

# ANZ National Bank Limited General Disclosure Statement

FOR THE SIX MONTHS ENDED 31 MARCH 2010 | NUMBER 57 ISSUED MAY 2010



## General Disclosure Statement

For the six months ended 31 March 2010

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## General Disclosures

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

In this Disclosure Statement unless the context otherwise requires:

- a) “Banking Group” means ANZ National Bank Limited and all its subsidiaries; and
- b) any term or expression which is defined in, or in the manner prescribed by the Order 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 6, 1 Victoria Street, Wellington, New Zealand.

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

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

The Ultimate Parent Bank is ANZ and its address for service is ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

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

A New Zealand Branch (“NZ Branch”) of ANZ was established on 5 January 2009. The full name of the NZ Branch is Australia and New Zealand Banking Group Limited New Zealand Branch and its address for service is Level 6, 1 Victoria Street, Wellington, New Zealand.

On 30 November 2009, the Banking Group purchased ING Groep’s 51% interest in ING (NZ) Holdings Limited (“ING NZ”), which was the holding company for the ANZ-ING wealth management and life insurance joint venture in New Zealand.

## General Disclosures (continued)

### Nature Of Business

The principal activities of the Banking Group during the period were retail, corporate and rural banking, mortgage lending, asset and general finance, international and investment banking, and nominee and custodian services.

### Material Financial Support

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

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

of the Ultimate Parent Bank’s capital base.

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

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

### Pending Proceedings or Arbitration

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

Further details on pending proceedings or arbitration are set out in Note 38 Contingent Liabilities and Credit Related Commitments.

### Other Material Matters

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

### Guarantors

The Bank has guarantees under the:

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

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

#### Crown Retail Guarantee

The Crown Retail Guarantee is provided under a Deed entered into by the Bank and the Crown on 18 December 2009 (“Retail Deed”).

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

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

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

## General Disclosures (continued)

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

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

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

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

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

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

On 25 August 2009 the Government announced that it will extend the Crown Retail Guarantee to 31 December 2011 and change some of its terms and conditions. The Reserve Bank has stated that there is no need for banks to partake in the scheme, and therefore at this stage the Bank does not intend to apply to be covered by it.

### Crown Wholesale Guarantee

The Crown Wholesale Guarantee is provided under the Crown Wholesale Funding Guarantee in respect of the Bank entered into by the Crown on 23 December 2008 and supplemented on 19 February 2009 ("Wholesale Deed"). The Government closed the Crown Wholesale Guarantee to new debt securities on 30 April 2010. The closure did not affect debt securities previously issued with the benefit of the Crown Wholesale Guarantee.

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

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

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

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

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

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

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

### Further information

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

Further information about the Crown, including a copy of its most recent audited financial statements can be obtained at [www.treasury.govt.nz](http://www.treasury.govt.nz).

## General Disclosures (continued)

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

### Foreign Currency

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

### Domestic Currency

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

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

## Supplemental Disclosure Statement

The most recent Supplemental Disclosure Statement for the six months ended 31 March 2010 is available at no charge:

- on the Bank's websites [www.anz.co.nz](http://www.anz.co.nz) and [www.nationalbank.co.nz](http://www.nationalbank.co.nz);
- immediately if request is made at the Bank's head office, located at Level 6, 1 Victoria Street, Wellington, New Zealand; and
- within five working days of a request, if a request is made at any branch of ANZ or The National Bank of New Zealand.

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

## Directorate

Since the authorisation date of the previous General Short Form Disclosure Statement on 11 February 2010, there have been no changes to Directors of the Bank. However, effective 4 March 2010, Dr Don Brash commenced an approved indefinite leave of absence from the Board.

## Summary of Financial Statements

	Consolidated					
	Unaudited 6 months to 31/03/2010 \$m	Audited Year to 30/09/2009 \$m	Audited Year to 30/09/2008 \$m	Audited Year to <sup>1</sup> 30/09/2007 \$m	Audited Year to <sup>1</sup> 30/09/2006 \$m	Audited Year to <sup>1</sup> 30/09/2005 \$m
<b>Continuing operations</b>						
Interest income	2,778	7,246	9,857	8,309	7,206	6,009
Interest expense	1,681	4,892	7,568	6,059	5,077	4,069
Net interest income	1,097	2,354	2,289	2,250	2,129	1,940
Other operating income	433	762	1,124	861	802	794
Operating income	1,530	3,116	3,413	3,111	2,931	2,734
Operating expenses	748	1,477	1,444	1,331	1,323	1,312
Profit before provision for credit impairment and income tax	782	1,639	1,969	1,780	1,608	1,422
Collective provision charge / (credit)	58	264	112	20	(10)	121
Individual provision charge	256	610	190	54	28	-
Provision for credit impairment	314	874	302	74	18	121
<b>Profit before income tax</b>	468	765	1,667	1,706	1,590	1,301
Income tax expense	101	467	504	614	523	398
<b>Profit after income tax from continuing operations</b>	367	298	1,163	1,092	1,067	903
<b>Discontinued operations</b>						
Profit from discontinued operations (net of income tax)	-	-	-	76	5	14
<b>Profit after income tax</b>	367	298	1,163	1,168	1,072	917
Ordinary dividends paid	-	(1,000)	-	(728)	(900)	(360)

	Consolidated					
	Unaudited As at 31/03/2010 \$m	Audited As at 30/09/2009 \$m	Audited As at 30/09/2008 \$m	Audited As at <sup>1</sup> 30/09/2007 \$m	Audited As at <sup>1</sup> 30/09/2006 \$m	Audited As at <sup>1</sup> 30/09/2005 \$m
Total impaired assets	1,712	1,178	327	115	151	213
Total assets	113,577	117,891	122,915	107,787	95,814	85,501
Total liabilities	103,045	107,803	113,108	99,084	87,581	77,555
Non-controlling interests	1	-	-	-	-	-
Equity	10,532	10,088	9,807	8,703	8,233	7,946

The amounts included in this summary have been taken from the audited financial statements of the Banking Group, except for the amounts for the six months ended 31 March 2010 which have been taken from unaudited financial statements

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

## Income Statements

For the six months ended 31 March 2010

	Note	Consolidated			Parent		
		Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
Interest income	4	2,778	4,226	7,246	2,822	4,321	7,429
Interest expense	5	1,681	2,951	4,892	1,890	3,346	5,538
Net interest income		1,097	1,275	2,354	932	975	1,891
Net trading gains	4	16	119	187	15	118	185
Net funds management and insurance income	4	91	47	97	28	38	78
Other operating income	4	290	266	465	343	235	1,492
Share of profit of equity accounted associates and jointly controlled entities	15	36	8	13	-	-	-
Operating income		1,530	1,715	3,116	1,318	1,366	3,646
Operating expenses	5	748	738	1,477	667	704	1,410
Profit before provision for credit impairment and income tax		782	977	1,639	651	662	2,236
Provision for credit impairment	14	314	285	874	300	265	840
<b>Profit before income tax</b>		<b>468</b>	<b>692</b>	<b>765</b>	<b>351</b>	<b>397</b>	<b>1,396</b>
Income tax expense	6	101	204	467	65	109	386
<b>Profit after income tax</b>		<b>367</b>	<b>488</b>	<b>298</b>	<b>286</b>	<b>288</b>	<b>1,010</b>

## Statements of Comprehensive Income

For the six months ended 31 March 2010

	Note	Consolidated			Parent		
		Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
<b>Profit after income tax</b>		<b>367</b>	<b>488</b>	<b>298</b>	<b>286</b>	<b>288</b>	<b>1,010</b>
<b>Available-for-sale revaluation reserve:</b>							
– Valuation gain before tax		59	4	2	42	4	2
<b>Cash flow hedging reserve:</b>							
– Valuation gain / (loss) before tax	10	2	(9)	(1)	2	(9)	(1)
– Transferred to income statement	10	21	(19)	(3)	21	(19)	(3)
Actuarial gain / (loss) on defined benefit schemes		14	(39)	(25)	14	(39)	(25)
Income tax (expense) / credit on items recognised directly in equity		(20)	20	10	(20)	20	10
<b>Net credit / (expense) recognised directly in equity</b>		<b>76</b>	<b>(43)</b>	<b>(17)</b>	<b>59</b>	<b>(43)</b>	<b>(17)</b>
<b>Total comprehensive income for the period</b>		<b>443</b>	<b>445</b>	<b>281</b>	<b>345</b>	<b>245</b>	<b>993</b>



## Statements of Changes in Equity

For the six months ended 31 March 2010

	Note	Consolidated			Parent		
		Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
<b>Ordinary share capital</b>							
Balance at beginning of the period		6,943	5,943	5,943	6,943	5,943	5,943
Ordinary share capital issued during the period		-	1,000	1,000	-	1,000	1,000
Balance at end of the period	27	6,943	6,943	6,943	6,943	6,943	6,943
<b>Available-for-sale revaluation reserve</b>							
Balance at beginning of the period		25	23	23	25	23	23
Valuation gain recognised after tax		51	3	2	34	3	2
Balance at end of the period		76	26	25	59	26	25
<b>Cash flow hedging reserve</b>							
Balance at beginning of the period		23	24	24	23	24	24
Valuation gain / (loss) recognised after tax		1	(6)	-	1	(6)	-
Transferred to income statement		14	(12)	(1)	14	(12)	(1)
Balance at end of the period	10	38	6	23	38	6	23
Total reserves		114	32	48	97	32	48
<b>Retained earnings</b>							
Balance at beginning of the period		3,097	3,817	3,817	2,314	2,322	2,322
Profit after income tax attributable to parent		367	488	298	286	288	1,010
Total available for appropriation		3,464	4,305	4,115	2,600	2,610	3,332
Actuarial gain / (loss) on defined benefit schemes after tax		10	(28)	(18)	10	(28)	(18)
Interim ordinary dividend paid	27	-	(1,000)	(1,000)	-	(1,000)	(1,000)
Balance at end of the period		3,474	3,277	3,097	2,610	1,582	2,314
<b>Non-controlling interests</b>							
Balance at beginning of the period		-	-	-	-	-	-
Acquired in business combination	42	1	-	-	-	-	-
Balance at end of the period		1	-	-	-	-	-
<b>Total equity</b>							
Balance at beginning of the period		10,088	9,807	9,807	9,305	8,312	8,312
Total comprehensive income for the period		443	445	281	345	245	993
Transactions with shareholders		-	-	-	-	-	-
Other transactions	42	1	-	-	-	-	-
Balance at end of the period		10,532	10,252	10,088	9,650	8,557	9,305

## Balance Sheets

As at 31 March 2010

	Note	Consolidated			Parent		
		Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Assets</b>							
Liquid assets	7	2,519	3,390	2,762	2,502	3,390	2,758
Due from other financial institutions	8	2,101	7,631	4,514	1,949	6,874	4,361
Trading securities	9	6,366	2,565	4,166	6,366	2,565	4,166
Derivative financial instruments	10	8,713	14,985	11,408	8,719	15,162	11,449
Available-for-sale assets	11	1,850	597	1,513	1,674	594	1,511
Net loans and advances	12	85,670	93,720	88,259	83,416	91,329	85,952
Due from subsidiary companies	41	-	-	-	8,826	9,610	7,703
Investments relating to insurance business		38	-	-	-	-	-
Insurance policy assets		106	-	-	-	-	-
Due from parent company	25	500	-	-	500	-	-
Shares in controlled entities, associates and jointly controlled entities	15	144	396	464	7,821	7,773	7,702
Current tax assets		107	60	65	204	283	168
Other assets	16	1,170	823	1,137	1,130	745	1,081
Deferred tax assets	17	425	200	-	357	174	-
Premises and equipment	18	305	250	278	79	60	63
Goodwill and other intangible assets	19	3,563	3,324	3,325	3,290	3,275	3,274
<b>Total assets</b>		<b>113,577</b>	<b>127,941</b>	<b>117,891</b>	<b>126,833</b>	<b>141,834</b>	<b>130,188</b>
<b>Liabilities</b>							
Due to other financial institutions	20	1,336	4,162	3,725	1,054	3,250	3,239
Deposits and other borrowings	21	70,636	72,760	71,764	61,861	64,913	62,835
Due to subsidiary companies	41	-	-	-	38,254	44,785	37,362
Due to parent company	25	-	1,096	930	-	1,096	930
Derivative financial instruments	10	9,152	12,868	10,762	9,170	12,868	10,769
Payables and other liabilities	22	2,084	2,100	1,809	2,156	1,879	1,278
Deferred tax liabilities	17	-	-	17	-	-	83
Provisions	23	341	340	283	224	336	275
Bonds and notes	24	16,855	21,528	15,917	1,823	1,315	1,516
Loan capital	26	2,641	2,835	2,596	2,641	2,835	2,596
<b>Total liabilities</b>		<b>103,045</b>	<b>117,689</b>	<b>107,803</b>	<b>117,183</b>	<b>133,277</b>	<b>120,883</b>
<b>Net assets</b>		<b>10,532</b>	<b>10,252</b>	<b>10,088</b>	<b>9,650</b>	<b>8,557</b>	<b>9,305</b>
<b>Equity</b>							
Ordinary share capital	27	6,943	6,943	6,943	6,943	6,943	6,943
Reserves		114	32	48	97	32	48
Retained earnings		3,474	3,277	3,097	2,610	1,582	2,314
Parent shareholders' equity		10,531	10,252	10,088	9,650	8,557	9,305
Non-controlling interests		1	-	-	-	-	-
<b>Total equity</b>		<b>10,532</b>	<b>10,252</b>	<b>10,088</b>	<b>9,650</b>	<b>8,557</b>	<b>9,305</b>

## Cash Flow Statements

For the six months ended 31 March 2010

Note	Consolidated			Parent		
	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
<b>Cash flows from operating activities</b>						
	2,714	4,169	7,131	2,745	4,250	7,270
Interest received						
Dividends received	-	-	3	-	-	1,100
Net cash from funds management & insurance	61	47	97	28	38	78
Fees and other income received	433	565	920	461	549	848
Interest paid	(1,734)	(3,001)	(4,884)	(1,938)	(3,349)	(5,465)
Operating expenses paid	(746)	(735)	(1,480)	(673)	(712)	(1,452)
Income taxes paid	(577)	(265)	(425)	(526)	(231)	(245)
Cash flows from operating profits before changes in operating assets and liabilities	151	780	1,362	97	545	2,134
Change in operating assets and liabilities:						
Change in due from other financial institutions – term	1,258	159	(246)	1,081	(147)	(596)
Change in trading securities	(2,207)	90	(1,505)	(2,207)	90	(1,505)
Change in derivative financial instruments	1,927	(683)	(3,936)	1,967	(672)	(3,842)
Change in available-for-sale assets	(80)	(485)	(1,388)	(103)	(8,309)	(1,390)
Change in insurance investment assets	7	-	-	-	-	-
Change in loans and advances	(576)	(564)	(1,108)	(615)	(590)	(1,206)
Proceeds from sale of loans and advances to NZ branch	2,612	4,877	9,863	2,612	4,877	9,863
Change in due from subsidiary companies	-	-	-	(348)	207	(5,711)
Change in due to subsidiary companies	-	-	-	(1,116)	1,664	978
Change in other assets	(43)	72	(164)	(71)	48	(174)
Change in due to other financial institutions	(2,427)	921	509	(2,185)	1,310	1,299
Change in deposits	(1,205)	1,923	672	(1,027)	1,903	(268)
Change in other borrowings	(578)	(5,615)	(4,637)	-	-	-
Change in payables and other liabilities	352	496	165	977	537	(98)
<b>Net cash flows used in operating activities</b>	<b>34</b>	<b>(809)</b>	<b>1,971</b>	<b>(413)</b>	<b>(938)</b>	<b>1,463</b>
						<b>(516)</b>



## Notes to the Financial Statements

### 1. Significant Accounting Policies

#### (a) Basis of preparation

##### (i) Statement of compliance

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

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

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

These financial statements were authorised for issue by the Board of Directors on 21 May 2010.

##### (ii) Use of estimates and assumptions

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

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

##### (iii) Basis of measurement

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

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

#### (iv) Changes in accounting policies and application of new accounting statements

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the prior period with the exception that all new accounting standards and interpretations applicable to annual reporting periods beginning on or after 1 October 2009 have been applied by the Banking Group effective from the required date of application. The initial application of these standards and interpretations has not had a material impact on the financial results of the Banking Group.

NZ IFRS 8 *Operating Segments* ("NZ IFRS 8"), NZ IAS 1 *Presentation of Financial Statements (revised)* ("NZ IAS 1"), NZ IAS 27 *Consolidated and Separate Financial Statements* and NZ IFRS 3 *Business Combinations (revised)* have been applied by the Banking Group for the six months ended 31 March 2010.

NZ IFRS 8 replaces NZ IAS 14 *Segment Reporting* and requires the use of a "management approach" to segment reporting. Segment information is therefore presented on the same basis as that used for internal reporting purposes. Goodwill associated with the acquisition of NBNZ Holdings Limited Group is allocated to the reportable segments in accordance with NZ IFRS 8.

In accordance with NZ IAS 1 a "statement of comprehensive income" has been disclosed showing net profit or loss and revenues and expenses recognised directly in equity. In addition the revised "statement of changes in equity" shows all changes in equity.

There have been no other changes in accounting policies since the authorisation date of the previous General Disclosure Statement on 13 November 2009.

#### (v) Rounding

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

#### (vi) Comparatives

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period.

#### (vii) Principles of consolidation

##### *Subsidiaries*

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

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

Control means the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. All of the facts of a particular situation are considered when determining whether control exists. Control is usually present when an entity has:

- power over more than one-half of the voting rights of the other entity;
- power to govern the financial and operating policies of the other entity;

## Notes to the Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

- power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the entity.

In addition, potential voting rights that are presently exercisable or convertible are taken into account in determining whether control exists.

In relation to special purpose entities control is deemed to exist where:

- In substance, the majority of the residual risks and rewards from the activities accrue to the Banking Group; or
- In substance, the Group controls decision making powers so as to obtain the majority of the risks and rewards of these activities

#### *Associates and joint ventures*

The Banking Group adopts the equity method of accounting for associates and the Banking Group's interest in joint venture entities.

The Banking Group's share of the results of associates and joint venture entities is included in the consolidated income statement. Shares in associates and joint venture entities are carried in the consolidated balance sheet at cost plus the Banking Group's share of post acquisition net assets. Interests in associates and joint ventures are reviewed for any indication of impairment at least at each reporting date. This impairment review may use a discounted cash flow methodology and other methodologies to determine the reasonableness of the valuation including a multiples of earning methodology.

### (viii) Foreign currency translation

#### *Functional and presentation currency*

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

#### *Foreign currency transactions*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

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

Translation differences on non-monetary items, such as derivatives, measured at fair value through profit or loss are reported as part of the fair value gain or loss on these items.

Translation differences on non-monetary items measured at fair value through equity, such as equities classified as available-for-sale financial assets, are included in the available-for-sale revaluation reserve in equity.

### (b) Income recognition

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

#### (i) Interest income

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

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

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

#### (ii) Fee and commission income

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

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

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

#### (iii) Dividend income

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

#### (iv) Leasing income

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

## Notes to the Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

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

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

#### (c) Expense recognition

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

##### (i) Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the income statement as it accrues using the effective interest method.

##### (ii) Loan origination expenses

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

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

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

##### (iii) Share-based compensation expense

The Banking Group has various equity settled share-based compensation plans. These are described in Note 39 and largely comprise the Employee Share Acquisition Plan and the ANZ Share Option Plan.

##### *ANZ ordinary shares*

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

##### *Share Options*

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

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

##### *Performance Rights*

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

##### *Other adjustments*

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

#### (iv) Lease payments

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

#### (d) Income tax

##### (i) Income tax expense

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

##### (ii) Current tax

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

##### (iii) Deferred tax

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

Deferred tax 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 credit can be utilised.

## Notes to the Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in controlled entities, branches, associates and joint ventures, except where the Banking Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets associated with these interests are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

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

#### (iv) Offsetting

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

#### (e) Assets

##### Financial assets

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

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Trading securities are initially recognised and subsequently measured in the balance sheet at their fair value.

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

- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities, or recognising the gains or losses thereon, on different bases;
- a group of financial assets or financial liabilities or both is managed and its performance evaluated on a fair value basis; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Changes in the fair value (gains or losses) of these securities are recognised in the income statement in the period in which they occur.

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

#### (ii) Derivative financial instruments

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

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

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

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

##### *Fair value hedge*

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

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



## Notes to the Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### *Cash flow hedge*

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

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

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

#### *Derivatives that do not qualify for hedge accounting*

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

#### *Set-off arrangements*

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

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

#### (iii) Available-for-sale assets

Available-for-sale assets comprise non-derivative financial assets which the Banking Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments, certain loans and advances, and quoted debt securities.

They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve. When the asset is sold, the cumulative gain or loss relating to the asset is transferred to the income statement.

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

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

#### (iv) Net loans and advances

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

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

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

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

#### *Impairment of loans and advances*

Loans and advances are reviewed at least at each reporting date for impairment.

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

## Notes to the Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

### (v) Lease receivables

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

### (vi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Banking Group, and a counterparty liability is disclosed under the classifications of due to other financial institutions or payables and other liabilities. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

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

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

### (vii) Derecognition

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

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

### (viii) Investments relating to insurance business

Securities held to back insurance and investment contract liabilities are classified as policyholder assets. These policyholder assets are designated at fair value through profit or loss.

## Notes to the Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### Non-financial assets

##### (ix) Goodwill

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

##### (x) Other intangible assets

Other intangible assets include costs incurred in acquiring and building software and computer systems ("software") and management rights and customer relationships acquired in business combinations.

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

Management rights and customer relationships, including the value of in force insurance contracts, are initially measured at fair value. Management rights and customer relationships with a definite useful life are amortised over the expected useful life. Management rights and customer relationships with an indefinite useful life are not amortised.

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

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

##### (xi) Premises and equipment

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

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

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

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

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

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

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

##### (xii) Insurance policy assets/liabilities

Net insurance policy assets/liabilities include liabilities arising from investment contracts and assets/liabilities arising from life insurance contracts.

Provisions for liabilities under investment contracts are measured at fair value. The provision consists of a deposit component, being a financial instrument, which is recognised as an increase in investment contract liabilities, and an investment management services element. Fair value is determined as the net present value of fees, in respect of the investment management service, discounted at the risk free rate.

Life insurance contract assets/liabilities are determined using either a projection method or an accumulation method. Using a projection method, expected policy cash flows are projected into the future. The asset/liability is determined as the net present value of the expected cash flows. An accumulation method is used where the policy assets/liabilities determined are not materially different from those determined under the projection method.

## Notes to the Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### (f) Liabilities

##### Financial liabilities

##### (i) Deposits and other borrowings

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

##### (ii) Bonds, notes and loan capital

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

##### (iii) Financial guarantee contracts

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

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

##### (iv) Derecognition

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

#### Non-financial liabilities

##### (v) Employee benefits

##### *Leave benefits*

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

##### *Superannuation schemes*

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

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

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

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

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

## Notes to the Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### (vi) Provisions

The Banking Group recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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

#### (g) Equity

##### (i) Ordinary shares

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

##### (ii) Non-controlling interests

Non-controlling interests represent the share in the net assets of subsidiaries attributable to equity interests not owned directly or indirectly by the Bank.

##### (iii) Reserves

###### *Available-for-sale revaluation reserve*

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

###### *Cash flow hedging reserve*

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

#### (h) Presentation

##### (i) Offsetting of income and expenses

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

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

- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

##### (ii) Offsetting of financial assets and liabilities

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

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

##### (iii) Statement of cash flows

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with other financial institutions, other short term, highly liquid investments with original terms of maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group. These include customer loans and advances, customer deposits, certificates of deposit, related party balances and trading securities.

##### (iv) Segment reporting

Business segments are distinguishable components of the Banking Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. The Banking Group operates predominately in the banking industry within New Zealand. The Banking Group has very limited exposure to risk associated with operating in different economic environments or political conditions. On this basis no geographical segment information is provided. For reporting purposes the three major business segments are Retail Banking, Commercial Banking and Institutional.

##### (v) Goods and services tax

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

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

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

## Notes to the Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### (i) Other

##### (i) Contingent liabilities

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

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

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

Further disclosure is made within Note 38 Contingent Liabilities and Credit Related Commitments, where the above requirements are not met, but there is a possible obligation that is higher than remote. Specific details of the nature of the contingent liability are provided and, where practicable, an estimate of its financial effect. Alternatively, where no disclosure is made of its financial effect because it is not practicable to do so, a statement to that effect is provided.

##### (ii) Securitisation, funds under management and other fiduciary activities

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

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

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

##### (iii) Discontinued operations

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

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

##### (iv) Accounting Standards not early adopted

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

NZ IFRS 9 *Financial Instruments (effective periods commencing after 1 January 2013)* – specifies a simpler methodology for classifying and measuring financial assets. The Bank is currently assessing the impact of applying this standard to its financial statements.

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

NZ IAS 24 *Related Party Disclosures (effective periods commencing after 1 July 2011)* – simplifies the definition of a related party clarifying its intended meaning.

NZ IAS 32 *Financial Instruments: Presentation – Classification of rights issues (effective periods commencing after 1 February 2010)* – clarifies the classification of share rights, options or warrants for fixed amounts of any currency.

*Improvements to New Zealand equivalents to International Financial Reporting Standards (various effective dates up to periods commencing 1 January 2010)* – is the International Accounting Standards Board's annual omnibus update of standards.

### 2. Critical Estimates and Judgements used in Applying Accounting Policies

These financial statements are prepared in accordance with NZ IFRS. However, 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.

## Notes to the Financial Statements (continued)

### 2. Critical Estimates and Judgements used in Applying Accounting Policies (continued)

#### Critical accounting estimates and assumptions

##### Credit provisioning

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

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

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

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

Refer to Note 14 for details of credit impairment 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.

#### Critical judgements in applying the Banking Group's accounting policies

##### Derivatives and hedging

The Banking Group buys and sells derivatives as part of its trading operations and to hedge its interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions.

##### 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.

Judgement is required by management in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IAS 39 *Financial Instruments: Recognition and Measurement* 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.

##### 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.

Refer to Note 19 for details of goodwill.

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Each of these cash generating units is represented by an individual reporting segment – Retail, Institutional, Commercial. Refer to Note 33.

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 each cash generating unit with the current carrying amount of its net assets, including goodwill.

The recoverable amount is based on value-in-use calculations. These calculations use cashflow projections based on financial budgets approved by management covering a three year period. Cashflows beyond the three year period are extrapolated using a 3% growth rate.

These cashflow projections are discounted using a capital asset pricing model. As at 31 March 2010 a discount rate of 11.66% was applied to each segment. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each operating segment. Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the Banking Group's carrying amount to exceed its recoverable amount.

## Notes to the Financial Statements (continued)

### 3. Risk Management Policies

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

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

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

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

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

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

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

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

A number of new and existing types of risk have been recognised following the consolidation of the ING (NZ) Holdings Limited group (“ING NZ”) into the Banking Group. The new risks relate to ING NZ’s insurance, real estate management and funds management businesses. The new risks identified are not considered material to the Banking Group. ING NZ identifies, controls and monitors these risks through a set of policies and a risk management framework which is broadly in line with that in place across the Banking Group.

#### Financial risk management

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

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

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

Refer to the Financial Risk Management note for detailed disclosures on the Banking Group’s financial risk management policies.

#### 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.



## Notes to the Financial Statements (continued)

### 3. Risk Management Policies (continued)

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

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

#### Compliance

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

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

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

#### Internal audit

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

Internal Audit reports directly to the Chairman of the Bank's Audit Committee. Under its Charter, Internal Audit conducts independent appraisals of:

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

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

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

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

## Notes to the Financial Statements (continued)

### 4. Income

	Consolidated			Parent		
	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
<b>Interest income</b>						
<b>Financial assets at fair value through profit or loss</b>						
Trading securities	160	95	187	160	95	187
Due from subsidiary companies	-	-	-	126	238	380
	<b>160</b>	<b>95</b>	<b>187</b>	<b>286</b>	<b>333</b>	<b>567</b>
<b>Financial assets not at fair value through profit or loss</b>						
Liquid assets	33	86	118	33	86	118
Other financial institutions	38	178	259	33	156	230
Available-for-sale assets	28	2	16	26	2	16
Lending on productive loans	2,420	3,839	6,563	2,328	3,695	6,354
Lending on impaired assets	19	2	8	18	2	8
Subsidiary companies	-	-	-	20	25	46
Related parties	-	-	-	-	-	-
Other	80	24	95	78	22	90
	<b>2,618</b>	<b>4,131</b>	<b>7,059</b>	<b>2,536</b>	<b>3,988</b>	<b>6,862</b>
Total interest income	<b>2,778</b>	<b>4,226</b>	<b>7,246</b>	<b>2,822</b>	<b>4,321</b>	<b>7,429</b>
<b>Net trading gains</b>						
Net gain on foreign exchange trading	69	111	201	69	110	199
Net gain on trading securities	51	71	43	51	71	43
Net loss on trading derivatives	(104)	(63)	(57)	(105)	(63)	(57)
Total net trading gains	<b>16</b>	<b>119</b>	<b>187</b>	<b>15</b>	<b>118</b>	<b>185</b>
<b>Net funds management and insurance income</b>						
Fee income on trust and other fiduciary activities	30	25	52	11	16	32
Other funds management and insurance income	61	22	45	17	22	46
Total net funds management and insurance income	<b>91</b>	<b>47</b>	<b>97</b>	<b>28</b>	<b>38</b>	<b>78</b>
<b>Other operating income</b>						
Net other fee income <sup>1</sup>	291	283	579	291	266	574
Dividends received	-	-	1	-	-	1,100
Associate investments	-	-	-	-	2	-
Net gain / (loss) on financial assets designated at fair value	-	-	-	60	-	(2)
Net gain / (loss) on hedges not qualifying for hedge accounting	7	144	3	(27)	171	43
Net ineffectiveness on qualifying cash flow hedges	-	-	-	-	-	-
Net ineffectiveness on qualifying fair value hedges	68	(17)	71	68	(17)	71
Net cash flow hedge gains transferred to income statement	(21)	19	3	(21)	19	3
Net gain / (loss) on financial liabilities designated at fair value through profit or loss	2	(26)	(21)	25	(26)	(59)
ING New Zealand Funds <sup>2</sup>	-	(166)	(211)	-	(166)	(211)
Loss on re-measuring existing equity interests to fair value	(82)	-	-	(61)	-	-
Other income	25	29	40	8	(14)	(27)
Total other operating income	<b>290</b>	<b>266</b>	<b>465</b>	<b>343</b>	<b>235</b>	<b>1,492</b>
<b><sup>1</sup>Net other fee income comprises:</b>						
Lending and credit facility fee income	85	76	161	85	61	162
Other fee income	298	294	560	298	292	555
Total fee income	<b>383</b>	<b>370</b>	<b>721</b>	<b>383</b>	<b>353</b>	<b>717</b>
Direct fee expense	92	87	142	92	87	142
Net fee income	<b>291</b>	<b>283</b>	<b>579</b>	<b>291</b>	<b>266</b>	<b>574</b>

<sup>2</sup> Refer to the Contingent Liabilities and Credit Related Commitments note for further information on ING New Zealand Funds.

## Notes to the Financial Statements (continued)

### 5. Expenses

	Consolidated			Parent		
	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
<b>Interest expense</b>						
<b>Financial liabilities at fair value through profit or loss</b>						
Commercial paper	119	306	561	-	-	-
Due to subsidiary companies	-	-	-	206	254	504
	119	306	561	206	254	504
<b>Deposits at amortised cost</b>						
Other financial institutions	56	141	242	25	61	115
Deposits and other borrowings	1,047	1,804	2,959	1,046	1,934	3,203
Subsidiary companies	-	-	-	426	895	1,300
Bonds and notes	329	546	819	58	52	108
Related party funding	3	16	28	3	16	28
Loan capital	91	112	207	91	112	207
Other	36	26	76	35	22	73
	1,562	2,645	4,331	1,684	3,092	5,034
Total interest expense	1,681	2,951	4,892	1,890	3,346	5,538
<b>Operating expenses</b>						
Personnel costs	354	374	718	319	357	684
Employee entitlements	35	36	72	34	35	71
Pension costs						
– Defined contribution schemes	18	18	36	17	18	35
– Defined benefit schemes	4	3	8	4	3	8
Share-based payments expense	10	9	18	10	9	18
Building occupancy costs	20	22	42	2	6	10
Depreciation of premises and equipment	21	18	39	10	7	16
Leasing and rental costs	41	40	80	7	7	14
Related parties (Note 41)	39	41	91	95	95	200
Computer expenses	66	57	120	62	54	114
Administrative expenses	94	85	177	84	80	173
Other costs	46	35	76	23	33	67
Total operating expenses	748	738	1,477	667	704	1,410
	Unaudited 6 months to 31/03/2010 \$'000	Unaudited 6 months to 31/03/2009 \$'000	Audited Year to 30/09/2009 \$'000	Unaudited 6 months to 31/03/2010 \$'000	Unaudited 6 months to 31/03/2009 \$'000	Audited Year to 30/09/2009 \$'000
<b>Auditors' remuneration to KPMG comprises:</b>						
Audit or review of financial statements	1,398	1,182	1,994	968	891	1,508
Other audit-related services	171	155	369	138	118	448
Total auditors' remuneration	1,569	1,337	2,363	1,106	1,009	1,956
Audit fees paid to other audit firms	219	-	-	-	-	-

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

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

## Notes to the Financial Statements (continued)

### 6. Income Tax Expense

	Consolidated			Parent		
	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
<b>Reconciliation of the prima facie income tax payable on profit with the income tax expense charge in the income statement</b>						
Profit before income tax	468	692	765	351	397	1,396
Prima facie income tax at 30%	140	208	230	105	119	419
Rebateable and non-assessable dividends	(3)	(4)	(8)	-	-	(329)
(Release of) / additional tax provision	(44)	-	240	(44)	-	240
Non-deductible expenses (non-assessable income)	9	-	6	5	(10)	56
	102	204	468	66	109	386
Income tax over provided in prior years	(1)	-	(1)	(1)	-	-
Total income tax expense	101	204	467	65	109	386
<b>Effective tax rate (%) before tax provisions</b>	<b>31.0%</b>	<b>29.5%</b>	<b>29.6%</b>	<b>31.1%</b>	<b>27.5%</b>	<b>10.4%</b>
<b>Effective tax rate (%)</b>	<b>21.6%</b>	<b>29.5%</b>	<b>61.0%</b>	<b>18.6%</b>	<b>27.5%</b>	<b>27.6%</b>
<b>The major components of the income tax expense comprise:</b>						
<b>Amounts recognised in the income statement</b>						
<b>Current income tax charge</b>						
Current income tax charge	525	291	426	487	191	299
Adjustments recognised in the current year in relation to current tax of prior periods	(1)	-	(1)	(1)	-	-
<b>Deferred income tax</b>						
Deferred tax (income) / expense relating to the origination and reversal of temporary differences	(450)	(87)	141	(448)	(82)	186
Other (including indemnity)	27	-	(99)	27	-	(99)
Total income tax expense recognised in income statement	101	204	467	65	109	386
<b>The following amounts were credited directly to equity:</b>						
<b>Current income tax</b>						
Actuarial gain / (loss) on defined benefit schemes and available-for-sale assets	12	(12)	(7)	12	(12)	(7)
<b>Deferred income tax</b>						
Net gain / (loss) on revaluation of financial instruments	8	(8)	(3)	8	(8)	(3)
Total income tax credit recognised directly in equity	20	(20)	(10)	20	(20)	(10)
<b>Imputation Credit Account</b>						
Balance at beginning of the year	645	696	696	528	446	446
Imputation credits attached to dividends received	19	41	31	16	35	285
Taxation paid	394	67	138	350	62	55
Imputation credits attached to dividends paid	(97)	(252)	(252)	(95)	(252)	(282)
Additions from companies joining the Imputation Group	-	-	-	-	-	-
Other	1	-	32	4	-	24
Balance at end of the period	962	552	645	803	291	528

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.

#### Settlement with Inland Revenue Department

The New Zealand Inland Revenue Department ("IRD") had been reviewing a number of structured finance transactions as part of an audit of the 2000 to 2005 tax years. The Bank has reached a settlement with the IRD in respect of all the transactions in dispute. This liability, net of amounts receivable from Lloyds Banking Group plc, was met from existing tax provisions.

## Notes to the Financial Statements (continued)

### 7. Liquid Assets

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Cash and balances with central banks	2,188	2,606	2,373	2,188	2,606	2,373
Securities purchased under agreement to resell	-	9	-	-	9	-
Money at call	227	672	341	216	672	340
Bills receivable and remittances in transit	104	103	48	98	103	45
<b>Total liquid assets</b>	<b>2,519</b>	<b>3,390</b>	<b>2,762</b>	<b>2,502</b>	<b>3,390</b>	<b>2,758</b>
<b>Included within liquid assets is the following balance:</b>						
Overnight balances with central banks	1,965	2,418	2,207	1,965	2,418	2,207

### 8. Due from Other Financial Institutions

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Able to be withdrawn without prior notice	35	167	172	35	167	172
Securities purchased under agreement to resell	128	558	1,083	128	558	1,083
Securities purchased under agreement to resell with central banks	-	38	-	-	38	-
Security settlements	14	1,760	370	14	1,760	370
Certificates of deposit	1,807	4,269	2,338	1,772	4,269	2,338
Reserve bank bills	-	-	398	-	82	398
Term loans and advances	117	839	153	-	-	-
<b>Total due from other financial institutions</b>	<b>2,101</b>	<b>7,631</b>	<b>4,514</b>	<b>1,949</b>	<b>6,874</b>	<b>4,361</b>

There are no assets used to secure deposit obligations or assets encumbered through repurchase agreements at 31 March 2010 (31/03/2009 \$nil; 30/09/2009 \$nil).

### 9. Trading Securities

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Government, Local Body stock and bonds	3,257	677	1,389	3,257	677	1,389
Certificates of deposit	125	317	191	125	317	191
Promissory notes	47	88	28	47	88	28
Other bank bonds	2,894	1,366	2,475	2,894	1,366	2,475
Other	43	117	83	43	117	83
<b>Total trading securities</b>	<b>6,366</b>	<b>2,565</b>	<b>4,166</b>	<b>6,366</b>	<b>2,565</b>	<b>4,166</b>
<b>Included within trading securities is the following balance:</b>						
Assets encumbered through repurchase agreements	36	104	159	36	104	159

## Notes to the Financial Statements (continued)

### 10. Derivative Financial Instruments

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

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

#### Types of derivatives instruments

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

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

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

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

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

#### Trading positions

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

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

#### Balance sheet risk management

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

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

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

## Notes to the Financial Statements (continued)

### 10. Derivative Financial Instruments (continued)

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

	Consolidated			Parent		
	Notional Principal Amount \$m	Fair values Assets \$m    Liabilities \$m		Notional Principal Amount \$m	Fair values Assets \$m    Liabilities \$m	
<b>Unaudited 31/03/2010</b>						
<b>Derivatives held for trading</b>						
<i>Foreign exchange derivatives</i>						
Spot and forward contracts	34,633	495	696	34,685	495	699
Swap agreements	86,920	1,280	2,202	87,018	1,280	2,215
Options purchased	1,331	36	-	1,331	36	-
Options sold	1,197	-	43	1,197	-	43
Collateral received / paid	n/a	(299)	(837)	n/a	(299)	(837)
	<b>124,081</b>	<b>1,512</b>	<b>2,104</b>	<b>124,231</b>	<b>1,512</b>	<b>2,120</b>
<i>Interest rate derivatives</i>						
Forward rate agreements	54,287	13	13	54,287	13	13
Swap agreements	398,529	6,717	6,386	405,318	6,723	6,388
Futures contracts	18,685	3	46	18,685	3	46
Options purchased	1,199	18	-	1,199	18	-
Options sold	2,883	-	14	2,883	-	14
	<b>475,583</b>	<b>6,751</b>	<b>6,459</b>	<b>482,372</b>	<b>6,757</b>	<b>6,461</b>
<i>Commodity derivatives</i>						
Fuel derivatives	42	1	1	42	1	1
Electricity derivatives	9	1	1	9	1	1
<b>Total derivatives held for trading</b>	<b>599,715</b>	<b>8,265</b>	<b>8,565</b>	<b>606,654</b>	<b>8,271</b>	<b>8,583</b>
<b>Derivatives held for hedging</b>						
<b>(a) Designated as cash flow hedges</b>						
<i>Interest rate derivatives</i>						
<i>Swap agreements</i>	14,406	146	118	14,406	146	118
<b>Total derivatives designated as cash flow hedges</b>	<b>14,406</b>	<b>146</b>	<b>118</b>	<b>14,406</b>	<b>146</b>	<b>118</b>
<b>(b) Designated as fair value hedges</b>						
<i>Foreign exchange derivatives</i>						
Swap agreements	55	-	-	55	-	-
<i>Interest rate derivatives</i>						
Swap agreements	20,089	302	469	20,089	302	469
<b>Total derivatives designated as fair value hedges</b>	<b>20,144</b>	<b>302</b>	<b>469</b>	<b>20,144</b>	<b>302</b>	<b>469</b>
<b>Total derivatives held for hedging</b>	<b>34,550</b>	<b>448</b>	<b>587</b>	<b>34,550</b>	<b>448</b>	<b>587</b>
<b>Total derivative financial instruments</b>	<b>634,265</b>	<b>8,713</b>	<b>9,152</b>	<b>641,204</b>	<b>8,719</b>	<b>9,170</b>

## Notes to the Financial Statements (continued)

### 10. Derivative Financial Instruments (continued)

	Consolidated			Parent		
	Notional Principal Amount \$m	Fair values Assets \$m      Liabilities \$m		Notional Principal Amount \$m	Fair values Assets \$m      Liabilities \$m	
<b>Unaudited 31/03/2009</b>						
<b>Derivatives held for trading</b>						
<i>Foreign exchange derivatives</i>						
Spot and forward contracts	30,046	1,223	1,199	30,046	1,223	1,199
Swap agreements	70,236	3,545	3,471	70,324	3,562	3,471
Options purchased	1,255	72	-	1,255	72	-
Options sold	1,234	-	65	1,234	-	65
Collateral received / paid	n/a	(328)	(2,824)	n/a	(328)	(2,824)
	102,771	4,512	1,911	102,859	4,529	1,911
<i>Interest rate derivatives</i>						
Forward rate agreements	39,121	47	20	39,121	47	20
Swap agreements	363,063	9,744	9,600	372,229	9,904	9,600
Futures contracts	16,021	96	11	16,021	96	11
Options purchased	1,941	31	-	1,941	31	-
Options sold	1,941	-	31	1,941	-	31
	422,087	9,918	9,662	431,253	10,078	9,662
<i>Commodity derivatives</i>						
Fuel derivatives	32	7	6	32	7	6
Electricity derivatives	25	2	2	25	2	2
Total derivatives held for trading	524,915	14,439	11,581	534,169	14,616	11,581
<b>Derivatives held for hedging</b>						
<b>(a) Designated as cash flow hedges</b>						
<i>Interest rate derivatives</i>						
Swap agreements	9,669	189	113	9,669	189	113
Total derivatives designated as cash flow hedges	9,669	189	113	9,669	189	113
<b>(b) Designated as fair value hedges</b>						
<i>Foreign exchange derivatives</i>						
Swap agreements	68	3	-	68	3	-
<i>Interest rate derivatives</i>						
Swap agreements	22,152	354	1,174	22,152	354	1,174
Total derivatives designated as fair value hedges	22,220	357	1,174	22,220	357	1,174
Total derivatives held for hedging	31,889	546	1,287	31,889	546	1,287
Total derivative financial instruments	556,804	14,985	12,868	566,058	15,162	12,868



## Notes to the Financial Statements (continued)

### 10. Derivative Financial Instruments (continued)

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

#### Hedging relationships

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

#### Fair value hedges

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

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

## Notes to the Financial Statements (continued)

### 10. Derivative Financial Instruments (continued)

	Consolidated			Parent		
	Unaudited 6 months to 31/03/2010 \$m	Unaudited Year to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited Year to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
Gain / (loss) arising from fair value hedges:						
– hedged item	(263)	424	263	(263)	424	263
– hedging instrument	331	(441)	(192)	331	(441)	(192)
Net ineffectiveness on qualifying fair value hedges	68	(17)	71	68	(17)	71

#### Cash flow hedges

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

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

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

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Balance at beginning of the period	23	24	24	23	24	24
Transferred to income statement	21	(19)	(3)	21	(19)	(3)
Tax effect of items transferred to income statement	(7)	7	2	(7)	7	2
Valuation gain / (loss) taken to equity	2	(9)	(1)	2	(9)	(1)
Tax effect of valuation loss taken to equity	(1)	3	1	(1)	3	1
Balance at end of the period	38	6	23	38	6	23

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

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

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Variable rate loan assets	141	214	149	141	214	149
Variable rate liabilities	(32)	(60)	(29)	(32)	(60)	(29)
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	(71)	(148)	(97)	(71)	(148)	(97)
Total cash flow hedging reserve	38	6	23	38	6	23

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur which is anticipated to take place over the next 0 - 10 years (31/03/2009 0-10 years; 30/09/2009 0-10 years).

## Notes to the Financial Statements (continued)

### 10. Derivative Financial Instruments (continued)

All gains and losses associated with the ineffective portion of the hedging derivatives are recognised immediately as other operating income in the income statement. The ineffectiveness recognised in the income statement in respect of cash flow hedges was less than \$1 million in the Banking Group (31/03/2009 less than \$1 million; 30/09/2009 less than \$1 million) and less than \$1 million in the Bank (31/03/2009 less than \$1 million; 30/09/2009 less than \$1 million).

There were no transactions where cash flow hedge accounting ceased in the period ended 31 March 2010 as a result of highly probable cash flows that were no longer expected to occur (31/03/2009 no transactions; 30/09/2009 no transactions).

### 11. Available-For-Sale Assets

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Government, Local Body stock and bonds	1,546	496	1,394	1,527	496	1,394
Other debt securities	208	30	48	51	30	48
Equity securities	96	71	71	96	68	69
Total available-for-sale assets	1,850	597	1,513	1,674	594	1,511

### 12. Net Loans and Advances

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Overdrafts	2,014	2,094	2,087	2,014	2,094	2,087
Credit card outstandings	1,417	1,429	1,402	1,417	1,429	1,402
Term loans – housing <sup>1</sup>	43,495	48,849	44,763	43,495	48,849	44,763
Term loans – non-housing	39,382	40,696	40,231	37,472	38,644	38,251
Finance lease receivables	692	741	683	27	38	30
Gross loans and advances	87,000	93,809	89,166	84,425	91,054	86,533
Provision for credit impairment (Note 14)	(1,457)	(876)	(1,272)	(1,392)	(811)	(1,212)
Unearned finance income	(252)	(295)	(262)	-	-	-
Fair value hedge adjustment	378	1,050	615	378	1,050	615
Deferred fee revenue and expenses	(50)	(53)	(51)	(46)	(49)	(47)
Capitalised brokerage/ mortgage origination fees	51	85	63	51	85	63
Total net loans and advances	85,670	93,720	88,259	83,416	91,329	85,952

<sup>1</sup> As at 31 March 2010 the Banking Group has not entered into any repurchase agreements for residential mortgage-backed securities with the Reserve Bank of New Zealand ("RBNZ") (31/03/2009 mortgages to the value of \$1,806 million; 30/09/2009 \$1,806 million). Therefore no underlying collateral has been accepted by the RBNZ under this transaction (in previous periods mortgages to the value of 31/03/2009 \$2,250 million; 30/09/2009 \$2,250 million were held by the RBNZ as collateral).

In February 2009 and July 2009, the Banking Group sold \$4,877 million and \$4,986 million, respectively, of residential mortgages to the NZ Branch. These existing tranches of residential mortgages are regularly topped up with additional mortgages. Further sales of \$2,612 million occurred in the six months ended 31 March 2010. Repurchases and repayments have resulted in an outstanding balance of \$10,025 million as at 31 March 2010. These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets. Net loans and advances have decreased as a result of selling these assets.

## Notes to the Financial Statements (continued)

### 13. Impaired Assets, Past Due Assets and Other Assets Under Administration

#### Individually impaired assets

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
Balance at beginning of the period	377	59	740	1,176	377	51	689	1,117
Transfers from productive	282	132	666	1,080	282	126	623	1,031
Transfers to productive	(7)	(1)	(52)	(60)	(7)	(1)	(76)	(84)
Assets realised or loans repaid	(172)	(32)	(169)	(373)	(172)	(29)	(129)	(330)
Write offs	(36)	(63)	(20)	(119)	(36)	(55)	(18)	(109)
Individually impaired asset balance at end of the period	444	95	1,165	1,704	444	92	1,089	1,625
Restructured items and other individually impaired assets	8	-	-	8	8	-	-	8
<b>Total impaired assets</b>	<b>452</b>	<b>95</b>	<b>1,165</b>	<b>1,712</b>	<b>452</b>	<b>92</b>	<b>1,089</b>	<b>1,633</b>
<b>Unaudited 31/03/2009</b>								
Balance at beginning of the period	83	30	214	327	83	14	191	288
Transfers from productive	200	127	186	513	200	106	177	483
Transfers to productive	(10)	(20)	(14)	(44)	(10)	(20)	(12)	(42)
Assets realised or loans repaid	(64)	(15)	(28)	(107)	(64)	(11)	(23)	(98)
Write offs	(9)	(66)	(5)	(80)	(9)	(58)	(5)	(72)
Individually impaired asset balance at end of the period	200	56	353	609	200	31	328	559
Restructured items and other individually impaired assets	2	-	18	20	2	-	-	2
<b>Total impaired assets</b>	<b>202</b>	<b>56</b>	<b>371</b>	<b>629</b>	<b>202</b>	<b>31</b>	<b>328</b>	<b>561</b>
<b>Audited 30/09/2009</b>								
Balance at beginning of the year	83	30	214	327	83	14	191	288
Transfers from productive	576	243	882	1,701	576	235	802	1,613
Transfers to productive	(22)	(20)	(25)	(67)	(22)	(20)	(17)	(59)
Assets realised or loans repaid	(232)	(45)	(230)	(507)	(232)	(37)	(206)	(475)
Write offs	(28)	(149)	(101)	(278)	(28)	(141)	(81)	(250)
Individually impaired asset balance at end of the year	377	59	740	1,176	377	51	689	1,117
Restructured items and other individually impaired assets	-	2	-	2	-	2	-	2
<b>Total impaired assets</b>	<b>377</b>	<b>61</b>	<b>740</b>	<b>1,178</b>	<b>377</b>	<b>53</b>	<b>689</b>	<b>1,119</b>

## Notes to the Financial Statements (continued)

### 13. Impaired Assets, Past Due Assets and Other Assets Under Administration

#### Restructured assets

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

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
Balance at beginning of the period	2	-	-	2	2	-	-	2
Transfers to restructured assets	6	-	-	6	6	-	-	6
Transfers from restructured assets	-	-	-	-	-	-	-	-
Balance at end of the period	8	-	-	8	8	-	-	8
<b>Unaudited 31/03/2009</b>								
Balance at beginning of the period	-	-	-	-	-	-	-	-
Transfers to restructured assets	2	-	18	20	2	-	-	2
Transfers from restructured assets	-	-	-	-	-	-	-	-
Balance at end of the period	2	-	18	20	2	-	-	2
<b>Audited 30/09/2009</b>								
Balance at beginning of the year	-	-	-	-	-	-	-	-
Transfers to restructured assets	2	-	18	20	2	-	-	2
Transfers from restructured assets	-	-	(18)	(18)	-	-	-	-
Balance at end of the year	2	-	-	2	2	-	-	2

#### Renegotiated loans

Renegotiated loans are loans that would otherwise be past due or impaired had their terms not been renegotiated. At 31 March 2010, loans and advances of \$677 million were renegotiated in the Banking Group (30/09/2009 \$266 million). In the Parent, loans and advances of \$626 million were renegotiated at 31 March 2010 (30/09/2009 \$196 million).

#### Assets acquired through enforcement of security

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. The Banking Group held no material assets acquired through enforcement of security (31/03/2009 \$nil; 30/09/2009 \$nil).

#### Past due assets

A past due asset is any loan where the counterparty has failed to make a payment when contractually due, and which is not an impaired asset. A 90 days past due asset is any past due asset which has not been operated by the counterparty within its key terms for at least 90 days. Further analysis of past due assets can be found in the Financial Risk Management note, including an ageing analysis of all past due assets 1 day and over where the counterparty has failed to make a payment when contractually due.

## Notes to the Financial Statements (continued)

### 13. Impaired Assets, Past Due Assets and Other Assets Under Administration (continued)

#### Other assets under administration

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

#### Interest forgone

Interest forgone on impaired assets has been calculated based on interest rates that would have been applied to loans of similar risk and maturity.

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
<b>Past due assets (90 days past due assets)<sup>1</sup></b>								
Balance at beginning of the period	265	59	111	435	265	51	100	416
Transfers to past due assets	251	69	231	551	251	69	211	531
Transfers from past due assets	(334)	(80)	(221)	(635)	(334)	(79)	(200)	(613)
Balance at end of the period	182	48	121	351	182	41	111	334
<b>Other assets under administration</b>								
Balance at beginning of the period	-	-	-	-	-	-	-	-
Transfers to other assets under administration	-	-	1	1	-	-	1	1
Transfers from other assets under administration	-	-	-	-	-	-	-	-
Balance at end of the period	-	-	1	1	-	-	1	1
<b>Undrawn facilities with impaired customers</b>								
Balance at beginning of the period	-	-	32	32	-	-	32	32
Transfers to undrawn facilities with impaired customers	-	-	68	68	-	-	68	68
Balance at end of the period	-	-	100	100	-	-	100	100
<b>Interest forgone on impaired assets</b>								
Gross interest receivable on impaired loans	21	3	50	74	21	1	48	70
Interest recognised	(7)	(1)	(12)	(20)	(7)	(1)	(10)	(18)
Net interest forgone on impaired loans	14	2	38	54	14	-	38	52
<b>Unaudited 31/03/2009</b>								
<b>Past due assets (90 days past due assets)<sup>1</sup></b>								
Balance at beginning of the period	244	54	11	309	244	47	5	296
Transfers to past due assets	437	77	230	744	433	53	203	689
Transfers from past due assets	(275)	(60)	(171)	(506)	(271)	(41)	(162)	(474)
Balance at end of the period	406	71	70	547	406	59	46	511
<b>Other assets under administration</b>								
Balance at beginning of the period	-	-	1	1	-	-	1	1
Transfers to other assets under administration	-	-	10	10	-	-	10	10
Transfers from other assets under administration	-	-	(7)	(7)	-	-	(7)	(7)
Balance at end of the period	-	-	4	4	-	-	4	4
<b>Undrawn facilities with impaired customers</b>								
Balance at beginning of the period	-	-	6	6	-	-	6	6
Transfers to undrawn facilities with impaired customers	-	-	5	5	-	-	5	5
Balance at end of the period	-	-	11	11	-	-	11	11
<b>Interest forgone on impaired assets</b>								
Gross interest receivable on impaired loans	6	2	10	18	7	1	10	18
Interest recognised	-	-	(2)	(2)	-	-	(2)	(2)
Net interest forgone on impaired loans	6	2	8	16	7	1	8	16

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

## Notes to the Financial Statements (continued)

### 13. Impaired Assets, Past Due Assets and Other Assets Under Administration (continued)

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

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

## Notes to the Financial Statements (continued)

### 14. Provision for Credit Impairment

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
<b>Collective provision</b>								
Balance at beginning of the period	121	159	518	798	121	140	501	762
Charge / (credit) to income statement	(4)	2	60	58	1	1	58	60
Balance at end of the period	117	161	578	856	122	141	559	822
<b>Individual provision (individually impaired assets)</b>								
Balance at beginning of the period	153	40	281	474	153	23	274	450
Charge to income statement	95	60	101	256	95	52	93	240
Recoveries of amounts previously written off	1	8	1	10	1	7	1	9
Bad debts written off	(36)	(63)	(20)	(119)	(36)	(57)	(18)	(111)
Discount unwind <sup>1</sup>	(7)	(1)	(12)	(20)	(7)	(1)	(10)	(18)
Balance at end of the period	206	44	351	601	206	24	340	570
Total provision for credit impairment	323	205	929	1,457	328	165	899	1,392
<b>Unaudited 31/03/2009</b>								
<b>Collective provision</b>								
Balance at beginning of the period	81	164	289	534	81	146	270	497
Charge to income statement	12	(16)	77	73	12	(14)	73	71
Balance at end of the period	93	148	366	607	93	132	343	568
<b>Individual provision (individually impaired assets)</b>								
Balance at beginning of the period	28	10	94	132	28	4	83	115
Charge to income statement	35	77	100	212	35	69	90	194
Recoveries of amounts previously written off	-	10	-	10	-	10	-	10
Bad debts written off	(9)	(66)	(5)	(80)	(9)	(58)	(5)	(72)
Discount unwind <sup>1</sup>	-	-	(5)	(5)	-	-	(4)	(4)
Balance at end of the period	54	31	184	269	54	25	164	243
Total provision for credit impairment	147	179	550	876	147	157	507	811
<b>Audited 30/09/2009</b>								
<b>Collective provision</b>								
Balance at beginning of the year	81	164	289	534	81	146	270	497
Charge to income statement	40	(5)	229	264	40	(6)	231	265
Balance at end of the year	121	159	518	798	121	140	501	762
<b>Individual provision (individually impaired assets)</b>								
Balance at beginning of the year	28	10	94	132	28	4	83	115
Charge to income statement	152	161	297	610	152	142	281	575
Recoveries of amounts previously written off	1	18	1	20	1	18	1	20
Bad debts written off	(28)	(149)	(101)	(278)	(28)	(141)	(81)	(250)
Discount unwind <sup>1</sup>	-	-	(10)	(10)	-	-	(10)	(10)
Balance at end of the year	153	40	281	474	153	23	274	450
Total provision for credit impairment	274	199	799	1,272	274	163	775	1,212

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



## Notes to the Financial Statements (continued)

### 14. Provision for Credit Impairment (continued)

#### Provision movement analysis

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
New and increased provisions	121	73	176	370	121	64	167	352
Provision releases	(25)	(5)	(74)	(104)	(25)	(5)	(73)	(103)
	96	68	102	266	96	59	94	249
Recoveries of amounts previously written off	(1)	(8)	(1)	(10)	(1)	(7)	(1)	(9)
Individual provision charge	95	60	101	256	95	52	93	240
Collective provision charge / (credit)	(4)	2	60	58	1	1	58	60
Total charge to income statement	91	62	161	314	96	53	151	300
<b>Unaudited 31/03/2009</b>								
New and increased provisions	36	87	103	226	36	79	93	208
Provision releases	(1)	-	(3)	(4)	(1)	-	(3)	(4)
	35	87	100	222	35	79	90	204
Recoveries of amounts previously written off	-	(10)	-	(10)	-	(10)	-	(10)
Individual provision charge	35	77	100	212	35	69	90	194
Collective provision charge	12	(16)	77	73	12	(14)	73	71
Total charge to income statement	47	61	177	285	47	55	163	265
<b>Audited 30/09/2009</b>								
New and increased provisions	162	182	316	660	162	162	299	623
Provision releases	(9)	(3)	(18)	(30)	(9)	(2)	(17)	(28)
	153	179	298	630	153	160	282	595
Recoveries of amounts previously written off	(1)	(18)	(1)	(20)	(1)	(18)	(1)	(20)
Individual provision charge	152	161	297	610	152	142	281	575
Collective provision charge	40	(5)	229	264	40	(6)	231	265
Total charge to income statement	192	156	526	874	192	136	512	840

## Notes to the Financial Statements (continued)

### 15. Shares in Controlled Entities, Associates and Jointly Controlled Entities

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Shares in controlled entities	-	-	-	7,734	7,452	7,377
Shares in associates	142	148	211	87	90	94
Shares in jointly controlled entities	2	248	253	-	231	231
Total shares in controlled entities, associates and jointly controlled entities	144	396	464	7,821	7,773	7,702
<b>Shares in associates comprise:</b>						
Balance at beginning of the period	211	144	144	94	88	88
Acquisitions	-	2	67	-	-	6
Disposals	-	-	-	-	-	-
Transfers to subsidiary company	(96)	-	-	(7)	-	-
Impairment	(3)	-	(2)	-	2	-
Share of profit of equity accounted associates	30	2	2	-	-	-
Balance at end of the period	142	148	211	87	90	94

Shares in associates at 31 March 2010 includes goodwill of \$56 million (31/03/2009 \$59 million; 30/09/2009 \$57 million) for the Banking Group and \$nil (31/03/2009 \$nil; 30/09/2009 \$nil) for the Parent:

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Shares in jointly controlled entities comprise:</b>						
Balance at beginning of the period	253	219	219	231	208	208
Acquisitions	-	23	23	-	23	23
Disposals	(1)	-	-	-	-	-
Transfers to subsidiary company	(255)	-	-	(231)	-	-
Impairment	(1)	-	-	-	-	-
Share of profit of jointly controlled entities	6	6	11	-	-	-
Balance at end of the period	2	248	253	-	231	231

Shares in jointly controlled entities at 31 March 2010 includes goodwill of \$nil million (31/03/2009 \$97 million; 30/09/2009 \$94 million) for the Group and \$nil million (31/03/2009 \$90 million; 30/09/2009 \$90 million) for the Parent.

### 16. Other Assets

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Accrued interest and prepaid discounts	398	434	397	440	429	425
Accrued commission	21	25	19	15	19	16
Share-based payments asset	58	51	52	58	51	52
Prepaid expenses	98	58	86	91	51	78
Security settlements	448	55	291	448	55	291
Other assets	147	200	292	78	140	219
Total other assets	1,170	823	1,137	1,130	745	1,081

## Notes to the Financial Statements (continued)

### 17. Deferred Tax Assets / Liabilities

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Deferred tax assets / (liabilities)</b>						
Balance at beginning of the period	(17)	121	121	(83)	100	100
Credited / (charged) to income statement	450	87	(141)	448	82	(186)
(Charged) / credited directly to equity	(8)	(8)	3	(8)	(8)	3
Balance at end of the period	425	200	(17)	357	174	(83)
<b>Deferred tax assets / (liabilities) comprise the following temporary differences:</b>						
Provision for credit impairment	437	250	381	418	230	363
Deferred fee revenue and expenses	5	4	3	5	5	4
Premises and equipment	1	1	2	(5)	(4)	(3)
Software	5	6	5	6	6	4
Provisions and accruals	148	168	191	136	163	148
Derivative financial instruments	2	3	1	-	4	-
Defined benefit schemes	11	20	17	11	20	17
Tax losses generated not utilised	42	-	-	-	-	-
Lease finance	(123)	(101)	(112)	(120)	(97)	(110)
Other (including provisions)	(103)	(151)	(505)	(94)	(153)	(506)
Net deferred tax assets / (liabilities) <sup>1</sup>	425	200	(17)	357	174	(83)
<b>Deferred tax credited / (charged) to the income statement comprises the following temporary differences:</b>						
Provision for credit impairment	56	50	181	55	46	179
Deferred fee revenue and expenses	2	1	-	1	2	1
Premises and equipment	(1)	1	2	(2)	(1)	-
Software	-	(5)	(6)	2	(6)	(8)
Provisions and accruals	(43)	43	66	(12)	45	30
Derivative financial instruments	1	-	(2)	-	-	(4)
Defined benefit schemes	(6)	12	9	(6)	12	9
Tax losses generated not utilised	42	-	-	-	-	-
Lease finance	(11)	(11)	(22)	(10)	(12)	(25)
Other (including provisions)	410	(4)	(369)	420	(4)	(368)
Total deferred tax (charged) / credited to the income statement	450	87	(141)	448	82	(186)
<b>Deferred tax credited / (charged) to equity comprises the following temporary differences:</b>						
Financial instruments	(8)	(8)	3	(8)	(8)	3
Total deferred tax credited / (charged) directly to equity	(8)	(8)	3	(8)	(8)	3

There were unrecognised deferred tax assets of \$51m relating to ING NZ tax losses as at 31 March 2010 (31/03/2009 \$nil; 30/09/2009 \$nil).

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

## Notes to the Financial Statements (continued)

### 18. Premises And Equipment

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Freehold and leasehold land and buildings</b>						
At cost	63	63	63	-	-	-
Accumulated depreciation	(11)	(11)	(11)	-	-	-
Total carrying amount	52	52	52	-	-	-
<b>Leasehold improvements</b>						
At cost	99	100	99	2	2	2
Accumulated depreciation	(80)	(77)	(78)	(1)	(1)	(1)
Total carrying amount	19	23	21	1	1	1
<b>Furniture and equipment</b>						
At cost	274	264	265	18	18	18
Accumulated depreciation	(200)	(184)	(191)	(12)	(9)	(11)
Total carrying amount	74	80	74	6	9	7
<b>Computer and office equipment</b>						
At cost	277	252	251	236	212	212
Accumulated depreciation	(200)	(204)	(200)	(170)	(175)	(170)
Total carrying amount	77	48	51	66	37	42
Work in progress	83	47	80	6	13	13
Total premises and equipment	305	250	278	79	60	63

## Notes to the Financial Statements (continued)

### 18. Premises And Equipment (continued)

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

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Freehold and leasehold land and buildings</b>						
Balance at beginning of the period	52	57	57	-	-	-
Additions	-	10	10	-	-	-
Disposals	-	(15)	(15)	-	-	-
Balance at end of the period	52	52	52	-	-	-
<b>Leasehold improvements</b>						
Balance at beginning of the period	21	23	23	1	1	1
Additions	-	2	3	-	-	-
Depreciation	(2)	(2)	(5)	-	-	-
Balance at end of the period	19	23	21	1	1	1
<b>Furniture and equipment</b>						
Balance at beginning of the period	74	79	79	7	8	8
Additions	7	8	10	-	1	2
Acquired as part of business combination	2	-	-	-	-	-
Disposals	-	-	(1)	-	-	(1)
Depreciation	(9)	(7)	(14)	(1)	-	(2)
Balance at end of the period	74	80	74	6	9	7
<b>Computer and office equipment</b>						
Balance at beginning of the period	51	50	50	42	38	38
Additions	35	9	24	33	7	23
Acquired as part of business combination	2	-	-	-	-	-
Disposals	(1)	(2)	(4)	(1)	(1)	(4)
Depreciation	(10)	(9)	(19)	(8)	(7)	(15)
Balance at end of the period	77	48	51	66	37	42
<b>Work in progress</b>						
Balance at beginning of the period	80	33	33	13	6	6
Net additions	3	14	47	(7)	7	7
Balance at end of the period	83	47	80	6	13	13
Total premises and equipment	305	250	278	79	60	63

## Notes to the Financial Statements (continued)

### 19. Goodwill and Other Intangible Assets

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Goodwill</b>						
<i>Gross carrying amount</i>						
Balance at beginning of the period	3,265	3,265	3,265	3,217	3,217	3,217
Balance at end of the period	3,265	3,265	3,265	3,217	3,217	3,217
<b>Software</b>						
<i>Gross carrying amount</i>						
Balance at beginning of the period	115	96	96	110	93	93
Additions from internal developments	21	4	19	19	4	17
Additions from purchases	3	-	-	3	-	-
Acquired as part of a business combination	1	-	-	-	-	-
Impairment	(9)	-	-	(9)	-	-
Balance at end of the period	131	100	115	123	97	110
<i>Accumulated amortisation</i>						
Balance at beginning of the period	(58)	(47)	(47)	(56)	(45)	(45)
Accumulated amortisation on impaired assets	8	-	-	8	-	-
Amortisation expense <sup>1</sup>	(4)	(6)	(11)	(4)	(5)	(11)
Balance at end of the period	(54)	(53)	(58)	(52)	(50)	(56)
Total software	77	47	57	71	47	54
<b>Other intangible assets</b>						
<i>Gross carrying amount</i>						
Balance at beginning of the period	6	4	4	6	4	4
Additions from purchases	-	9	9	-	9	9
Impairment	-	-	(7)	-	-	(7)
Acquired as part of a business combination	222	-	-	-	-	-
Balance at end of the period	228	13	6	6	13	6
<i>Accumulated amortisation</i>						
Balance at beginning of the period	(3)	(1)	(1)	(3)	(1)	(1)
Amortisation expense <sup>1</sup>	(4)	-	(2)	-	-	(2)
Balance at end of the period	(7)	(1)	(3)	(3)	(1)	(3)
Total other intangible assets	221	12	3	2	11	3
Total goodwill and other intangible assets	3,563	3,324	3,325	3,290	3,275	3,274

As at 31 March 2010, the balance of goodwill recorded as an asset which relates to the acquisition of The National Bank of New Zealand Limited in June 2004 was \$3,217 million (31/03/2009 \$3,217 million; 30/09/2009 \$3,217 million).

<sup>1</sup> Software amortisation expense is included in other costs in the income statement.

## Notes to the Financial Statements (continued)

### 20. Due to Other Financial Institutions

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	340	531	497	58	3	12
Securities sold under agreements to repurchase from other financial institutions	36	45	159	36	45	159
Securities sold under agreements to repurchase from central banks <sup>1</sup>	-	1,856	1,806	-	1,856	1,806
Other financial institutions	960	1,730	1,263	960	1,346	1,262
<b>Total due to other financial institutions</b>	<b>1,336</b>	<b>4,162</b>	<b>3,725</b>	<b>1,054</b>	<b>3,250</b>	<b>3,239</b>
<b>Included within due to other financial institutions is the following balance:</b>						
Balances owing to the Ultimate Parent Bank by ANZ National (Int'l) Limited guaranteed by the Bank	282	528	485	-	-	-

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

### 21. Deposits and Other Borrowings

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Amortised cost</b>						
Certificates of deposit	3,950	7,054	4,441	3,950	7,054	4,441
Term deposits	33,394	30,020	32,997	33,394	30,020	32,997
Demand deposits bearing interest	19,623	23,583	21,024	19,622	23,582	21,024
Deposits not bearing interest	4,895	4,248	4,373	4,895	4,248	4,373
Secured debenture stock	1,358	1,702	1,537	-	-	-
Securities sold under agreement to repurchase	-	9	-	-	9	-
<b>Total deposits and other borrowings recognised at amortised cost</b>	<b>63,220</b>	<b>66,616</b>	<b>64,372</b>	<b>61,861</b>	<b>64,913</b>	<b>62,835</b>
<b>Fair value through the profit or loss</b>						
Commercial paper	7,416	6,144	7,392	-	-	-
<b>Total deposits and other borrowings recognised at fair value</b>	<b>7,416</b>	<b>6,144</b>	<b>7,392</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total deposits and other borrowings</b>	<b>70,636</b>	<b>72,760</b>	<b>71,764</b>	<b>61,861</b>	<b>64,913</b>	<b>62,835</b>

The Banking Group has not defaulted on any principal, interest or redemption amounts on its borrowed funds during the period ended 31 March 2010 (31/03/2009 \$nil; 30/09/2009 \$nil). Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

<b>Amortised cost of balances included within deposits and other borrowings designated as at fair value through profit or loss:</b>						
Commercial paper issued by ANZ National (Int'l) Limited guaranteed by ANZ National Bank Limited	7,415	6,135	7,388	-	-	-
<b>UDC Finance Limited secured debentures</b>						
Carrying value of total tangible assets	1,898	2,006	1,877	-	-	-

Registered secured debenture stock is constituted and secured by a trust deed between UDC Finance Limited and its independent trustee, Trustees Executors Limited. The trust deed creates floating charges over all the assets, primarily loans and advances, of UDC Finance Limited.

<sup>1</sup> As at 31 March 2010 the Banking Group had entered into no repurchase agreements for residential mortgage-backed securities with the RBNZ (31/03/2009 \$1,806 million; 30/09/2009 \$1,806 million). Therefore no underlying collateral has been accepted by the RBNZ under this transaction (in previous periods mortgages to the value of 31/03/2009 \$2,250 million; 30/09/2009 \$2,250 million were held by RBNZ as collateral).

## Notes to the Financial Statements (continued)

### 22. Payables and Other Liabilities

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Creditors	396	61	81	344	30	38
Accrued interest and unearned discounts	581	722	687	458	598	559
Defined benefit schemes deficit	37	66	55	37	66	55
Share-based payments liability	23	18	28	23	18	28
Accrued charges	276	200	257	255	184	239
Security settlements	97	552	205	93	552	201
Equitable assignment of mortgages <sup>1</sup>	18	22	19	18	22	19
Other liabilities <sup>2</sup>	656	459	477	928	409	139
<b>Total payables and other liabilities</b>	<b>2,084</b>	<b>2,100</b>	<b>1,809</b>	<b>2,156</b>	<b>1,879</b>	<b>1,278</b>

### 23. Provisions

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Non-lending losses, frauds and forgeries</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>4</b>
<b>Employee entitlements<sup>3</sup></b>						
Balance at beginning of the period	119	117	117	117	115	115
Acquired as part of business combination	6	-	-	-	-	-
New provisions	29	31	60	29	30	59
Provisions utilised	(34)	(35)	(58)	(30)	(34)	(57)
Balance at end of the period	120	113	119	116	111	117
<b>Personnel restructuring costs<sup>4</sup></b>						
Balance at beginning of the period	6	32	32	6	32	32
New provisions	-	17	17	-	17	17
Provisions utilised	(3)	(22)	(43)	(3)	(22)	(43)
Balance at end of the period	3	27	6	3	27	6
<b>Redundant assets restructuring costs<sup>4</sup></b>						
Balance at beginning of the period	18	1	1	14	1	1
New provisions	-	-	17	-	-	17
Transfers from subsidiary companies	-	-	-	-	-	(4)
Provisions utilised	(1)	-	-	-	-	-
Balance at end of the period	17	1	18	14	1	14
<b>Other provisions<sup>5</sup></b>						
Balance at beginning of the period	136	29	29	134	27	27
Acquired as part of business combination	108	-	-	-	-	-
New provisions	-	179	257	-	179	257
Provisions utilised	(46)	(13)	(150)	(46)	(13)	(150)
Balance at end of the period	198	195	136	88	193	134
<b>Total provisions</b>	<b>341</b>	<b>340</b>	<b>283</b>	<b>224</b>	<b>336</b>	<b>275</b>

<sup>1</sup> 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.

<sup>2</sup> Includes amounts payable to related parties of \$495m (31/03/09 \$193 million; 30/09/09 \$330 million) for the Banking Group and \$778 million (31/03/09 \$193 million; 30/09/09 nil) for the Bank.

<sup>3</sup> **Employee entitlements**

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

<sup>4</sup> **Personnel restructuring costs and redundant assets restructuring costs**

Restructuring cost provisions arise from exit activities relating to material changes in the scope or manner of business undertaken by the Banking Group and includes termination benefits. Provisions are made when the Banking Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated. The majority of provisions recognised at 31 March 2010 are expected to be settled over the 2010 financial year, with the exception that provisions for losses arising from rental commitments on leased premises which have become vacant as a result of restructuring will be settled over the remaining term of the leases.

<sup>5</sup> **Other provisions**

Other provisions includes provisions relating to the ING New Zealand Funds, refer to the Contingent Liabilities and Credit Related Commitments note for further information, and the fair value of other contingent liabilities and provisions acquired as part of the acquisition of ING NZ.



## Notes to the Financial Statements (continued)

### 24. Bonds and Notes

Issued by ANZ National Bank Limited (Parent)

Denomination	Face value		Maturity	Interest rate %	Consolidated		
					Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
NZD	50m	floating rate notes	2009	3 month BKBM + 0.30%	-	50	-
NZD	70m	floating rate notes	2010	3 month BKBM + 0.35%	70	70	70
NZD	100m	fixed rate notes	2010	8.50%	100	100	100
NZD	75m	fixed rate notes	2010	8.50%	75	75	75
NZD	65m	fixed rate notes	2010	3 month BKBM + 0.80%	65	-	65
NZD	50m	floating rate notes	2011	3 month BKBM + 1.24%	50	-	50
NZD	150m	fixed rate notes	2011	6.80%	150	150	150
NZD	170m	floating rate notes	2011	3 month BKBM + 0.90%	170	170	170
NZD	50m	fixed rate notes	2011	8.25%	50	50	50
NZD	100m	floating rate notes	2012	3 month BKBM + 1.025%	100	-	100
NZD	150m	fixed rate notes	2012	5.63%	150	-	150
NZD	100m	fixed rate notes	2013	6.32%	100	-	-
NZD	175m	fixed rate notes	2014	8.50%	175	175	175
NZD	60m	fixed rate notes	2014	8.50%	60	60	60
NZD	250m	fixed rate notes	2015	6.60%	250	-	-
Index linked notes					92	81	78
Fair value hedge adjustment					248	334	223
Less Bond instruments held by the Banking Group					(82)	-	-
					<b>1,823</b>	<b>1,315</b>	<b>1,516</b>

## Notes to the Financial Statements (continued)

### 24. Bonds and Notes (continued)

#### Issued by ANZ National (Int'l) Limited

Denomination	Face value	Maturity	Interest rate %	Consolidated			
				Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	
EUR	750m	floating rate notes	2009	3 month EURIBOR + 0.12%	-	1,748	-
HKD	1,000m	fixed rate notes	2009	4.40%	-	227	-
NZD	150m	floating rate notes	2009	3 month BKBM + 0.10%	-	150	150
HKD	300m	fixed rate notes	2009	4.93%	-	68	-
USD	750m	floating rate notes	2009	3 month LIBOR + 0.04%	-	1,320	-
USD	300m	floating rate notes	2009	1 month LIBOR + 0.04%	-	528	416
NZD	20m	floating rate notes	2009	3 month BKBM + 0.05%	-	20	-
USD	1m	floating rate notes <sup>1</sup>	2009	1 month LIBOR + 0.01%	-	2	-
USD	1,211m	floating rate notes <sup>2</sup>	2009	3 month LIBOR + 0.22%	-	2,132	-
USD	789m	floating rate notes <sup>2</sup>	2009	3 month LIBOR + 0.22%	-	1,389	1,093
JPY	8,640m	fixed rate notes	2009	0.114%	-	155	-
JPY	6,000m	floating rate notes	2009	3 month JPY LIBOR	-	108	92
USD	8m	floating rate notes <sup>1</sup>	2010	1 month LIBOR + 0.02%	-	14	11
USD	750m	floating rate notes	2010	3 month LIBOR + 0.11%	1,057	1,320	1,039
NZD	100m	floating rate notes	2010	3 month BKBM + 0.05%	-	100	100
CHF	275m	floating rate notes	2010	3 month CHF LIBOR + 0.75%	363	422	369
SGD	200m	fixed rate notes	2010	3.22%	201	232	196
USD	100m	floating rate notes	2010	3 month LIBOR + 0.55%	141	176	139
AUD	50m	floating rate notes	2010	3 month BBSW + 0.61%	65	60	61
USD	890m	floating rate notes <sup>3</sup>	2010	3 month LIBOR + 1.03%	1,254	1,567	1,234
USD	300m	fixed rate notes	2011	5.50%	423	528	416
GBP	435m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	924	1,094	966
GBP	105m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	223	-	233
USD	500m	floating rate notes <sup>4</sup>	2011	3 month LIBOR + 0.18%	704	-	693
USD	250m	floating rate notes	2011	3 month LIBOR + 0.70%	352	-	346
USD	100m	floating rate notes <sup>4</sup>	2011	3 month LIBOR + 0.32%	141	-	139
USD	20m	floating rate notes <sup>4</sup>	2011	3 month LIBOR + 0.20%	28	-	28
USD	100m	floating rate notes	2011	3 month LIBOR + 0.65%	141	-	139
HKD	155m	floating rate notes	2011	3 month HIBOR + 0.51%	28	-	28
GBP	450m	floating rate notes <sup>3</sup>	2012	6 month GBP LIBOR + 0.08%	955	1,132	999
USD	1,000m	fixed rate notes <sup>4</sup>	2012	3.25%	1,409	1,760	1,386
USD	500m	fixed rate notes <sup>4</sup>	2012	3.25%	705	-	693
USD	100m	floating rate notes <sup>4</sup>	2012	3 month LIBOR + 0.25%	141	-	139
USD	15m	floating rate notes	2012	3 month LIBOR + 0.80%	21	-	21
HKD	300m	floating rate notes	2012	3 month HIBOR + 0.71%	54	-	-
USD	1,250m	fixed rate notes	2012	2.38%	1,761	-	-
USD	2,000m	fixed rate notes	2013	6.20%	2,816	3,521	2,772
USD	100m	floating rate notes <sup>4</sup>	2014	3 month LIBOR + 0.44%	141	-	139
HKD	100m	fixed rate notes	2014	3.40%	18	-	18
CHF	300m	fixed rate notes	2014	2.01%	396	-	-
JPY	3,000m	fixed rate notes	2014	1.50%	45	-	-
USD	20m	floating rate notes	2014	3 month LIBOR +1.10%	28	-	-
HKD	100m	fixed rate notes	2014	3.03%	18	-	-
JPY	500m	fixed rate notes	2014	1.40%	8	-	-
USD	71m	floating rate notes <sup>4</sup>	2014	3 month LIBOR 0.28%	100	-	-
USD	250m	floating rate notes	2015	3 month LIBOR + 0.90%	352	440	346
HKD	105m	fixed rate notes	2015	3.30%	19	-	-
Total bonds and notes					15,032	20,213	14,401
<b>Included within bonds and notes is the following related party balance:</b>							
Subsidiaries of the Australia and New Zealand Banking Group Limited					2,209	2,699	2,233

Bonds and notes issued by ANZ National (Int'l) Limited are guaranteed by the Bank. Bonds and notes are unsecured and rank equally with other unsecured liabilities of the Banking Group.

<sup>1</sup> The interest rate payable on these notes is stepped as follows: Year 1 1 month LIBOR - 0.02%, Year 2 1 month LIBOR, Year 3 1 month LIBOR + 0.01%, Year 4 1 month LIBOR + 0.02% and Year 5 1 month LIBOR + 0.03%. The investors were able to elect to extend the maturity of the notes for a year on a monthly basis. These notes were originally for USD 1.5 billion, but between 7 August 2007 and 6 March 2009, investors elected not to extend these notes. As a result these notes carry a fixed maturity as follows: 7 August 2008 USD 89 million; 5 September 2008 USD 1,232 million; 7 October 2008 USD 164 million; 5 December 2008 USD 6 million; 7 May 2009 USD 1 million; and 5 March 2010 USD 8 million.

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

<sup>3</sup> These notes were issued to subsidiaries of the ANZ Group.

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

## Notes to the Financial Statements (continued)

### 25. Due from / (to) Parent Company

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
ANZ Holdings (New Zealand) Limited (Parent Company)	500	(1,096)	(930)	500	(1,096)	(930)

These funds were advanced/(borrowed) in New Zealand dollars on an overnight basis and are at call. Interest is receivable/payable monthly, based on New Zealand overnight deposit rates.

### 26. Loan Capital

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
AUD 207,450,000 term subordinated floating rate loan	-	249	-	-	249	-
AUD 265,740,000 perpetual subordinated floating rate loan	343	321	324	343	321	324
AUD 186,100,000 term subordinated floating rate loan	240	225	227	240	225	227
AUD 43,767,507 term subordinated floating rate loan	56	53	53	56	53	53
AUD 169,520,000 term subordinated floating rate loan	219	205	207	219	205	207
NZD term subordinated fixed rate bonds	950	950	950	950	950	950
NZD perpetual subordinated bond	835	835	835	835	835	835
Total loan capital issued	2,643	2,838	2,596	2,643	2,838	2,596
Less loan capital instruments held by the Banking Group	(2)	(3)	-	(2)	(3)	-
Total loan capital	2,641	2,835	2,596	2,641	2,835	2,596
<b>Included within loan capital is the following related party balance:</b>						
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	858	1,053	811	858	1,053	811

#### AUD 207,450,000 loan

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

#### AUD 265,740,000 loan

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

#### AUD 186,100,000 loan

This loan was drawn down on 19 April 2005 with an ultimate maturity date of 20 April 2015. On 19 April 2010 the Bank repaid the loan. All interest was payable half yearly in arrears, with interest payments due 19 April and 19 October. Interest was based on BBSW + 0.32% p.a. to 19 April 2010.

#### AUD 43,767,507 loan

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

#### AUD 169,520,000 loan

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

## Notes to the Financial Statements (continued)

### 26. Loan Capital (Continued)

#### NZD subordinated bonds

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

#### Term subordinated fixed rate bonds

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

As at 31 March 2010, these bonds carried an AA- rating by Standard & Poor's.

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

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

#### Perpetual subordinated bond

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

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

As at 31 March 2010, this bond carried an A+ rating by Standard and Poor's.

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

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

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

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

## 27. Ordinary Share Capital

	Consolidated			Parent		
	Unaudited 31/03/2010 Number of Issued Shares	Unaudited 31/03/2009 Number of Issued Shares	Audited 30/09/2009 Number of Issued Shares	Unaudited 31/03/2010 Number of Issued Shares	Unaudited 31/03/2009 Number of Issued Shares	Audited 30/09/2009 Number of Issued Shares
Ordinary shares at beginning of the period	1,700,755,498	700,755,498	700,755,498	1,700,755,498	700,755,498	700,755,498
Ordinary shares issued during the period	-	1,000,000,000	1,000,000,000	-	1,000,000,000	1,000,000,000
Ordinary shares at end of the period	1,700,755,498	1,700,755,498	1,700,755,498	1,700,755,498	1,700,755,498	1,700,755,498

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Ordinary share capital at beginning of the period	6,943	5,943	5,943	6,943	5,943	5,943
Ordinary share capital issued during the period	-	1,000	1,000	-	1,000	1,000
Ordinary share capital at end of the period	6,943	6,943	6,943	6,943	6,943	6,943

The issued capital of the Bank comprises 1,700,755,498 ordinary shares, of which 650,712 shares are uncalled (31/03/2009 650,712 shares uncalled; 30/09/2009 650,712 shares uncalled).

There were no changes to issued capital during the period ended 31 March 2010. On 24 March 2009 the Bank paid an ordinary dividend of \$1 billion to its parent company (equivalent to \$1.43 per share). On the same day the Bank issued 1 billion ordinary shares to the value of \$1 billion.

All shares share equally in dividends and any proceeds available to ordinary shareholders on winding up of the Bank. On a show of hands every member who is present at a meeting in person or by proxy or by representative is entitled to one vote, and upon a poll every member shall have one vote for each share held.

## Notes to the Financial Statements (continued)

### 28. Capital Adequacy

#### Adoption of Basel II Accord

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

#### Capital Management Policies

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

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

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

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

The Bank's core capital objectives are to:

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

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

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

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

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

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

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

## Notes to the Financial Statements (continued)

### 28. Capital Adequacy (continued)

#### Capital Adequacy Ratios under the Basel II Internal Models Based Approach

	Consolidated		
	Unaudited 31/03/2010	Unaudited 31/03/2009	Unaudited 30/09/2009
Tier One Capital	9.54%	8.74%	9.03%
RBNZ minimum Tier One Capital ratio	4.00%	4.00%	4.00%
Total Capital	13.24%	12.34%	12.67%
RBNZ minimum Total Capital ratio	8.00%	8.00%	8.00%

Capital of The Banking Group as at 31 March 2010 (Unaudited)	\$m
<b>Tier One Capital</b>	
Ordinary share capital	6,943
Revenue and similar reserves	3,221
Current period's profit after tax	367
Non-controlling interests	1
<b>Less deductions from Tier One Capital</b>	
– Goodwill	3,265
– Software and other intangible assets	298
– Future income tax benefits	140
– Cash flow hedging reserve	38
– 50% of expected loss to the extent higher than total eligible allowances for impairment	12
<b>Total Tier One Capital</b>	<b>6,779</b>
<b>Tier Two Capital – Upper Level Tier Two Capital</b>	
Perpetual subordinated debt	1,178
<b>Tier Two Capital – Lower Level Tier Two Capital</b>	
Term subordinated debt	1,463
	<b>2,641</b>
<b>Less deductions from Tier Two Capital</b>	
– 50% of total expected loss to the extent greater than total eligible allowances for impairment	12
<b>Total Tier Two Capital</b>	<b>2,629</b>
<b>Total Capital</b>	<b>9,408</b>

#### Total Required Capital of the Banking Group as at 31 March 2010 (Unaudited)

	Exposure at default \$m	Risk weighted exposure or implied risk weighted exposure \$m	Total capital requirement \$m
Exposures subject to internal ratings based approach	118,644	50,688	4,056
Specialised lending exposures subject to slotting approach	6,640	6,820	544
Exposures subject to standardised approach	453	402	32
Equity exposures	242	925	74
Other exposures	3,022	884	71
<b>Total credit risk</b>	<b>129,001</b>	<b>59,719</b>	<b>4,777</b>
Operational risk	n/a	5,178	414
Market risk	n/a	4,630	371
Supervisory adjustment <sup>1</sup>	n/a	1,528	122
<b>Total capital requirement</b>	<b>129,001</b>	<b>71,055</b>	<b>5,684</b>

<sup>1</sup> The supervisory adjustment includes an adjustment of 15% of risk-weighted retail mortgages and an adjustment, if required, in order to maintain the Basel II minimum capital requirement at no less than 90% of the Basel I minimum capital requirement, in accordance with the Bank's Conditions of Registration. No adjustment was required to maintain the Basel II minimum capital requirement at no less than 90% of the Basel I minimum capital requirement at 31 March 2010.

## Notes to the Financial Statements (continued)

### 28. Capital Adequacy (continued)

#### Capital Adequacy Ratios under the Basel I Approach

	Consolidated			Registered Bank		
	Unaudited 31/03/2010	Unaudited 31/03/2009	Unaudited 30/09/2009	Unaudited 31/03/2010	Unaudited 31/03/2009	Unaudited 30/09/2009
Tier One Capital	9.12%	8.24%	8.43%	9.01%	8.15%	8.34%
Total Capital	12.67%	11.74%	11.82%	12.48%	11.58%	11.66%
Total risk-weighted exposures (\$m)	74,461	81,093	76,467	72,846	79,193	74,665
RBNZ minimum ratios:						
Tier One Capital	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Total Capital	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

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

#### Implementation of the Advanced Internal Ratings Based Approach to Credit Risk Measurement

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

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

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

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

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

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

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



## Notes to the Financial Statements (continued)

### 28. Capital Adequacy (continued)

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

#### Internal Ratings Based Approach

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

#### Standardised Approach

Exposure class	Exposure Type	Reason for Standardised Approach Due to	Future Treatment
Residential mortgages	ANZ Retail residential investment loans	System constraints	Move to IRB
Corporate	Purchased receivables	Nature of product	Remain Standardised
	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank, Corporate & Sovereign	Exposures held by ING	Nature of product	Move to IRB
Other Retail	Personal Credit Cards	System constraints	Move to IRB

#### Controls Surrounding Credit Risk Rating Systems

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

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

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

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

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

## Notes to the Financial Statements (continued)

### 28. Capital Adequacy (continued)

#### Credit Risk Exposures subject to the Internal Ratings Based Approach

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

	Consolidated as at 31/03/2010 (Unaudited)					
	Total exposure or principal amount \$m	Exposure at default \$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure <sup>1</sup> \$m	Total capital requirement \$m
<b>On-balance sheet exposures</b>						
Corporate	35,359	35,359	37	66	24,719	1,978
Sovereign	7,130	7,130	5	1	74	6
Bank	4,023	3,484	62	14	520	42
Retail mortgages	40,666	40,666	21	23	9,719	778
Other retail	4,286	4,286	62	79	3,568	285
<b>Total on-balance sheet exposures</b>	<b>91,464</b>	<b>90,925</b>	<b>29</b>	<b>40</b>	<b>38,600</b>	<b>3,089</b>
<b>Off-balance sheet exposures</b>						
Corporate	12,942	10,862	48	56	6,416	513
Sovereign	54	54	5	-	-	-
Bank	821	728	50	22	170	14
Retail mortgages	5,351	4,942	20	21	1,077	86
Other retail	4,549	4,560	75	53	2,575	206
<b>Total off-balance sheet exposures</b>	<b>23,717</b>	<b>21,146</b>	<b>47</b>	<b>46</b>	<b>10,238</b>	<b>819</b>
<b>Market related contracts</b>						
Corporate	61,600	1,485	55	54	849	68
Sovereign	8,608	511	5	1	6	-
Bank	543,212	4,577	65	21	995	80
<b>Total market related contracts</b>	<b>613,420</b>	<b>6,573</b>	<b>58</b>	<b>27</b>	<b>1,850</b>	<b>148</b>
<b>Total credit risk exposures subject to the internal ratings based approach</b>	<b>728,601</b>	<b>118,644</b>	<b>34</b>	<b>40</b>	<b>50,688</b>	<b>4,056</b>

<sup>1</sup> Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

## Notes to the Financial Statements (continued)

### 28. Capital Adequacy (continued)

	Consolidated as at 31/03/2010 (Unaudited)					
	Probability of default %	Exposure at default \$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure <sup>1</sup> \$m	Total capital requirement \$m
<b>Corporate</b>						
<b>Customer Credit Rating</b>						
0 - 2	0.05%	4,701	60	21	1,050	84
3 - 4	0.34%	19,167	37	36	7,338	588
5	1.01%	10,752	36	62	7,090	567
6	2.32%	6,876	38	83	6,047	484
7 - 8	7.32%	4,926	40	118	6,166	493
Default	100.00%	1,284	49	315	4,293	343
Total corporate credit risk exposures	4.15%	47,706	40	63	31,984	2,559
<b>Sovereign</b>						
<b>Customer Credit Rating</b>						
0	0.01%	7,695	5	1	80	6
1	n/a	-	-	-	-	-
2	n/a	-	-	-	-	-
3	n/a	-	-	-	-	-
4 - 8	n/a	-	-	-	-	-
Default	n/a	-	-	-	-	-
Total sovereign credit risk exposures	0.01%	7,695	5	1	80	6
<b>Bank</b>						
<b>Customer Credit Rating</b>						
0	0.01%	5,865	65	17	1,029	83
1	0.02%	2,293	56	17	419	34
2 - 4	0.13%	568	57	30	183	15
5 - 6	1.29%	42	65	117	52	4
7 - 8	5.45%	1	65	189	2	-
Default	100.00%	20	65	-	-	-
Total bank credit risk exposures	0.25%	8,789	62	18	1,685	136
<b>Retail mortgages</b>						
<b>Customer Credit Rating</b>						
0 - 3	0.21%	7,646	21	9	702	56
4	0.44%	23,345	19	14	3,352	269
5	1.13%	8,719	21	29	2,639	211
6	2.55%	3,235	21	48	1,659	133
7 - 8	14.16%	1,850	24	112	2,204	176
Default	100.00%	813	29	28	240	19
Total residential mortgage credit risk exposures	3.01%	45,608	20	22	10,796	864
<b>Other retail</b>						
<b>Customer Credit Rating</b>						
0 - 2	0.10%	14	75	20	3	-
3 - 4	0.31%	4,424	72	37	1,734	139
5	1.16%	1,642	69	73	1,272	102
6	2.61%	1,593	60	81	1,369	109
7 - 8	11.52%	1,008	69	121	1,291	103
Default	100.00%	165	70	271	474	38
Total other retail credit risk exposures	4.02%	8,846	69	66	6,143	491

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

<sup>1</sup> Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

## Notes to the Financial Statements (continued)

### 28. Capital Adequacy (continued)

#### Specialised Lending Exposures Subject to the Slotting Approach

	Consolidated as at 31/03/2010 (Unaudited)			
	Exposure amount \$m	Risk weight %	Risk weighted exposure <sup>1</sup> \$m	Total capital requirement \$m
<b>On-balance sheet exposures<sup>2</sup></b>				
Strong	1,521	70	1,128	90
Good	2,428	90	2,316	185
Satisfactory	1,696	115	2,067	165
Weak	322	250	854	68
Default	200	-	-	-
<b>Total on-balance sheet exposures subject to the slotting approach</b>	<b>6,167</b>	<b>97</b>	<b>6,365</b>	<b>508</b>

	Exposure amount \$m	Exposure at default \$m	Average risk weight %	Risk weighted exposure <sup>1</sup> \$m	Total capital requirement \$m
<b>Off-balance sheet exposures</b>					
Undrawn commitments and other off balance sheet exposures	509	380	90	364	29
Market related contracts	2,048	93	92	91	7
<b>Total off-balance sheet exposures subject to the slotting approach</b>	<b>2,557</b>	<b>473</b>	<b>91</b>	<b>455</b>	<b>36</b>

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

#### Credit Risk Exposures subject to the Standardised Approach

	Consolidated as at 31/03/2010 (Unaudited)			
	Exposure amount \$m	Risk weight %	Risk weighted exposure <sup>1</sup> \$m	Total capital requirement \$m
<b>On-balance sheet exposures</b>				
Corporates	201	100	214	17
Banks	11	20	2	-
Residential mortgages	58	39	24	2
Other retail	20	100	21	2
Past due assets	2	150	4	-
<b>Total on-balance sheet exposures subject to the standardised approach</b>	<b>292</b>	<b>86</b>	<b>265</b>	<b>21</b>

	Exposure amount \$m	Average credit conversion factor %	Credit equivalent amount \$m	Average risk weight %	Risk weighted exposure <sup>1</sup> \$m	Total capital requirement \$m
<b>Off-balance sheet exposures</b>						
Undrawn commitments and other off balance sheet exposures	487	33	161	80	137	11

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

#### Equity Exposures

	Consolidated as at 31/03/2010 (Unaudited)			
	Exposure amount \$m	Risk weight %	Risk weighted exposure <sup>1</sup> \$m	Total capital requirement \$m
All other equity holdings (not deducted from capital)	242	361	925	74

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

<sup>1</sup>Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

<sup>2</sup>The supervisory categories of specialised lending above are associated with a specific risk-weight. These categories broadly correspond to the following external credit assessments using the Standard & Poor's rating scale, Strong: BBB- or better, Good: BB+ or BB, Satisfactory: BB- or B+ and Weak: B to C-.

## Notes to the Financial Statements (continued)

### 28. Capital Adequacy (continued)

#### Other Exposures

	Consolidated as at 31/03/2010 (Unaudited)			
	Exposure amount \$m	Risk weight %	Risk weighted exposure <sup>1</sup> \$m	Total capital requirement \$m
Cash and gold bullion	223	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	1,965	-	-	-
Other assets	834	100	884	71
<b>Total other IRB credit risk exposures</b>	<b>3,022</b>	<b>28</b>	<b>884</b>	<b>71</b>

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

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

#### Operational Risk

	Implied risk weighted exposure \$m	Total operational risk capital requirement \$m
<b>Operational risk capital requirement as at 31 March 2010 (Unaudited)</b>		
Advanced Measurement Approach for operational risk	5,178	414

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

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

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

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

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

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

<sup>1</sup> Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

## Notes to the Financial Statements (continued)

### 28. Capital Adequacy (continued)

#### Market Risk

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

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

	Consolidated					
	Implied risk weighted exposure		Aggregate capital charge		Aggregate capital charge as a percentage of the Banking Group's Equity	
	As at \$m	Peak \$m	As at \$m	Peak \$m	As at %	Peak %
<b>Unaudited 31/03/2010</b>						
Interest rate risk	4,486	4,486	359	359	3.4%	3.4%
Foreign currency risk	48	91	4	7	0.0%	0.1%
Equity risk	96	96	8	8	0.1%	0.1%
	<b>4,630</b>		<b>371</b>			
<b>Unaudited 31/03/2009</b>						
Interest rate risk	3,406	4,055	273	324	2.7%	3.2%
Foreign currency risk	41	108	3	9	0.0%	0.1%
Equity risk	68	78	5	6	0.0%	0.1%
	<b>3,515</b>		<b>281</b>			
<b>Unaudited 30/09/2009</b>						
Interest rate risk	3,824	3,824	306	306	3.0%	3.0%
Foreign currency risk	5	301	-	24	0.0%	0.2%
Equity risk	69	82	6	7	0.1%	0.1%
	<b>3,898</b>		<b>312</b>			

#### Credit Risk Mitigation

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

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

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

As at 31 March 2010, under the IRB approach, the Banking Group had \$1,607 million of Corporate exposures covered by guarantees and \$nil of Corporate exposures covered by credit derivatives, where the presence of the guarantees or credit derivatives was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

## Notes to the Financial Statements (continued)

### 28. Capital Adequacy (continued)

#### Retail Mortgages by Loan-to-Valuation Ratio ("LVR")

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

	Exposure amount \$m
<b>LVR range</b>	
0% - 59%	21,212
60% - 69%	6,609
70% - 79%	7,844
80% - 89%	4,443
Over 90%	4,254
Total retail mortgage exposures subject to the internal ratings based approach	<b>44,362</b>

#### Pillar II Capital for Other Material Risks

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

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

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

	Total capital requirement		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Unaudited 30/09/2009 \$m
Internal capital allocation for other material risks	158	145	148

#### Capital Adequacy of Ultimate Parent Bank

	Ultimate Parent Banking Group			Ultimate Parent Bank		
	Unaudited 31/03/2010 Basel II	Unaudited 31/03/2009 Basel II	Unaudited 30/09/2009 Basel II	Unaudited 31/03/2010 Basel II	Unaudited 31/03/2009 Basel II	Unaudited 30/09/2009 Basel II
Tier One Capital	10.7%	8.2%	10.6%	11.9%	9.0%	11.6%
Total Capital	13.0%	11.0%	13.7%	13.7%	11.5%	14.2%

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

Under prudential regulations, the Ultimate Parent Bank is required to hold a minimum Prudential Capital Ratio ("PCR") as determined by APRA. The Ultimate Parent Bank met the minimum capital adequacy requirements set by APRA as at 31 March 2010 and for the comparative prior period.

The Ultimate Parent Bank is required to publicly disclose Pillar III financial information as at 31 March 2010. The Ultimate Parent Bank's Consolidated Financial Report, Dividend Announcement and Appendix 4E, for the Half Year to 31 March 2010, discloses capital adequacy ratios calculated under the Basel II methodology. These documents can be accessed at the following website: [www.anz.com](http://www.anz.com).

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management

#### Strategy in using financial instruments

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

#### Credit Risk

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

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

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

#### Credit Risk Management

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

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

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

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

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

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



## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Country Risk Management

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

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

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

#### Portfolio Stress Testing

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

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

#### Portfolio Analysis and Reporting

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

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

#### Collateral Management

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

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

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

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

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Concentrations of Credit Risk

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

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

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

#### Concentrations of credit risk analysis:

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

	Consolidated						Total \$m
	Liquid assets and due from other financial institutions \$m	Trading securities and available- for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Other financial assets \$m	Credit related commitments \$m	
<b>Unaudited 31/03/2010</b>							
<b>Industry</b>							
Agriculture, forestry, fishing	26	4	114	20,024	238	1,727	22,133
Business services	2	-	13	819	10	609	1,453
Construction	-	-	2	961	11	783	1,757
Entertainment, leisure and tourism	-	-	30	1,028	12	462	1,532
Finance and insurance	2,187	4,776	7,790	1,383	529	1,486	18,151
Government and local authority <sup>1</sup>	2,196	3,320	273	1,425	36	814	8,064
Manufacturing	69	31	96	2,913	34	3,474	6,617
Personal lending	-	-	-	44,264	517	9,162	53,943
Property services	4	6	45	8,072	94	1,600	9,821
Retail trade	113	-	65	1,454	17	1,147	2,796
Transport and storage	9	12	80	1,589	19	619	2,328
Wholesale trade	8	-	9	1,487	17	1,491	3,012
Other <sup>2</sup>	6	67	196	1,330	18	1,339	2,956
	<b>4,620</b>	<b>8,216</b>	<b>8,713</b>	<b>86,749</b>	<b>1,552</b>	<b>24,713</b>	<b>134,563</b>
Individual provision for credit impairment	-	-	-	(601)	-	-	(601)
Collective provision for credit impairment	-	-	-	(856)	-	-	(856)
	-	-	-	(1,457)	-	-	(1,457)
Fair value hedge adjustment	-	-	-	378	-	-	378
<b>Total financial assets</b>	<b>4,620</b>	<b>8,216</b>	<b>8,713</b>	<b>85,670</b>	<b>1,552</b>	<b>24,713</b>	<b>133,484</b>
<b>Geography</b>							
New Zealand	4,307	5,695	2,442	83,932	1,552	24,713	122,641
Overseas	313	2,521	6,271	1,738	-	-	10,843
<b>Total financial assets</b>	<b>4,620</b>	<b>8,216</b>	<b>8,713</b>	<b>85,670</b>	<b>1,552</b>	<b>24,713</b>	<b>133,484</b>

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

<sup>2</sup> Other includes exposures to electricity, gas and water, communications, and personal services.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

	Consolidated						
	Liquid assets and due from other financial institutions \$m	Trading securities and available-for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Other financial assets \$m	Credit related commitments <sup>3</sup> \$m	Total \$m
<b>Unaudited 31/03/2009</b>							
<b>Industry</b>							
Agriculture, forestry, fishing	214	-	225	18,708	143	1,854	21,144
Business services	-	-	9	1,484	11	517	2,021
Construction	-	-	5	901	7	532	1,445
Entertainment, leisure and tourism	-	30	47	976	7	379	1,439
Finance and insurance	7,711	2,380	13,418	1,618	12	1,568	26,707
Government and local authority <sup>1</sup>	2,670	680	486	1,099	8	996	5,939
Manufacturing	141	14	358	3,261	25	3,917	7,716
Personal lending	-	-	-	50,085	383	10,400	60,868
Property services	4	-	68	9,157	70	1,839	11,138
Retail trade	211	-	54	1,712	13	1,174	3,164
Transport and storage	23	2	77	1,448	11	859	2,420
Wholesale trade	22	-	16	1,634	12	1,237	2,921
Other <sup>2</sup>	25	56	222	1,463	12	1,504	3,282
	11,021	3,162	14,985	93,546	714	26,776	150,204
Individual provision for credit impairment	-	-	-	(269)	-	-	(269)
Collective provision for credit impairment	-	-	-	(607)	-	-	(607)
Fair value hedge adjustment	-	-	-	(876)	-	-	(876)
Total financial assets	-	-	-	1,050	-	-	1,050
	11,021	3,162	14,985	93,720	714	26,776	150,378
<b>Geography</b>							
New Zealand	10,120	1,678	4,075	92,521	714	26,776	135,884
Overseas	901	1,484	10,910	1,199	-	-	14,494
Total financial assets	11,021	3,162	14,985	93,720	714	26,776	150,378

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

<sup>2</sup> Other includes exposures to electricity, gas and water, communications, and personal services.

<sup>3</sup> Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer. Credit related commitments for 31 March 2009 have been restated to be consistent with current period treatment.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

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

<sup>2</sup> Other includes exposures to electricity, gas and water, communications, and personal services.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

	Parent							Total \$m
	Liquid assets and due from other financial institutions \$m	Trading securities and available-for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Due from subsidiary companies \$m	Other financial assets \$m	Credit related commitments \$m	
<b>Unaudited 31/03/2010</b>								
<b>Industry</b>								
Agriculture, forestry, fishing	26	-	114	19,676	-	229	1,710	21,755
Business services	2	-	13	764	-	9	606	1,394
Construction	-	-	2	765	-	9	754	1,530
Entertainment, leisure and tourism	-	-	30	982	-	11	461	1,484
Finance and insurance	2,018	4,626	7,796	1,322	8,826	515	1,486	26,589
Government and local authority <sup>1</sup>	2,196	3,300	273	1,169	-	14	813	7,765
Manufacturing	69	31	96	2,726	-	32	3,454	6,408
Personal lending	-	-	-	43,936	-	510	9,156	53,602
Property services	4	6	45	7,985	-	93	1,583	9,716
Retail trade	113	-	65	1,315	-	15	1,061	2,569
Transport and storage	9	12	80	1,220	-	14	578	1,913
Wholesale trade	8	-	9	1,430	-	17	1,472	2,936
Other <sup>2</sup>	6	65	196	1,140	-	13	1,335	2,755
	<b>4,451</b>	<b>8,040</b>	<b>8,719</b>	<b>84,430</b>	<b>8,826</b>	<b>1,481</b>	<b>24,469</b>	<b>140,416</b>
Individual provision for credit impairment	-	-	-	(570)	-	-	-	(570)
Collective provision for credit impairment	-	-	-	(822)	-	-	-	(822)
	-	-	-	(1,392)	-	-	-	(1,392)
Fair value hedge adjustment	-	-	-	378	-	-	-	378
<b>Total financial assets</b>	<b>4,451</b>	<b>8,040</b>	<b>8,719</b>	<b>83,416</b>	<b>8,826</b>	<b>1,481</b>	<b>24,469</b>	<b>139,402</b>
<b>Geography</b>								
New Zealand	4,138	5,519	2,448	82,217	8,826	981	24,469	128,598
Overseas	313	2,521	6,271	1,199	-	500	-	10,804
<b>Total financial assets</b>	<b>4,451</b>	<b>8,040</b>	<b>8,719</b>	<b>83,416</b>	<b>8,826</b>	<b>1,481</b>	<b>24,469</b>	<b>139,402</b>

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

<sup>2</sup> Other includes exposures to electricity, gas and water, communications, and personal services.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

	Parent							Total \$m
	Liquid assets and due from other financial institutions \$m	Trading securities and available-for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Due from subsidiary companies \$m	Other financial assets \$m	Credit related commitments <sup>3</sup> \$m	
<b>Unaudited 31/03/2009</b>								
<b>Industry</b>								
Agriculture, forestry, fishing	214	-	225	18,383	-	130	1,837	20,789
Business services	-	-	9	1,356	-	10	516	1,891
Construction	-	-	5	688	-	5	500	1,198
Entertainment, leisure and tourism	-	30	47	947	-	7	377	1,408
Finance and insurance	6,992	2,377	13,595	1,443	9,610	10	1,568	35,595
Government and local authority <sup>1</sup>	2,632	680	486	1,006	-	7	995	5,806
Manufacturing	141	14	358	3,079	-	22	3,901	7,515
Personal lending	-	-	-	49,633	-	348	10,400	60,381
Property services	4	-	68	9,154	-	65	1,823	11,114
Retail trade	211	-	54	1,554	-	11	1,091	2,921
Transport and storage	23	2	77	1,071	-	8	812	1,993
Wholesale trade	22	-	16	1,571	-	11	1,218	2,838
Other <sup>2</sup>	25	56	222	1,205	-	9	1,489	3,006
	10,264	3,159	15,162	91,090	9,610	643	26,527	156,455
Individual provision for credit impairment	-	-	-	(243)	-	-	-	(243)
Collective provision for credit impairment	-	-	-	(568)	-	-	-	(568)
	-	-	-	(811)	-	-	-	(811)
Fair value hedge adjustment	-	-	-	1,050	-	-	-	1,050
<b>Total financial assets</b>	<b>10,264</b>	<b>3,159</b>	<b>15,162</b>	<b>91,329</b>	<b>9,610</b>	<b>643</b>	<b>26,527</b>	<b>156,694</b>
<b>Geography</b>								
New Zealand	9,897	1,675	4,252	90,130	9,610	643	26,527	142,734
Overseas	367	1,484	10,910	1,199	-	-	-	13,960
<b>Total financial assets</b>	<b>10,264</b>	<b>3,159</b>	<b>15,162</b>	<b>91,329</b>	<b>9,610</b>	<b>643</b>	<b>26,527</b>	<b>156,694</b>

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

<sup>2</sup> Other includes exposures to electricity, gas and water, communications, and personal services.

<sup>3</sup> Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer. Credit related commitments for 31 March 2009 have been restated to be consistent with current period treatment.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

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

<sup>2</sup> Other includes exposures to electricity, gas and water, communications, and personal services.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Maximum Exposure to Credit Risk

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

The following table presents the maximum exposure to credit risk of on and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements unless such collateral meets the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation* and after deductions such as provisions for credit impairment. The exposure is classified into summarised Basel II asset classes.

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>1</sup> \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>1</sup> \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
<b>On and off-balance sheet positions</b>								
Liquid assets	-	-	2,519	2,519	-	-	2,502	2,502
Due from other financial institutions	-	-	2,101	2,101	-	-	1,949	1,949
Trading securities	-	-	6,366	6,366	-	-	6,366	6,366
Derivative financial instruments	-	-	8,713	8,713	-	-	8,719	8,719
Available-for-sale assets	-	-	1,850	1,850	-	-	1,674	1,674
Net loans and advances	40,025	3,916	41,729	85,670	40,319	3,289	39,808	83,416
Investments relating to insurance business	-	-	38	38	-	-	-	-
Due from parent company	-	-	500	500	-	-	500	500
Due from subsidiary companies	-	-	-	-	-	-	8,826	8,826
Other financial assets	-	-	1,014	1,014	-	-	981	981
Credit related commitments	5,363	4,554	14,796	24,713	5,400	4,550	14,519	24,469
<b>Total exposure to credit risk</b>	<b>45,388</b>	<b>8,470</b>	<b>79,626</b>	<b>133,484</b>	<b>45,719</b>	<b>7,839</b>	<b>85,844</b>	<b>139,402</b>
<b>Unaudited 31/03/2009</b>								
<b>On and off-balance sheet positions</b>								
Liquid assets	-	-	3,390	3,390	-	-	3,390	3,390
Due from other financial institutions	-	-	7,631	7,631	-	-	6,874	6,874
Trading securities	-	-	2,565	2,565	-	-	2,565	2,565
Derivative financial instruments	-	-	14,985	14,985	-	-	15,162	15,162
Available-for-sale assets	-	-	597	597	-	-	594	594
Net loans and advances	46,059	5,172	42,489	93,720	46,059	4,287	40,983	91,329
Due from subsidiary companies	-	-	-	-	-	-	9,610	9,610
Other financial assets	-	-	714	714	-	-	643	643
Credit related commitments	5,666	5,115	15,995	26,776	5,666	5,083	15,778	26,527
<b>Total exposure to credit risk</b>	<b>51,725</b>	<b>10,287</b>	<b>88,366</b>	<b>150,378</b>	<b>51,725</b>	<b>9,370</b>	<b>95,599</b>	<b>156,694</b>
<b>Audited 30/09/2009</b>								
<b>On and off-balance sheet positions</b>								
Liquid assets	-	-	2,762	2,762	-	-	2,758	2,758
Due from other financial institutions	-	-	4,514	4,514	-	-	4,361	4,361
Trading securities	-	-	4,166	4,166	-	-	4,166	4,166
Derivative financial instruments	-	-	11,408	11,408	-	-	11,449	11,449
Available-for-sale assets	-	-	1,513	1,513	-	-	1,511	1,511
Net loans and advances	42,692	4,456	41,111	88,259	42,692	3,889	39,371	85,952
Due from subsidiary companies	-	-	-	-	-	-	7,703	7,703
Other financial assets	-	-	999	999	-	-	951	951
Credit related commitments	5,692	4,769	15,533	25,994	5,692	4,769	15,738	26,199
<b>Total exposure to credit risk</b>	<b>48,384</b>	<b>9,225</b>	<b>82,006</b>	<b>139,615</b>	<b>48,384</b>	<b>8,658</b>	<b>88,008</b>	<b>145,050</b>

<sup>1</sup> Includes corporates, sovereigns and banks.



## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Credit Quality

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

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

#### Impairment and provisioning of financial assets

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

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

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

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

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

#### Distribution of gross loans and advances assets by credit quality

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

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>1</sup> \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>1</sup> \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
Neither past due nor impaired	38,711	3,840	40,147	82,698	38,711	3,171	38,423	80,305
Past due but not impaired (1 to 89 days)	1,225	313	701	2,239	1,225	265	663	2,153
Past due but not impaired (over 90 days)	182	48	121	351	182	41	111	334
Impaired	452	95	1,165	1,712	452	92	1,089	1,633
	<b>40,570</b>	<b>4,296</b>	<b>42,134</b>	<b>87,000</b>	<b>40,570</b>	<b>3,569</b>	<b>40,286</b>	<b>84,425</b>
<b>Unaudited 31/03/2009</b>								
Neither past due nor impaired	42,652	4,723	41,920	89,295	42,652	3,926	40,179	86,757
Past due but not impaired (1 to 89 days)	1,898	501	959	3,358	1,898	428	901	3,227
Past due but not impaired (over 90 days)	406	71	70	547	406	59	46	511
Impaired <sup>2</sup>	200	56	353	609	200	31	328	559
	<b>45,156</b>	<b>5,351</b>	<b>43,302</b>	<b>93,809</b>	<b>45,156</b>	<b>4,444</b>	<b>41,454</b>	<b>91,054</b>
<b>Audited 30/09/2009</b>								
Neither past due nor impaired	39,948	3,822	41,593	85,363	39,948	3,166	39,770	82,884
Past due but not impaired (1 to 89 days)	1,213	315	662	2,190	1,213	266	635	2,114
Past due but not impaired (over 90 days)	265	59	111	435	265	51	100	416
Impaired	377	61	740	1,178	377	53	689	1,119
	<b>41,803</b>	<b>4,257</b>	<b>43,106</b>	<b>89,166</b>	<b>41,803</b>	<b>3,536</b>	<b>41,194</b>	<b>86,533</b>

<sup>1</sup> Includes corporates, sovereigns and banks.

<sup>2</sup> Excludes restructured assets.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

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

#### Internal rating

##### Strong risk rating

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

##### Satisfactory risk rating

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

##### Substandard but not past due or impaired

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

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

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

	Consolidated				Parent			
	Retail mortgages <sup>1</sup> \$m	Other retail exposures \$m	Corporate exposures <sup>2</sup> \$m	Total \$m	Retail mortgages <sup>1</sup> \$m	Other retail exposures \$m	Corporate exposures <sup>2</sup> \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
Strong risk rating	29,328	1,191	16,399	46,918	29,328	1,191	15,601	46,120
Satisfactory risk rating	8,136	2,268	19,710	30,114	8,136	1,621	18,883	28,640
Substandard but not past due or impaired	1,247	381	4,038	5,666	1,247	359	3,939	5,545
	<b>38,711</b>	<b>3,840</b>	<b>40,147</b>	<b>82,698</b>	<b>38,711</b>	<b>3,171</b>	<b>38,423</b>	<b>80,305</b>
<b>Unaudited 31/03/2009</b>								
Strong risk rating	39,805	1,687	19,059	60,551	39,805	1,687	18,512	60,004
Satisfactory risk rating	2,144	2,745	19,791	24,680	2,144	1,959	18,788	22,891
Substandard but not past due or impaired	703	291	3,070	4,064	703	280	2,879	3,862
	<b>42,652</b>	<b>4,723</b>	<b>41,920</b>	<b>89,295</b>	<b>42,652</b>	<b>3,926</b>	<b>40,179</b>	<b>86,757</b>
<b>Audited 30/09/2009</b>								
Strong risk rating	36,726	1,459	18,093	56,278	36,726	1,382	17,185	55,293
Satisfactory risk rating	2,646	2,010	19,078	23,734	2,646	1,446	18,346	22,438
Substandard but not past due or impaired	576	353	4,422	5,351	576	338	4,255	5,169
	<b>39,948</b>	<b>3,822</b>	<b>41,593</b>	<b>85,363</b>	<b>39,948</b>	<b>3,166</b>	<b>39,786</b>	<b>82,900</b>

<sup>1</sup> Includes corporates, sovereigns and banks.

<sup>2</sup> Since September 2009, the Banking Group has agreed new mortgage pooling methodologies with RBNZ and have also implemented new spot PD estimates which take account of more recent performance data. The change in the Retail Mortgage bands between the periods reflects these modelling changes.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

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

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

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

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

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>1</sup> \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>1</sup> \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
1 to 5 days	274	100	449	823	274	100	444	818
6 to 29 days	607	142	133	882	607	109	109	825
30 to 59 days	266	47	85	398	266	38	79	383
60 to 89 days	79	24	34	137	79	18	31	128
90 days or over	182	48	121	351	182	41	111	334
	<b>1,408</b>	<b>361</b>	<b>822</b>	<b>2,591</b>	<b>1,408</b>	<b>306</b>	<b>774</b>	<b>2,488</b>
<b>Unaudited 31/03/2009</b>								
1 to 5 days	510	145	605	1,260	510	132	595	1,237
6 to 29 days	812	250	162	1,224	812	209	127	1,148
30 to 59 days	435	71	129	635	435	58	121	614
60 to 89 days	141	35	63	239	141	29	58	228
90 days or over	406	71	70	547	406	59	46	511
	<b>2,304</b>	<b>572</b>	<b>1,029</b>	<b>3,905</b>	<b>2,304</b>	<b>487</b>	<b>947</b>	<b>3,738</b>
<b>Audited 30/09/2009</b>								
1 to 5 days	270	104	397	771	270	104	397	771
6 to 29 days	586	136	122	844	586	104	106	796
30 to 59 days	237	49	71	357	237	38	64	339
60 to 89 days	120	26	72	218	120	20	68	208
90 days or over	265	59	111	435	265	51	100	416
	<b>1,478</b>	<b>374</b>	<b>773</b>	<b>2,625</b>	<b>1,478</b>	<b>317</b>	<b>735</b>	<b>2,530</b>

<sup>1</sup> Includes corporates, sovereigns and banks.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Credit quality of financial assets that are individually impaired

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

	Consolidated				Parent			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>1</sup> \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>1</sup> \$m	Total \$m
<b>Unaudited 31/03/2010</b>								
Impaired financial assets	452	95	1,165	1,712	452	92	1,089	1,633
Undrawn facilities with impaired customers	-	-	100	100	-	-	100	100
Individual provision balance	206	43	352	601	206	24	340	570
Net impaired financial assets	246	52	913	1,211	246	68	849	1,163
Collective provision balance	117	161	578	856	122	141	559	822
<b>Unaudited 31/03/2009</b>								
Impaired financial assets <sup>2</sup>	200	56	353	609	200	31	328	559
Undrawn facilities with impaired customers	-	-	11	11	-	-	11	11
Individual provision balance	54	31	184	269	54	25	164	243
Net impaired financial assets	146	25	180	351	146	6	175	327
Collective provision balance	93	148	366	607	93	132	343	568
<b>Audited 30/09/2009</b>								
Impaired financial assets	377	61	740	1,178	377	53	689	1,119
Undrawn facilities with impaired customers	-	-	32	32	-	-	32	32
Individual provision balance	153	40	281	474	153	23	274	450
Net impaired financial assets	224	21	491	736	224	30	447	701
Collective provision balance	121	159	518	798	121	140	501	762

Security held by the Banking Group in respect of individually impaired financial assets, both drawn and undrawn, in the analysis above has an estimated fair value of \$1,211 million (31/03/2009 \$351 million; 30/09/2009 \$736 million).

Security held by the Bank in respect of individually impaired financial assets, both drawn and undrawn, in the analysis above has an estimated fair value of \$1,163 million (31/03/2009 \$327 million; 30/09/2009 \$701 million).

<sup>1</sup> Includes corporates, sovereigns and banks.

<sup>2</sup> Excludes restructured assets.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Estimated value of collateral

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

	Consolidated						
	Liquid assets and due from other financial institutions \$m	Trading securities and available-for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Other financial assets \$m	Credit related commitments <sup>1</sup> \$m	Total \$m
<b>Unaudited 31/03/2010</b>							
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	693	-	-	693
Other	-	-	-	440	-	78	518
Total value of collateral	-	-	-	1,133	-	78	1,211
Credit exposure	-	-	-	1,712	-	100	1,812
Unsecured portion of credit	-	-	-	579	-	22	601
<b>Unaudited 31/03/2009</b>							
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	176	-	-	176
Other	-	-	-	163	-	11	174
Total value of collateral	-	-	-	339	-	11	350
Credit exposure	-	-	-	608	-	11	619
Unsecured portion of credit	-	-	-	269	-	-	269
<b>Audited 30/09/2009</b>							
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	488	-	-	488
Other	-	-	-	216	-	32	248
Total value of collateral	-	-	-	704	-	32	736
Credit exposure	-	-	-	1,178	-	32	1,210
Unsecured portion of credit	-	-	-	474	-	-	474

<sup>1</sup> Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

	Parent							
	Liquid assets and due from other financial institutions \$m	Trading securities and available-for-sale assets \$m	Derivative financial instruments \$m	Net loans and advances \$m	Other financial assets \$m	Credit related commitments <sup>1</sup> \$m	Total \$m	
<b>Unaudited 31/03/2010</b>								
Cash and securities	-	-	-	-	-	-	-	-
Real estate	-	-	-	692	-	-	692	
Other	-	-	-	391	-	78	469	
Total value of collateral	-	-	-	1,083	-	78	1,161	
Credit exposure	-	-	-	1,631	-	100	1,731	
Unsecured portion of credit	-	-	-	548	-	22	570	
<b>Unaudited 31/03/2009</b>								
Cash and securities	-	-	-	-	-	-	-	
Real estate	-	-	-	182	-	-	182	
Other	-	-	-	133	-	11	144	
Total value of collateral	-	-	-	315	-	11	326	
Credit exposure	-	-	-	558	-	11	569	
Unsecured portion of credit	-	-	-	243	-	-	243	
<b>Audited 30/09/2009</b>								
Cash and securities	-	-	-	-	-	-	-	
Real estate	-	-	-	488	-	-	488	
Other	-	-	-	181	-	32	213	
Total value of collateral	-	-	-	669	-	32	701	
Credit exposure	-	-	-	1,119	-	32	1,151	
Unsecured portion of credit	-	-	-	450	-	-	450	

<sup>1</sup> Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Market Risk

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

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

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

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

#### Market risk management and control responsibilities

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

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

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

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

#### a. Traded market risk

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

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

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

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

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

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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 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.

#### Value at Risk ("VaR") measure

A key measure of market risk is Value at Risk. VaR is a statistical estimate of the likely daily loss and is based on historical market movements.

The confidence level is such that there is 97.5% or 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely there is a 2.5% or 1% probability of the decrease in market value exceeding the VaR estimate on any given day. The 99% confidence level encompasses a wider range of potential outcomes.

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

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

Traded and non-traded market risks are considered separately.

#### Traded market risks

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

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

	Consolidated				Consolidated			
	Value at risk at 97.5% confidence				Value at risk at 99% confidence			
	As at \$m	High for period \$m	Low for period \$m	Average for period \$m	As at \$m	High for period \$m	Low for period \$m	Average for period \$m
<b>Unaudited 31/03/2010</b>								
Foreign exchange risk	0.5	1.3	0.2	0.6	0.7	1.9	0.3	0.8
Interest rate risk	2.9	3.6	1.7	2.7	4.2	5.6	2.3	3.9
Credit spread risk	1.2	1.2	0.3	0.5	1.6	1.6	0.4	0.7
Diversification benefit	(1.6)	n/a	n/a	(1.0)	(2.6)	n/a	n/a	(1.4)
<b>Total VaR</b>	<b>3.0</b>	<b>3.7</b>	<b>1.5</b>	<b>2.7</b>	<b>3.9</b>	<b>5.9</b>	<b>2.1</b>	<b>4.0</b>
<b>Unaudited 31/03/2009</b>								
Foreign exchange risk	0.5	1.4	0.2	0.5	0.8	1.9	0.3	0.7
Interest rate risk	2.4	2.8	1.1	1.9	2.8	4.3	1.7	2.9
Credit spread risk	0.4	0.4	0.2	0.3	0.6	0.6	0.4	0.5
Diversification benefit	(1.0)	n/a	n/a	(0.8)	(1.4)	n/a	n/a	(1.2)
<b>Total VaR</b>	<b>2.3</b>	<b>3.4</b>	<b>1.1</b>	<b>1.9</b>	<b>2.8</b>	<b>4.4</b>	<b>1.7</b>	<b>2.9</b>
<b>Audited 30/09/2009</b>								
Foreign exchange risk	0.4	1.4	0.2	0.5	0.6	1.9	0.3	0.7
Interest rate risk	2.6	3.0	1.1	2.0	3.5	4.9	1.7	3.0
Credit spread risk	0.4	0.5	0.2	0.3	0.6	0.8	0.2	0.5
Diversification benefit	(0.8)	n/a	n/a	(0.8)	(1.2)	n/a	n/a	(1.2)
<b>Total VaR</b>	<b>2.6</b>	<b>3.4</b>	<b>1.1</b>	<b>2.0</b>	<b>3.5</b>	<b>4.6</b>	<b>1.7</b>	<b>3.0</b>

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

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



## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Non-traded market risks (balance sheet risk)

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

#### Interest rate risk

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

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

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

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

#### a) VaR non-traded interest rate risk

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

	Consolidated			
	As at \$m	High for period \$m	Low for period \$m	Average for period \$m
<b>Unaudited 31/03/2010</b>				
Value at risk at 97.5% confidence	20.2	24.9	20.0	21.9
<b>Unaudited 31/03/2009</b>				
Value at risk at 97.5% confidence	21.0	21.0	12.4	14.6
<b>Audited 30/09/2009</b>				
Value at risk at 97.5% confidence	22.4	22.8	18.9	20.8

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

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

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

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

	Consolidated		
	Unaudited 31/03/10	Unaudited 31/03/09	Audited 30/09/09
<b>Impact of 1% rate shock</b>			
As at	1.5%	0.1%	0.2%
Maximum exposure	1.8%	0.7%	0.7%
Minimum exposure	0.2%	0.0%	-0.1%
Average exposure (in absolute terms)	0.7%	0.3%	0.3%

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

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

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

#### Interest rate sensitivity gap

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

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

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

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

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

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

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

	Consolidated						
	Total \$m	Less than 3 months \$m	3 to 6 months \$m	6 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	Not bearing interest \$m
<b>Unaudited 31/03/2010</b>							
<b>Assets</b>							
Liquid assets	2,519	2,295	-	-	-	-	224
Due from other financial institutions	2,101	2,018	-	47	-	-	36
Trading securities	6,366	430	389	230	3,877	1,440	-
Derivative financial instruments	8,713	-	-	-	-	-	8,713
Available-for-sale assets	1,850	948	729	33	29	11	100
Net loans and advances	85,670	51,692	7,127	9,014	17,543	50	244
Due from Parent	500	500	-	-	-	-	-
Other financial assets <sup>1</sup>	1,052	25	-	-	7	-	1,020
<b>Total financial assets</b>	<b>108,771</b>	<b>57,908</b>	<b>8,245</b>	<b>9,324</b>	<b>21,456</b>	<b>1,501</b>	<b>10,337</b>
Non-financial assets	4,806	-	-	-	-	-	4,806
<b>Total assets</b>	<b>113,577</b>	<b>57,908</b>	<b>8,245</b>	<b>9,324</b>	<b>21,456</b>	<b>1,501</b>	<b>15,143</b>
<b>Liabilities</b>							
Due to other financial institutions	1,336	1,209	7	-	70	50	-
Deposits and other borrowings	70,636	47,116	9,338	6,785	2,502	-	4,895
Due to parent company	-	-	-	-	-	-	-
Derivative financial instruments	9,152	-	-	-	-	-	9,152
Payables and other financial liabilities	1,698	-	-	-	-	-	1,698
Bonds and notes	16,855	8,101	201	150	8,403	-	-
Loan capital	2,641	240	618	-	1,783	-	-
<b>Total financial liabilities</b>	<b>102,318</b>	<b>56,666</b>	<b>10,164</b>	<b>6,935</b>	<b>12,758</b>	<b>50</b>	<b>15,745</b>
Non-financial liabilities	727	-	-	-	-	-	727
Equity	10,532	-	-	-	-	-	10,532
<b>Total liabilities and equity</b>	<b>113,577</b>	<b>56,666</b>	<b>10,164</b>	<b>6,935</b>	<b>12,758</b>	<b>50</b>	<b>27,004</b>
On-balance sheet interest sensitivity gap	-	1,242	(1,919)	2,389	8,698	1,451	(11,861)
Hedging instruments	-	2,952	(4,511)	1,004	1,443	(888)	-
Interest sensitivity gap – net	-	4,194	(6,430)	3,393	10,141	563	(11,861)
Interest sensitivity gap – cumulative	-	4,194	(2,236)	1,157	11,298	11,861	-

<sup>1</sup> Other financial assets in the table above include investments related to insurance business.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

	Consolidated						Not bearing interest \$m
	Total \$m	Less than 3 months \$m	3 to 6 months \$m	6 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	
<b>Unaudited 31/03/2009</b>							
<b>Assets</b>							
Liquid assets	3,390	3,201	-	-	-	-	189
Due from other financial institutions	7,631	3,364	2,000	300	92	-	1,875
Trading securities	2,565	511	384	5	1,497	168	-
Derivative financial instruments	14,985	-	-	-	-	-	14,985
Available-for-sale assets	597	-	395	121	10	-	71
Net loans and advances	93,720	52,130	6,843	10,853	24,106	57	(269)
Other financial assets	714	-	-	-	-	-	714
<b>Total financial assets</b>	<b>123,602</b>	<b>59,206</b>	<b>9,622</b>	<b>11,279</b>	<b>25,705</b>	<b>225</b>	<b>17,565</b>
Non-financial assets	4,339	-	-	-	-	-	4,339
<b>Total assets</b>	<b>127,941</b>	<b>59,206</b>	<b>9,622</b>	<b>11,279</b>	<b>25,705</b>	<b>225</b>	<b>21,904</b>
<b>Liabilities</b>							
Due to other financial institutions	4,162	1,878	-	1,805	408	25	46
Deposits and other borrowings	72,760	51,135	8,349	6,544	2,484	-	4,248
Due to parent company	1,096	1,096	-	-	-	-	-
Derivative financial instruments	12,868	-	-	-	-	-	12,868
Payables and other financial liabilities	1,743	226	92	-	85	-	1,340
Bonds and notes	21,528	14,877	-	-	6,416	235	-
Loan capital	2,835	225	828	-	1,782	-	-
<b>Total financial liabilities</b>	<b>116,992</b>	<b>69,437</b>	<b>9,269</b>	<b>8,349</b>	<b>11,175</b>	<b>260</b>	<b>18,502</b>
Non-financial liabilities	697	-	-	-	-	-	697
Equity	10,252	-	-	-	-	-	10,252
<b>Total liabilities and equity</b>	<b>127,941</b>	<b>69,437</b>	<b>9,269</b>	<b>8,349</b>	<b>11,175</b>	<b>260</b>	<b>29,451</b>
On-balance sheet interest sensitivity gap	-	(10,231)	353	2,930	14,530	(35)	(7,547)
Hedging instruments	-	5,721	7,227	(9,426)	(3,129)	(393)	-
<b>Interest sensitivity gap – net</b>	<b>-</b>	<b>(4,510)</b>	<b>7,580</b>	<b>(6,496)</b>	<b>11,401</b>	<b>(428)</b>	<b>(7,547)</b>
Interest sensitivity gap – cumulative	-	(4,510)	3,070	(3,426)	7,975	7,547	-

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

	Parent						Not bearing interest \$m
	Total \$m	Less than 3 months \$m	3 to 6 months \$m	6 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	
<b>Unaudited 31/03/2010</b>							
<b>Assets</b>							
Liquid assets	2,502	2,279	-	-	-	-	223
Due from other financial institutions	1,949	1,913	-	-	-	-	36
Trading securities	6,366	431	389	230	3,878	1,440	-
Derivative financial instruments	8,719	-	-	-	-	-	8,719
Available-for-sale assets	1,674	794	738	33	6	8	96
Net loans and advances	83,416	50,744	6,881	8,784	16,738	42	227
Due from subsidiary companies	8,826	8,504	128	47	148	-	-
Due from Parent	500	500	-	-	-	-	-
Other financial assets	981	-	-	-	-	-	981
<b>Total financial assets</b>	<b>114,933</b>	<b>65,164</b>	<b>8,135</b>	<b>9,094</b>	<b>20,769</b>	<b>1,490</b>	<b>10,282</b>
Non-financial assets	11,900	-	-	-	-	-	11,900
<b>Total assets</b>	<b>126,833</b>	<b>65,164</b>	<b>8,135</b>	<b>9,094</b>	<b>20,769</b>	<b>1,490</b>	<b>22,182</b>
<b>Liabilities</b>							
Due to other financial institutions	1,054	928	7	-	70	50	-
Deposits and other borrowings	61,861	41,142	7,223	6,370	2,231	-	4,895
Due to subsidiary companies	38,254	24,399	2,825	1,264	9,766	-	-
Due to parent company	-	-	-	-	-	-	-
Derivative financial instruments	9,170	-	-	-	-	-	9,170
Payables and other financial liabilities	1,800	-	-	-	0	-	1,800
Bonds and notes	1,823	888	-	150	785	-	-
Loan capital	2,641	240	618	-	1,783	-	-
<b>Total financial liabilities</b>	<b>116,603</b>	<b>67,597</b>	<b>10,673</b>	<b>7,784</b>	<b>14,635</b>	<b>50</b>	<b>15,865</b>
Non-financial liabilities	580	-	-	-	-	-	580
Equity	9,650	-	-	-	-	-	9,650
<b>Total liabilities and equity</b>	<b>126,833</b>	<b>67,597</b>	<b>10,673</b>	<b>7,784</b>	<b>14,635</b>	<b>50</b>	<b>26,095</b>
On-balance sheet interest sensitivity gap	-	(2,433)	(2,538)	1,310	6,134	1,440	(3,913)
Hedging instruments	-	(1,120)	(3,746)	2,155	3,598	(888)	-
Interest sensitivity gap – net	-	(3,552)	(6,284)	3,465	9,732	551	(3,913)
Interest sensitivity gap – cumulative	-	(3,552)	(9,836)	(6,371)	3,361	3,913	-

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

	Parent						Not bearing interest \$m
	Total \$m	Less than 3 months \$m	3 to 6 months \$m	6 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	
<b>Unaudited 31/03/2009</b>							
<b>Assets</b>							
Liquid assets	3,390	3,200	-	-	-	-	190
Due from other financial institutions	6,874	2,699	2,000	300	-	-	1,875
Trading securities	2,565	511	384	5	1,497	168	-
Derivative financial instruments	15,162	-	-	-	-	-	15,162
Available-for-sale assets	594	1	394	121	10	-	68
Net loans and advances	91,329	51,261	6,705	10,505	23,067	45	(254)
Due from subsidiary companies	9,610	8,870	-	-	-	-	740
Other financial assets	643	-	-	-	-	-	643
<b>Total financial assets</b>	<b>130,167</b>	<b>66,542</b>	<b>9,483</b>	<b>10,931</b>	<b>24,574</b>	<b>213</b>	<b>18,424</b>
Non-financial assets	11,667	-	-	-	-	-	11,667
<b>Total assets</b>	<b>141,834</b>	<b>66,542</b>	<b>9,483</b>	<b>10,931</b>	<b>24,574</b>	<b>213</b>	<b>30,091</b>
<b>Liabilities</b>							
Due to other financial institutions	3,250	1,349	-	1,805	25	25	46
Deposits and other borrowings	64,913	45,903	6,576	5,902	2,284	-	4,248
Due to subsidiary companies	44,785	30,898	1,586	261	7,295	4,745	-
Due to parent company	1,096	1,096	-	-	-	-	-
Derivative financial instruments	12,868	-	-	-	-	-	12,868
Payables and other financial liabilities	1,548	220	92	-	25	6	1,205
Bonds and notes	1,315	705	-	-	375	235	-
Loan capital	2,835	225	828	-	1,782	-	-
<b>Total financial liabilities</b>	<b>132,610</b>	<b>80,396</b>	<b>9,082</b>	<b>7,968</b>	<b>11,786</b>	<b>5,011</b>	<b>18,367</b>
Non-financial liabilities	667	-	-	-	-	-	667
Equity	8,557	-	-	-	-	-	8,557
<b>Total liabilities and equity</b>	<b>141,834</b>	<b>80,396</b>	<b>9,082</b>	<b>7,968</b>	<b>11,786</b>	<b>5,011</b>	<b>27,591</b>
On-balance sheet interest sensitivity gap	-	(13,854)	401	2,963	12,788	(4,798)	2,500
Hedging instruments	-	30	7,312	(9,264)	(2,429)	4,351	-
Interest sensitivity gap – net	-	(13,824)	7,713	(6,301)	10,359	(447)	2,500
Interest sensitivity gap – cumulative	-	(13,824)	(6,111)	(12,412)	(2,053)	(2,500)	-

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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



## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Equity price risk

The portfolio of financial assets, classified as available-for-sale for measurement and financial reporting purposes, also contains equity investment holdings held for longer term strategic intentions. These equity investments are also subject to market risk which is not captured by the VaR measures for traded and non-traded market risks. The fair value of these securities as at 31 March 2010 was \$96 million (31/03/2009 \$71 million; 30/09/2009 \$71 million). Regular reviews are performed to substantiate valuation of the investments within the portfolio. The fair value of the equity securities classified as available-for-sale can fluctuate considerably. A 10 per cent reduction in the value of the available-for-sale equity securities at 31 March 2010 would have reduced equity by \$10 million (31/03/2009 \$7 million; 30/09/2009 \$7 million).

#### Foreign currency related risks

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

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

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

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Net open position</b>						
Australian dollar	26	27	1	26	27	1
Canadian dollar	(1)	3	-	(1)	3	-
Swiss Franc	-	(4)	-	-	(4)	-
Euro	6	9	(1)	6	9	(1)
Pound sterling	11	1	-	11	1	-
US dollar	(42)	(4)	2	(42)	(4)	2
Other	4	-	(1)	4	-	(1)
<b>Total net open position</b>	<b>4</b>	<b>32</b>	<b>1</b>	<b>4</b>	<b>32</b>	<b>1</b>

#### Liquidity Risk

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

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

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

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

Management of liquidity and funding risks are overseen by ALCO.

#### Supervision and Regulation

The RBNZ requires the Banking Group to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. From 22 October 2009, the Reserve Bank has modified the Banking Group's conditions of registration with respect to liquidity policy. These revised conditions became effective from 30 March 2010. The Banking Group has systems and process in place to comply with these new regulations.

#### Scenario Modelling

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

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

In estimating the funding requirement, the Banking Group models expected cash flows by reference to historical behaviour and contractual maturity data. As of 31 March 2010 the Banking Group was in compliance with this scenario.

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

Under this scenario the Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the Banking Group must be cash flow positive over an eight calendar day period. As of 31 March 2010 the Banking Group was in compliance with this scenario.

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

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

As of 31 March 2010 the Banking Group was in compliance with this scenario.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Banking Group Funding Composition

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

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

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Funding composition</b>						
<b>Customer deposits<sup>1</sup></b>						
New Zealand	51,830	52,127	52,065	50,581	51,056	50,640
Overseas	7,440	7,435	7,866	7,330	6,803	7,754
<b>Total customer deposits</b>	<b>59,270</b>	<b>59,562</b>	<b>59,931</b>	<b>57,911</b>	<b>57,859</b>	<b>58,394</b>
<b>Wholesale funding</b>						
Bonds and notes	16,855	21,528	15,917	1,823	1,315	1,516
Loan capital	2,641	2,835	2,596	2,641	2,835	2,596
Certificates of deposit	3,950	7,054	4,441	3,950	7,054	4,441
Commercial paper	7,416	6,144	7,392	-	-	-
Due to subsidiary companies						
– ANZ National (Int'l) Limited	-	-	-	22,840	26,969	22,378
Due to subsidiary companies – other	-	-	-	15,414	17,816	14,984
Due to parent company	-	1,096	930	-	1,096	930
Due to other financial institutions	1,336	4,162	3,725	1,054	3,250	3,239
<b>Total wholesale funding</b>	<b>32,198</b>	<b>42,819</b>	<b>35,001</b>	<b>47,722</b>	<b>60,335</b>	<b>50,084</b>
<b>Total funding</b>	<b>91,468</b>	<b>102,381</b>	<b>94,932</b>	<b>105,633</b>	<b>118,194</b>	<b>108,478</b>
<b>Concentrations of funding by industry</b>						
Households	37,824	37,491	37,738	36,465	35,789	36,208
Agriculture, forestry and fishing	3,503	4,186	3,872	3,503	4,186	3,872
Manufacturing	1,539	1,419	1,354	1,539	1,419	1,354
Entertainment, leisure and tourism	666	625	573	666	625	573
Finance and insurance	38,366	49,187	42,220	53,890	66,702	57,296
Retail trade	783	768	753	783	768	753
Wholesale trade	850	690	602	850	690	602
Business and property services	4,020	4,082	3,960	4,020	4,082	3,960
Transport and storage	586	480	614	586	480	614
Construction	732	743	736	732	743	736
Government and local authority	1,561	1,752	1,548	1,561	1,752	1,548
Other <sup>2</sup>	1,038	958	962	1,038	958	962
<b>Total concentrations of funding by industry</b>	<b>91,468</b>	<b>102,381</b>	<b>94,932</b>	<b>105,633</b>	<b>118,194</b>	<b>108,478</b>
<b>Concentrations of funding by geography<sup>3</sup></b>						
New Zealand	59,392	65,356	62,456	73,667	81,452	76,114
United States	17,167	21,440	17,031	17,155	21,045	17,019
Europe	7,638	7,476	7,511	7,613	7,458	7,486
Other countries	7,271	8,109	7,934	7,198	8,239	7,859
<b>Total concentrations of funding by geography</b>	<b>91,468</b>	<b>102,381</b>	<b>94,932</b>	<b>105,633</b>	<b>118,194</b>	<b>108,478</b>

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

<sup>1</sup> Represents: term deposits, demand deposits bearing interest, deposits not bearing interest and secured debenture stock.

<sup>2</sup> Other includes exposures to electricity, gas and water, communications, and personal services.

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

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

#### Wholesale funding

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

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

#### Funding capacity and debt issuance planning

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

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

#### Liquidity portfolio management

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

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

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand government securities, securities issued by supranational agencies and securities issued by highly rated banks. These assets are accepted as collateral by the RBNZ in repurchase transactions. The post-"haircut" value of these assets at 31 March 2010 was \$10,524 million. The Banking Group also held unencumbered Internal RMBS with a post-"haircut" value of \$5,079 million (from 1 April the RBNZ has imposed a cap limiting the amount of RMBS deemed as eligible in the liquidity portfolio to 4% of total assets).

#### Liquidity crisis contingency planning

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

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

#### Contractual maturity analysis of financial assets and liabilities

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

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

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

	Consolidated						
	Total \$m	At call \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
<b>Unaudited 31/03/2010</b>							
<b>Assets</b>							
Liquid assets	2,519	2,519	-	-	-	-	-
Due from other financial institutions	2,101	35	1,934	132	-	-	-
Trading securities	6,366	-	416	621	3,887	1,442	-
Derivative financial instruments	8,713	-	-	-	-	-	8,713
Available-for-sale assets	1,850	-	802	737	43	168	100
Gross loans and advances	87,000	-	8,556	14,433	24,011	38,298	1,702
Due from parent	500	500	-	-	-	-	-
Other financial assets <sup>1</sup>	1,052	-	1,026	1	12	13	-
Interest	36,714	-	1,378	3,322	11,932	20,082	-
<b>Total</b>	<b>146,815</b>	<b>3,054</b>	<b>14,112</b>	<b>19,246</b>	<b>39,885</b>	<b>60,003</b>	<b>10,515</b>
<b>Liabilities</b>							
Due to other financial institutions	1,336	724	478	10	74	50	-
Deposits and other borrowings	70,636	19,623	29,600	18,927	2,486	-	-
Derivative financial instruments	9,152	-	-	-	-	-	9,152
Other financial liabilities	1,698	-	1,698	-	-	-	-
Gross bonds and notes	16,606	-	1,353	2,103	12,706	444	-
Due to parent company	-	-	-	-	-	-	-
Loan capital	2,641	-	-	-	-	1,463	1,178
Interest	4,225	-	571	1,087	2,289	278	-
<b>Total</b>	<b>106,294</b>	<b>20,347</b>	<b>33,700</b>	<b>22,127</b>	<b>17,555</b>	<b>2,235</b>	<b>10,330</b>
<b>Unaudited 31/03/2009</b>							
<b>Assets</b>							
Liquid assets	3,390	3,390	-	-	-	-	-
Due from other financial institutions	7,631	167	4,407	2,405	652	-	-
Trading securities	2,565	-	504	389	1,503	169	-
Derivative financial instruments	14,985	-	-	-	-	-	14,985
Available-for-sale assets	597	-	-	493	10	23	71
Net loans and advances	93,720	-	9,311	12,303	27,279	45,096	(269)
Other financial assets	714	-	714	-	-	-	-
Interest	44,236	-	1,707	4,113	13,720	24,696	-
<b>Total</b>	<b>167,837</b>	<b>3,557</b>	<b>16,642</b>	<b>19,703</b>	<b>43,164</b>	<b>69,985</b>	<b>14,787</b>
<b>Liabilities</b>							
Due to other financial institutions	4,162	1,187	736	1,806	408	25	-
Deposits and other borrowings	72,760	28,079	26,864	15,334	2,484	-	-
Derivative financial instruments	12,868	-	-	-	-	-	12,868
Other financial liabilities	1,743	-	1,560	92	85	6	-
Bonds and notes	21,528	-	2,125	6,300	12,428	675	-
Due to parent company	1,096	1,096	-	-	-	-	-
Loan capital	2,835	-	-	-	-	1,679	1,156
Interest	4,681	9	723	1,201	2,498	250	-
<b>Total</b>	<b>121,673</b>	<b>30,371</b>	<b>32,008</b>	<b>24,732</b>	<b>17,902</b>	<b>2,635</b>	<b>14,024</b>

<sup>1</sup> Other financial assets in the table above include investments related to insurance business.

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

	Parent						
	Total \$m	At call \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
<b>Unaudited 31/03/2010</b>							
<b>Assets</b>							
Liquid assets	2,502	2,502	-	-	-	-	-
Due from other financial institutions	1,949	35	1,914	-	-	-	-
Trading securities	6,366	-	416	621	3,887	1,442	-
Derivative financial instruments	8,719	-	-	-	-	-	8,719
Available-for-sale assets	1,674	-	793	737	6	42	96
Gross loans and advances	84,425	-	8,253	14,054	22,390	38,108	1,620
Due from subsidiary companies	8,826	-	1,569	313	158	6,786	-
Due from parent company	500	500	-	-	-	-	-
Other financial assets	981	-	981	-	-	-	-
Interest	46,305	-	1,387	3,450	12,931	28,537	-
<b>Total</b>	<b>162,247</b>	<b>3,037</b>	<b>15,313</b>	<b>19,175</b>	<b>39,372</b>	<b>74,915</b>	<b>10,435</b>
<b>Liabilities</b>							
Due to other financial institutions	1,054	724	323	3	4	-	-
Deposits and other borrowings	61,861	19,622	25,495	14,529	2,215	-	-
Due to subsidiary companies	38,254	-	12,528	5,697	13,798	6,231	-
Derivative financial instruments	9,170	-	-	-	-	-	9,170
Other financial liabilities	1,800	-	1,800	-	-	-	-
Gross bonds and notes	1,575	-	93	285	1,105	92	-
Due to parent company	-	-	-	-	-	-	-
Loan capital	2,641	-	-	-	-	1,463	1,178
Interest	8,515	-	707	1,494	3,814	2,500	-
<b>Total</b>	<b>124,871</b>	<b>20,346</b>	<b>40,947</b>	<b>22,008</b>	<b>20,936</b>	<b>10,286</b>	<b>10,348</b>
<b>Unaudited 31/03/2009</b>							
<b>Assets</b>							
Liquid assets	3,390	3,390	-	-	-	-	-
Due from other financial institutions	6,874	167	4,407	2,300	-	-	-
Trading securities	2,565	-	504	389	1,503	169	-
Derivative financial instruments	15,162	-	-	-	-	-	15,162
Available-for-sale assets	594	-	-	493	10	23	68
Net loans and advances	91,329	-	8,896	12,137	25,570	44,980	(254)
Due from subsidiary companies	9,610	127	-	5	1,653	7,825	-
Other financial assets	643	-	643	-	-	-	-
Interest	47,501	-	1,409	4,238	15,002	26,851	-
<b>Total</b>	<b>177,668</b>	<b>3,684</b>	<b>15,859</b>	<b>19,562</b>	<b>43,739</b>	<b>79,848</b>	<b>14,976</b>
<b>Liabilities</b>							
Due to other financial institutions	3,250	1,178	217	1,806	24	25	-
Deposits and other borrowings	64,913	28,206	21,945	12,478	2,284	-	-
Due to subsidiary companies	44,785	12,260	5,660	8,347	11,649	6,869	-
Derivative financial instruments	12,868	-	-	-	-	-	12,868
Other financial liabilities	1,548	-	1,425	92	25	6	-
Bonds and notes	1,315	-	465	-	615	235	-
Due to parent company	1,096	1,096	-	-	-	-	-
Loan capital	2,835	-	-	-	-	1,679	1,156
Interest	10,136	9	1,655	1,923	5,811	738	-
<b>Total</b>	<b>142,746</b>	<b>42,749</b>	<b>31,368</b>	<b>24,645</b>	<b>20,408</b>	<b>9,552</b>	<b>14,024</b>

## Notes to the Financial Statements (continued)

### 29. Financial Risk Management (continued)

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



## Notes to the Financial Statements (continued)

### 30. Concentrations of Credit Risk

#### Concentrations of credit risk to individual counterparties

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

	Consolidated					
	Unaudited 31/03/2010 Number of Counterparties		Unaudited 31/03/2009 Number of Counterparties		Audited 30/09/2009 Number of Counterparties	
	As at	Peak for the quarter	As at	Peak for the quarter	As at	Peak for the quarter
10% to 20% of equity	1	1	1	1	1	1

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

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

As at	Consolidated					
	Unaudited 31/03/2010		Unaudited 31/03/2009		Audited 30/09/2009	
	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure
Investment grade credit rating <sup>1</sup>	1,117	100.0%	1,544	100.0%	1,194	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 period end and peak end-of-day credit exposure equals or exceeds 10% of equity (as at the end of the period), in ranges of 10% of equity, on the basis of actual exposures:

	Consolidated					
	Unaudited 31/03/2010 Number of Counterparties		Unaudited 31/03/2009 Number of Counterparties		Audited 30/09/2009 Number of Counterparties	
	As at	Peak for period	As at	Peak for period	As at	Peak for period
10% to 20% of equity	2	3	2	5	3	2
20% to 30% of equity	-	-	2	1	1	2
30% to 40% of equity	-	-	-	1	-	-

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

## Notes to the Financial Statements (continued)

### 30. Concentrations of Credit Risk (continued)

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

As at	Consolidated					
	Unaudited 31/03/2010		Unaudited 31/03/2009		Audited 30/09/2009	
	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure
Investment grade credit rating <sup>1</sup>	2,627	100.0%	6,723	100.0%	6,201	100.0%

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

#### Concentrations of credit risk to connected persons

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis and partially on a gross basis. With effect from 11 August 2008, netting has occurred in respect of certain transactions which are the subject of a bilateral netting agreement disclosed in the Bank's most recent Supplemental Disclosure Statement for the six months ended 31 March 2010. The amount of gross credit exposures to connected persons netted off must not be greater than 125% of the Banking Group's tier one capital.

	Consolidated					
	Unaudited 31/03/2010		Unaudited 31/03/2009		Audited 30/09/2009	
	Amount \$m	% of Tier One Capital	Amount \$m	% of Tier One Capital	Amount \$m	% of Tier One Capital
Aggregate at end of period <sup>4</sup>						
Other connected persons (on gross basis, before netting) <sup>2</sup>	4,020	59.3%	5,268	80.6%	4,503	69.9%
Other connected persons (amount netted off) <sup>2</sup>	2,982	44.0%	3,309	50.6%	3,010	46.7%
Other connected persons (on partial bilateral net basis) <sup>2</sup>	1,038	15.3%	1,959	30.0%	1,493	23.2%
Non-bank connected persons <sup>3</sup>	-	0.0%	-	0.0%	-	0.0%
Peak end-of-day for the quarter <sup>4</sup>						
Other connected persons (on gross basis, before netting)	4,264	62.9%	7,037	107.6%	5,490	85.2%
Other connected persons (amount netted off)	2,715	40.1%	4,175	63.9%	2,693	41.8%
Other connected persons (on partial bilateral net basis)	1,549	22.8%	2,862	43.8%	2,797	43.4%
Non-bank connected persons	-	0.0%	-	0.0%	-	0.0%
Rating-contingent limit <sup>5</sup>						
Other connected persons	n/a	70.0%	n/a	70.0%	n/a	70.0%
Non-bank connected persons	n/a	15.0%	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 period to connected persons are measured over tier one capital as at the end of the period. There were no individual provisions provided against credit exposures to connected persons as at 31 March 2010 (31/03/2009 \$nil; 30/09/2009 \$nil). The Banking Group had no contingent exposures arising from risk lay-off arrangements to connected persons as at 31 March 2010 (31/03/2009 \$nil; 30/09/2009 \$nil).

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

<sup>2</sup> The Banking Group has amounts due from its Parent Company and Ultimate Parent Bank and other entities within the Ultimate Parent Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 31 March 2010, the gross exposures to the Bank's Parent Company were \$510 million (31/03/2009 \$nil; 30/09/2009 \$522 million). As at 31 March 2010, the gross exposures to the Bank's Ultimate Parent Bank were \$3,510 million (31/03/2009 \$5,268 million; 30/09/2009 \$3,981 million).

<sup>3</sup> Non-bank connected persons exposures consist of loans to directors of the Bank. Any loans are made in the ordinary course of business of the Bank, on an arm's length basis and on normal commercial terms and conditions.

<sup>4</sup> The Banking Group has complied with the limits on aggregate credit exposure (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, calculated in accordance with the Conditions of Registration, at all times during the period.

<sup>5</sup> Represents the maximum peak end-of-day aggregate credit exposures limit (of a non-capital nature and net of individual provisions) to all connected persons. This limit is based on the ratings applicable to the Bank's long term senior unsecured obligations payable in New Zealand in New Zealand dollars. Within the overall limit a sub-limit of 15% of Tier One Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons.

## Notes to the Financial Statements (continued)

### 31. Interest Earning and Discount Bearing Assets and Liabilities

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Interest earning and discount bearing assets	98,434	106,037	100,935	104,651	111,743	105,557
Interest and discount bearing liabilities	86,573	98,490	90,491	100,738	114,243	104,038

### 32. Fair Value of Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

#### Financial Assets

##### *Liquid assets and due from other financial institutions*

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

##### *Trading securities*

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

##### *Derivative financial instruments*

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

##### *Available-for-sale assets*

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

## Notes to the Financial Statements (continued)

### 32. Fair Value of Financial Assets and Financial Liabilities (continued)

#### *Net loans and advances*

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

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

#### *Other financial assets*

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

#### *Financial assets designated at fair value through profit or loss*

The Banking Group has not reclassified any financial assets previously measured at amortised cost to fair value, or previously measured at fair value to amortised cost, during the period ended 31 March 2010 (31/03/2009 \$nil; 30/09/2009 \$nil).

### Financial Liabilities

#### *Due to other financial institutions*

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

#### *Deposits and other borrowings*

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

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

At balance date, the carrying amount of deposits and other borrowings designated by the Banking Group at fair value through profit or loss was \$7,416 million (31/03/2009 \$6,144 million; 30/09/2009 \$7,392 million). This is \$1 million higher (31/03/2009 \$9 million higher; 30/09/2009 \$4 million lower) than their amortised cost.

The accumulated amount of the change in fair value attributable to changes in credit risk on these liabilities was less than \$3 million (31/03/2009 less than \$3 million; 30/09/2009 less than \$3 million). The change in fair value attributable to changes in credit risk has been determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risks (benchmark interest rate, and foreign exchange rates).

#### *Bonds and notes, due to parent company and loan capital*

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

#### *Other financial liabilities*

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

#### *Commitments and contingencies*

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

## Notes to the Financial Statements (continued)

### 32. Fair Value of Financial Assets and Financial Liabilities (continued)

#### Valuation Methodology

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

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

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

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

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

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

## Notes to the Financial Statements (continued)

### 32. Fair Value of Financial Assets and Financial Liabilities (continued)

Carrying amount Financial assets	Consolidated					Total \$m
	At amortised cost	At fair value through profit or loss		Hedging	Available- for-sale assets	
	\$m	Designated on initial recognition \$m	Held for trading \$m	\$m	\$m	
<b>Unaudited 31/03/2010</b>						
Liquid assets	2,519	-	-	-	-	2,519
Due from other financial institutions	294	-	-	-	1,807	2,101
Trading securities	-	-	6,366	-	-	6,366
Derivative financial instruments <sup>1</sup>	-	-	8,265	448	-	8,713
Available-for-sale assets	-	-	-	-	1,850	1,850
Net loans and advances <sup>2</sup>	85,670	-	-	-	-	85,670
Investments relating to insurance business	-	38	-	-	-	38
Due from parent company	500	-	-	-	-	500
Other financial assets	1,014	-	-	-	-	1,014
<b>Total financial assets</b>	<b>89,997</b>	<b>38</b>	<b>14,631</b>	<b>448</b>	<b>3,657</b>	<b>108,771</b>
<b>Unaudited 31/03/2009</b>						
Liquid assets	3,390	-	-	-	-	3,390
Due from other financial institutions	3,362	-	-	-	4,269	7,631
Trading securities	-	-	2,565	-	-	2,565
Derivative financial instruments <sup>1</sup>	-	-	14,439	546	-	14,985
Available-for-sale assets	-	-	-	-	597	597
Net loans and advances <sup>2</sup>	93,720	-	-	-	-	93,720
Other financial assets	714	-	-	-	-	714
<b>Total financial assets</b>	<b>101,186</b>	<b>-</b>	<b>17,004</b>	<b>546</b>	<b>4,866</b>	<b>123,602</b>
<b>Audited 30/09/2009</b>						
Liquid assets	2,762	-	-	-	-	2,762
Due from other financial institutions	1,778	-	-	-	2,736	4,514
Trading securities	-	-	4,166	-	-	4,166
Derivative financial instruments <sup>1</sup>	-	-	10,986	422	-	11,408
Available-for-sale assets	-	-	-	-	1,513	1,513
Net loans and advances <sup>2</sup>	88,259	-	-	-	-	88,259
Other financial assets	999	-	-	-	-	999
<b>Total financial assets</b>	<b>93,798</b>	<b>-</b>	<b>15,152</b>	<b>422</b>	<b>4,249</b>	<b>113,621</b>

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

	Consolidated					
	Unaudited 31/03/2010		Unaudited 31/03/2009		Audited 30/09/2009	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Liquid assets	2,519	2,519	3,390	3,390	2,762	2,762
Due from other financial institutions	294	294	3,362	3,362	1,778	1,778
Net loans and advances <sup>2</sup>	85,670	85,501	93,720	93,572	88,259	87,996
Due from parent company	500	500	-	-	-	-
Other financial assets	1,014	1,014	714	714	999	999
<b>Total financial assets at amortised cost</b>	<b>89,997</b>	<b>89,828</b>	<b>101,186</b>	<b>101,038</b>	<b>93,798</b>	<b>93,535</b>

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

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

## Notes to the Financial Statements (continued)

### 32. Fair Value of Financial Assets and Financial Liabilities (continued)

Carrying value Financial liabilities	Consolidated					Total \$m
	At amortised cost \$m	Designated on initial recognition \$m	Held for trading \$m	Sub-total \$m	Hedging \$m	
<b>Unaudited 31/03/2010</b>						
Due to other financial institutions	1,336	-	-	-	-	1,336
Deposits and other borrowings	63,220	7,416	-	7,416	-	70,636
Derivative financial instruments <sup>1</sup>	-	-	8,565	8,565	587	9,152
Other financial liabilities	1,698	-	-	-	-	1,698
Bonds and notes <sup>2</sup>	16,855	-	-	-	-	16,855
Due to parent company	-	-	-	-	-	-
Loan capital	2,641	-	-	-	-	2,641
<b>Total financial liabilities</b>	<b>85,750</b>	<b>7,416</b>	<b>8,565</b>	<b>15,981</b>	<b>587</b>	<b>102,318</b>
<b>Unaudited 31/03/2009</b>						
Due to other financial institutions	4,162	-	-	-	-	4,162
Deposits and other borrowings	66,616	6,144	-	6,144	-	72,760
Derivative financial instruments <sup>1</sup>	-	-	11,581	11,581	1,287	12,868
Other financial liabilities	1,743	-	-	-	-	1,743
Bonds and notes <sup>2</sup>	21,528	-	-	-	-	21,528
Due to parent company	1,096	-	-	-	-	1,096
Loan capital	2,835	-	-	-	-	2,835
<b>Total financial liabilities</b>	<b>97,980</b>	<b>6,144</b>	<b>11,581</b>	<b>17,725</b>	<b>1,287</b>	<b>116,992</b>
<b>Audited 30/09/2009</b>						
Due to other financial institutions	3,725	-	-	-	-	3,725
Deposits and other borrowings	64,372	7,392	-	7,392	-	71,764
Derivative financial instruments <sup>1</sup>	-	-	9,862	9,862	900	10,762
Other financial liabilities	1,414	-	-	-	-	1,414
Bonds and notes <sup>2</sup>	15,917	-	-	-	-	15,917
Due to parent company	930	-	-	-	-	930
Loan capital	2,596	-	-	-	-	2,596
<b>Total financial liabilities</b>	<b>88,954</b>	<b>7,392</b>	<b>9,862</b>	<b>17,254</b>	<b>900</b>	<b>107,108</b>

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

	Consolidated					
	Unaudited 31/03/2010		Unaudited 31/03/2009		Audited 30/09/2009	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Due to other financial institutions	1,336	1,336	4,162	4,162	3,725	3,725
Deposits and other borrowings	63,220	63,261	66,616	66,743	64,372	64,404
Other financial liabilities	1,698	1,698	1,743	1,743	1,414	1,414
Bonds and notes <sup>2</sup>	16,855	17,205	21,528	20,826	15,917	16,051
Due to parent company	-	-	1,096	1,096	930	930
Loan capital	2,641	2,601	2,835	2,642	2,596	2,516
<b>Total financial liabilities at amortised cost</b>	<b>85,750</b>	<b>86,102</b>	<b>97,980</b>	<b>97,212</b>	<b>88,954</b>	<b>89,040</b>

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

<sup>2</sup> Fair value hedging is applied to bonds and notes. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

## Notes to the Financial Statements (continued)

### 32. Fair Value of Financial Assets and Financial Liabilities (continued)

Carrying amount Financial assets	Parent					Total \$m
	At amortised cost	At fair value through profit or loss		Hedging	Available- for- sale assets	
	\$m	Designated on initial recognition \$m	Held for trading \$m	\$m	\$m	
<b>Unaudited 31/03/2010</b>						
Liquid assets	2,502	-	-	-	-	2,502
Due from other financial institutions	177	-	-	-	1,772	1,949
Trading securities	-	-	6,366	-	-	6,366
Derivative financial instruments <sup>1</sup>	-	-	8,271	448	-	8,719
Available-for-sale assets	-	-	-	-	1,674	1,674
Net loans and advances <sup>2</sup>	83,416	-	-	-	-	83,416
Due from parent company	500	-	-	-	-	500
Due from subsidiary companies	1,916	6,910	-	-	-	8,826
Other financial assets	981	-	-	-	-	981
<b>Total financial assets</b>	<b>89,492</b>	<b>6,910</b>	<b>14,637</b>	<b>448</b>	<b>3,446</b>	<b>114,933</b>
<b>Unaudited 31/03/2009</b>						
Liquid assets	3,390	-	-	-	-	3,390
Due from other financial institutions	2,605	-	-	-	4,269	6,874
Trading securities	-	-	2,565	-	-	2,565
Derivative financial instruments <sup>1</sup>	-	-	14,616	546	-	15,162
Available-for-sale assets	-	-	-	-	594	594
Net loans and advances <sup>2</sup>	91,329	-	-	-	-	91,329
Due from subsidiary companies	1,785	7,825	-	-	-	9,610
Other financial assets	643	-	-	-	-	643
<b>Total financial assets</b>	<b>99,752</b>	<b>7,825</b>	<b>17,181</b>	<b>546</b>	<b>4,863</b>	<b>130,167</b>
<b>Audited 30/09/2009</b>						
Liquid assets	2,758	-	-	-	-	2,758
Due from other financial institutions	1,625	-	-	-	2,736	4,361
Trading securities	-	-	4,166	-	-	4,166
Derivative financial instruments <sup>1</sup>	-	-	11,027	422	-	11,449
Available-for-sale assets	-	-	-	-	1,511	1,511
Net loans and advances <sup>2</sup>	85,952	-	-	-	-	85,952
Due from subsidiary companies	1,865	5,838	-	-	-	7,703
Other financial assets	951	-	-	-	-	951
<b>Total financial assets</b>	<b>93,151</b>	<b>5,838</b>	<b>15,193</b>	<b>422</b>	<b>4,247</b>	<b>118,851</b>

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

	Parent					
	Unaudited 31/03/2010		Unaudited 31/03/2009		Audited 30/09/2009	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Liquid assets	2,502	2,502	3,390	3,390	2,758	2,758
Due from other financial institutions	177	177	2,605	2,605	1,625	1,625
Net loans and advances <sup>2</sup>	83,416	83,234	91,329	91,157	85,952	85,675
Due from parent company	500	500	-	-	-	-
Due from subsidiary companies	1,916	1,916	1,785	1,785	1,865	1,865
Other financial assets	981	981	643	643	951	951
<b>Total financial assets at amortised cost</b>	<b>89,492</b>	<b>89,310</b>	<b>99,752</b>	<b>99,580</b>	<b>93,151</b>	<b>92,874</b>

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

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



## Notes to the Financial Statements (continued)

### 32. Fair Value of Financial Assets and Financial Liabilities (continued)

Carrying amount Financial liabilities	Parent					Total \$m
	At amortised cost \$m	Designated on initial recognition \$m	Held for trading \$m	Sub-total \$m	Hedging \$m	
<b>Unaudited 31/03/2010</b>						
Due to other financial institutions	1,054	-	-	-	-	1,054
Deposits and other borrowings	61,861	-	-	-	-	61,861
Due to subsidiary companies	31,748	6,506	-	6,506	-	38,254
Derivative financial instruments <sup>1</sup>	-	-	8,583	8,583	587	9,170
Other financial liabilities	1,800	-	-	-	-	1,800
Bonds and notes <sup>2</sup>	1,823	-	-	-	-	1,823
Due to parent company	-	-	-	-	-	-
Loan capital	2,641	-	-	-	-	2,641
<b>Total financial liabilities</b>	<b>100,927</b>	<b>6,506</b>	<b>8,583</b>	<b>15,089</b>	<b>587</b>	<b>116,603</b>
<b>Unaudited 31/03/2009</b>						
Due to other financial institutions	3,250	-	-	-	-	3,250
Deposits and other borrowings	64,913	-	-	-	-	64,913
Due to subsidiary companies	38,356	6,429	-	6,429	-	44,785
Derivative financial instruments <sup>1</sup>	-	-	11,581	11,581	1,287	12,868
Other financial liabilities	1,548	-	-	-	-	1,548
Bonds and notes <sup>2</sup>	1,315	-	-	-	-	1,315
Due to parent company	1,096	-	-	-	-	1,096
Loan capital	2,835	-	-	-	-	2,835
<b>Total financial liabilities</b>	<b>113,313</b>	<b>6,429</b>	<b>11,581</b>	<b>18,010</b>	<b>1,287</b>	<b>132,610</b>
<b>Audited 30/09/2009</b>						
Due to other financial institutions	3,239	-	-	-	-	3,239
Deposits and other borrowings	62,835	-	-	-	-	62,835
Due to subsidiary companies	31,675	5,687	-	5,687	-	37,362
Derivative financial instruments <sup>1</sup>	-	-	9,869	9,869	900	10,769
Other financial liabilities	909	-	-	-	-	909
Bonds and notes <sup>2</sup>	1,516	-	-	-	-	1,516
Due to parent company	930	-	-	-	-	930
Loan capital	2,596	-	-	-	-	2,596
<b>Total financial liabilities</b>	<b>103,700</b>	<b>5,687</b>	<b>9,869</b>	<b>15,556</b>	<b>900</b>	<b>120,156</b>

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

	Parent					
	Unaudited 31/03/2010		Unaudited 31/03/2009		Audited 30/09/2009	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Due to other financial institutions	1,054	1,054	3,250	3,250	3,239	3,239
Deposits and other borrowings	61,861	61,898	64,913	65,020	62,835	62,860
Due to subsidiary companies	31,748	32,197	38,356	38,649	31,675	31,997
Other financial liabilities	1,800	1,800	1,548	1,548	909	908
Bonds and notes <sup>2</sup>	1,823	1,845	1,315	1,010	1,516	1,545
Due to parent company	-	-	1,096	1,096	930	930
Loan capital	2,641	2,601	2,835	2,642	2,596	2,516
<b>Total financial liabilities at amortised cost</b>	<b>100,927</b>	<b>101,395</b>	<b>113,313</b>	<b>113,215</b>	<b>103,700</b>	<b>103,995</b>

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

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

## Notes to the Financial Statements (continued)

### 32. Fair Value of Financial Assets and Financial Liabilities (continued)

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

	Valuation technique			Total \$m
	Quoted market price \$m	Using observable inputs \$m	Using significant non-observable inputs \$m	
<b>Unaudited 31/03/2010</b>				
<b>Consolidated</b>				
<b>Financial assets</b>				
Due from other financial institutions	1,807	-	-	1,807
Trading securities	3,178	3,188	-	6,366
Available-for-sale assets	1,642	69	139	1,850
Derivative financial instruments	3	8,710	-	8,713
Investments relating to insurance business	-	38	-	38
<b>Total financial assets</b>	<b>6,630</b>	<b>12,005</b>	<b>139</b>	<b>18,774</b>
<b>Financial liabilities</b>				
Derivative financial instruments	46	9,106	-	9,152
Commercial paper	-	7,416	-	7,416
<b>Total financial liabilities</b>	<b>46</b>	<b>16,522</b>	<b>-</b>	<b>16,568</b>
<b>Unaudited 31/03/2009</b>				
<b>Consolidated</b>				
<b>Financial assets</b>				
Due from other financial institutions	4,269	-	-	4,269
Trading securities	719	1,846	-	2,565
Available-for-sale assets	518	79	-	597
Derivative financial instruments	96	14,889	-	14,985
<b>Total financial assets</b>	<b>5,602</b>	<b>16,814</b>	<b>-</b>	<b>22,416</b>
<b>Financial liabilities</b>				
Derivative financial instruments	11	12,857	-	12,868
Commercial paper	-	6,144	-	6,144
<b>Total financial liabilities</b>	<b>11</b>	<b>19,001</b>	<b>-</b>	<b>19,012</b>
<b>Audited 30/09/2009</b>				
<b>Consolidated</b>				
<b>Financial assets</b>				
Due from other financial institutions	2,736	-	-	2,736
Trading securities	1,261	2,905	-	4,166
Available-for-sale assets	1,413	100	-	1,513
Derivative financial instruments	45	11,363	-	11,408
<b>Total financial assets</b>	<b>5,455</b>	<b>14,368</b>	<b>-</b>	<b>19,823</b>
<b>Financial liabilities</b>				
Derivative financial instruments	2	10,760	-	10,762
Commercial paper	-	7,392	-	7,392
<b>Total financial liabilities</b>	<b>2</b>	<b>18,152</b>	<b>-</b>	<b>18,154</b>

## Notes to the Financial Statements (continued)

### 32. Fair Value of Financial Assets and Financial Liabilities (continued)

The Banking Group holds investments in certain unlisted collateralised debt obligations and other similar assets which are valued using broker quotes and other valuation methods that rely on significant non observable inputs. The movements in these balances across the period were:

	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
Opening balance	-	-	-
Purchases	127	-	-
Sales	(5)	-	-
Revaluations	23	-	-
Foreign exchange movements	(6)	-	-
Closing balance	139	-	-

## Notes to the Financial Statements (continued)

### 32. Fair Value of Financial Assets and Financial Liabilities (continued)

	Valuation technique			Total \$m
	Quoted market price \$m	Using observable inputs \$m	Using significant non-observable inputs \$m	
<b>Unaudited 31/03/2010</b>				
<b>Parent</b>				
<b>Financial assets</b>				
Due from other financial institutions	1,772	-	-	1,772
Trading securities	3,178	3,188	-	6,366
Available-for-sale assets	1,632	42	-	1,674
Due from subsidiary companies	-	6,910	-	6,910
Derivative financial instruments	3	8,716	-	8,719
<b>Total financial assets</b>	<b>6,585</b>	<b>18,856</b>	<b>-</b>	<b>25,441</b>
<b>Financial liabilities</b>				
Due to subsidiary companies	-	6,506	-	6,506
Derivative financial instruments	46	9,124	-	9,170
<b>Total financial liabilities</b>	<b>46</b>	<b>15,630</b>	<b>-</b>	<b>15,676</b>
<b>Unaudited 31/03/2009</b>				
<b>Parent</b>				
<b>Financial assets</b>				
Due from other financial institutions	4,269	-	-	4,269
Trading securities	719	1,846	-	2,565
Available-for-sale assets	515	79	-	594
Due from subsidiary companies	-	7,825	-	7,825
Derivative financial instruments	96	15,066	-	15,162
<b>Total financial assets</b>	<b>5,599</b>	<b>24,816</b>	<b>-</b>	<b>30,415</b>
<b>Financial liabilities</b>				
Due to subsidiary companies	-	6,429	-	6,429
Derivative financial instruments	11	12,857	-	12,868
<b>Total financial liabilities</b>	<b>11</b>	<b>19,286</b>	<b>-</b>	<b>19,297</b>
<b>Audited 30/09/2009</b>				
<b>Parent</b>				
<b>Financial assets</b>				
Due from other financial institutions	2,736	-	-	2,736
Trading securities	1,261	2,905	-	4,166
Available-for-sale assets	1,413	98	-	1,511
Due from subsidiary companies	-	5,838	-	5,838
Derivative financial instruments	45	11,404	-	11,449
<b>Total financial assets</b>	<b>5,455</b>	<b>20,245</b>	<b>-</b>	<b>25,700</b>
<b>Financial liabilities</b>				
Due to subsidiary companies	-	5,687	-	5,687
Derivative financial instruments	2	10,767	-	10,769
<b>Total financial liabilities</b>	<b>2</b>	<b>16,454</b>	<b>-</b>	<b>16,456</b>

## Notes to the Financial Statements (continued)

### 33. Segmental Analysis

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

The segments as reported below are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As the composition of segments has changed over time, prior period comparatives have been adjusted to be consistent with the 2010 segment definitions.

A summarised description of each business segment is shown below:

#### Retail

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

#### Commercial

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

#### Institutional

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

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

#### Other

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

## Notes to the Financial Statements (continued)

### 33. Segmental Analysis (continued)

#### Business Segment Analysis<sup>1,2</sup>

	Consolidated				Total \$m
	Retail \$m	Commercial \$m	Institutional \$m	Other \$m	
<b>Unaudited 31/03/2010</b>					
External interest income	1,570	1,122	93	(7)	2,778
External interest expense	(682)	(173)	(208)	(618)	(1,681)
Net intersegment interest	(435)	(566)	338	663	-
Net interest income	453	383	223	38	1,097
Other external operating income <sup>4</sup>	209	51	96	41	397
Share of profit of equity accounted associates and jointly controlled entities	35	-	-	1	36
Operating income	697	434	319	80	1,530
Other external expenses	286	82	48	294	710
Net intersegment and related party expenses <sup>3</sup>	227	59	28	(276)	38
Operating expenses	513	141	76	18	748
Profit before provision for credit impairment and income tax	184	293	243	61	782
Provision for credit impairment	131	208	(26)	1	314
Profit before income tax	53	85	269	60	468
Income tax expense	23	26	78	(26)	101
Profit after income tax	30	59	191	87	367
<b>Non-cash expenses</b>					
Depreciation and amortisation	4	1	-	20	25
<b>Balance sheet</b>					
Goodwill	1,141	1,052	1,072	-	3,265
Intangible assets	283	9	2	4	298
Share in associates and jointly controlled entities	-	-	56	88	144
Total external assets	45,844	36,901	29,851	981	113,577
Total external liabilities	39,784	10,142	24,578	28,541	103,045

<sup>1</sup> Results are equity standardised.

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

<sup>3</sup> Net intersegment expenses are eliminated at the Ultimate Parent Bank level.

<sup>4</sup> Includes a loss of \$82 million (30/9/2009 nil; 31/3/2009 nil) on acquisition of ING NZ and a charge of \$nil (30/9/2009 \$211 million; 31/3/2009: \$166 million) in relation to ING New Zealand Funds.

## Notes to the Financial Statements (continued)

### 33. Segmental Analysis (continued)

#### Business Segment Analysis<sup>1,2</sup>

	Consolidated				Total \$m
	Retail \$m	Commercial \$m	Institutional \$m	Other \$m	
<b>Unaudited 31/03/2009</b>					
External interest income	2,296	1,514	413	3	4,226
External interest expense	(1,048)	(322)	(520)	(1,062)	(2,951)
Net intersegment interest	(676)	(796)	356	1,115	-
Net interest income	572	397	250	56	1,275
Other external operating income <sup>4</sup>	85	49	191	107	432
Share of profit of equity accounted associates and jointly controlled entities	7	-	-	1	8
Operating income	663	446	441	165	1,715
Other external expenses	246	82	54	315	697
Net intersegment and related party expenses <sup>3</sup>	220	54	27	(261)	41
Operating expenses	467	136	81	54	738
Profit before provision for credit impairment and income tax	197	310	360	110	977
Provision for credit impairment	133	120	32	-	285
Profit before income tax	64	190	328	110	693
Income tax expense	17	57	96	35	204
Profit after income tax	47	133	233	76	488
<b>Non-cash expenses</b>					
Depreciation and amortisation	6	1	1	17	24
<b>Balance sheet</b>					
Goodwill	1,141	1,052	1,072	-	3,265
Intangible assets	40	5	5	8	59
Share in associates and jointly controlled entities	253	-	65	78	396
Total external assets	50,933	37,696	35,779	3,532	127,941
Total external liabilities	39,062	11,296	34,542	32,788	117,689

<sup>1</sup> Results are equity standardised.

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

<sup>3</sup> Net intersegment expenses are eliminated at the Ultimate Parent Bank level.

<sup>4</sup> Includes a \$166 million charge in relation to ING New Zealand Funds.

## Notes to the Financial Statements (continued)

### 33. Segmental Analysis (continued)

#### Business Segment Analysis<sup>1,2</sup>

	Consolidated				Total \$m
	Retail \$m	Commercial \$m	Institutional \$m	Other \$m	
<b>Audited 30/09/2009</b>					
External interest income	4,106	2,697	446	(3)	7,246
External interest expense	(1,765)	(533)	(731)	(1,862)	(4,892)
Net intersegment interest	(1,300)	(1,399)	743	1,956	-
Net interest income	1,041	765	458	90	2,354
Other external operating income <sup>4</sup>	290	99	300	61	749
Share of profit of equity accounted associates and jointly controlled entities	13	-	(2)	3	13
Operating income	1,343	863	756	153	3,116
Other external expenses	486	160	111	629	1,387
Net intersegment and related party expenses <sup>3</sup>	463	113	56	(542)	90
Operating expenses	948	273	167	88	1,477
Profit before provision for credit impairment and income tax	395	590	588	66	1,639
Provision for credit impairment	359	419	96	-	874
Profit before income tax	36	171	492	66	765
Income tax expense	6	51	142	269	467
Profit after income tax	30	121	351	(203)	298
<b>Non-cash expenses</b>					
Depreciation and amortisation	11	2	2	35	50
<b>Balance sheet</b>					
Goodwill	1,141	1,052	1,072	-	3,265
Intangible assets	45	9	2	4	60
Share in associates and jointly controlled entities	329	-	61	74	464
Total external assets	46,430	37,574	31,318	2,569	117,891
Total external liabilities	38,960	10,510	30,248	28,085	107,803

<sup>1</sup> Results are equity standardised.

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

<sup>3</sup> Net intersegment expenses are eliminated at the Ultimate Parent Bank level.

<sup>4</sup> Includes a \$211 million charge in relation to ING New Zealand Funds.



## Notes to the Financial Statements (continued)

### 34. Notes to the Cash Flow Statements

	Consolidated			Parent		
	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
<b>Reconciliation of profit after income tax to net cash provided by / (used in) operating activities flows</b>						
Profit after income tax	367	488	298	286	288	1,010
<b>Non-cash items:</b>						
Depreciation and amortisation	25	24	50	14	13	27
Provision for credit impairment	314	285	874	300	265	840
Deferred fee revenue and expenses	6	3	(8)	6	2	(7)
Share-based payments expense	10	9	18	10	9	18
Amortisation of capitalised brokerage/ mortgage origination fees	18	27	50	18	27	50
<b>Deferrals or accruals of past or future operating cash receipts or payments:</b>						
Change in net operating assets less liabilities	(960)	1,191	(1,874)	(1,035)	918	(2,749)
Change in interest receivable	(1)	101	138	(16)	86	90
Change in interest payable	(106)	(260)	(295)	(101)	(213)	(252)
Change in accrued income	(2)	(5)	1	1	(3)	-
Change in accrued expenses	19	(15)	42	16	(14)	41
Change in provisions	(58)	150	100	(51)	150	96
Amortisation of premiums and discounts	9	59	76	9	59	76
Increase in insurance policy assets	(25)	-	-	-	-	-
Increase in insurance investment assets	(5)	-	-	-	-	-
Decrease in value of associates	-	-	-	-	-	-
Change in net income tax assets	(476)	(61)	141	(461)	(122)	240
<b>Items classified as investing/financing:</b>						
Share of profit of equity accounted associates and jointly controlled entities	(36)	(8)	(11)	-	(2)	-
Impairment of associates	4	-	-	-	-	-
Re-measuring existing equity interest to fair value	82	-	-	61	-	-
Loss / (gain) on disposal of premises and equipment and intangibles	6	(17)	(13)	5	-	4
<b>Net cash flows (used in) / provided by operating activities</b>	<b>(809)</b>	<b>1,971</b>	<b>(413)</b>	<b>(938)</b>	<b>1,463</b>	<b>(516)</b>

## Notes to the Financial Statements (continued)

### 34. Notes to the Cash Flow Statements (continued)

#### Reconciliation of core liquidity portfolio to cash and cash equivalents

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

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Balances with central banks	1,965	2,418	2,207	1,965	2,418	2,207
Securities purchased under agreement to resell	128	448	1,075	128	448	1,075
Certificates of deposit	1,892	4,314	2,736	1,857	4,314	2,736
Government, Local Body stock and bonds	2,961	477	1,102	2,961	477	1,102
Available-for-sale assets	1,524	394	1,435	1,524	394	1,435
Other bank bonds	2,934	1,324	2,522	2,934	1,324	2,522
<b>Total liquidity portfolio<sup>1</sup></b>	<b>11,404</b>	<b>9,375</b>	<b>11,077</b>	<b>11,369</b>	<b>9,375</b>	<b>11,077</b>
Reconciliation to cash and cash equivalents:						
Other cash items not included within liquidity portfolio:						
Liquid assets not with central banks	554	963	555	538	963	551
Due from other financial institutions – less than 90 days	48	2,726	550	48	2,726	550
Non-cash items included within liquidity portfolio:						
Trading securities	(5,980)	(1,846)	(3,624)	(5,980)	(1,846)	(3,624)
Available-for-sale assets	(1,524)	(394)	(1,435)	(1,524)	(394)	(1,435)
Due from other financial institutions – greater than 90 days	(1,303)	(3,607)	(2,358)	(1,303)	(4,167)	(2,358)
<b>Total cash and cash equivalents</b>	<b>3,199</b>	<b>7,217</b>	<b>4,765</b>	<b>3,148</b>	<b>6,657</b>	<b>4,761</b>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>						
Liquid assets	2,519	3,390	2,762	2,502	3,390	2,758
Due from other financial institutions – less than 90 days	680	3,827	2,003	646	3,267	2,003
<b>Total cash and cash equivalents</b>	<b>3,199</b>	<b>7,217</b>	<b>4,765</b>	<b>3,148</b>	<b>6,657</b>	<b>4,761</b>

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

## Notes to the Financial Statements (continued)

### 35. Significant Controlled Entities, Associates and Interests in Jointly Controlled Entities

Controlled entities	Ownership Interest %	Balance Date	Nature of business
Airlie Investments Limited <sup>2</sup>	100	30 September	Non-operating company
Alos Holdings Limited	100	30 September	Investment company
ANZ Capital NZ Limited	100	30 September	Investment company
ANZ Investment Services (New Zealand) Limited	100	30 September	Funds management company
ANZ National (Int'l) Limited	100	30 September	Finance company
ANZ National Staff Superannuation Limited	100	30 September	Staff superannuation scheme trustee
APAC Investments Limited	65	30 September	Finance company
Arawata Assets Limited	100	30 September	Property company
Arawata Capital Limited	100	30 September	Investment company
Arawata Finance Limited	100	30 September	Investment company
Arawata Funding Limited	100	30 September	Non-operating company
Arawata Holdings Limited	100	30 September	Investment company
Arawata Securities Limited	100	30 September	Non-operating company
Arawata Trust	-	30 September	Finance entity
Arawata Trust Company	100	30 September	Investment company
BHI Limited	100	30 September	Non-operating company
CBC Finance Limited (incorporated in British Virgin Islands)	100	31 December	Non-operating company
Control Nominees Limited	100	30 September	Finance company
Cortland Finance Limited	100	30 September	Non-operating company
Corvine Investments Limited	100	30 September	Non-operating company
Culver Finance Limited	100	30 September	Non-operating company
Direct Broking Limited	100	30 September	On-line share broker
Direct Nominees Limited	100	30 September	Nominee company
EFTPOS New Zealand Limited	100	30 September	Eftpos service provider
Endeavour Finance Limited	100	30 September	Investment company
Endeavour Securities Limited <sup>2</sup>	100	30 September	Non-operating company
General Finance Custodians Limited	-	31 March	Mortgage finance
Harcourt Corporation Limited	100	30 September	Investment company
Harcourt Investments Limited	100	30 September	Non-operating company
ING (NZ) Holdings Limited <sup>1</sup>	100	31 December	Holding company
ING (NZ) Limited <sup>1</sup>	100	31 December	Funds management company
ING (NZ) Nominees Limited <sup>1</sup>	100	31 December	Finance company
ING Insurance Holdings Limited <sup>1</sup>	100	31 December	Holding company
ING Insurance Services (NZ) Limited <sup>1</sup>	100	31 December	Insurance company
ING Life (NZ) Limited <sup>1</sup>	100	31 December	Insurance company
ING Medical Properties Limited <sup>1</sup>	100	31 March	Management company
ING NZ AUT Investments Limited <sup>1</sup>	100	31 December	Holding company
ING Property Trust Management Limited <sup>1</sup>	100	31 March	Management company
ING Diversified Yield Fund <sup>1</sup> (incorporated in Australia)	99	30 June	Fixed income fund
ING Regular Income Fund <sup>1</sup> (incorporated in Australia)	99	30 June	Fixed income fund
Karapiro Investments Limited	100	30 September	Non-operating company
Kingfisher NZ Trust 2008-1	-	30 September	Finance entity
National Bank of New Zealand Custodians Limited	100	30 September	Nominee and custody services
NBNZ Finance Limited	100	30 September	Non-operating company
NBNZ Holdings Hong Kong Limited (incorporated in Hong Kong)	100	31 December	Non-operating company
NBNZ Holdings Limited	100	30 September	Non-operating company
OneAnswer Nominees Limited <sup>1</sup>	100	31 December	Finance company
Origin Mortgage Management Services Limited	-	31 March	Mortgage finance
Origin Mortgage Management Services (2008) Limited	-	31 March	Mortgage finance
Private Nominees Limited	100	30 September	Nominee company
Radiola Corporation Limited	100	30 September	Distribution company
Rural Growth Fund Limited	100	30 September	Investment company
Sefton Finance Limited <sup>2</sup>	100	30 September	Non-operating company
Silver Fern Life Brokers Limited <sup>1</sup>	100	31 December	Non-operating company
South Pacific Merchant Finance Limited	100	30 September	Investment company
Southpac Corporation Limited	100	30 September	Investment company
Trillium Holdings Limited	100	30 September	Non-operating company
Tui Endeavour Limited	100	30 September	Non-operating company
Tui Securities Limited	100	30 September	Non-operating company
UDC Finance Limited	100	30 September	Finance company

<sup>1</sup> Controlling stake acquired on 30 November 2009.

<sup>2</sup> Currently being wound up.

## Notes to the Financial Statements (continued)

### 35. Significant Controlled Entities, Associates and Interests in Jointly Controlled Entities (continued)

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

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

In relation to Arawata Trust control exists through ANZ National Bank Limited being trustee of the Trusts. In relation to Kingfisher NZ Trust 2008-1 control exists as the Banking Group retains substantially all the risks and rewards of the operations.

#### Movements in controlled entities

In October 2008, Kingfisher Trust 2008-1 was established.

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

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

On 30 November 2009 the Bank acquired control over ING NZ and its subsidiary companies which had previously been treated as jointly controlled entities.

#### Associates

	Unaudited 31/03/10 Book Value \$m	Unaudited 31/03/09 Book Value \$m	Audited 30/09/09 Book Value \$m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Cards NZ Limited	85	87	85	30	15	30 September	Card services
Paymark Limited	2	2	2	25	25	31 March	Eftpos settlements
Bennetts Financial Services Limited	1	-	-	20	20	31 March	Financial services
ING Diversified Yield Fund	-	-	46	49	49	30 June	Fixed income fund
ING Regular Income Fund	-	-	21	49	49	30 June	Fixed income fund
NZ Poultry Enterprises Limited	41	41	41	20	20	30 April	Poultry processor
UCG Investments Limited	10	15	13	40	40	31 March	Rest home operator
Wyma Engineering (NZ) Limited	3	3	3	31	31	31 March	Agricultural machinery supplier
<b>Total investment in associates</b>	<b>142</b>	<b>148</b>	<b>211</b>				

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

#### Movements in associates

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

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

On 30 November 2009 the Bank acquired control over ING NZ and its subsidiaries. This acquisition gave the Bank control over the ING Diversified Yield Fund and the ING Regular Income Fund which had been previously treated as investments in associates.

## Notes to the Financial Statements (continued)

### 35. Significant Controlled Entities, Associates and Interests in Jointly Controlled Entities (continued)

#### Jointly controlled entities

	Unaudited 31/03/10 Book Value \$m	Unaudited 31/03/09 Book Value \$m	Audited 30/09/09 Book Value \$m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Argenta Limited	1	2	2	21	21	31 July	Manufacture and marketing of animal remedies
BCS Group Limited	1	3	2	40	40	30 June	Manufacturer of baggage handling systems
ING (NZ) Holdings Limited	-	242	248	50	49	31 December	Funds management and insurance
JMI Aerospace Limited	-	1	1	33	33	31 March	Airline maintenance and service provider
<b>Total investment in jointly controlled entities</b>	<b>2</b>	<b>248</b>	<b>253</b>				

All jointly controlled entities are incorporated in New Zealand. The Banking Group has joint control of all these entities due to a combination of control factors, none of which gives either party overall control.

On 30 November 2009 the Bank acquired control over ING and its subsidiaries. This acquisition gave the Bank control over ING (NZ) Holdings Limited which had been previously treated as a jointly controlled entity. In December 2009 the Banking Group disposed of its investment in JMI Aerospace Limited.

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

	Consolidated		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Share of assets and liabilities</b>			
Investments	-	67	91
Other assets	-	179	171
<b>Total assets</b>	<b>-</b>	<b>246</b>	<b>262</b>
Life insurance policy liabilities	-	(36)	(46)
Other liabilities	-	46	63
<b>Total liabilities</b>	<b>-</b>	<b>10</b>	<b>17</b>
<b>Net assets</b>	<b>-</b>	<b>236</b>	<b>245</b>
<b>Share of revenue, expenses and results</b>			
Net underwriting result	16	43	84
Other revenue	4	7	32
<b>Total revenue</b>	<b>20</b>	<b>50</b>	<b>116</b>
Expenses	15	46	108
Profit before income tax	5	4	8
Income tax credit	(1)	(2)	(5)
<b>Profit after tax</b>	<b>6</b>	<b>6</b>	<b>13</b>
<b>Share of commitments</b>			
Lease commitments	-	17	17

There are no unrecognised losses in respect of any of the Banking Group's jointly controlled entities. The Banking Group's share of the contingent liabilities of its joint ventures are incurred jointly with other investors. Other than as referred to in Note 38, there were no material contingent liabilities as at 31 March 2010 (31/03/2009 \$nil; 30/09/2009 \$nil).

## Notes to the Financial Statements (continued)

### 36. Securitisation, Funds Management, Other Fiduciary Activities and the Marketing and Distribution of Insurance Products

#### Securitisation

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

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

In May 2008 the RBNZ expanded the range of acceptable collateral that banks can pledge and borrow against as part of changes to its liquidity management arrangement designed to help ensure adequate liquidity for New Zealand financial institutions in the event that global market disruption was to intensify. From 31 July 2008, acceptable collateral includes residential mortgage backed securities ("RMBS") that satisfy RBNZ criteria.

In October 2008, the Banking Group established an in-house RMBS facility that could issue securities meeting the RBNZ criteria. The establishment of the facility resulted in the Parent financial statements recognising a payable and receivable of equal amount to Kingfisher NZ Trust 2008-1. These assets do not qualify for derecognition as the Bank retains a continuing involvement in the transferred assets, therefore the Consolidated Group's financial statements do not change as a result of establishing these facilities.

The RMBS facility is dynamic in nature reflecting the underlying movement in loan balances. To the extent that any loans are found to be ineligible in terms of the RBNZ criteria, they are removed from the facility. Additional lending to existing RMBS customers is added into the facility on a monthly basis.

The establishment of this facility increases the Banking Group's contingent funding ability from the RBNZ.

#### Funds management

Certain subsidiaries of the Bank act as trustee and/or manager for a number of unit trusts and investment and superannuation funds. The Bank provides private banking services to a number of clients, including investment advice and portfolio management. The Banking Group is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

As funds under management are not controlled by the Banking Group, they are not included in these financial statements. The Banking Group derives fee and commission income from the sale and management of investment funds and superannuation bonds, unit trusts and the provision of private banking services to a number of clients. The Banking Group derives commission income from the sale of third party funds management products.

Some funds under management are invested in products owned or securities issued by the Banking Group and are recorded as liabilities in the balance sheet. At 31 March 2010, \$2,715 million of funds under management were invested in the Banking Group's own products or securities (31/03/2009 \$2,735 million; 30/09/2009 \$2,664 million).

The aggregate value of funds managed by the Banking Group at balance date was:

	Consolidated		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Funds managed by ING	6,992	-	-
Bonus Bonds	2,919	2,611	2,889
Discretionary funds	4,697	4,251	4,360
Totals funds under management	14,608	6,862	7,249

In October 2008, the ANZ Call Fund and ANZ Term Fund, managed by UDC Finance Limited, commenced as portfolio investment entities. The funds invest in New Zealand dollar call and term deposits with the Bank.

## Notes to the Financial Statements (continued)

### 36. Securitisation, Funds Management, Other Fiduciary Activities and the Marketing and Distribution of Insurance Products (continued)

#### Custodial services

The Banking Group provides custodial services to customers in respect of assets that are beneficially owned by those customers.

#### Provision of financial services

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities, and to affiliated insurance companies which conduct marketing or distribution of insurance products, or on whose behalf the marketing or distribution of insurance products are conducted, are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value.

The Banking Group has not provided any funding to entities except standard lending facilities provided in the normal course of business on arm's length terms which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group (31/03/2009 \$nil; 30/09/2009 \$nil).

#### Insurance business

The Banking Group conducts insurance business through subsidiaries of ING NZ – the assets, liabilities and operations of which are fully consolidated into the Banking Group since acquisition. Previously the Banking Group did not conduct any insurance business directly, although it held a 49% ownership share in ING NZ. The Banking Group also markets and distributes a range of insurance products which are underwritten by subsidiaries of ING NZ, as well as third party insurance companies.

The insurance business comprises risk transfer and investment contract life insurance products. The aggregate insurance business conducted by companies in the Banking Group comprises assets totalling \$333 million (31/3/2009: \$nil; 30/9/2009: \$nil) which is 0.3% (31/03/2009: 0.0%; 30/9/2009: 0.0%) of the total consolidated assets of the Banking Group.

#### Risk management

The Bank and subsidiaries of the Banking Group participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Bank. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

In addition, the following measures have been taken to manage any risk to the Bank of marketing and distributing insurance products:

Investment statements, prospectuses and brochures for insurance products include disclosures that the Bank and its subsidiaries do not guarantee the insurer, nor the insurer's subsidiaries, nor any of the products issued by the insurer or the insurer's subsidiaries.

Where the insurance products are subject to the Securities Act 1978, investment statements, prospectuses and brochures additionally include disclosures that:

- the policies do not represent deposits or other liabilities of the Bank or its subsidiaries;
- the policies are subject to investment risk, including possible loss of income and principal; and
- the Bank and its subsidiaries do not guarantee the capital value or performance of the policies.

Application forms for insurance products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures for insurance products noted above.

In addition, the following measures have been taken to manage any risk to the Bank of marketing and distributing fund management products:

Prospectuses, investment statements and brochures for funds management products include disclosures:

- that the securities do not represent deposits or other liabilities of the Bank;
- that the securities are subject to investment risk including possible loss of income and principal invested; and
- that the Bank does not guarantee the capital value or performance of the securities.

Application forms for funds management products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures for funds management products noted above.

## Notes to the Financial Statements (continued)

### 37. Commitments

	Consolidated			Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Capital expenditure</b>						
Contracts for outstanding capital expenditure:						
<b>Premises and equipment</b>						
Not later than 1 year	11	22	19	2	-	-
<b>Total capital expenditure commitments</b>	<b>11</b>	<b>22</b>	<b>19</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Lease rentals</b>						
Future minimum lease payments under non-cancellable operating leases:						
<b>Premises and equipment</b>						
Not later than 1 year	88	86	82	15	15	15
Later than 1 year but not later than 5 years	165	156	155	9	15	12
Later than 5 years	38	31	31	-	-	-
<b>Total lease rental commitments</b>	<b>291</b>	<b>273</b>	<b>268</b>	<b>24</b>	<b>30</b>	<b>27</b>
<b>Total commitments</b>	<b>302</b>	<b>295</b>	<b>287</b>	<b>26</b>	<b>30</b>	<b>27</b>

### 38. Contingent Liabilities and Credit Related Commitments

For contingent exposures, the maximum exposure to credit risk is the maximum amount that the Banking Group would have to pay if the contingent is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Consolidated			Parent		
	Face or contract value			Face or contract value		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
<b>Credit related commitments</b>						
Commitments with certain drawdown due within one year	566	732	735	566	732	735
Commitments to provide financial services	21,308	22,609	22,094	21,067	22,360	22,302
<b>Total credit related commitments</b>	<b>21,874</b>	<b>23,341</b>	<b>22,829</b>	<b>21,633</b>	<b>23,092</b>	<b>23,037</b>
<b>Contingent liabilities</b>						
Financial guarantees	1,716	1,913	1,753	1,716	1,913	1,753
Standby letters of credit	62	374	341	62	374	341
Transaction related contingent items	977	1,083	982	977	1,083	982
Trade related contingent liabilities	84	65	89	81	65	86
<b>Total contingent liabilities</b>	<b>2,839</b>	<b>3,435</b>	<b>3,165</b>	<b>2,836</b>	<b>3,435</b>	<b>3,162</b>

The Banking Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including its Ultimate Parent Bank. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio management and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

A summary of other contingent liabilities follows.



## Notes to the Financial Statements (continued)

### 38. Contingent Liabilities and Credit Related Commitments (continued)

#### Commerce Commission

The Bank is aware that the Commerce Commission is looking at credit contract fees under the Credit Contracts and Consumer Finance Act 2003 (“CCCFA”). In its 2009-2012 Statement of Intent the Commission stated that:

*“Compliance with the Credit Contracts and Consumer Finance Act is a priority area for the Commission, given the deterioration in consumer confidence in the financial sector and the important role that a competitive lending market can play in strengthening the New Zealand economy.”*

In particular the Bank is aware that the Commerce Commission is investigating the level of default fees charged on credit cards, the level of currency conversion charges on overseas transactions using credit cards and also informal excess arrangements on credit cards under the CCCFA. At this stage the possible outcome of these investigations and any liability or impact on fees cannot be determined with any certainty. The Commission has concluded its investigation into early repayment charges on fixed rate mortgages with no action being taken against the Bank.

#### ING NZ Funds

The Bank markets and distributes a range of wealth management products in New Zealand. The products are manufactured and managed by ING NZ. Trading in two of the products, the ING Diversified Yield Fund and the ING Regular Income Fund (together, “the Funds”), was suspended on 13 March 2008, due to deterioration in the liquidity and credit markets. Units in the Funds were sold by the Bank to its customers.

In June 2009, ING NZ AUT Investments Limited, a subsidiary of ING NZ, made an offer to investors in the Funds. The offer closed on 13 July 2009. Investors holding approximately 99% of the Funds accepted the offer to purchase their units and have received a payment of 60 cents per unit in the ING Diversified Yield Fund or 62 cents per unit in the ING Regular Income Fund, as applicable, either (i) in cash, or (ii) by way of deposit in an on-call account with the Bank, paying 8.30% per annum fixed for up to five years.

The Commerce Commission is separately investigating both the Bank and ING NZ in respect of their roles in manufacturing, managing and selling of the Funds. On 15 April 2010, the Commission said that it has reached a decision on whether it will prosecute the Bank over the promotion of the Funds but is not publicly releasing the outcome yet. The Commission commented:

*“We are involved in ongoing discussions with the ANZ and won’t be making any further comment until those discussions are complete”*

The ultimate cost to the Bank will depend on the final value of units in the Funds, any recoveries under insurance, the assessment and outcome of the customer complaints and the results of any litigation and regulatory investigations or proceedings that may be brought in connection with the Funds or their sale. The Banking Group considers it has adequately provided for these matters at this time.

#### Other contingent liabilities

The Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the Banking Group’s likely loss in respect of these matters has been made on a case-by-case basis and provision made where appropriate. As at 31 March 2010, there were no other contingent assets or liabilities required to be disclosed (31/03/2009 nil; 30/09/2009 nil).

### 39. Employee Share and Option Plans

The Banking Group participates in the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan operated by the ANZ Banking Group. Any shares or options granted under these plans are shares in ANZ.

The closing market price of one ordinary share of ANZ quoted on the ASX (Australian Stock Exchange) at 31 March 2010 was A\$25.36 (31/03/2009 A\$15.75; 30/09/2009 A\$24.39).

#### ANZ Employee Share Acquisition Plan

The ANZ Employee Share Acquisition Plan includes the A\$1,000 Share Plan, the Deferred Share Plan and the Restricted Share Plan.

#### A\$1,000 share plan

Each permanent employee who has had continuous service for one year with the Banking Group is eligible to participate in a scheme enabling the issue of up to A\$1,000 of shares of ANZ in each financial year, subject to the approval of the Ultimate Parent Bank Board. The shares vest subject to satisfaction of a three year service period but may be forfeited in the event of resignation or termination for serious misconduct. On expiration of that period, an employee may sell the shares, transfer them into their name, or have them retained in trust. The issue price is based on the one-day volume weighted average price (“VWAP”) of the shares traded on the ASX on the date of issue.

The Banking Group’s employees are required to pay NZ 1 cent per share as soon after the issuing of shares to them. During the six months to 31 March 2010, 358,313 shares with an average issue price of A\$22.02 were issued under the A\$1,000 Share Plan (31/03/2009 540,305 shares with an average issue price of A\$14.94 were issued; 30/09/2009 540,305 shares with an average issue price of A\$14.94 were issued).

## Notes to the Financial Statements (continued)

### 39. Employee Share and Option Plans (continued)

#### Deferred share plan

The Banking Group's last issue of shares under this plan was in November 2004. Selected employees were issued deferred shares, which vest subject to satisfaction of a minimum three year service period from the date of issue. Ordinary shares issued under this plan may be held in trust for up to 10 years, and may be required to meet performance hurdles before being able to be traded after the restriction period has expired. The issue price is based on the VWAP of the shares traded on the ASX in the five trading days leading up to and including the date of issue. Unvested shares are forfeited on resignation or dismissal, or if a performance condition has not been met.

#### Restricted share plan

Selected employees have the option to take some (or all) of their incentive payment as Restricted Shares. The shares are held in trust and may not be traded until the conclusion of the one-year restriction period, after which they may be transferred into the employee's name. Until they are transferred into the employee's name, they continue to be subject to forfeiture on termination for serious misconduct.

#### 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 shares granted. The fair value of shares granted in the current period, measured at the date of grant of the shares, is \$10 million based on 358,313 shares at a weighted average price of A\$22.02 converted at the exchange rate of 0.7999 (31/03/2009 \$10 million based on 540,305 shares at a weighted average price of A\$14.94 converted at the exchange rate of 0.8232 were issued; 30/09/2009 NZ \$10 million based on 540,305 shares at a weighted average price of A\$14.94 converted at the exchange rate of 0.8232 were issued).

The average issue price of shares granted and the number of shares that are expected to ultimately vest to the employees at the end of the vesting period are used to calculate the fair value of shares. No dividends are incorporated into the measurement of the fair value of shares.

#### ANZ Share Option Plan

Selected employees may be granted options, which entitle them to purchase ordinary fully paid shares in ANZ at a price fixed at the time when the options were issued. Voting and dividend rights will be attached to the unissued ordinary shares when the options have been exercised. Each option entitles a holder to purchase one ordinary share subject to any terms and conditions imposed on issue. The exercise price of the options (excluding zero-priced options) is determined in accordance with the rules of the plan, and is based on the weighted average price of the Ultimate Parent Bank's shares traded during the five business days preceding the date of granting the options.

The main schemes of the ANZ Share Option Plan are as follows:

#### Current option plans

##### *Special Retention Deferred Share Rights*

This is a program available to certain Banking Group employees. It grants the right to acquire shares at nil cost subject to satisfactorily meeting the time based hurdle. The Special Retention Deferred Share Rights can only be exercised between the third and fifth anniversary of their allocation (the 'Exercise Period'). In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of termination on notice, retrenchment, retirement, death or total and permanent disablement, a grace period is provided in which to exercise all deferred share rights.

##### *Performance rights plan*

This scheme is a long term incentive program available to certain Banking Group employees since November 2005 and grants the right to acquire 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.

## Notes to the Financial Statements (continued)

### 39. Employee Share and Option Plans (continued)

#### *LTI Deferred Share Rights*

This scheme is a long term incentive program available to certain Banking Group employees and grants the right to acquire a share at nil cost, subject to satisfactorily meeting the time based hurdle. The LTI Deferred Share Rights can only be exercised between the third and fifth anniversary of their allocation (their 'Exercise Period'). In the case of resignation, all unvested LTI Deferred Share Rights (in addition to any vested unexercised rights) as at the time notice of resignation is given, will be forfeited. In case of termination on notice by ANZ, all unvested LTI Deferred Share Rights as at the time notice of termination of notice is received, will be forfeited. Any vested unexercised LTI Deferred Share Rights will be delivered as shares. In case of retrenchment (redundancy), any unvested LTI Deferred Share Rights as at the termination date will be pro-rated and be delivered as shares. In case of death or total and permanent disablement, all LTI Deferred Share Rights will vest and be delivered as shares.

#### *Deferred share rights*

This scheme is a short term incentive program available to certain Banking Group employees since November 2004 and grants the right to acquire shares at nil cost after a specified vesting period ranging from one to three years. Deferred share rights must be exercised by the seventh anniversary of grant date. In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of termination on notice, retrenchment, retirement, death or total and permanent disablement, a grace period is provided in which to exercise all deferred share rights.

#### *Deferred share options*

This scheme is a part of the short term incentive program available whereby certain Banking Group employees receive a mandatory deferred bonus under ANZ's Short Term Incentive ("STI") program. The options can only be exercised between the first and fifth anniversary (one-year deferred options) and between the second and fifth anniversary (two-year deferred options) of the grant date (exercise period) and subject to the requirement that the share price is greater than the exercise price. In the case of dismissal for serious misconduct, irrespective of whether it is on notice or not, all unvested STI deferred options and any vested unexercised options will be forfeited. In the case of resignation, all unvested STI deferred options and any vested unexercised options as at the time notice of resignation is given will be forfeited. In the case of redundancy, retrenchment, death or total and permanent disablement, all STI deferred options will vest and a grace period is provided in which to exercise all deferred share options.

#### **Legacy Option Plans**

##### *Performance options plan*

This scheme is a long term incentive 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.

##### *Zero-price options ("ZPO")*

A ZPO is a right to acquire a share at nil cost and is granted to certain employees as part of their employment contracts. The ZPO's have no time based vesting criteria, so can be exercised at any time during employment and within 6 months of termination of employment. ZPO's must be exercised within two years of grant date or they lapse.

Other past option plans which are no longer available to the Banking Group's employees, but continue to be amortised during their appropriate vesting periods are hurdled options and index linked options ("ILOs").

## Notes to the Financial Statements (continued)

### 39. Employee Share and Option Plans (continued)

Details of the options over unissued ANZ ordinary shares and their related weighted average exercise prices as at the beginning and end of the period and movements during the period are set out below:

	Consolidated / Parent					
	Unaudited 31/03/2010		Unaudited 31/03/2009		Audited 30/09/2009	
	Number of shares	Weighted average exercise price <sup>1</sup> A\$	Number of shares	Weighted average exercise price <sup>1</sup> A\$	Number of shares	Weighted average exercise price <sup>1</sup> A\$
Share options at beginning of the period	2,067,345	8.32	1,741,771	10.86	1,741,771	10.86
Share options granted	494,168	1.39	709,805	2.51	709,805	2.51
Share options exercised	(300,938)	6.90	(66,823)	1.28	(109,936)	5.73
Share options forfeited and expired	(99,556)	1.25	(150,781)	3.68	(274,295)	10.44
Share options at end of the period	2,161,019	7.00	2,233,972	8.98	2,067,345	8.32
Weighted average share price during the period		22.65		14.86		16.53
Range of exercise prices on share options at end of the period		0.00 - 23.49		0.00 - 23.49		0.00 - 23.49
Weighted average remaining contractual life on share options at end of the period		36 months		39 months		35 months

#### Options valuations

The fair value of services received in return for share options are measured by referring to the fair value of share options granted. The fair value of options granted in the current period, measured at the date of grant are calculated using one of the following models:

- Monte-Carlo simulation model utilising the assumptions underlying Black-Scholes. In terms of factoring in early exercise, the model assumes that deferred share rights and performance rights are exercised as soon as they vest so that the option holder can benefit from the dividends. It assumes that the performance options are exercised when the share price reaches twice the exercise price; or
- an adjusted form of the Binomial Option pricing model ("BOM"). In terms of factoring in early exercise, the model assumes that the expected life of vanilla options is 5 years, performance rights is 4 years and that deferred share rights are exercised immediately to account for lack of marketability.

In addition, both models are designed such that they take into account as appropriate, any performance hurdles and non-transferability of the options.

The following inputs are used to measure the fair value of instruments granted during the year. All prices are quoted in Australian dollars:

Option type	STI deferred share rights	STI deferred share rights	LTI deferred share rights	Performance rights	Share options	Share options
Grant date	13/11/09	13/11/09	13/11/09	13/11/09	13/11/09	13/11/09
Number of options	79,646	83,635	259,713	41,084	15,046	15,044
Option value	21.41	20.39	19.42	12.17	4.83	5.09
Exercise price (5 day VWAP)	\$nil	\$nil	\$nil	\$nil	22.8	22.8
Share price at grant (\$A)	22.48	22.48	22.48	22.48	22.48	22.48
ANZ expected volatility <sup>2</sup>	35%	35%	35%	35%	35%	35%
Option term	5 years	5 years	5 years	5 years	5 years	5 years
Vesting period	1 year	2 years	3 years	3 years	1 year	2 years
Expected life	1 year	2 years	3 years	3 years	3 years	4 years
Expected dividends	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Risk free interest rate	4.3%	4.7%	5.0%	5.0%	5.0%	5.2%

<sup>1</sup> Calculation of weighted average exercise prices are affected by performance rights, deferred share rights and ZPO plans which have nil exercise prices.

<sup>2</sup> Expected volatility is based on ANZ's historic volatility.

## Notes to the Financial Statements (continued)

### 40. Retirement Benefit Obligations

The Banking Group has established a number of pension and superannuation schemes. The Banking Group may be obliged to contribute to the schemes as a consequence of legislation and provision of trust deeds. Legal enforceability is dependent on the terms of the legislation and the requirements of Scheme Trust Deeds. The major schemes are:

Scheme	Scheme type	Contribution levels	
		Employee	Employer
ANZ National Bank Staff Superannuation Scheme <sup>1</sup>	Defined Benefit Scheme <sup>2</sup>	Nil	Balance of cost <sup>4</sup>
	or Defined Contribution Scheme	2.5% minimum of salary	7.5% of salary <sup>6</sup>
The National Bank Staff Superannuation Fund <sup>1</sup>	Defined Benefit Scheme <sup>3</sup>	5% of salary	Balance of cost <sup>5</sup>
	or Defined Contribution Scheme	2.0% minimum of salary	11.5% of salary <sup>7</sup>

#### Details of the defined benefit schemes are as follows:

Actuarial valuations for financial reporting purposes are undertaken every six months. The latest valuations were carried out as at 31 March 2010.

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:

	Consolidated / Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Defined benefit obligation at beginning of the period	174	179	179
Current service cost	1	1	3
Interest cost	5	5	11
Contributions by scheme participants	-	1	1
Actuarial (gains) / losses	(5)	(1)	(2)
Benefits paid	(9)	(8)	(18)
Present value of funded defined benefit obligations	166	177	174
Fair value of scheme assets at beginning of the period	119	152	152
Expected return on scheme assets (net of tax)	4	4	8
Actuarial gains / (losses)	10	(38)	(27)
Contributions by employer	6	1	3
Contributions by scheme participants	-	-	1
Benefits paid	(9)	(8)	(18)
Fair value of scheme assets	130	111	119
Net defined benefit liability recognised on balance sheet	(36)	(66)	(55)

The fair value of scheme assets include cash deposits and fixed interest investments of \$2 million with the Banking Group as at 31 March 2010 (31/03/2009 \$6 million; 30/09/2009 \$4 million).

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

Current service cost/contributions	1	1	3
Interest cost	5	5	11
Expected return on scheme assets (net of tax)	(4)	(4)	(8)
Contribution withholding tax	2	1	2
Total pension costs recognised in the income statement – defined benefit superannuation schemes	4	3	8

<sup>1</sup> These schemes provide for pension benefits and provide for lump sum benefits.

<sup>2</sup> 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.

<sup>3</sup> Closed to new members on 1 October 1991.

<sup>4</sup> 31/03/2010: \$nil (31/03/2009 \$nil; 30/09/2009 \$nil).

<sup>5</sup> 31/03/2010: 24.8% (31/03/2009 24.8%; 30/09/2009 24.8%) of members' salaries.

<sup>6</sup> 31/03/2010: 7.5% (31/03/2009 7.5%; 30/09/2009 7.5%) of members' salaries.

<sup>7</sup> 31/03/2010: 11.5% (31/03/2009 11.5%; 30/09/2009 11.5%) of members' salaries.

## Notes to the Financial Statements (continued)

### 40. Retirement Benefit Obligations (continued)

The actuarial gains and losses recognised directly in equity via the statement of recognised income and expense are as follows:

	Consolidated / Parent		
	Unaudited 31/03/2010 \$m	Unaudited 31/03/2009 \$m	Audited 30/09/2009 \$m
Actuarial losses (pre-tax) at beginning of the period	(50)	(25)	(25)
Actuarial gain / (loss) (pre-tax) incurred	14	(39)	(25)
Balance of actuarial losses (pre-tax) at end of the period	(36)	(64)	(50)
Income tax expense / (credit) recognised directly in equity	4	(11)	(7)
Balance of actuarial losses at end of the period	(32)	(75)	(57)

The principal actuarial assumptions used were as follows:

	The National Bank Staff Superannuation Fund			ANZ National Bank Staff Superannuation Scheme		
	Unaudited 31/03/2010	Unaudited 31/03/2009	Audited 30/09/2009	Unaudited 31/03/2010	Unaudited 31/03/2009	Audited 30/09/2009
<b>Defined benefits calculation</b>						
Discount rate (gross of tax)	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Future price inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Future pension increases	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Future salary increases	3.0%	3.7%		n/a	n/a	n/a
2009 & 2010			2.5%			
Post 2010			3.0%			
<b>Scheme assets calculation</b>						
Expected return on scheme assets (net of tax)	5.5%	5.5%	5.5%	4.5%	4.5%	4.5%

The overall expected return on scheme assets is determined by reference to market expectations at the beginning of the relevant period of asset performance applicable to the period over which the defined benefit obligation is to be settled. The overall expected return on scheme assets reflects an aggregation of the expected returns on the underlying asset classes.

The actual return on scheme assets (net of tax) for The National Bank Staff Superannuation Fund was 7.3% for the six months ended 31 March 2010 (31/03/2009 -10.57%; 30/09/2009 -0.7%). The actual return on scheme assets (net of tax) for the ANZ National Bank Staff Superannuation Scheme was 3.4% for the six months ended 31 March 2010 (31/03/2009 -7.25%; 30/09/2009 0.0%).

The investment return on scheme assets is taxed at 30% (31/03/2009 30%; 30/09/2009 30%).

The major categories of scheme assets as a percentage of the fair value of scheme plan assets are as follows:

	The National Bank Staff Superannuation Fund			ANZ National Bank Staff Superannuation Scheme		
	Unaudited 31/03/2010	Unaudited 31/03/2009	Audited 30/09/2009	Unaudited 31/03/2010	Unaudited 31/03/2009	Audited 30/09/2009
Cash and short term debt instruments	12.1%	24.0%	14.1%	2.1%	13.0%	8.1%
New Zealand fixed interest	12.9%	13.7%	12.6%	20.9%	28.0%	22.4%
Overseas fixed interest	23.6%	20.2%	24.3%	34.6%	26.6%	30.6%
Australasian shares	10.5%	9.9%	10.4%	10.8%	9.2%	10.2%
Overseas shares	40.9%	32.2%	38.6%	26.7%	19.4%	24.2%
Property fund units	0.0%	0.0%	0.0%	4.9%	3.8%	4.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

## Notes to the Financial Statements (continued)

### 40. 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					
	Unaudited 31/03/2010 \$m	Audited 31/03/2009 \$m	Audited 30/09/2008 \$m	Audited 31/03/2007 \$m	Audited 31/03/2006 \$m	Audited 31/03/2005 \$m
Defined benefit obligation	(166)	(174)	(179)	(181)	(190)	(187)
Fair value of scheme assets	130	119	152	189	196	195
Net benefit (liability) / asset	(36)	(55)	(27)	8	6	8
Experience adjustments on scheme liabilities	3	1	5	(1)	3	-
Experience adjustment on scheme assets	6	(20)	(21)	(7)	5	11

#### Employer contributions

To ensure the defined benefit schemes remain solvent, the schemes' independent actuaries recommend an employer contribution rate to the Banking Group annually for The National Bank Staff Superannuation Fund and every three years for the ANZ National Bank Staff Superannuation Scheme.

The National Bank Staff Superannuation Fund deficit for funding purposes was valued at \$50m in the most recent actuarial review at 1 April 2009. The ANZ National Bank Staff Superannuation Scheme surplus was valued at less than \$1 million in the most recent actuarial valuation at 31 December 2007.

The Banking Group contributed \$6 million (net of contributions withholding tax) to its defined benefit schemes in the period to 31 March 2010 (31/03/2009 \$2 million; 30/09/2009 \$3 million). Employer contributions are taxed at a maximum rate of 33% (31/03/2009 33%; 30/09/2009 33%).

#### Contingent liabilities

##### *The National Bank Staff Superannuation Fund*

Under the Fund's Trust Deed, if this scheme were wound up, the Banking Group would be required to pay the Trustee of the Fund an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled.

##### *ANZ National Bank Staff Superannuation Scheme*

If the Scheme is wound up then its assets must be cashed up and applied to all members' benefits. If Scheme funds are insufficient to pay all members' benefits then the Banking Group must pay to the Scheme such amounts as the Scheme Actuary determines are necessary to pay those benefits.

### 41. Related Party Transactions

	Consolidated			Parent		
	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
<b>Key management personnel</b>						
<b><i>Key management personnel compensation</i></b>						
Salaries and short-term employee benefits	4,401	5,673	10,748	4,401	5,673	10,748
Post-employment benefits	178	243	373	178	243	373
Other long-term benefits	51	39	782	51	39	782
Termination benefits	931	-	58	931	-	58
Share-based payments	1,751	1,400	4,339	1,751	1,400	4,339
Total compensation of key management personnel	7,312	7,355	16,300	7,312	7,355	16,300
Loans to key management personnel	4,743	3,936	4,424	4,743	3,936	4,424
Deposits from key management personnel	5,604	5,856	5,543	5,604	5,856	5,543

## Notes to the Financial Statements (continued)

### 41. Related Party Transactions (continued)

Key management personnel are defined as being Directors and senior management of the Banking Group, those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The information above relating to key management personnel includes transactions with those individuals, their close family members and their controlled entities.

Loans made to and deposits held by key management personnel are made in the course of ordinary business on normal commercial terms and conditions no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed, variable and interest only, all of which have been made in accordance with the Bank's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (31/03/2009 \$nil; 30/09/2009 \$nil).

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

### Transactions with the Parent Company, Ultimate Parent Bank and subsidiaries

Details of amounts provided by/to the Parent Company, Ultimate Parent Bank and subsidiaries of the Banking Group during the ordinary course of business are set out in the relevant notes to these financial statements. No provision for credit impairment has been recognised during the six months ended 31 March 2010 relating to transactions with related parties (31/03/2009 \$nil; 30/09/2009 \$nil). These transactions principally consist of the provision of financial and investment services, technology and process support and compensation for share based payments made to Banking Group employees.

The Bank has sold residential mortgage assets to the NZ Branch as detailed in the Net Loans and Advances note.

	Consolidated			Parent		
	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
Interest income						
– Subsidiary companies	-	-	-	146	263	426
– Parent Company	19	-	43	19	-	43
– Ultimate Parent Bank	-	-	-	-	-	-
Interest expense						
– Subsidiary companies	-	-	-	632	895	1,300
– Parent Company	17	16	71	17	16	71
– Ultimate Parent Bank	35	162	176	20	39	58
Operating expenses						
– Subsidiary companies	-	-	-	56	54	109
– Ultimate Parent Bank	39	41	91	39	41	91
Dividends received						
– Subsidiary companies	-	-	-	-	-	1,098

Amounts related to Kingfisher NZ Trust 2008-1 have not been included in the table above, but separately disclosed below.

### Due from and due to subsidiary companies

The Bank has purchased securities issued by the Kingfisher NZ Trust 2008-1 as part of the securitisation detailed in Note 36. These are in exchange for the transfer of residential mortgages to the Trust and forms part of the due from and due to subsidiary company balances. These assets, the associated liabilities and items recognised in operating income are eliminated on consolidation as they are part of an in-house residential mortgage-backed securities facility.



## Notes to the Financial Statements (continued)

### 41. Related Party Transactions (continued)

	Parent		
	Unaudited As at 31/03/2010 \$m	Unaudited As at 31/03/2009 \$m	Audited As at 30/09/2009 \$m
<b>Residential mortgage-backed securities</b>			
Due from subsidiary companies	6,727	7,825	5,838
<b>Carrying amount of associated liabilities</b>			
Due to subsidiary companies	(6,506)	(6,429)	(5,687)
Other	(221)	(1,396)	(151)
	-	-	-

  

	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
	<b>Associated items recognised in operating income</b>		
Interest received	126	238	380
Fees received	1	10	17
Gains from hedging activity	79	6	106
Interest paid	(206)	(254)	(503)
	-	-	-

### Transactions with associates and joint venture entities

During the period the Banking Group conducted transactions with associates and joint venture entities on normal commercial terms and conditions as shown below:

	Consolidated			Parent		
	Unaudited As at 31/03/2010 \$m	Unaudited As at 31/03/2009 \$m	Audited As at 30/09/2009 \$m	Unaudited As at 31/03/2010 \$m	Unaudited As at 31/03/2009 \$m	Audited As at 30/09/2009 \$m
Amounts receivable						
– associates	159	167	161	15	-	-
– joint venture entities	34	40	36	-	-	-
Amounts payable						
– associates	-	85	85	-	85	85

  

	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m	Unaudited 6 months to 31/03/2010 \$m	Unaudited 6 months to 31/03/2009 \$m	Audited Year to 30/09/2009 \$m
	Interest income					
– associates	4	1	2	-	-	-
– joint venture entities	1	2	3	-	-	-
Interest expense						
– associates	-	-	4	-	-	4
Dividends received						
– associates	-	-	-	-	-	2
Commission received from ING NZ joint venture	6	13	39	6	13	39
Costs recovered from ING NZ joint venture	-	-	1	-	-	1

The Banking Group provides general administration, strategic and governance services to ING (NZ) Limited under a Technical Services Agreement.

A provision for credit impairment of \$10 million is recognised for amounts outstanding from associates as at 31 March 2010 (31/03/2009 \$6 million; 30/09/2009 \$10 million). No credit impairment loss was charged during the six months ended 31 March 2010 (31/03/2009 \$nil; 30/09/2009 \$5 million charged).

## Notes to the Financial Statements (continued)

### 42. Business Combinations

On 30 November 2009, the Banking Group purchased ING Groep's 51% interest in ING NZ, which was the holding company for the ANZ-ING wealth management and life insurance joint venture in New Zealand. The transaction was undertaken to strengthen the NZ Banking Group's position in wealth management and more closely integrate its retail banking and wealth businesses. The acquisition takes the Banking Group's ownership interest in ING NZ to 100%.

As part of the transaction the Banking Group also purchased ING Groep's 51% interests in two fixed income unit trusts, the ING Diversified Yield Fund and the ING Regular Income Fund ("the Funds"), taking its ownership interest to over 99% of the Funds.

	Consolidated Unaudited \$m
<b>Fair values of assets acquired and liabilities assumed as at acquisition date (provisional)</b>	
Due from financial institutions	142
Available-for-sale assets	173
Investments relating to insurance business	40
Insurance policy assets	81
Shares in associates	1
Other assets <sup>1</sup>	24
Deferred tax assets	27
Premises and equipment	4
Intangible assets	223
<b>Total assets</b>	<b>715</b>
Due to financial institutions	30
Payables and other liabilities	27
Current tax liabilities	27
Provisions <sup>2</sup>	114
<b>Total liabilities</b>	<b>198</b>
<b>Net assets</b>	<b>517</b>
Non-controlling interests in the Funds <sup>3</sup>	1
<b>Net assets attributable to the Banking Group</b>	<b>516</b>
Book value of existing equity interests	351
Loss on re-measuring existing equity interests to fair value <sup>4</sup>	(82)
Acquisition date fair value of existing equity interests	269
Cash consideration transferred	247
<b>Total consideration</b>	<b>516</b>
<b>Provisional value of goodwill<sup>5</sup></b>	<b>-</b>

Included in the Banking Group's Income Statement and Statement of Comprehensive Income since 30 November 2009 is net operating income of \$52 million and a profit before tax of \$16 million, excluding integration costs, contributed by ING NZ and the Funds. Had ING NZ and the Funds been consolidated from 1 October 2009, the Banking Group's Income Statement and Statement of Comprehensive Income would have included, for the six months ended 31 March 2010, net operating income of \$78 million and a profit before tax of \$25 million. Acquisition costs were paid by the Ultimate Parent Bank.

The initial accounting for the business combination, including the fair values of the assets acquired and liabilities assumed and the calculation of goodwill, is provisional while valuations of the assets acquired and liabilities assumed are finalised.

### 43. Subsequent Events

There have been no material subsequent events.

<sup>1</sup> Includes receivables with a fair value of \$16m and a gross contractual amount receivable of \$17m. The best estimate at the acquisition date of the contractual cash flows not expected to be collected on these receivables is \$1m.

<sup>2</sup> Includes employee related provisions and the fair value of contingent liabilities, which relate to possible claims by investors in the Funds and investigations by regulatory bodies and other actual and potential claims and proceedings (refer to Credit commitments and Contingencies note). The expected timing and ultimate cost of contingent liabilities to the Banking Group will depend on the assessment and outcome of customer complaints, and the results of any litigation and regulatory investigations or proceedings that may be brought.

<sup>3</sup> Non-controlling interests are measured at their proportionate share of the identifiable net assets of the Funds.

<sup>4</sup> The loss on re-measuring equity interests has been recognised in Other Operating Income in the Income Statement.

<sup>5</sup> Upon finalisation of fair value procedures, including recognition of intangible assets acquired, the remaining balance will be recognised as either goodwill or a discount on acquisition as appropriate. Goodwill, if recognised, is not expected to be deductible for income tax purposes.

## Directorate and Auditors

The address to which any document or communication may be sent to any Director is ANZ National Bank Limited, Level 6, 1 Victoria Street, Wellington, New Zealand. The document or communication should be marked for the attention of that Director.

### Directors' Interests

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the following procedures are adopted:

- a. At least once in each year, Directors are requested to complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- b. Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

In addition to the written disclosures referred to in paragraphs (a) and (b) above, Directors disclose relevant interest which they have before discussion of particular business items.

The Companies Act 1993 (subject to any different provision in the Bank's Constitution) allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. The Bank's Constitution does not alter that situation. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

### Transactions with Directors

No Director has disclosed that he/she or any immediate relative or professional associate has any dealing with the Banking Group which has been either entered into on terms other than those which would in the ordinary course of business be given to any other person of like circumstances or means or which could otherwise be reasonably likely to influence materially the exercise of the Director's duties as a Director of the Bank.

### Changes in Directorships

Since the authorisation date of the previous General Short Form Disclosure Statement on 11 February 2010, there have been no changes to Directors of the Bank.

## Directorate and Auditors (continued)

### Board Members as at 21 May 2010

#### *Independent Non-Executive Director, Chairman*

#### **Sir Dryden Spring**

DSc

Company Director

Matamata, New Zealand

Sir Dryden is the Chair of the Remuneration Committee and a Member of the Audit Committee and Risk Committee

#### **Directorships**

Director: SkyCity Entertainment Group Limited, SkyCity Investments Australia Limited, Port of Tauranga Limited, Fletcher Building Limited, Fletcher Building Finance Limited

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#### *Executive Director*

#### **Jennifer Anne Fagg**

Ph.D, BEc (Hons)

Chief Executive

ANZ National Bank Limited

Wellington, New Zealand

#### **Directorships**

Director: ANZ Holdings (New Zealand) Limited

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#### *Non-Executive Directors*

#### **Michael Roger Pearson Smith, OBE**

BSc (Hons)

Chief Executive Officer

Australia and New Zealand Banking Group Limited

Melbourne, Australia

Mr Smith is a Member of the Remuneration Committee

#### **Directorships**

Director: Australia and New Zealand Banking Group Limited, The Financial Markets Foundation for Children

#### **Peter Ralph Marriott**

BEc (Hons), FCA

Chief Financial Officer

Australia and New Zealand Banking Group Limited

Melbourne, Australia

Mr Marriott is a Member of the Audit Committee and the Risk Committee

#### **Directorships**

Director: ANZ Capital Hedging Pty Limited, ANZ (Delaware) Inc., ANZ Holdings (New Zealand) Limited, Esanda Finance Corporation Limited, ANZEST Pty Limited, ANZ Funds Pty Limited, ANZ Investments Pty Limited, ASX Limited, LFD Pty Limited, RFDL Pty Limited, ASX Clearing Corporation Limited, Australian Clearing House Pty Limited, SFE Clearing Corporation Pty Limited, ASX Settlement & Transfer Corporation Pty Limited, Austraclear Limited

#### **Shayne Cary Elliott**

B Com

Group Managing Director, Institutional

Australia and New Zealand Banking Group Limited

Melbourne, Australia

#### **Directorships**

Director: ANZ Securities Limited

## Directorate and Auditors (continued)

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### *Independent Non-Executive Directors*

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

Mr Geary is the Chair of the Risk Committee and a Member of the Audit Committee and the Remuneration Committee

#### **Directorships**

Director: Otago Innovation Limited

**Dr Donald Thomas Brash**  
Ph.D, MA (Econ)  
Company Director  
Auckland, New Zealand

#### **Directorships**

Director: Brash Forestry Limited, Eljeans Orchard Limited, Huljich Limited, Huljich (New Zealand) Limited, Huljich Wealth Management (New Zealand) Limited, Brash Consultancy Services Limited, Oceania Dairy Group Limited, Oceania Milk Limited, Oceania Dairy Limited, Transpower New Zealand Limited, Troika Family Trust Nominees Limited

(effective 4 March commenced an indefinite leave of absence)

### **John Frederick Judge**

B Com, FICA  
Company Director  
Auckland, New Zealand

Mr Judge is the Chair of the Audit Committee and a Member of the Risk Committee and the Remuneration Committee

#### **Directorships**

Director: Fletcher Building Limited, Fletcher Building Finance Limited, Aquatx Holdings Limited, Aquatx Limited, Janohn Limited, Sebca Limited, John Judge Limited, Health TV Limited, Sails Friday Limited, Crop Solutions Limited, Hortigro Home & Garden Limited, Hortigro Limited, Hortigro Group Limited, Elisio Limited, Formerly Fuel Equipment Limited

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### **Auditors**

#### **KPMG**

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

## Conditions of Registration

### Conditions of Registration, applicable as at 21 May 2010. These Conditions of Registration have applied from 30 March 2010.

There have been no changes in the Bank's conditions of registration since the issuance of the last General Short Form Disclosure Statement dated 11 February 2010 other than the change to condition 13 to update the RBNZ documents referred to.

The registration of ANZ National Bank Limited ("the Bank") as a registered bank is subject to the following conditions:

1. That the Banking Group complies with the following requirements:

- (a) the total capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is not less than 8%;
- (b) the tier one capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is not less than 4%; and
- (c) the capital of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is not less than \$30 million.

For the purposes of this condition of registration the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is 1.06.

For the purposes of this condition of registration, the supervisory adjustment referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is the sum of:

- (a) 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008; and
- (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where
  - (i) "adjusted Basel I capital" means 8% of total risk-weighted exposures, plus deductions from tier one capital, plus deductions from total capital, all calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated March 2008;
  - (ii) "adjusted Basel II capital" means 8% of total Basel II risk-weighted exposures plus deductions from tier one capital, plus deductions from total capital, less any amount included in tier two capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008; and
  - (iii) "total Basel II risk-weighted exposures" means scalar x (risk-weighted on and off balance sheet credit exposures) + 12.5 x total capital charge for market risk exposure + 12.5 x total capital requirement for operational risk + 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008.

1A. That-

- (a) the Bank has an internal capital adequacy assessment process ("ICAAP"); that with effect from 31 August 2008 the Bank's ICAAP accords with the requirements set out in the document "Guidelines on a Bank's internal capital adequacy process ("ICAAP")" (BS12) dated December 2007;
- (b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008; and
- (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008.

1C. That the Bank complies with the following requirements:

The total capital ratio of the Bank is not less than 8%.

The tier one capital ratio of the Bank is not less than 4%.

For the purposes of this condition of registration:

- the total capital ratio is defined as capital as a percentage of risk-weighted exposures where capital and risk-weighted exposures are as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated March 2008; and
- the tier one capital ratio is defined as tier one capital as a percentage of risk-weighted exposures where tier one capital and risk-weighted exposures are as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated March 2008.

## Conditions of Registration (continued)

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 disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
  - (ii) In measuring the size of the Banking Group's insurance business:
    - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
      - The total consolidated assets of the group headed by that entity;
      - Or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
    - (b) otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
    - (c) the amounts measured in relation to parts a) and b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts a) and b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
    - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit Rating <sup>1</sup>	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the Banking Group's Tier One capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled 'Connected Exposure Policy' (BS8) dated March 2008.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the board of the Bank contains at least two independent directors and that alternates for those directors, if any, are also independent. In this context an independent director (or alternate) is a director (or alternate) who is not an employee of the Bank, and who is not a director, trustee, or employee of any holding company (as that term is defined in section 5 of the Companies Act 1993) of the Bank, or any other entity capable of controlling or significantly influencing the Bank.
7. That the chairperson of the Bank's board is not an employee of the Bank.
8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).
9. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
10. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made in respect of the Bank unless:
  - (i) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee, and
  - (ii) The Reserve Bank has advised that it has no objection to that appointment.

<sup>1</sup> This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

## Conditions of Registration (continued)

11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
- (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;
  - (b) that the Bank's financial risk positions on a day can be identified on that day;
  - (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
  - (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled 'Outsourcing Policy' (BS11) dated January 2006.

12. (a) That the business and affairs of the Bank are managed by, or under the direction and supervision of, the board of the Bank.
- (b) That the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decision relating to the employment or termination of employment of the CEO are made by, the board of the Bank.
- (c) That all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.
13. That the Banking Group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
- (a) the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;
  - (b) the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and
  - (c) the one-year core funding ratio of the Banking Group is not less than 65 percent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2010 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

14. That, with effect from 1 April 2010, the Registered Bank has an internal framework for liquidity risk management that is adequate in the Registered Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
  - (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
  - (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
  - (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

For the purposes of these conditions of registration, the term "Banking Group" means ANZ National Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).



## Credit Rating Information

### Credit Ratings applicable as at 21 May 2010

The Bank has three current credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. The credit ratings are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA	Outlook Stable
Moody's Investors Service	Aa2	Outlook Stable
Fitch Ratings	AA-	Outlook Positive

On 20 May 2010, Fitch changed the outlook on ANZ National Bank Limited from Stable to Positive. During the two year period ended 31 March 2010 there were no other changes to the Bank's credit ratings or qualifications.

### Description of Credit Rating grades

	Standard & Poor's	Moody's Investors Service	Fitch Ratings
<b>The following grades display investment grade characteristics:</b>			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
<b>The following grades have predominantly speculative characteristics:</b>			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	BB
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC to C
Obligations currently in default.	D	-	RD & D

Credit ratings from Standard & Poor's and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the 'AA' to 'B' categories. Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the 'Aa' to 'Caa' classifications, with 1 indicating the higher end and 3 the lower end of the rating category.

## Directors' Statement

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

- (i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008;
- (ii) The Disclosure Statement is not false or misleading.

Over the six months ended 31 March 2010, after due enquiry, each Director believes that:

- (i) ANZ National Bank Limited has complied with the Conditions of Registration;
- (ii) Credit exposures to connected persons were not contrary to the interests of the Banking Group;
- (iii) ANZ National Bank Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

**This General Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on 21 May 2010. On that date, the Directors of the Bank were:**

Dr D T Brash	
S C Elliott	
J A Fagg	
N M T Geary, CBE	
J F Judge	
P R Marriott	
M R P Smith, OBE	
Sir Dryden Spring	



## Independent Review Report to the Directors of ANZ National Bank Limited

We have reviewed the interim financial statements on pages 6 to 128 prepared and disclosed in accordance with Clause 23 of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the 'Order') and the supplementary information prescribed in Schedules 3 to 9. The interim financial statements, and supplementary information, provide information about the past financial performance and cash flows of ANZ National Bank Limited and its subsidiary companies (the 'Banking Group') and their financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 11 to 20.

### Directors' responsibilities

The Directors of ANZ National Bank Limited are responsible for the preparation and presentation of interim financial statements in accordance with Clause 23 of the Order which give a true and fair view of the financial position of the Banking Group as at 31 March 2010 and its financial performance and cash flows for the six months ended on that date.

They are also responsible for the preparation of supplementary information which gives a fair view, in accordance with the Order, of the matters to which it relates; and complies with Schedules 3 to 9 of the Order.

### Reviewers' responsibilities

We are responsible for reviewing the interim financial statements, including the supplementary information disclosed in accordance with Schedules 4, 6 to 9, and Clause 17 of Schedule 3 of the Order presented to us by the Directors and reporting our findings to you.

It is also our responsibility to express a review opinion on the supplementary information as required by Schedule 5B of the Order in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the information disclosed in accordance with Schedule 5B is not in all material respects prepared in accordance with the Bank's Conditions of Registration and with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand and disclosed in accordance with Schedule 5B and for reporting our findings to you.

### Basis of review opinion

We have performed our review in accordance with the review engagement standard RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

### Review opinion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- a. the interim financial statements (excluding the supplementary information disclosed in Notes 28, 30, 31 and 36) do not present a true and fair view of the financial position of the Banking Group as at 31 March 2010 and its financial performance and cash flows for the six months ended on that date;
- b. the supplementary information disclosed in Notes 30, 31 and 36 prescribed by Schedules 4, 6 to 9 and Clause 17 of Schedule 3 of the Order is not fairly stated in accordance with those Schedules; and
- c. the supplementary information relating to Capital Adequacy disclosed in Note 28 of the interim financial statements, as required by Schedule 5B of the Order, is not in all material respects prepared in accordance with the Bank's Conditions of Registration, with the Reserve Bank of New Zealand document Capital Adequacy Framework (Internal Models Based Approach) (BS2B), and with the Banking Group's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand, and disclosed in accordance with Schedule 5B of the Order.

Our review was completed on 21 May 2010 and our review opinion is expressed as at that date.

A handwritten signature of the KPMG firm, written in dark ink.

Wellington

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