650	–	–	–	–	–
Loan capital	7.54%	1,475	–	725	100	650	–	–
Total financial liabilities		81,550	61,141	7,212	3,327	3,035	45	6,790
Non-financial liabilities	n/a	474	–	–	–	–	–	474
Equity	n/a	6,794	–	–	–	–	–	6,794
Total liabilities and equity		88,818	61,141	7,212	3,327	3,035	45	14,058
On-balance sheet interest sensitivity gap		–	(25,356)	(2,370)	5,522	21,492	676	36
Hedging instruments	n/a	–	27,365	(2,210)	(7,067)	(17,494)	(594)	–
Interest sensitivity gap – net		–	2,009	(4,580)	(1,545)	3,998	82	36
Interest sensitivity gap – cumulative		–	2,009	(2,571)	(4,116)	(118)	(36)	–

36. CONCENTRATIONS OF CREDIT RISK

The maximum credit risk of on-balance sheet financial assets is best represented by the carrying amount of the assets, net of any provision for credit impairment. The credit risk exposure does not take into account the fair value of any collateral, in the event of other parties failing to perform their obligations under financial instruments.

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
On-balance sheet credit exposures	**$m**	$m	**$m**	$m
Liquid assets	**2,698**	1,857	**2,698**	1,857
Due from other financial institutions	**5,617**	5,472	**5,111**	4,056
Trading securities	**1,596**	912	**1,596**	912
Derivative financial instruments	**2,020**	1,270	**2,019**	1,246
Available-for-sale assets	**359**	1,270	**349**	1,270
Net loans and advances	**78,063**	69,139	**74,361**	65,788
Due from subsidiary companies	**–**	–	**1,505**	1,430
Other financial assets	**915**	846	**829**	759
Total on-balance sheet credit exposures	**91,268**	80,766	**88,468**	77,318

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Analyses of financial assets by industry sector using Australian and New Zealand Standard Industrial Classification (ANZSIC) codes are as follows:

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
Concentrations of credit risk by industry	**$m**	$m	**$m**	$m
Instalment and personal lending	**2,906**	2,679	**2,513**	2,200
Real estate mortgages	**46,540**	40,791	**46,540**	40,677
Agriculture, forestry and fishing	**12,604**	11,049	**12,370**	10,793
Mining	**144**	69	**122**	45
Manufacturing	**3,041**	3,021	**2,642**	2,665
Construction	**713**	681	**558**	517
Retail and wholesale	**2,566**	2,488	**2,491**	2,397
Transport	**1,150**	1,449	**749**	884
Communications	**279**	224	**251**	198
Finance, investment and insurance	**15,097**	12,211	**14,450**	11,391
Business and personal services	**1,393**	1,012	**1,299**	940
Government and local authority	**2,836**	2,780	**2,742**	2,559
Electricity, gas and water	**1,008**	1,274	**764**	1,030
Entertainment, leisure and tourism	**989**	1,020	**975**	1,004
Other	**2**	18	**2**	18
Total on-balance sheet credit exposures	**91,268**	80,766	**88,468**	77,318

Analyses of financial assets by geographic area are based on the Reserve Bank M3 Institutions Standard Statistical Return criteria.

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
Concentrations of credit risk by geographical area	**$m**	$m	**$m**	$m
New Zealand	**82,350**	74,317	**81,507**	71,962
Overseas	**5,891**	4,188	**4,021**	3,206
Other	**3,027**	2,261	**2,940**	2,150
Total on-balance sheet credit exposures	**91,268**	80,766	**88,468**	77,318

36. CONCENTRATIONS OF CREDIT RISK (continued)

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			
	30/09/2006		30/09/2005	
	Number of Counterparties		Number of Counterparties	
	As at	**Peak for the quarter**	As at	Peak for the quarter
10% to 20% of equity	**2**	**2**	1	2

As noted above, 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 and peak end-of-day 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 and peak end-of-day credit exposure equals or exceeds 10% of equity (as at the end of the quarter), by credit rating:

	Consolidated			
	30/09/2006		30/09/2005	
As at	**Amount $m**	**% of Total Credit Exposure**	Amount $m	% of Total Credit Exposure
Investment grade credit rating (Note 1)	**2,281**	**100.0%**	946	100.0%
Peak for the quarter				
Investment grade credit rating (Note 1)	**2,286**	**100.0%**	1,815	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			
	30/09/2006		30/09/2005	
	Number of Counterparties		Number of Counterparties	
	As at	**Peak for the quarter**	As at	Peak for the quarter
10% to 20% of equity	**2**	**3**	3	2
20% to 30% of equity	**–**	**–**	–	2

The amount and percentage of quarter end and peak end-of-day 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 and peak end-of-day credit exposure equals or exceeds 10% of equity (as at the end of the quarter), by credit rating:

	Consolidated			
	30/09/2006		30/09/2005	
As at	**Amount $m**	**% of Total Credit Exposure**	Amount $m	% of Total Credit Exposure
Investment grade credit rating (Note 1)	**1,700**	**100.0%**	3,378	100.0%
Peak for the quarter				
Investment grade credit rating (Note 1)	**2,546**	**100.0%**	5,611	100.0%

Note 1

All of the individual and bank counterparties included in the above tables have an investment grade 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.

36. CONCENTRATIONS OF CREDIT RISK (continued)

Concentrations of credit risk to connected persons

	Consolidated			
	30/09/2006		30/09/2005	
	Amount $m	**% of Tier 1 Capital**	Amount $m	% of Tier 1 Capital
Aggregate at end of period				
Connected persons (Note 2)	**1,191**	**25.2%**	904	20.0%
Non-bank connected persons (Note 3)	**–**	**0.0%**	–	0.0%
Peak end-of-day for the quarter (Note 4)				
Connected persons	**1,826**	**38.6%**	1,004	22.2%
Non-bank connected persons	**–**	**0.0%**	–	0.0%
Rating-contingent limit (Note 5)				
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 1 Capital as at the end of the quarter. There were no individual provisions provided against credit exposures to connected persons as at 30 September 2006 (30/09/2005 $nil). The Banking Group had no contingent exposures arising from risk lay-off arrangements to connected persons as at 30 September 2006 (30/09/2005 $nil).

Note 2

The Banking Group has amounts due from its Ultimate Parent Company and other entities within the Ultimate Parent Group arising from the ordinary course of its business. These balances arise primarily from deposits of surplus foreign currency and other foreign currency transactions.

Note 3

Non-bank connected persons exposures consist of loans to directors of the Bank. All loans were made in the ordinary course of business of the Bank, on an arm's length basis and on normal commercial terms and conditions. There are no loans made to other directors of the Banking Group.

Note 4

The method of calculating the peak end-of-day disclosure above differs from that applied in determining the connected persons' limit under the Bank's Conditions of Registration. The peak end-of-day disclosure is measured against Tier 1 Capital at quarter end whereas the connected persons' exposure under the Conditions of Registration is measured against Tier 1 Capital on a continuous basis. The Banking Group has complied with the limits on aggregate credit exposures (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.

Note 5

The rating-contingent limit represents the maximum peak end-of-day aggregate credit exposures limit (exclusive of exposures of a capital nature and net of individual provisions) to all connected persons. This is based on the rating applicable to the Bank's long term senior unsecured NZD obligations payable in New Zealand, in New Zealand dollars (refer page 94 for the credit rating). Within the overall limit a sub-limit of 15% of Tier 1 Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons. No changes to the rating-contingent limit have occurred during the quarter.

37. FOREIGN CURRENCY RISK

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 inthat foreign currency. The amounts are stated in New Zealand dollar equivalents translated using the spot exchange rates as at balance sheet date.

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
Net open position	**$m**	$m	**$m**	$m
Australian dollar	**33**	(42)	**33**	(42)
Euro	**(9)**	1	**(9)**	1
Japanese yen	**–**	4	**–**	4
Pound sterling	**(1)**	(3)	**(1)**	(3)
US dollar	**35**	(2)	**35**	(2)
Other	**–**	(2)	**–**	(2)
	58	(44)	**58**	(44)

38. CONCENTRATIONS OF FUNDING

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
Concentrations of funding by industry	**$m**	$m	**$m**	$m
Agriculture, forestry and fishing	**1,749**	1,631	**1,749**	1,631
Mining	**1,301**	1,185	**1,301**	1,185
Manufacturing	**1,346**	1,189	**1,346**	1,189
Construction	**661**	636	**661**	636
Retail and wholesale	**1,181**	1,285	**1,181**	1,285
Transport	**577**	673	**577**	673
Communications	**92**	72	**92**	72
Finance, investment and insurance	**38,095**	33,207	**46,283**	40,239
Business and personal services	**4,909**	4,334	**4,909**	4,334
Government and local authority	**1,295**	1,409	**1,295**	1,409
Electricity, gas and water	**602**	331	**402**	131
Entertainment, leisure and tourism	**507**	439	**507**	439
Households	**31,841**	27,623	**29,767**	25,494
Total concentrations of funding by industry	**84,156**	74,014	**90,070**	78,717

Concentrations of funding by product				
Due to other financial institutions	**3,987**	4,204	**2,828**	2,151
Certificates of deposits	**3,941**	4,652	**3,941**	4,652
Term deposits	**26,293**	22,957	**26,293**	22,957
Other deposits bearing interest	**19,856**	16,324	**19,441**	16,324
Deposits not bearing interest	**3,919**	4,026	**3,919**	4,026
Commercial paper	**6,890**	9,255	**–**	–
Secured debenture stock	**2,077**	2,132	**–**	–
Secured deposits	**200**	200	**–**	–
Due to subsidiary companies	**–**	–	**28,648**	23,878
Bonds and notes	**12,468**	6,139	**475**	604
Related party funding	**2,720**	2,650	**2,720**	2,650
Loan capital	**1,805**	1,475	**1,805**	1,475
Total concentrations of funding by product	**84,156**	74,014	**90,070**	78,717

Analyses of funding by geographic area are based on the Reserve Bank M3 Institutions Standard Statistical Return criteria.

Concentrations of funding by geographical area				
New Zealand	**54,416**	49,905	**61,460**	55,264
Overseas	**29,740**	24,109	**28,610**	23,453
Total concentrations of funding by geographical area	**84,156**	74,014	**90,070**	78,717

39. MARKET RISK

Market risk is the risk to earnings arising from changes in interest rates, currency exchange rates, or from fluctuations in bond, commodity or equity prices.

RBNZ market risk disclosure

The aggregate market risk exposures below have been calculated in accordance with clause 1 (1) (a) of Schedule 7 of the Order. Aggregate foreign currency risk exposures have been calculated in accordance with clause 8 (a) of Schedule 8 of the Order. Aggregate interest rate risk exposures have been calculated in accordance with clause 1 (b) of Schedule 8 of the Order. Aggregate equity risk exposures have been calculated in accordance with clause 11 (a) of Schedule 8 of the Order. The peak end-of-day market risk exposures for the quarter are measured over equity at the end of the quarter.

	30/09/2006		30/09/2005	
Exposures to market risk	**As at**	**Peak for the quarter**	As at	Peak for the quarter
Aggregate foreign currency exposures ($ million)	6.0	19.3	4.1	7.5
Aggregate foreign currency exposures as a percentage of equity	0.1%	0.2%	0.1%	0.1%
Aggregate interest rate exposures ($ million)	250.9	318.9	178.8	216.0
Aggregate interest rate exposures as a percentage of equity	3.1%	3.9%	2.3%	2.8%
Aggregate equity exposures ($ million)	0.5	0.5	0.6	0.6
Aggregate equity exposures as a percentage of equity	0.0%	0.0%	0.0%	0.0%

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

Securitisation

The Banking Group has not securitised any of its own assets. The Banking Group is involved in providing banking services to customers who securitise assets.

Funds management

Certain subsidiaries of the Bank act as trustee and/or manager for a number of unit trusts 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.

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.

As funds under management are not owned 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 superannuation bonds and superannuation schemes, unit trusts and the provision of private banking services to a number of clients.

Some funds under management are invested in products owned by the Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2006, $815 million of funds under management were invested in the Banking Group's own products (30/09/2005 $913 million).

On 30 September 2005, NBNZ Investment Services Limited and the unit trusts and investment funds it managed, were sold to the New Zealand joint venture established between the Bank and ING Insurance International B.V. The total funds under management sold amounted to $740 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	
	30/09/2006	30/09/2005
	$m	$m
Superannuation schemes	**170**	17
Bonus Bonds	**2,397**	2,325
Discretionary funds	**1,655**	1,365
Totals funds under management	**4,222**	3,707

Funding was provided to The National Bank Superannuation Bond to facilitate payments, including provisional tax payments. The National Bank Superannuation Bond was sold to the ING New Zealand joint venture on 30 September 2005.

Details of funding provided to funds managed by the Banking Group are detailed below:

- The peak aggregate funding provided to funds management entities for the quarter ended 30 September 2006 was $nil or 0.0% expressed as a percentage of Tier 1 Capital as at the end of the quarter (30/09/2005 $0.7 million or 0.0%).
- The peak aggregate funding provided to any individual funds management entities for the quarter ended 30 September 2006 was $nil or 0.0% expressed as a percentage of the total assets of that entity as at the end of the quarter (30/09/2005 $0.7 million or 3.1%).

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

From 1 October 2005, following the sale of NBNZ Life Insurance to the ING New Zealand joint venture, the joint venture is responsible for the management of all insurance products distributed to customers through both the ANZ and National Bank brands.

Prior to this, the Banking Group marketed and distributed insurance products underwritten by ANZ Life Assurance Company Limited and also independent insurance product providers. On 1 April 2005, the rights and obligations of ANZ Life Assurance Company Limited in respect of insurance policies provided through its New Zealand Branch were transferred to ING Insurance (NZ) Limited. Both ANZ Life Assurance Company Limited and ING Insurance (NZ) Limited are affiliated insurance entities for Reserve Bank of New Zealand regulation purposes.

The Banking Group mitigates its exposure to implicit risk by meeting the RBNZ minimum separation requirements. In particular, the Banking Group discloses as required that it does not guarantee any issuer of insurance products nor the products issued, that the insurance policies do not represent deposits or other liabilities of the Banking Group, that the insurance policies are subject to investment risk, including possible loss of income and principal, and that the Banking Group does not guarantee the capital value or performance of the policies.

Any financial services (including funding and liquidity support) provided by the Banking Group to securitisation, funds management and custodial services entities, or issuers of marketed and distributed insurance products are made on an arm's length basis and at fair value. Any securities or assets purchased from such entities have been purchased on an arm's length basis and at fair value.

41. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS

The credit risk exposure of contingent liabilities and credit related commitments has been based upon the risk weighted credit equivalent amounts determined in accordance with the Reserve Bank of New Zealand's capital adequacy guidelines. The estimated face or contract values and credit equivalent amounts are as follows:

	30/09/2006		30/09/2005	
Credit related commitments	**Face or Contract Value $m**	**Credit Equivalent Amount $m**	Face or Contract Value $m	Credit Equivalent Amount $m
Consolidated				
Commitments with certain drawdown due within one year	**1,221**	**1,221**	1,064	1,064
Commitments to provide financial services	**20,338**	**1,175**	17,634	669
Total credit related commitments	**21,559**	**2,396**	18,698	1,733
Parent				
Commitments with certain drawdown due within one year	**1,221**	**1,221**	1,064	1,064
Commitments to provide financial services	**20,156**	**1,175**	17,164	669
Total credit related commitments	**21,377**	**2,396**	18,228	1,733
Contingent liabilities				
Consolidated				
Financial guarantees	**1,688**	**1,688**	1,338	1,338
Standby letters of credit	**368**	**368**	285	285
Transaction related contingent items	**376**	**188**	306	153
Trade related contingent liabilities	**89**	**18**	236	47
Total contingent liabilities	**2,521**	**2,262**	2,165	1,823
Parent				
Financial guarantees	**1,688**	**1,688**	1,338	1,338
Standby letters of credit	**368**	**368**	285	285
Transaction related contingent items	**376**	**188**	306	153
Trade related contingent liabilities	**87**	**17**	229	46
Total contingent liabilities	**2,519**	**2,261**	2,158	1,822

The Banking Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including its Ultimate Parent. 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.

41. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS (continued)

The detailed and estimated maximum amount of contingent liabilities that may become payable are set out below.

Contingent tax liability

As previously disclosed, the New Zealand Inland Revenue Department ('IRD') is reviewing a number of structured finance transactions as part of an audit of the 2000 to 2003 tax years. This is part of an industry-wide review by the IRD of these transactions undertaken in New Zealand.

The Bank has received Notices of Proposed Adjustment (the 'Notices') in respect of some of these transactions. The Notices are formal advice that the IRD is proposing to amend tax assessments. The Notices are not tax assessments and do not establish a tax liability but are the first step in a formal disputes process.

As expected, in March 2006 the IRD issued amended tax assessments as a follow up to the Notices in respect of four of these transactions for the 2001 tax year (prior to that tax year becoming statute-barred). The IRD had previously issued assessments in March 2005 in respect of two transactions for the 2000 tax year (prior to that tax year becoming statute-barred).

Based on the independent tax and legal advice obtained, the Bank is confident that the tax treatment it has adopted for these transactions and all similar transactions is correct.

The tax adjustments proposed so far by the IRD cover the 2000 to 2003 tax years and imply a maximum potential liability of $159 million ($222 million with interest tax effected).

The IRD is also investigating other transactions undertaken by the Banking Group, which have been subject to the same tax treatment. Should the same position be taken by the IRD for all years on all these transactions, including those that the Notices cover, the maximum potential liability would be approximately $364 million ($469 million with interest tax effected) as at 30 September 2006.

Of the maximum potential tax liability in dispute, it has been estimated that approximately $99 million ($133 million with interest tax effected) is subject to indemnities given by Lloyds TSB Bank plc under the agreement by which the Bank acquired the NBNZ Group, and which relate to transactions undertaken by NBNZ Group before December 2003.

This leaves a net potential tax liability as at 30 September 2006 of $265 million ($336 million with interest tax effected).

All of these transactions have now either matured or been terminated.

Other contingent liabilities

Following a Commerce Commission investigation of the banking industry as a whole in relation to the disclosure of currency conversion fees on foreign currency credit and debit card transactions, the Bank was charged under the Fair Trading Act 1986 in relation to ANZ and National Bank branded credit card products. In addition, the Bank received a civil claim, with the Commerce Commission as plaintiff, seeking compensation for affected cardholders.

On 30 March 2006, the Bank reached an agreement with the Commerce Commission relating to these charges and the related civil proceeding. Under this agreement, the Bank agreed to pay fines of $1.3 million and to refund a portion of the currency conversion fee which had been paid by affected cardholders. ANZ brand cardholders are to receive $5.2 million in compensation, and National Bank brand cardholders, $4.8 million. While the settlement with the Commerce Commission does not preclude cardholders bringing a separate claim for any additional loss they consider they have suffered, no further liability is expected to arise from this issue.

42. COMMITMENTS

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Capital expenditure				
Contracts for outstanding capital expenditure:				
Premises and equipment				
Not later than 1 year	**38**	56	**–**	10
Total capital expenditure commitments	**38**	56	**–**	10
Lease rentals				
Future minimum lease payments under non-cancellable operating leases:				
Premises and equipment				
Not later than 1 year	**79**	80	**19**	49
Later than 1 year but not later than 5 years	**172**	165	**39**	100
Later than 5 years	**39**	27	**–**	18
Total lease rental commitments	**290**	272	**58**	167
Total commitments	**328**	328	**58**	177

The Banking Group leases land and buildings under operating leases expiring from one to thirty years. Leases generally provide the Banking Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise of a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria. Contingent rentals are not included in lease rental commitments, and are not provisioned for due to their immateriality, therefore are expensed as incurred.

43. INTEREST EARNING AND DISCOUNT BEARING ASSETS AND LIABILITIES

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Interest earning and discount bearing assets	**88,306**	78,562	**84,917**	74,724
Interest and discount bearing liabilities	**80,293**	70,061	**86,204**	74,760

44. SEGMENTAL ANALYSIS

For management purposes the Banking Group is organised into four major business segments – Retail Banking, Relationship Banking, Institutional and UDC. Centralised back office and corporate functions support these segments.

A summarised description of each business segment is shown below:

Retail Banking	Provides banking products and services to the personal banking segment and the small business segment through separate ANZ and The National Bank 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.
Relationship Banking	This segment provides services to rural, commercial and corporate customers. A full range of banking products and services are provided to Rural customers. Corporate and Commercial customers consist of medium to large businesses with annual revenues from $5 million to $150 million. The Banking Group's relationship with these businesses ranges from simple banking requirements with revenue from traditional lending and deposit products, to more complex arrangements with revenue sourced from a wider range of products and services.
Institutional	Comprises businesses that provide a full range of financial services to the Banking Group's largest corporate and institutional customers.
UDC	Provides vehicle and equipment finance and rental services. Operates in New Zealand as UDC and Esanda FleetPartners.
Other	Includes Treasury and back office support functions, none of which constitutes a separately reportable segment.

Truck Leasing Limited (trading as Esanda Fleet Partners) is classified as a discontinued operation as at 30 September 2006.

As the composition of segments has changed over time, prior period comparatives have been adjusted to be consistent with the 2006 segment definitions.

Business segment analysis[1,2]

Consolidated – 30/09/2006	Retail Banking $m	Relationship Banking $m	Institutional $m	UDC $m	Other $m	Total $m
Continuing operations						
External interest income	3,490	1,991	1,014	197	514	7,206
External interest expense	(1,645)	(452)	(703)	(149)	(2,128)	(5,077)
Net intersegment interest	(715)	(1,021)	(71)	21	1,786	–
Net interest income	1,130	518	240	69	172	2,129
Other external operating income	462	62	236	2	18	780
Share of profit of equity accounted associates and jointly controlled entities	–	–	–	–	22	22
Net operating income	1,592	580	476	71	212	2,931
Other external expenses	541	103	84	26	487	1,241
Net intersegment expenses[3]	337	94	42	10	(401)	82
Operating expenses	878	197	126	36	86	1,323
Profit before provision for credit impairment and income tax	714	383	350	35	126	1,608
Provision for credit impairment	14	(10)	12	2	–	18
Profit before income tax	700	393	338	33	126	1,590
Income tax expense	229	130	104	11	49	523
Profit after income tax	471	263	234	22	77	1,067
Discontinued operation						
Profit from discontinued operation (net of income tax)	–	–	–	5	–	5
Profit after income tax	471	263	234	27	77	1,072
Non-cash expenses						
Depreciation and amortisation	10	–	1	1	38	50
Balance sheet						
Total external assets	45,264	25,328	16,627	2,176	6,629	96,024
Share in associates and jointly controlled entities	–	–	8	–	169	177
Total external liabilities	31,658	8,026	15,863	2,190	30,054	87,791
Capital expenditure	12	1	3	178	44	238

[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.

44. SEGMENTAL ANALYSIS (continued)[1,2]

Consolidated – 30/09/2005	Retail Banking $m	Relationship Banking $m	Institutional $m	UDC $m	Other $m	Total $m
Continuing operations						
External interest income	2,984	1,615	807	217	386	6,009
External interest expense	(1,389)	(355)	(443)	(136)	(1,746)	(4,069)
Net intersegment interest	(529)	(801)	(182)	–	1,512	–
Net interest income	1,066	459	182	81	152	1,940
Other external operating income	448	83	215	2	45	793
Share of profit of equity accounted associates and jointly controlled entities	–	–	1	–	–	1
Net operating income	1,514	542	398	83	197	2,734
Other external expenses	515	96	69	27	479	1,186
Net intersegment expenses[3]	321	90	38	7	(330)	126
Operating expenses	836	186	107	34	149	1,312
Profit before provision for credit impairment and income tax	678	356	291	49	48	1,422
Provision for credit impairment	62	38	11	10	–	121
Profit before income tax	616	318	280	39	48	1,301
Income tax expense	202	105	66	13	12	398
Profit after income tax from continuing operations	414	213	214	26	36	903
Discontinued operation						
Profit from discontinued operation (net of income tax)	–	–	–	14	–	14
Profit after income tax	414	213	214	40	36	917
Non-cash expenses						
Depreciation and amortisation	11	1	1	1	40	54
Balance sheet						
Total external assets	40,125	21,494	14,210	2,301	7,371	85,501
Share in associates and jointly controlled entities	–	–	11	–	147	158
Total external liabilities	29,064	6,954	12,013	2,186	27,338	77,555
Capital expenditure	–	–	–	189	59	248

Geographic segment analysis

The Banking Group operates predominantly in New Zealand. No other geographic segments are reportable secondary segments.

Changes in accounting policies

On 1 October 2005, the Banking Group adopted NZ IAS 32, NZ IAS 39 and NZ IFRS 4. Comparative information has not been restated for this change as permitted under the first time adoption transitional provisions. The major impacts on segment reporting are changes to credit loss provisioning and the treatment of fee revenue. For further explanation of the impact of these accounting policies, see Note 52 Explanation of Transition to NZ IFRS.

[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.

45. NOTES TO THE CASH FLOW STATEMENTS

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Reconciliation of profit after income tax to net cash flows used in operating activities				
Profit after income tax	**1,072**	917	**611**	544
Non-cash items:				
Depreciation and amortisation	**140**	129	**31**	40
Provision for credit impairment	**19**	122	**16**	110
Writedown of investment in subsidiary company	**–**	–	**1**	4,928
Writedown of investment in associates	**–**	7	**–**	1
Amortisation of premiums and discounts	**12**	100	**12**	100
Deferred fee revenue and expenses	**6**	–	**7**	–
Fair value hedge adjustment	**9**	–	**1**	–
Unrealised foreign exchange losses	**–**	67	**–**	20
Share-based payment expense	**10**	–	**10**	–
Deferrals or accruals of past or future operating cash receipts or payments:				
Increase in operating assets and liabilities	**(5,583)**	(4,434)	**(3,670)**	(8,213)
(Increase) decrease in interest receivable	**(242)**	109	**(221)**	115
Increase in interest payable	**74**	147	**26**	122
Increase in accrued income	**(27)**	(26)	**(25)**	(27)
Increase (decrease) in accrued expenses	**2**	(27)	**8**	(17)
(Decrease) increase in provisions	**(6)**	7	**(6)**	6
Increase in income tax assets	**(3)**	(34)	**(31)**	(175)
Increase (decrease) in income tax liabilities	**63**	(83)	**56**	(7)
Items classified as investing/financing:				
Share of profit of equity accounted associates and jointly controlled entities	**(22)**	(1)	**(22)**	–
Gain on disposal of insurance and funds management activities	**–**	(16)	**–**	(39)
Gain on disposal of associates and jointly controlled entities	**(2)**	(5)	**–**	–
Loss on disposal of software	**–**	6	**–**	6
Gain on disposal of premises and equipment	**–**	(5)	**(1)**	(1)
Net cash flows used in operating activities	**(4,478)**	(3,020)	**(3,197)**	(2,487)

46. RELATED PARTY TRANSACTIONS

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$'000	$'000	**$'000**	$'000
Key management personnel				
Key management personnel compensation				
Salaries and short-term employee benefits	**10,744**	8,467	**10,473**	8,105
Post-employment benefits	**364**	456	**364**	456
Other long-term benefits	**147**	50	**144**	50
Termination benefits	**2,218**	–	**1,931**	–
Share-based payments	**1,992**	1,093	**1,974**	995
Total compensation of key management personnel	**15,465**	10,066	**14,886**	9,606
Loans to key management personnel	**7,308**	7,051	**7,304**	7,051
Deposits from key management personnel	**4,500**	6,176	**4,495**	6,176

Interest received and paid on loans and deposits to key management personnel is $nil at 30 September 2006 (30/09/2005 $nil) due to reporting to the nearest million.

Loans made to and deposits held by key management personnel (including personally related parties) 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 (30/09/2005 $nil).

All other transactions with key management personnel (including personally related parties) are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally consist of the provision of financial and investment services.

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including directors (whether executive or otherwise).

Transactions with the Parent Company, Ultimate Parent Company and subsidiaries

Details of amounts provided by/to the Parent Company, Ultimate Parent Company 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 2006 (30/09/2005 $nil).

	Consolidated		Parent	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
	$m	$m	**$m**	$m
Interest income				
– Parent Company	**11**	9	**11**	9
Interest expense				
– Parent Company	**190**	176	**190**	176
– Ultimate Parent Company	**141**	50	**48**	39
Operating expenses				
– Ultimate Parent Company	**76**	126	**76**	126
– UDC Finance Limited	**–**	–	**(9)**	(8)
– Truck Leasing Limited	**–**	–	**4**	3

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	
	30/09/2006	30/09/2005	**30/09/2006**	30/09/2005
Aggregate	**$m**	$m	**$m**	$m
Amounts receivable				
– associates	**18**	39	**18**	27
– joint venture entities	**140**	61	**121**	61
Interest income				
– associates	**2**	4	**1**	2
– joint venture entities	**7**	–	**6**	–
Commission received from ING New Zealand joint venture	**23**	–	**23**	–
Costs recovered from ING New Zealand joint venture	**2**	–	**2**	–

The Banking Group provides registry services to the ING New Zealand joint venture in connection with the business of ING Managed Funds (NZ) Limited. During the year, the Banking Group provided payroll, tax accounting and compliance services, and premises in connection with and for the purpose of ING Insurance Services (NZ) Limited and ING Managed Funds (NZ) Limited.

A provision for credit impairment of $16 million is recognised for amounts outstanding from associates as at 30 September 2006 (30/09/2005 $11 million). A credit impairment loss of $6 million was recognised during the year ended 30 September 2006 (30/09/2005 $nil).

47. CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES

Controlled entities	Ownership Interest %	Balance Dates	Nature of business
Airlie Investments Limited	100	30 September	Investment company
Alos Holdings Limited	100	30 September	Investment company
Amberley Investments	50	31 December	Finance 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	100	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	Non operative
EFTPOS New Zealand Limited	100	30 September	Eftpos service provider
Endeavour Caterpillar New Zealand Finance Company	50	30 September	Investment company
Endeavour Finance Limited	100	30 September	Investment company
Endeavour Securities Limited	100	30 September	Investment company
General Finance Custodians Limited	100	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
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
Nerine Finance No. 2	65	31 December	Finance company
Origin Mortgage Management Services Limited	100	31 March	Mortgage finance
Pioneer First Limited	100	31 March	Mortgage finance
Private Nominees Limited	100	30 September	Nominee 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
Starz Trust	65	31 December	Finance entity
Trillium Holdings Limited	100	30 September	Finance company
Truck Leasing Limited	100	30 September	Leasing 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

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

For all controlled entities, with the exception of Amberley Investments, the ownership interest percentage equates to the voting power held. A voting interest of 90% is held in Amberley Investments.

In relation to Endeavour Caterpillar New Zealand Finance Company, control exists through the ability to cast, or control the casting of more than half of the votes that are likely to be cast at a general meeting over significant matters.

47. CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

On 5 October 2005, Arawata Funding Limited sold its interest in Whitelaw Investments to a third party.

On 8 November 2005, Arawata Trust Company was incorporated as a subsidiary of the Bank.

On 26 January 2006, Arawata Trust was established with Arawata Trust Company and Alos Holdings Limited as the unit holders.

On 31 March 2006, Endeavour Equities Limited changed its name to ANZ Capital NZ Limited.

On 7 April 2006, EFTPOS Australia Pty Limited was deregistered by the Australian Securities & Investment Commission.

On 13 April 2006, the Bank gained control of General Finance Custodians Limited, Origin Mortgage Management Services Limited and Pioneer First Limited to provide mortgage services.

On 10 May 2006, ANZ National Staff Superannuation Limited was incorporated as a subsidiary of the Bank.

On 14 June 2006, the Bank purchased Direct Broking Limited and its subsidiary, Direct Nominees Limited for $5.1 million. The fair value of net identifiable assets was estimated at $2.5 million, giving rise to goodwill on acquisition of $2.6 million.

On 16 August 2006, Eventide Holdings Limited was amalgamated into Repton Group Limited, Abbey Life Limited was amalgamated into NBNZ Holdings Limited, and Southpac Securities Limited and Southpac Trusts Limited were amalgamated into Southpac Corporation Limited.

On 17 August 2006, Argitis Holdings Limited, Moginie Holdings Limited, Repton Group Limited, Ship Finance Limited and Southpac Holdings Limited were amalgamated into South Pacific Merchant Finance Limited.

On 18 August 2006, Arawata Investments Limited, Bage Investments Limited, Countrywide Funds Management Limited, Nationwide Home Loans Limited, Nationwide Mortgage Brokers Limited, Philodendron Investments Limited and VPM Investments Limited were amalgamated into the Bank. A writedown on amalgamation of $1 million was recognised in the income statement and a corresponding reduction in net assets of $1 million.

On 13 September 2006, Burnley Investments Limited changed its name to Arawata Funding Limited.

On 25 September 2006, NBNZ Holdings (Australia) Pty Limited was deregistered by the Australian Securities & Investment Commission.

On 26 September 2006, Countrywide Endeavour Building Society was dissolved in accordance with the Building Societies Act 1965.

On 26 September 2006, Harcourt Corporation Limited exited its interest in The King Returns Syndicate Partnership by the sale of its shareholding in Goblin Productions Limited by way of exercise of a share put. Prior to the sale, all remaining rights held by Goblin Productions Limited in The King Returns Syndicate Partnership were transferred to Harcourt Corporation Limited.

On 29 September 2006, Salient Holdings and Salient Holdings (No. 2) were removed from the Companies Office register.

Associates	**Voting Interest %**	**Ownership Interest %**	**Balance Dates**	**Nature of business**
Cards NZ Limited	27	17	30 September	Card services
Chequer Corporation Limited	35	54	30 September	Plastics manufacturing and recycling
Electronic Transaction Services Limited	25	25	31 March	Eftpos settlements
Green Acres Franchise Group Limited	43	43	31 March	Home maintenance franchise
Mondex New Zealand Limited	40	40	31 December	Card services

All associates are incorporated in New Zealand.

On 15 May 2006, Visa New Zealand Limited changed its name to Cards NZ Limited.

On 29 September 2006, ANZ Capital NZ Limited sold its interest in United Carriers Group Limited to a third party.

On 30 September 2006, the investment in Chequer Corporation Limited was transferred from ANZ Capital NZ Limited to the Bank.

47. CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Jointly controlled entities	Voting Interest %	Ownership Interest %	Balance Dates	Nature of business
Argenta Limited	25	25	31 July	Manufacture and marketing of animal remedies
BCS Group Limited	42	42	30 June	Manufacturer of baggage handling systems
ING (NZ) Holdings Limited	50	49	31 December	Funds management and insurance
JMI Aerospace Limited	33	33	31 March	Airline maintenance and service provider

All jointly controlled entities are incorporated in New Zealand.

The BCS Group Limited investment was entered into on 1 October 2005. The JMI Aerospace Limited investment was entered into on 1 February 2006. The Argenta Limited investment was entered into on 1 August 2006. 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.

Investment in ING New Zealand joint venture and disposal of life insurance and funds management businesses
On 30 September 2005, the Bank sold its subsidiaries, NBNZ Life Insurance Limited and NBNZ Investment Services Limited, to the joint venture established with ING Insurance International B.V. for $158 million. The sale transaction included the unit trusts and investment funds managed by NBNZ Investment Services Limited and The National Bank branded general insurance and credit card insurance businesses.

The sale resulted in the following impact on the consolidated financial statements:
- a reduction in goodwill of $113 million.
- a net gain on sale of $16 million was recognised on the sale of 51% of the Life Insurance and Funds Management businesses.
- an investment in ING (NZ) Holdings Limited of $145 million, being initial investment of $164 million adjusted for an unrecognised gain of $19 million on the Banking Group's share of the gain on sale of the Life Insurance and Funds Management businesses.

The sale resulted in the following impact on the parent financial statements:
- a reduction in goodwill of $117 million.
- a gain on sale of $39 million was recognised on the sale of 100% of the Life Insurance and Funds Management businesses.

The ING New Zealand joint venture has not yet adopted NZ IFRS, but will adopt in 2007. There are not expected to be any material impacts on the Banking Group when ING NZ adopts NZ IFRS.

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

	Parent and Consolidated	
	30/09/2006 $m	30/09/2005 $m
Share of assets and liabilities		
Investments	**80**	108
Other assets	**176**	146
Total assets	**256**	254
Life insurance policy liabilities	**52**	66
Other liabilities	**18**	24
Total liabilities	**70**	90
Net assets	**186**	164
Share of revenue, expenses and results		
Net underwriting result	**32**	–
Other revenue	**35**	–
Total revenue	**67**	–
Expenses	**44**	–
Profit before income tax	**23**	–
Income tax expense	**1**	–
Profit after tax	**22**	–
Share of commitments		
Lease commitments	**3**	3

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. There were no contingent liabilities as at 30 September 2006 (30/09/2005 $nil).

48. PARENT COMPANY AND ULTIMATE PARENT COMPANY

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

The Ultimate Parent Company is required to hold minimum capital at least equal to that specified under the Basel framework. The capital adequacy ratios are:

	Australian IFRS 30/09/2006	Australian Previous GAAP 30/09/2005
Tier 1 Capital	**6.8%**	6.9%
Total Capital	**10.6%**	10.5%

The Ultimate Parent Company meets those requirements imposed on it by its home supervisor as at 30 September 2006 whereby banks must maintain a ratio of qualifying capital to risk weighted assets of at least 8 per cent. The capital ratios disclosed were calculated under Australian previous GAAP prior to the Ultimate Parent Company adopting Australian IFRS on 1 October 2005. No retrospective adjustments have been made.

49. SUBSEQUENT EVENTS

The financial statements were authorised for issue by the Directors on 1 November 2006.

On 1 September 2006, UDC Finance Limited entered into a Share Sale Agreement to sell all the shares in Truck Leasing Limited to the New Zealand subsidiary of Nikko Principal Investments Australia Limited. The sale was completed on 31 October 2006. The gain on sale is estimated to be approximately $80 million.

50. 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. 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 2006 was A$26.86 (30/09/2005 A$24.00).

ANZ employee share acquisition plan
The ANZ Employee Share Acquisition Plan includes the A$1,000 Share Plan and the Deferred 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 period to 30 September 2006, 308,919 shares with an average issue price of A$23.67 were issued under the A$1,000 Share Plan (30/09/2005 362,627 shares with an average issue price of A$20.03 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.

During the year to 30 September 2006, no shares were issued under the deferred share plan (30/09/2005 13,248 shares with an average issue price of A$20.70 were issued).

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 year, measured at the date of grant of the shares, is NZ $8 million based on 308,919 shares at a weighted average price of A$23.67 converted at the exchange rate of 0.9015 (30/09/2005 375,875 shares with an average issue price of A$20.03 converted at the exchange rate of 0.9228 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:

Performance options plan
This scheme is a long term incentive program 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.

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.

50. EMPLOYEE SHARE AND OPTION PLANS (continued)

Deferred share rights

This scheme is a short term incentive program available to certain Banking Group employees since November 2004 and grants the right to acquire ANZ shares at nil cost after a three year vesting period for rights granted at November 2004, and a one year vesting period for rights granted at November 2005. In both cases rights must be exercised by the seventh anniversary of the 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 performance rights.

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 (ILO's).

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			
	30/09/2006		30/09/2005	
	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	**1,590,402**	**18.20**	1,306,288	17.73
Share options granted	**439,415**	**14.75**	596,579	18.43
Share options exercised	**(248,243)**	**17.07**	(122,885)	14.37
Share options forfeited and expired	**(113,138)**	**18.65**	(189,580)	18.16
Share options at end of the year	**1,668,436**	**17.49**	1,590,402	18.20
Weighted average share price during the year		**25.25**		21.27
Range of exercise prices on share options at end of the year		**16.33 – 23.49**		16.33 – 20.68
Weighted average remaining contractual life on share options at end of the year		**55 months**		62 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 year, measured at the date of grant are calculated using one of the following models:

(a) 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

(b) 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

The following inputs are used to measure the fair value of instruments granted during the year. For each instrument, the model used (a or b) is indicated. All prices are quoted in Australian dollars:

Option type	Performance options (a)	Deferred share rights (b)	Zero-priced options	Performance rights (b)
Grant date	7-Nov-2005	7-Nov-2005	7-Nov-2005	18-Nov-2005
Number of Options	275,938	10,845	9,961	142,671
Option value	$3.05	$22.48	$23.57	$11.64
Exercise price (5 day VWAP)	$23.49	$nil	$nil	$nil
Share price at grant	$23.60	$23.60	$23.60	$24.05
ANZ expected volatility[2]	17%	15%	n/a	15%
Option term	7 years	7 years	2 years	5 years
Vesting period	3 years	1 year	Immediate	3 years
Expected life	*	1 year	n/a	4 years
Expected dividends	5.30%	5.00%	n/a	5.00%
Risk free interest rate	5.34%	5.53%	n/a	5.30%

*For modelling purposes a 10% p.a. turnover rate (post vesting) has been assumed and that option holders will exercise their options if the share price is greater than twice the exercise price.

[1]Calculation of weighted average exercise prices are affected by performance rights, deferred share rights and ZPO plans which have nil exercise prices.
[2]Expected volatility is based on ANZ's historic volatility.

51. 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 trust deeds. The major schemes are:

Scheme	Scheme type	Contribution levels Employee	Contribution levels Employer
ANZ Group (New Zealand) Staff Superannuation Scheme[1]	Defined Benefit Scheme[2]	Nil	Balance of cost[4]
	or		
	Defined Contribution Scheme	2.5% minimum of salary	7.5% of salary[6]
The National Bank Staff Superannuation Fund[1]	Defined Benefit Scheme[3]	5% of salary	Balance of cost[5]
	or		
	Defined Contribution Scheme	2.0% minimum of salary	11.2% of salary[7]

Details of the defined benefit schemes are as follows:

Actuarial valuations are undertaken every six months. The latest valuations were carried out as at 30 September 2006.

	Consolidated/Parent 30/09/2006 $m	Consolidated/Parent 30/09/2005 $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	**187**	182
Current service cost	**4**	4
Interest cost	**11**	11
Contributions by scheme participants	**1**	1
Actuarial losses	**7**	5
Benefits paid	**(20)**	(16)
Present value of funded defined benefit obligations	**190**	187
Fair value of scheme assets at beginning of the year	**195**	184
Expected return on scheme assets (net of tax)	**11**	10
Actuarial gains	**5**	11
Contributions by employer	**4**	5
Contributions by scheme participants	**1**	1
Benefits paid	**(20)**	(16)
Fair value of scheme assets	**196**	195
Net defined benefit asset recognised on balance sheet	**6**	8

The fair value of scheme assets include cash deposits and fixed interest investments of $5 million with the Banking Group (30/09/2005 $7 million).

The amounts recognised in the income statement in respect of defined benefit schemes are as follows:

	30/09/2006 $m	30/09/2005 $m
Current service cost	**4**	4
Interest cost	**11**	11
Expected return on scheme assets (net of tax)	**(11)**	(10)
Contribution withholding tax	**2**	2
Total pension costs recognised in the income statement – defined benefit superannuation schemes	**6**	7

[1]These schemes provide for pension benefits and provide for lump sum benefits.
[2]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.
[3]Closed to new members on 1 October 1991.
[4]As recommended by the actuary, currently $nil (2005 $nil).
[5]As recommended by the actuary, currently 24.7% (2005 22.3%) of members' salaries.
[6]2005: 7.5% of members' salaries.
[7]2005: 11.2% of members' salaries.

51. RETIREMENT BENEFIT OBLIGATIONS (continued)

	Consolidated/Parent 30/09/2006	Consolidated/Parent 30/09/2005
The actuarial gains and losses recognised directly in equity via the statement of recognised income and expense are as follows:		
Actuarial gains (pre-tax) at beginning of the year	**6**	–
Actuarial (loss) gain (pre-tax) incurred during the year	**(2)**	6
Balance of actuarial gains (pre-tax) at end of the year	**4**	6
Income tax expense recognised directly in equity	**(1)**	(2)
Balance of actuarial gains at end of the year	**3**	4

	The National Bank Staff Superannuation Fund 30/09/2006	The National Bank Staff Superannuation Fund 30/09/2005	ANZ Group (New Zealand) Staff Superannuation Scheme 30/09/2006	ANZ Group (New Zealand) Staff Superannuation Scheme 30/09/2005
The principal actuarial assumptions used were as follows:				
Defined benefits calculation				
Discount rate (gross of tax)	6.0%	6.0%	6.0%	6.0%
Future price inflation	2.5%	2.0%	2.5%	2.0%
Future pension increases	2.5%	2.0%	2.5%	2.0%
Future salary increases	3.7%	3.0%	n/a	n/a
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 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 9.1% for the year ended 30 September 2006 (30/09/2005 11.5%). The actual return on scheme assets (net of tax) for the ANZ Group (New Zealand) Staff Superannuation Scheme was 7.6% for the year ended 30 September 2006 (30/09/2005 17.9%).

The investment return on scheme assets is taxed at 33% (30/09/2005 33%).

	The National Bank Staff Superannuation Fund 30/09/2006	The National Bank Staff Superannuation Fund 30/09/2005	ANZ Group (New Zealand) Staff Superannuation Scheme 30/09/2006	ANZ Group (New Zealand) Staff Superannuation Scheme 30/09/2005
The major categories of scheme assets as a percentage of the fair value of scheme plan assets are as follows:				
Cash and short term debt instruments	**15.0%**	20.0%	**12.0%**	6.0%
New Zealand fixed interest	**22.0%**	23.0%	**26.0%**	18.0%
Overseas fixed interest	**17.0%**	8.0%	**24.0%**	18.0%
New Zealand equities	**11.0%**	15.0%	**9.0%**	12.0%
Overseas equities	**35.0%**	34.0%	**24.0%**	40.0%
Property	**0.0%**	0.0%	**5.0%**	6.0%
	100.0%	100.0%	**100.0%**	100.0%

The benchmark weightings of each asset class is determined by the Trustee in conjunction with the investment manager.

51. 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	
	30/09/2006	30/09/2005
	$m	$m
Defined benefit obligation	**(190)**	(187)
Fair value of scheme assets	**196**	195
Net benefit asset	**6**	8
Experience adjustments on scheme liabilities	**3**	–
Experience adjustment on scheme assets	**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 Group (New Zealand) Staff Superannuation Scheme. The funding methods and current contribution rates of the individual schemes are determined in accordance with FRS 32 Financial Reporting by Superannuation Schemes and differ to the actuarial valuations undertaken for NZ IFRS purposes.

The National Bank Staff Superannuation Fund deficit was valued at $5 million in the most recent actuarial valuation, 1 April 2006. The most recent actuarial valuation for the ANZ Group (New Zealand) Staff Superannuation undertaken at 31 December 2004 was $0.2 million surplus.

The Banking Group expects to contribute $4 million (net of contributions withholding tax) to its defined benefit schemes in the year to 30 September 2007. Employer contributions are taxed at a rate of 33% (30/09/2005 33%).

Contingent liabilities

The National Bank Staff Superannuation Fund

The Banking Group has no present liability under the Fund's Trust Deed to fund the deficit, but it does have a contingent liability if the Fund was wound up. 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 Group (New Zealand) 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.

52. EXPLANATION OF TRANSITION TO NZ IFRS

Transition to NZ IFRS

The Banking Group has prepared these financial statements using NZ IFRS. As these financial statements are for the first year reported in accordance with NZ IFRS pages 78 to 89 provide explanation of how the transition from previous GAAP to NZ IFRS has affected the previously reported financial position, financial performance and cash flows of the Banking Group.

In accordance with NZ IFRS, the comparative information has been restated using the new accounting standards from 1 October 2004. As permitted by the transitional provisions set out in NZ IFRS 1, management has elected not to restate comparative information for the adoption of NZ IAS 32, NZ IAS 39 and NZ IFRS 4. Transitional adjustments arising from the adoption of these standards were made on 1 October 2005. Most accounting policy adjustments required to retrospectively apply NZ IFRS have been made against opening retained profits at the respective dates.

The accounting policy adjustments set out below are separated between those applicable from 1 October 2004 (and impacting the comparative years) and those applicable from 1 October 2005.

All amounts are stated on an after tax basis, unless otherwise stated.

NZ IFRS adjustments with effect from 1 October 2004

(i) Goodwill

No initial impact on retained profits; Potential volatility in future profits

The adoption of NZ IFRS does not impact the carrying amount of goodwill on transition as the Banking Group has elected not to restate past business combinations. Under NZ IFRS, the past practice of systematically amortising goodwill over the expected period of benefit ceases and is replaced by impairment testing annually or more frequently if events or circumstances indicate that goodwill might be impaired. As a result of the adoption of NZ IFRS, the Banking Group amortisation expense for the NZ IFRS comparative financial year ended 30 September 2005 has decreased by $182 million (Parent $171 million).

(ii) Defined benefit superannuation schemes

Initial increase in retained profits; Actuarial movements through retained profits

On adoption of NZ IAS 19: Employee Benefits (NZ IAS 19), surpluses (assets) and/or deficits (liabilities) that arise within defined benefit superannuation schemes are recognised in the balance sheet.

Under previous GAAP, the Banking Group accounted for the defined benefit superannuation schemes on a cash basis and did not recognise an asset or liability for the net position of the defined benefit superannuation schemes.

The Banking Group has elected to apply early the option available under NZ IAS 19 to recognise actuarial gains and losses in the balance sheet (i.e. the 'direct to retained profits' approach). The non-cash expense reflecting the notional cost of the benefits accruing to members of the defined benefit schemes in respect of the service provided over the reporting period is charged to the income statement. All transitional adjustments and ongoing movements reported for each scheme will be actuarially determined in accordance with NZ IAS 19.

At 1 October 2004, the Banking Group and Parent recognised an asset of $2 million (comprising previously unrecognised net actuarial gains) with an associated deferred tax liability of $1 million and a corresponding credit to retained profits of $1 million.

For the NZ IFRS comparative year ended 30 September 2005, a credit adjustment of $4 million (post tax) was made to retained profits to recognise an increase in the Banking Group's pension assets for the year, representing largely a net actuarial gain (Parent $4 million). The impact on the income statement in each year of moving from a contributions basis to a service cost basis is not material.

(iii) Share-based payments

Initial increase in retained profits; Immaterial impact on future profits

Under previous GAAP, the Banking Group recognised immediately an expense equal to the full fair value of all deferred shares issued as part of the short term and long-term incentive arrangements and for shares issued under the A$1,000 employee share plan. The deferred shares vest over one to three years and may be forfeited under certain conditions. The shares issued under the A$1,000 employee share plan vest over three years and may be forfeited under certain conditions. Under previous GAAP, the Banking Group did not recognise an expense for share options issued to staff.

On adoption of NZ IFRS 2: Share-based Payment (NZ IFRS 2), the Banking Group recognised an expense for share-based remuneration relating to share options. The expense for all share-based payments will be recognised over the relevant vesting period, rather than immediate recognition as under previous GAAP.

The Banking Group has elected to retrospectively apply NZ IFRS 2 to share-based payments granted prior to 7 November 2002 and which remain unvested as at 1 October 2004.

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

For the Banking Group and Parent on 1 October 2004, this change in accounting policy resulted in:
- the establishment of a share options liability of $2 million to reflect the fair value of options granted to employees;
- recognition of a net share compensation asset of $7 million to reflect the fair value of unvested shares;
- recognition of a deferred tax liability of $2 million; and
- a net increase to retained profits of $3 million.

For the NZ IFRS comparative year ended 30 September 2005, the impact of the change on the Banking Group and Parent was:
- an increase in the share options liability of $2 million;
- an increase in the net share compensation asset of $3 million;
- an increase in the deferred tax liability of $1 million; and
- an immaterial increase in profit after tax.

(iv) Taxation
Change in methodology; No material impact on retained profits
Under NZ IAS 12: Income taxes (NZ IAS 12), a balance sheet method of tax effect accounting is adopted, replacing the 'Statement of Financial Performance' approach currently used by the Banking Group under previous GAAP.

Under NZ IAS 12, income tax expense comprises current and deferred taxes, with income tax expense recognised in the income statement, or recognised in equity to the extent that it relates to items recognised directly in equity. Deferred tax is calculated using the balance sheet method by determining temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities as used for taxation purposes.

At 1 October 2004 and the comparative financial year ended 30 September 2005, this change in approach did not result in any material adjustments to equity or deferred tax assets and liabilities for the Banking Group and Parent.

(v) Intangible assets – software
No impact on profit; Reclassification only
On transition to NZ IFRS, capitalised software assets are reclassified from Premises and Equipment to a separately identifiable intangible asset. For the Banking Group and Parent this resulted in a reclassification of $31 million and $16 million as at 1 October 2004 and 30 September 2005 respectively. There is no impact on the income statement.

(vi) Business combinations
No impact
At 1 October 2004, the Banking Group elected under NZ IFRS 1 to not restate the classification and accounting treatment of business combinations that occurred prior to 1 October 2004.

(vii) Derivatives
No impact on profit; Reclassification only
With effect from 1 October 2004, unrealised gains and losses on derivative financial instruments fair valued under previous GAAP and disclosed within other assets and payables and other liabilities in the balance sheet have been reclassified to separate line items within the NZ IFRS balance sheet being derivative financial instruments (asset) for those derivatives with a positive fair value and derivative financial instruments (liability) for those derivatives with a negative fair value. For the Banking Group this resulted in the following reclassifications:

	Consolidated		Parent	
	1 October 2004 $m	30 September 2005 $m	1 October 2004 $m	30 September 2005 $m
Assets				
Derivative financial instruments	1,649	1,270	1,649	1,246
Other assets	(1,649)	(1,270)	(1,649)	(1,246)
Liabilities				
Derivative financial instruments	2,495	1,660	2,473	1,636
Payables and other liabilities	(2,495)	(1,660)	(2,473)	(1,636)

NZ IFRS adjustments with effect from 1 October 2005

(viii) Credit loss provisioning
Initial increase in retained profits; Volatility in future profits
NZ IAS 39 adopts an incurred loss approach for credit loss provisioning and provides guidance on the measurement of incurred losses. Provisions are raised for losses that have already been incurred for exposures that are known to be impaired. The estimated losses on these impaired exposures are then discounted to their present value. As this discount unwinds during the period between recognition of impairment and recovery of the written down amount, it is recognised in the income statement as interest income on impaired assets.

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

The General Provision under previous GAAP is replaced under NZ IFRS by a Collective Provision.

Exposures not individually known to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not yet identified. 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.

The Collective Provision under NZ IFRS shares the same underlying measurement objectives as the previous GAAP General Provision. However, as a result of the application of a new estimation methodology, certain judgmental risk measures have changed.

The Banking Group believes that the resulting Collective Provision, while lower than the previous GAAP General Provision, comfortably falls within the probable range of losses that have been incurred but not identified in our portfolio.

On adoption of NZ IFRS, the previous Economic Loss Provisioning (ELP) charge to profit is replaced by a charge for Individual Provisions on impaired exposures together with a charge for movements in the Collective Provision.

As a result of these changes:
- at 1 October 2005, the Banking Group Individual Provision was $6 million less than the previous GAAP Specific Provision (Parent $6 million). After tax, this resulted in an increase to retained profits of $4 million at 1 October 2005 (Parent $4 million);
- at 1 October 2005, the Banking Group Collective Provision was $154 million less than the previous GAAP General Provision (Parent $197 million). After tax, this resulted in an increase to retained profits of $103 million at 1 October 2005 (Parent $132 million).
- Individual Provisions and movements in the Collective Provision are charged direct to the income statement driving increased profit volatility for the Banking Group; and
- movements in the Collective Provision are driven by changes in the Banking Group's portfolio size, portfolio mix and the outlook for credit risk and economic cycles.

(ix) Fee revenue
Initial reduction in retained profits
<u>Financial service fees recognised as an adjustment to yield</u>
Under NZ IAS 39 fee income (such as loan approval fees) integral to the yield of an originated financial instrument (such as loans and advances measured at amortised cost), net of any direct incremental costs, must be capitalised and deferred over the expected life of the financial instrument.

On 1 October 2005, certain fees that had previously been recognised in the income statement are deferred and recognised against net loans and advances in the balance sheet with a corresponding reduction to retained profits. The impact was a reduction in retained profits of $29 million (post tax) for the Banking Group at 1 October 2005 (Parent $27 million). The annual impact on net profit from this change is not expected to be material, however, there will be an increase in interest income offset by a reduction in fee income.

<u>Finance lease fees</u>
Under previous GAAP, the Banking Group recognised fee income on certain finance lease transactions that no longer meets the recognition criteria under NZ IFRS. As a result the deferred fee income recognised at 1 October 2005 was written off to retained profits. This resulted in a reduction in retained profits at 1 October 2005 of $7 million after tax (Parent $7 million).

(x) Derivative financial instruments including hedging
Initial reduction in retained profits; Volatility in future profits; New assets and liabilities recognised
Under NZ IFRS, all derivative financial instruments, including those used as hedging instruments, are measured at fair value and recognised in the balance sheet.

NZ IFRS permits hedge accounting (if certain criteria are met) for fair value hedges, cash flow hedges and hedges of investments in foreign operations. Hedge accounting can only be utilised where prospective and retrospective effectiveness tests are met and the hedge relationship has been adequately documented. The Banking Group uses cash flow and fair value hedging in respect of its interest rate risk exposures.

<u>Fair value hedging</u>
At 1 October 2005, the Banking Group recognised adjustments to the balance sheet as a result of utilising fair value hedge accounting. The resulting impact was a decrease to net loans and advances of $110 million (Parent $118 million), an increase in derivative financial instrument assets of $134 million (Parent $131 million), an increase in derivative financial instrument liabilities of $17 million (Parent $6 million), a reduction in deferred tax asset of $2 million (Parent $2 million) and an after-tax increase in retained profits of $5 million (Parent $5 million).

<u>Cash flow hedging</u>
At 1 October 2005, the Banking Group and Parent recognised the following adjustments as a result of utilising cash flow hedging; an increase in derivative financial instrument assets of $31 million, an increase in derivative financial instrument liabilities of $9 million, a decrease to payables and other liabilities of $38 million, a deferred tax liability of $20 million and an after-tax adjustment to cash flow hedging reserve of $40 million.

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

Recognition of other derivatives at fair value

At 1 October 2005, the Banking Group recognised adjustments to the balance sheet as a result of recognising at fair value derivative financial instruments not designated in hedging relationships. The resulting impacts are an increase in derivative financial instrument assets of $12 million (Parent $10 million), an increase in derivative financial instrument liabilities of $25 million (Parent $28 million), a deferred tax asset of $4 million (Parent $6 million) and decrease in retained profits of $9 million (Parent $12 million).

Credit valuation adjustment

In addition to the above adjustments, the Banking Group and Parent recognised an adjustment to reflect the market value of counterparty risk in the fair value of derivatives. This resulted in a decrease in retained profits of $2 million (after tax) at 1 October 2005. Under previous GAAP counterparty risk was notionally allowed for as part of the general provision.

Bid/offer adjustment

Under NZ IFRS, financial instruments are also required to be measured at 'bid' or 'offer' prices rather than the 'mid' price used under previous GAAP. On 1 October 2005, this change in measurement resulted in a decrease to the Banking Group's retained profits of $1 million (after tax) (Parent $1 million).

(xi) Financial assets and liabilities classification and measurement

Investment securities and commercial paper reclassified and measured at fair value; Immaterial impact on retained profits and other reserves

Under NZ IFRS, investment securities have been reclassified as available-for-sale resulting in measurement at fair value with movements being taken to an 'available-for-sale revaluation reserve' and commercial paper has been designated at fair value through the profit or loss, with movements in fair value being taken to the income statement. Under previous GAAP, both investment securities and commercial paper were carried at amortised cost.

On 1 October 2005, the reclassification of investment securities as available-for-sale assets resulted in an immaterial increase in equity for the Banking Group and Parent. In addition, the designation of commercial paper at fair value through profit or loss also resulted in an immaterial adjustment to retained profits.

(xii) Gross up of assets and liabilities

Recognition of new assets and liabilities

Under previous GAAP, the Banking Group off-set certain assets and liabilities related to its structured finance transactions. Under NZ IFRS, these arrangements do not meet the set-off criteria and therefore, on 1 October 2005, the Banking Group recognised an increase in due from other financial institutions of $80 million, an increase in net loans and advances of $405 million, an increase in other assets of $3 million, an increase in due to other financial institutions of $78 million and an increase in deposits and other borrowings of $410 million.

(xiii) Other adjustments

Initial decrease in retained profits

At 1 October 2005, certain deferred costs have been written off as they no longer meet the recognition criteria under NZ IFRS. This resulted in a $2 million reduction to the Banking Group's retained profits after tax (Parent $2 million). In addition, the Banking Group recognised an additional provision against a structured finance transaction resulting in a $1 million reduction to retained profits after tax (Parent $nil).

Reconciliations from previous GAAP to NZ IFRS

The tables that follow contain reconciliations from previous GAAP to NZ IFRS in accordance with NZ IFRS 1. The NZ IFRS adjustment column is referenced to detailed discussion of the changes under NZ IFRS.

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

Reconciliation of profit for the year ended 30 September 2005:

	Consolidated								
	Previous GAAP	Goodwill (note i)	Defined benefit superannuation schemes (note ii)	Share-based payments (note iii)	Total NZ IFRS Adjustments	NZ IFRS	Discontinued operation	Intercompany eliminations	Restated NZ IFRS
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Continuing operations									
Interest income	5,985	–	–	–	–	5,985	–	24	6,009
Interest expense	4,069	–	–	–	–	4,069	(24)	24	4,069
Net interest income	1,916	–	–	–	–	1,916	24	–	1,940
Other operating income	850	–	–	–	–	850	(57)	–	793
Share of profit of equity accounted associates and jointly controlled entities	1	–	–	–	–	1	–	–	1
Net operating income	2,767	–	–	–	–	2,767	(33)	–	2,734
Operating expenses	1,506	(182)	–	(1)	(183)	1,323	(11)	–	1,312
Profit before provision for credit impairment and income tax	1,261	182	–	1	183	1,444	(22)	–	1,422
Provision for credit impairment	122	–	–	–	–	122	(1)	–	121
Profit before income tax	1,139	182	–	1	183	1,322	(21)	–	1,301
Income tax expense	404	–	–	1	1	405	(7)	–	398
Profit after income tax from continuing activities	735	182	–	–	182	917	(14)	–	903
Discontinued operation									
Profit from discontinued operation (net of income tax)	–	–	–	–	–	–	14	–	14
Profit after income tax	735	182	–	–	182	917	–	–	917

	Parent								
	Previous GAAP	Goodwill (note i)	Defined benefit superannuation schemes (note ii)	Share-based payments (note iii)	Total NZ IFRS Adjustments	NZ IFRS	Discontinued operation	Intercompany eliminations	Restated NZ IFRS
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest income	5,532	–	–		–	5,532	–	–	5,532
Interest expense	4,254	–	–		–	4,254	–	–	4,254
Net interest income	1,278	–	–	–	–	1,278	–	–	1,278
Other operating income	5,776	–	–		–	5,776	–	–	5,776
Share of profit of equity accounted associates and jointly controlled entities	–	–	–		–	–	–	–	–
Net operating income	7,054	–	–	–	–	7,054	–	–	7,054
Operating expenses	6,356	(171)	–	(1)	(172)	6,184	–	–	6,184
Profit before provision for credit impairment and income tax	698	171	–	1	172	870	–	–	870
Provision for credit impairment	110	–	–	–	–	110	–	–	110
Profit before income tax	588	171	–	1	172	760	–	–	760
Income tax expense	215	–	–	1	1	216	–	–	216
Profit after income tax	373	171	–	–	171	544	–	–	544

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

Reconciliation of equity as at 1 October 2004:

	Consolidated						
	Previous GAAP	Defined benefit superannuation schemes (note ii)	Share-based payments (note iii)	Intangible assets – software (note v)	Derivatives (note vii)	Total NZ IFRS Adjustments	NZ IFRS
	$m	$m	$m	$m	$m	$m	$m
Assets							
Liquid assets	1,473	–	–	–	–	–	1,473
Due from other financial institutions	2,930	–	–	–	–	–	2,930
Trading securities	680	–	–	–	–	–	680
Derivative financial instruments	–	–	–	–	1,649	1,649	1,649
Available for sale assets	1,333	–	–	–	–	–	1,333
Net loans and advances	60,391	–	–	–	–	–	60,391
Shares in controlled entities, associates and jointly controlled entities	21	–	–	–	–	–	21
Current tax assets	–	–	–	–	–	–	–
Other assets	2,927	2	7	–	(1,649)	(1,640)	1,287
Deferred tax assets	406	–	–	–	–	–	406
Premises and equipment	670	–	–	(31)	–	(31)	639
Goodwill and other intangible assets	3,381	–	–	31	–	31	3,412
Total assets	74,212	2	7	–	–	9	74,221
Liabilities							
Due to other financial institutions	1,372	–	–	–	–	–	1,372
Deposits and other borrowings	53,912	–	–	–	–	–	53,912
Derivative financial instruments	–	–	–	–	2,495	2,495	2,495
Payables and other liabilities	4,299	–	2	–	(2,495)	(2,493)	1,806
Current income liabilities	115	–	–	–	–	–	115
Deferred tax liabilities	112	1	2	–	–	3	115
Provisions	140	–	–	–	–	–	140
Bonds and notes	2,747	–	–	–	–	–	2,747
Related party funding	2,777	–	–	–	–	–	2,777
Loan capital	1,357	–	–	–	–	–	1,357
Total liabilities	66,831	1	4	–	–	5	66,836
Net assets	7,381	1	3	–	–	4	7,385
Equity							
Ordinary share capital	5,943	–	–	–	–	–	5,943
Reserves	–	–	–	–	–	–	–
Retained profits	1,438	1	3	–	–	4	1,442
Total equity	7,381	1	3	–	–	4	7,385

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

Reconciliation of equity as at 1 October 2004:

	Parent						
	Previous GAAP	Defined benefit superannuation schemes (note ii)	Share-based payments (note iii)	Intangible assets – software (note v)	Derivatives (note vii)	Total NZ IFRS Adjustments	NZ IFRS
	$m	$m	$m	$m	$m	$m	$m
Assets							
Liquid assets	1,456	–	–	–	–	–	1,456
Due from other financial institutions	1,851	–	–	–	–	–	1,851
Trading securities	680	–	–	–	–	–	680
Derivative financial instruments	–	–	–	–	1,649	1,649	1,649
Available for sale assets	1,030	–	–	–	–	–	1,030
Net loans and advances	56,712	–	–	–	–	–	56,712
Due from subsidiary companies	30	–	–	–	–	–	30
Shares in controlled entities, associates and jointly controlled entities	12,275	–	–	–	–	–	12,275
Current tax assets	–	–	–	–	–	–	–
Other assets	2,828	2	7	–	(1,649)	(1,640)	1,188
Deferred tax assets	384	–	–	–	–	–	384
Premises and equipment	139	–	–	(31)	–	(31)	108
Goodwill and other intangible assets	3,335	–	–	31	–	31	3,366
Total assets	80,720	2	7	–	–	9	80,729
Liabilities							
Due to other financial institutions	1,006	–	–	–	–	–	1,006
Deposits and other borrowings	44,039	–	–	–	–	–	44,039
Due to subsidiary companies	19,928	–	–	–	–	–	19,928
Derivative financial instruments	–	–	–	–	2,473	2,473	2,473
Payables and other liabilities	4,115	–	2	–	(2,473)	(2,471)	1,644
Current income liabilities	37	–	–	–	–	–	37
Deferred tax liabilities	84	1	2	–	–	3	87
Provisions	132	–	–	–	–	–	132
Bonds and notes	643	–	–	–	–	–	643
Related party funding	2,777	–	–	–	–	–	2,777
Loan capital	1,357	–	–	–	–	–	1,357
Total liabilities	74,118	1	4	–	–	5	74,123
Net assets	6,602	1	3	–	–	4	6,606
Equity							
Ordinary share capital	5,943	–	–	–	–	–	5,943
Reserves	–	–	–	–	–	–	–
Retained profits	659	1	3	–	–	4	663
Total equity	6,602	1	3	–	–	4	6,606

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

Reconciliation of equity as at 30 September 2005:

	Consolidated								
			NZ IFRS movement for the year ended 30 September 2005						
	Previous GAAP	1 October 2004 NZ IFRS adjustments	Goodwill (note i)	Defined benefit superannuation schemes (note ii)	Share-based payments (note iii)	Intangible assets – software (note v)	Derivatives (note vii)	Total NZ IFRS Adjustments	NZ IFRS
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Liquid assets	1,857	–	–	–	–	–	–	–	1,857
Due from other financial institutions	5,472	–	–	–	–	–	–	–	5,472
Trading securities	912	–	–	–	–	–	–	–	912
Derivative financial instruments	–	1,649	–	–	–	–	(379)	1,270	1,270
Available for sale assets	1,270	–	–	–	–	–	–	–	1,270
Net loans and advances	69,139	–	–	–	–	–	–	–	69,139
Shares in controlled entities, associates and jointly controlled entities	158	–	–	–	–	–	–	–	158
Current tax assets	66	–	–	–	–	–	–	–	66
Other assets	2,197	(1,640)	–	6	3	–	379	(1,252)	945
Deferred tax assets	415	–	–	–	–	–	–	–	415
Premises and equipment	734	(31)	–	–	–	15	–	(16)	718
Goodwill and other intangible assets	3,081	31	182	–	–	(15)	–	198	3,279
Total assets	85,301	9	182	6	3	–	–	200	85,501
Liabilities									
Due to other financial institutions	4,204	–	–	–	–	–	–	–	4,204
Deposits and other borrowings	59,546	–	–	–	–	–	–	–	59,546
Derivative financial instruments	–	2,495	–	–	–	–	(835)	1,660	1,660
Payables and other liabilities	3,245	(2,493)	–	–	2	–	835	(1,656)	1,589
Current income liabilities	–	–	–	–	–	–	–	–	–
Deferred tax liabilities	144	3	–	2	1	–	–	6	150
Provisions	142	–	–	–	–	–	–	–	142
Bonds and notes	6,139	–	–	–	–	–	–	–	6,139
Related party funding	2,650	–	–	–	–	–	–	–	2,650
Loan capital	1,475	–	–	–	–	–	–	–	1,475
Total liabilities	77,545	5	–	2	3	–	–	10	77,555
Net assets	7,756	4	182	4	–	–	–	190	7,946
Equity									
Ordinary share capital	5,943	–	–	–	–	–	–	–	5,943
Reserves	–	–	–	–	–	–	–	–	–
Retained profits	1,813	4	182	4	–	–	–	190	2,003
Total equity	7,756	4	182	4	–	–	–	190	7,946

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

Reconciliation of equity as at 30 September 2005:

	Parent								
			NZ IFRS movement for the year ended 30 September 2005						
	Previous GAAP	1 October 2004 NZ IFRS adjustments	Goodwill (note i)	Defined benefit superannuation schemes (note ii)	Share-based payments (note iii)	Intangible assets – software (note v)	Derivatives (note vii)	Total NZ IFRS Adjustments	NZ IFRS
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Liquid assets	1,857	–	–	–	–	–	–	–	1,857
Due from other financial institutions	4,056	–	–	–	–	–	–	–	4,056
Trading securities	912	–	–	–	–	–	–	–	912
Derivative financial instruments	–	1,649	–	–	–	–	(403)	1,246	1,246
Available for sale assets	1,270	–	–	–	–	–	–	–	1,270
Net loans and advances	65,788	–	–	–	–	–	–	–	65,788
Due from subsidiary companies	1,430	–	–	–	–	–	–	–	1,430
Shares in controlled entities, associates and jointly controlled entities	7,496	–	–	–	–	–	–	–	7,496
Current tax assets	166	–	–	–	–	–	–	–	166
Other assets	2,083	(1,640)	–	6	3	–	403	(1,228)	855
Deferred tax assets	395	–	–	–	–	–	–	–	395
Premises and equipment	130	(31)	–	–	–	15	–	(16)	114
Goodwill and other intangible assets	3,046	31	171	–	–	(15)	–	187	3,233
Total assets	88,629	9	171	6	3	–	–	189	88,818
Liabilities									
Due to other financial institutions	2,151	–	–	–	–	–	–	–	2,151
Deposits and other borrowings	47,959	–	–	–	–	–	–	–	47,959
Due to subsidiary companies	23,878	–	–	–	–	–	–	–	23,878
Derivative financial instruments	–	2,473	–	–	–	–	(837)	1,636	1,636
Payables and other liabilities	3,046	(2,471)	–	–	2	–	837	(1,632)	1,414
Current income liabilities	–	–	–	–	–	–	–	–	–
Deferred tax liabilities	114	3	–	2	1	–	–	6	120
Provisions	137	–	–	–	–	–	–	–	137
Bonds and notes	604	–	–	–	–	–	–	–	604
Related party funding	2,650	–	–	–	–	–	–	–	2,650
Loan capital	1,475	–	–	–	–	–	–	–	1,475
Total liabilities	82,014	5	–	2	3	–	–	10	82,024
Net assets	6,615	4	171	4	–	–	–	179	6,794
Equity									
Ordinary share capital	5,943	–	–	–	–	–	–	–	5,943
Reserves	–	–	–	–	–	–	–	–	–
Retained profits	672	4	171	4	–	–	–	179	851
Total equity	6,615	4	171	4	–	–	–	179	6,794

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

Reconciliation of equity as at 1 October 2005:

	Consolidated								
		Adjustments on adoption of NZ IAS 32 and NZ IAS 39							
	NZ IFRS 30 September 2005 $m	Credit loss provisioning (note viii) $m	Fee revenue (note ix) $m	Derivative financial instruments including hedging (note x) $m	Financial assets and liabilities classification and measurement (note xi) $m	Gross up of assets and liabilities (note xii) $m	Other adjustments (note xiii) $m	Total adjustments on adoption of NZ IAS 32/39 $m	NZ IFRS At 1 October 2005 $m
Assets									
Liquid assets	1,857	–	–	–	–	–	–	–	1,857
Due from other financial institutions	5,472	–	–	–	–	80	–	80	5,552
Trading securities	912	–	–	–	–	–	–	–	912
Derivative financial instruments	1,270	–	–	174	–	–	–	174	1,444
Available for sale assets	1,270	–	–	–	1	–	–	1	1,271
Net loans and advances	69,139	160	(44)	(110)	–	405	–	411	69,550
Shares in controlled entities, associates and jointly controlled entities	158	–	–	–	–	–	–	–	158
Current tax assets	66	–	–	–	–	–	–	–	66
Other assets	945	–	(10)	–	–	3	(1)	(8)	937
Deferred tax assets	415	(53)	18	3	–	–	2	(30)	385
Premises and equipment	718	–	–	–	–	–	–	–	718
Goodwill and other intangible assets	3,279	–	–	–	–	–	–	–	3,279
Total assets	85,501	107	(36)	67	1	488	1	628	86,129
Liabilities									
Due to other financial institutions	4,204	–	–	–	–	78	–	78	4,282
Deposits and other borrowings	59,546	–	–	–	–	410	–	410	59,956
Derivative financial instruments	1,660	–	–	52	–	–	–	52	1,712
Payables and other liabilities	1,589	–	–	(38)	–	–	4	(34)	1,555
Current income liabilities	–	–	–	–	–	–	–	–	–
Deferred tax liabilities	150	–	–	20	1	–	–	21	171
Provisions	142	–	–	–	–	–	–	–	142
Bonds and notes	6,139	–	–	–	–	–	–	–	6,139
Related party funding	2,650	–	–	–	–	–	–	–	2,650
Loan capital	1,475	–	–	–	–	–	–	–	1,475
Total liabilities	77,555	–	–	34	1	488	4	527	78,082
Net assets	7,946	107	(36)	33	–	–	(3)	101	8,047
Equity									
Ordinary share capital	5,943	–	–	–	–	–	–	–	5,943
Reserves	–	–	–	40	–	–	–	40	40
Retained profits	2,003	107	(36)	(7)	–	–	(3)	61	2,064
Total equity	7,946	107	(36)	33	–	–	(3)	101	8,047

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

Reconciliation of equity as at 1 October 2005:

	Parent								
		Adjustments on adoption of NZ IAS 32 and NZ IAS 39							
	NZ IFRS 30 September 2005 $m	Credit loss provisioning (note viii) $m	Fee revenue (note ix) $m	Derivative financial instruments including hedging (note x) $m	Financial assets and liabilities classification and measurement (note xi) $m	Gross up of assets and liabilities (note xii) $m	Other adjustments (note xiii) $m	Total adjustments on adoption of NZ IAS 32/39 $m	NZ IFRS At 1 October 2005 $m
Assets									
Liquid assets	1,857	–	–	–	–	–	–	–	1,857
Due from other financial institutions	4,056	–	–	–	–	–	–	–	4,056
Trading securities	912	–	–	–	–	–	–	–	912
Derivative financial instruments	1,246	–	–	169	–	–	–	169	1,415
Available for sale assets	1,270	–	–	–	1	–	–	1	1,271
Net loans and advances	65,788	203	(41)	(118)	–	–	–	44	65,832
Due from subsidiary companies	1,430	–	–	–	–	–	–	–	1,430
Shares in controlled entities, associates and jointly controlled entities	7,496	–	–	–	–	–	–	–	7,496
Current tax assets	166	–	–	–	–	–	–	–	166
Other assets	855	–	(10)	–	–	–	–	(10)	845
Deferred tax assets	395	(67)	17	5	–	–	2	(43)	352
Premises and equipment	114	–	–	–	–	–	–	–	114
Goodwill and other intangible assets	3,233	–	–	–	–	–	–	–	3,233
Total assets	88,818	136	(34)	56	1	–	2	161	88,979
Liabilities									
Due to other financial institutions	2,151	–	–	–	–	–	–	–	2,151
Deposits and other borrowings	47,959	–	–	–	–	–	–	–	47,959
Due to subsidiary companies	23,878	–	–	–	–	–	–	–	23,878
Derivative financial instruments	1,636	–	–	44	–	–	–	44	1,680
Payables and other liabilities	1,414	–	–	(38)	–	–	4	(34)	1,380
Current income liabilities	–	–	–	–	–	–	–	–	–
Deferred tax liabilities	120	–	–	20	1	–	–	21	141
Provisions	137	–	–	–	–	–	–	–	137
Bonds and notes	604	–	–	–	–	–	–	–	604
Related party funding	2,650	–	–	–	–	–	–	–	2,650
Loan capital	1,475	–	–	–	–	–	–	–	1,475
Total liabilities	82,024	–	–	26	1	–	4	31	82,055
Net assets	6,794	136	(34)	30	–	–	(2)	130	6,924
Equity									
Ordinary share capital	5,943	–	–	–	–	–	–	–	5,943
Reserves	–	–	–	40	–	–	–	40	40
Retained profits	851	136	(34)	(10)	–	–	(2)	90	941
Total equity	6,794	136	(34)	30	–	–	(2)	130	6,924

52. EXPLANATION OF TRANSITION TO NZ IFRS (continued)

Reconciliation of cash flows for the year ended 30 September 2005:

	Consolidated			Parent		
	Previous GAAP $m	Effect of transition to NZ IFRS $m	NZ IFRS $m	Previous GAAP $m	Effect of transition to NZ IFRS $m	NZ IFRS $m
Cash flows from operating activities						
Interest received	5,861	–	5,861	5,414	–	5,414
Dividends received	1	–	1	5,019	–	5,019
Fees and other income received	941	–	941	709	–	709
Interest paid	(3,589)	–	(3,589)	(3,799)	–	(3,799)
Operating expenses paid	(1,279)	–	(1,279)	(1,220)	–	(1,220)
Income taxes paid	(521)	–	(521)	(397)	–	(397)
Cash flows from operating profits before changes in operating assets and liabilities	1,414	–	1,414	5,726	–	5,726
Net changes in operating assets and liabilities:						
Increase in due from other financial institutions – term	–	(840)	(840)	–	(507)	(507)
Increase in trading securities	–	(232)	(232)	–	(232)	(232)
Increase in due from subsidiary companies	–	–	–	(1,400)	–	(1,400)
Increase in derivative financial instruments	–	(456)	(456)	–	(434)	(434)
Increase in loans and advances	–	(8,870)	(8,870)	–	(9,186)	(9,186)
Decrease in other assets	–	222	222	–	251	251
Increase in due to other financial institutions – term	–	785	785	–	46	46
Increase in deposits and other borrowings	–	5,301	5,301	–	3,587	3,587
Decrease in payables and other liabilities	–	(344)	(344)	–	(338)	(338)
Net cash flows provided by (used in) operating activities	1,414	(4,434)	(3,020)	4,326	(6,813)	(2,487)
Cash flows from investing activities						
Proceeds from sale of shares in associates and jointly controlled entities	9	–	9	–	–	–
Proceeds from sale of shares in subsidiaries	158	–	158	158	–	158
Proceeds from sale of premises and equipment	54	–	54	1	–	1
Increase in due from other financial institutions – term	(2,986)	2,986	–	(2,653)	2,653	–
Decrease (increase) in investment securities	296	–	296	(7)	–	(7)
Increase in loans and advances	(8,870)	8,870	–	(9,186)	9,186	–
Decrease in other assets	601	(601)	–	654	(654)	–
Purchase of shares in associates and jointly controlled entities	(166)	–	(166)	(166)	–	(166)
Purchase of premises and equipment	(248)	–	(248)	(37)	–	(37)
Net cash flows (used in) provided by investing activities	(11,152)	11,255	103	(11,236)	11,185	(51)
Cash flows from financing activities						
Proceeds from bonds and notes	3,425	–	3,425	–	–	–
Redemptions of bonds and notes	(82)	–	(82)	(25)	–	(25)
Proceeds from loan capital	200	–	200	200	–	200
Redemptions of loan capital	(100)	–	(100)	(100)	–	(100)
Decrease in related party funding	(127)	–	(127)	(127)	–	(127)
Increase in due to other financial institutions – term	2,195	(2,195)	–	427	(427)	–
Increase in deposits and other borrowings	5,301	(5,301)	–	3,587	(3,587)	–
Increase in due to subsidiary companies	–	–	–	3,950	–	3,950
Decrease in payables and other liabilities	(1,179)	1,179	–	(1,175)	1,175	–
Dividends paid	(360)	–	(360)	(360)	–	(360)
Net cash flows provided by (used in) financing activities	9,273	(6,317)	2,956	6,377	(2,839)	3,538
Net cash flows provided by (used in) operating activities	1,414	(4,434)	(3,020)	4,326	(6,813)	(2,487)
Net cash flows (used in) provided by investing activities	(11,152)	11,255	103	(11,236)	11,185	(51)
Net cash flows provided by (used in) financing activities	9,273	(6,317)	2,956	6,377	(2,839)	3,538
Net (decrease) increase in cash and cash equivalents	(465)	504	39	(533)	1,533	1,000
Cash and cash equivalents at beginning of the year	2,855	(681)	2,174	2,908	(681)	2,227
Cash and cash equivalents at end of the year	2,390	(177)	2,213	2,375	852	3,227

The main NZ IFRS transition effects presented by the Banking Group in its statement of cash flows for the year ended 30 September 2005, were:

(i) Under previous GAAP, cash and cash equivalents included Trading securities. Trading securities under NZ IFRS are classified as part of cash flows from operating activities. Under IFRS, the definition of cash and cash equivalents has been widened to include short-term, highly liquid investments that are readily convertible to cash. This includes short-term investments with an original maturity of less than 90 days. Previously, cash equivalents had to be convertible to cash within two days.

(ii) Under NZ IFRS, cash flows from operating activities include loans and advances made and the repayment of those loans and advances, and net cash proceeds from deposits and other borrowings, and other similar items, as these relate to the main revenue producing activity of a bank.

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, PO Box 1492, 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 year.

In addition to the written disclosures referred to in paragraphs (a) and (b) above, Directors disclose relevant interests 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 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 to Directorships

There have been no changes in the Bank's Board of Directors since the authorisation date of the previous Disclosure Statement on 10 August 2006.

Board Members as at 1 November 2006

Independent Non-Executive Director, Chairman

Sir Dryden Spring
DSc
Company Director
Matamata, New Zealand

Directorships
Director: Sky City Entertainment Group Limited, Port of Tauranga Limited, Fletcher Building Limited, Fletcher Building Finance Limited, Northport Limited

Executive Director

Graham Kennedy Hodges
BEc (Hons)
Chief Executive
ANZ National Bank Limited
Wellington, New Zealand

Directorships
Nil

Non-Executive Directors

Dr Bob Edgar
Ph.D, BEc (Hons)
Senior Managing Director
Australia and New Zealand Banking Group Limited
Melbourne, Australia

Directorships
Chairman: Esanda Finance Corporation Limited, ING Australia Limited
Director: ANZ Insage Pty Limited, ANZ Royal Bank (Cambodia) Limited, ANZIB Specialist Asset Management Limited

John McFarlane, OBE
MA, MBA
Chief Executive Officer
Australia and New Zealand Banking Group Limited
Melbourne, Australia

Directorships
Director: Australia and New Zealand Banking Group Limited, Ballimore Pty Limited

DIRECTORATE AND AUDITORS (continued)

Peter Ralph Marriott
BEc (Hons), FCA
Chief Financial Officer
Australia and New Zealand Banking Group Limited
Melbourne, Australia

Directorships
Director: Binnstone Traders Pty Limited, ANZ Capital Hedging Pty Limited, ANZ (Delaware) Inc., ANZ Holdings (New Zealand) Limited, Deori Pty Limited, Esanda Finance Corporation Limited, ANZEST Pty Limited, ANZ Funds Pty Limited, GNPL Pty Limited, ANZ Investment Holdings Pty Limited, ANZ Investments Pty Limited, LFD Limited, ANZ Orchard Investments Pty Limited, RFDL Pty Limited, Ballimore Pty Limited

Independent Non-Executive Directors

Norman Michael Thomas Geary, CBE
B Com, FACA, FNZIM, FCIT
Company Director
Auckland, New Zealand

Directorships
Chairman: Gough Holdings Limited, Gough Gough & Hamer Investments Limited, Gough Gough & Hamer Limited, Gough Gough & Hamer Properties Limited, Gough Finance Limited, Gough Transport Supplies Limited, Transport Specialities Limited, Transport Wholesale Limited, Heavy Duty Transport Equipment Pty Limited, Reyco Australia Pty Limited, Australian Tipping Systems Pty Limited
Director: Fisher & Paykel Appliances Holdings Limited, Otago Innovation Limited, DB Breweries Limited

Robert Arnold McLeod
B Com, LLB, FCA
Company Director
Auckland, New Zealand

Directorships
Chairman: Sealord Group Limited, Aotearoa Fisheries Limited, Raukura Moana Fisheries Limited
Director: North East NZ Limited, North East Trustee Limited, North East Statutory Supervisor Limited, Credit and Debit Limited, Debit and Credit (Wellington) Limited, Gullivers Travel Group Limited, Sky City Entertainment Group Limited, Steward Limited, Tainui Group Holdings Limited, Te Ohu Kai Moana Trustee Limited, Robert A McLeod Limited, McLeod Custodian Limited, RAM Custodian Limited, Telecom Corporation of New Zealand Limited, Kura Limited

Audit Committee Members as at 1 November 2006

R A McLeod (Chairman)	Independent Non-Executive Director
Sir Dryden Spring	Independent Non-Executive Director
P R Marriott	Non-Executive Director
N M T Geary	Independent Non-Executive Director

The Audit Committee, which is a sub-committee of the Board, has responsibility for reviewing all aspects of 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.

Responsible Persons

Sir Dryden Spring has been authorised in writing in accordance with section 82 of the Reserve Bank Act of New Zealand 1989 to sign this General Disclosure Statement on behalf of the following Directors of the Bank, as a responsible person under the Order: Dr R J Edgar, G K Hodges, J McFarlane, OBE, R A McLeod and P R Marriott.

Auditors

KPMG
Chartered Accountants
10 Customhouse Quay
P O Box 996
Wellington, New Zealand

CONDITIONS OF REGISTRATION

Conditions of Registration, applicable as at 1 November 2006. These Conditions of Registration have applied from 2 December 2005.

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 at all times:

   – Capital of the Banking Group is not less than 8 percent of risk weighted exposures.
   – Tier 1 capital of the Banking Group is not less than 4 percent of risk weighted exposures.
   – Capital of the Banking Group is not less than NZ $15 million.

   That the Bank complies with the following requirements at all times:

   – Capital of the Bank is not less than 8 percent of risk weighted exposures.
   – Tier 1 capital of the Bank is not less than 4 percent of risk weighted exposures.
   – Capital of the Bank is not less than NZ $15 million.

   For the purposes of this condition of registration, capital, Tier 1 capital and risk weighted exposures shall be calculated in accordance with the Reserve Bank of New Zealand document entitled 'Capital Adequacy Framework' (BS2) dated March 2005.

   In its disclosure statements under the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2005, the Bank must include all of the information relating to the capital position of both the Bank and the Banking Group which would be required if the second schedule of that Order was replaced by the second schedule of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2005 in respect of the relevant quarter.

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.

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 disapplied 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 aggregate credit exposures (of a non-capital nature and net of specific provisions) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit Rating	**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 specific provisions) to non-bank connected persons shall not exceed 15 percent of the Banking Group's Tier 1 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 2005.

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 none of the following actions may be taken except with the consent of the Reserve Bank:

    (i) Any transfer to another person or entity (other than the Bank or any member of the Banking Group which is incorporated in, and operating in, New Zealand) of all or a material part of any business (which term shall include the customers of the business) carried on by the Bank (or any member of the Banking Group); and

CONDITIONS OF REGISTRATION (continued)

(ii) Any transfer or change by which all or a material part of the management, operational capacity or systems of the Bank (or any member of the Banking Group) is transferred to, or is to be performed by, another person or entity other than the Bank (or any member of the Banking Group which is incorporated in, and operating in, New Zealand); and

(iii) Any action affecting, or other change in, the arrangements by which any function relating to any business carried on by the Bank (or any member of the Banking Group) is performed, which has or may have the effect that all or a material part of any such function will be performed by another person or entity other than the Bank (or any member of the Banking Group which is incorporated in, and operating in, New Zealand); and

(iv) Any action that prohibits, prevents or restricts the authority or ability of the board of the Bank or any statutory manager of the Bank (or the board of any member of the Banking Group or any statutory manager of any member of the Banking Group) to have unambiguous legal authority and practical ability to control and operate any business or activity of the Bank (or any member of the Banking Group).

11. 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.

12. (i) That the management of the Bank by its chief executive officer shall be carried out solely under the direction and supervision of the board of directors of the Bank.

(ii) That the employment contract of the chief executive officer of the Bank shall be with the Bank. The chief executive officer's responsibilities shall be owed solely to the Bank and the terms and conditions of the chief executive officer's employment agreement shall be determined by, and any decision relating to the employment or termination of employment of the chief executive officer shall be made by, the board of directors of the Bank.

(iii) That all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the chief executive officer of the Bank and be accountable (directly or indirectly) solely to the chief executive officer of the Bank.

13. (i) That no later than 31 December 2005 the Bank shall locate and continue to operate in New Zealand the Bank's domestic system and the board of directors of the Bank will have legal and practical ability to control the management and operation of the domestic system.

(ii) That in respect of the international system the board of directors of the Bank will, no later than 31 December 2006, have legal and practical ability to control the management and operation of the international system.

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).

For the purposes of these conditions of registration, the term 'domestic system' means all property, assets, systems and resources (including in particular (but without limitation) the management, administrative and information technology systems) owned, operated, or used, by the Bank supporting, relating to, or connected with:

(a) the New Zealand dollar accounts and channels servicing the consumer banking market (but potentially also other customer segments); and
(b) the general ledger covering subsidiary ledgers for (a) above, together with a daily updated summary of the subsidiary ledgers running on the international system; and
(c) any other functions, operations or business of, or carried on by, the Bank (now or at any time in the future) that are not included in, or form part of, the international system;

other than property, assets, systems and resources that are not material to the domestic system, both individually and in aggregate.

For the purposes of these conditions of registration the term 'international system' means those systems of the Bank generally having one or more of the following characteristics:

(a) supports foreign currency accounts/transactions;
(b) supports cross-border trade, payments and other transactions;
(c) supports businesses that operate in global markets;
(d) supports accounts and transactions undertaken by institutions, corporates and banks;
(e) used to manage large, volatile risk businesses which operate on a global basis;
(f) used to service customers who conduct accounts and transactions with the Bank in multiple countries;
(g) used by the non-Bank subsidiary companies.

CREDIT RATING INFORMATION

The Bank has two 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:

Standard & Poor's	**AA-**
Moody's Investors Service	**Aa3**

The Standard & Poor's revised rating was first issued on 11 September 1996. There have been no changes in the credit rating issued in the past two years ended 30 September 2006. The rating is not subject to any qualifications.

The Moody's Investors Service rating was first issued on 31 July 2000. There have been no changes in the credit rating issued in the past two years ended 30 September 2006. The rating is not subject to any qualifications.

The following is a description of the major ratings categories by Ratings Agency:

Standard & Poor's – Credit rating scale for long-term ratings:

Ratings scale	Description
AAA	Extremely strong capacity to pay interest and repay principal in a timely manner. Highest rating assigned.
AA	Very strong capacity to pay interest and repay principal in a timely manner. This differs from the highest rating only in a small degree.
A	Strong capacity to pay interest and repay principal in a timely manner, but may be more susceptible to the adverse effects of changes in circumstances and economic conditions than higher rated entities.
BBB	Adequate capacity to pay interest and repay principal in a timely manner, however adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet debt servicing commitments than higher rated entities.
BB	A degree of speculation exists with respect to the ability of an entity with this credit rating to pay interest and repay principal in a timely manner. Adverse business, financial, or economic conditions could impair the borrower's capacity to meet debt service commitments in a timely manner.
B	Entities rated B are more vulnerable to adverse business, financial or economic conditions than entities in higher rating categories. Adverse business, financial or economic conditions will likely impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.
CCC	Entities rated CCC are currently vulnerable to default and are dependent on favourable business, financial and economic conditions to meet debt service commitments in a timely manner. In the event of adverse business, financial or economic conditions the entity is likely to default.
CC	Entities rated CC are currently highly vulnerable to non-payment of interest and principal.
C	Entities rated C have filed a bankruptcy petition or taken similar action, but payment of obligations are being continued.
D	D rated entities are in default. This is assigned when interest or principal payments are not made on the date due or when an insolvency petition or a request to appoint a receiver is filed.

Plus (+) or Minus (-): The ratings from **'AA'** to **'CCC'** may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

CREDIT RATING INFORMATION (continued)

Moody's Investors Service – Credit rating scale for long-term ratings:

Ratings scale	Description
Aaa	Judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as 'gilt edged'. Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualised are most unlikely to impair the fundamentally strong position of such issues.
Aa	Judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the Aaa securities.
A	Possess many favourable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.
Baa	Considered as medium-grade obligations (i.e. they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
Ba	Judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterises bonds in this class.
B	Generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.
Caa	These bonds are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.
Ca	Represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.
C	These are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Moody's Investors Service bond ratings, where specified, are applied to financial contracts, senior bank obligations and insurance company senior policyholder and claims obligations with an original maturity in excess of one year.

Moody's Investors Service applies numerical modifiers **1**, **2** and **3** in each generic rating classification from **'Aa'** through **'Caa'**. The modifier **1** indicates that the obligation ranks in the higher end of its generic rating category; the modifier **2** indicates a mid-range ranking; and the modifier **3** indicates a ranking in the lower end of that generic rating category.

DIRECTORS' STATEMENT for the year ended 30 September 2006

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 2005;

ii. The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2006, 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 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, 1 November 2006. On that date, the Directors of the Bank were:

Dr R J Edgar

N M T Geary, CBE

G K Hodges

J McFarlane, OBE

R A McLeod

P R Marriott

Sir Dryden Spring

KPMG

Audit Report to the shareholder of ANZ National Bank Limited

We have audited the financial statements, including supplementary information, on pages 4 to 89. The financial statements and supplementary information provide information about the past financial performance and financial position of ANZ National Bank Limited (the 'Registered Bank') and its subsidiaries (the 'Banking Group') as at 30 September 2006. These financial statements are stated in accordance with accounting policies set out on pages 8 to 15. The supplementary information is disclosed in accordance with clauses 12(3), 12(4) and 14A of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2005 (the 'Order').

Directors' responsibilities

The Directors are responsible for the preparation of financial statements in accordance with clause 12(1) of the Order, which give a true and fair view of the balance sheet of the Registered Bank and Banking Group as at 30 September 2006 and the results of their operations and cash flows for the year ended on that date.

They are also responsible for the preparation of supplementary information which:

- gives a true and fair view, in accordance with clause 12(3) of the Order, of the matters to which it relates; and
- complies with Schedules 7 and 8, in accordance with clause 12(4) of the Order.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements and supplementary information presented by the Directors and report our opinion to you in accordance with clause 15(1) of the Order.

Basis of opinion

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 judgements made by the Directors in the preparation of the financial statements and supplementary information; and
- whether the accounting policies are appropriate to the Registered Bank's and Banking Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards issued by the New Zealand Institute of Chartered Accountants. 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 and supplementary information 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 and supplementary information.

Our firm has also provided other services to the Registered Bank and Banking Group in relation to other audit related services. Partners and employees of our firm may also deal with the Registered Bank and Banking Group on normal terms within the ordinary course of trading activities of the business of the Registered Bank and Banking Group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the Registered Bank and Banking Group. These matters have not impaired our independence as auditors of the Registered Bank and Banking Group. The firm has no other relationship with, or interest in, the Registered Bank and Banking Group.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the Registered Bank and Banking Group as far as appears from our examination of those records.
- the financial statements on pages 4 to 89:

- comply with New Zealand generally accepted accounting practice; and
- give a true and fair view of the balance sheet of the Registered Bank and Banking Group as at 30 September 2006 and the results of their operations and cash flows for the year ended on that date.

• the supplementary information disclosed in accordance with clause 12(3) of the Order:

- has been prepared in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank Act 1989 and any Conditions of Registration;
- is in accordance with the books and records of the Registered Bank and Banking Group; and
- gives a true and fair view of the matters to which it relates.

• the supplementary information disclosed in accordance with clause 12(4) of the Order complies with Schedules 7 and 8 of the Order.

Our audit was completed on 1 November 2006 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

NOTES TO THE FINANCIAL STATEMENTS (continued)

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