

# General Disclosure Statement

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED  
- NEW ZEALAND BRANCH

For the year ended 30 September 2009

No 4. Issued November 2009

## GENERAL DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2009

<b>CONTENTS</b>	<b>Page</b>
General Disclosures	2 - 6
Summary of Financial Statements	7
Income Statements	8
Statements of Recognised Income and Expense	9
Balance Sheets	10
Cash Flow Statements	11
Notes to the Financial Statements	12 - 114
Directorate and Auditors	115 – 117
Conditions of Registration	118 – 119
Credit Rating Information	120
Directors' and New Zealand Chief Executive Officer's Statement	121
Independent Audit Report	122 – 123
Index	124

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### GENERAL DISCLOSURES

---

This Disclosure Statement has been issued in accordance with the Registered Bank Disclosure Statement (Full and Half Year - Overseas Incorporated Registered Banks) Order 2008 ("the Order").

In this Disclosure Statement unless the context otherwise requires:

- (a) "Overseas Banking Group" means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities;
- (b) "Overseas Bank" or "Ultimate Parent Bank" means the worldwide operations of Australia and New Zealand Banking Group Limited excluding its controlled entities;
- (c) "NZ Banking Group" means the aggregated NZ operations of Australia and New Zealand Banking Group Limited, including those operations conducted through the New Zealand Branch and controlled entities of the Overseas Bank registered in New Zealand;
- (d) "NZ Branch" or "Registered Bank" means the New Zealand operations of Australia and New Zealand Banking Group Limited, as conducted through the NZ Branch;
- (e) "Bank" means ANZ National Bank Limited;
- (f) Any term or expression which is defined in, or in the manner prescribed by, the Registered Bank Disclosure Statement (Full and Half Year - Overseas Incorporated Registered Banks) Order 2008 shall have the meaning given in or prescribed by that Order.

### GENERAL MATTERS

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

The full name of the Overseas Bank is Australia and New Zealand Banking Group Limited and its address for service is Level 14, 100 Queen Street, Melbourne, Australia.

### NATURE OF BUSINESS

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

### RANKING OF LOCAL CREDITORS IN LIQUIDATION

There are material legislative restrictions in the Overseas Bank's country of incorporation which subordinate the claims of a class of unsecured creditors of the Registered Bank on the assets of the Overseas Bank to those of another class of unsecured creditors of the Overseas Bank, in liquidation of the Overseas Bank.

The Banking Act 1959 of the Commonwealth of Australia (the "Banking Act") gives priority over Australian assets of the Overseas Bank to Australian depositors if the Overseas Bank is unable to meet its obligations or suspends payment. Accordingly, New Zealand depositors (together with all other senior unsecured creditors of the Overseas Bank) will rank after Australian depositors of the Overseas Bank in relation to claims against Australian assets.

Specifically, pursuant to section 13A(3) of the Banking Act, if an Authorised Deposit-Taking Institution (defined in that Act to include a Bank like the Overseas Bank) (an "ADI") becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet the ADI's liabilities in the following order:

- (a) first, the ADI's liabilities to the Australian Prudential Regulation Authority ("APRA") (if any), because of the rights APRA has against the ADI because APRA has made, or is required to make, payments to depositors under the Financial Claims Scheme (defined below);
- (b) second, the ADI's debts to APRA for costs incurred by APRA in administration of the Financial Claims Scheme in respect of the ADI;
- (c) third, in payment of the ADI's deposit liabilities in Australia (other than liabilities covered under paragraph (a)); and
- (d) fourth, the ADI's other liabilities (in order of priority apart from section 13A(3)).

Under section 13A(1) of the Banking Act, in certain circumstances APRA may take control of an ADI or appoint an administrator (defined in the Banking Act) to take control of its business. Section 16(1) and (2) of the Banking Act provide that, despite anything contained in any law relating to the winding up of companies, but subject to section 13A(3) of the Banking Act, the debts of an ADI to APRA in respect of APRA's costs (including costs in the nature of remuneration and expenses) of being in control of the ADI's business or of having an administrator in control of the ADI's business have priority in a winding up of the ADI over all other unsecured debts.

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### GENERAL DISCLOSURES (CONTINUED)

---

Section 86 of the Reserve Bank Act provides that notwithstanding anything contained in any law relating to the winding up of companies, but subject to section 13A(3) of the Banking Act, debts due to the Reserve Bank of Australia by any ADI shall, in a winding up, have priority over all other debts other than debts due to the Commonwealth of Australia.

Section 13A(3) affects all of the unsecured deposit liabilities of the NZ Branch which as at 30 September 2009 amounted to \$nil. (30/09/2008 \$nil).

#### **REQUIREMENT TO HOLD EXCESS ASSETS OVER DEPOSIT LIABILITIES**

Section 13A(4) of the Banking Act (the "Act") states that it is an offence for an ADI not to hold assets (other than goodwill) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the twelve months ended 30 September 2009, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia. The requirements of this section of the Act have the potential to impact on the management of the liquidity of the NZ Banking Group.

#### **GUARANTEES**

The Overseas Bank has guarantees from the Commonwealth of Australia under:

- (a) in the case of deposits and certain other accounts up to A\$1 million, a scheme (The "Financial Claims Scheme") pursuant to the Financial System Legislation Amendment (Financial Claims Scheme and Other Measures) Act 2008 of the Commonwealth of Australia (The "Financial Claims Scheme Act");
- (b) in the case of wholesale funding, by a Deed of Guarantee executed by the Treasurer (and related scheme rules) (the "Wholesale Funding Guarantee").

The Financial Claims Scheme applies to the Registered Bank, as it is a foreign branch of an eligible Australian ADI. The Wholesale Funding Guarantee may also apply as described below.

#### ***Financial Claims Scheme***

Under the Financial Claims Scheme if:

- APRA has applied for an ADI to be wound up; and
- the responsible Minister makes a declaration that the Financial Claims Scheme applies to that particular ADI

then each account holder of a Protected Account (defined below) with that ADI is entitled to be paid by APRA an amount equal to the balance of the protected account plus accrued interest which has been credited to the account (subject to various adjustments and preconditions described in the Financial Claims Scheme Act). Once the responsible Minister has made a declaration, there are no other material conditions to payment other than the ADI being unable to meet its obligations or suspending payment. The deposit must be for an amount less than A\$1 million. Deposits for a greater amount are covered by the Wholesale Funding Guarantee (to the extent that is applicable as described below).

A protected account is:

- accounts or covered financial products (defined below) kept under an agreement between the account holder and the ADI requiring the ADI to pay the account holder, on demand by the account holder or at a time agreed by them, the net credit balance of the account at the time of the demand or the agreed time; and
- an account prescribed by regulations.

A covered financial product is a financial product declared by the Australian Treasurer to be a covered financial product. A list is available at [www.treasury.gov.au](http://www.treasury.gov.au). The list includes accounts such as saving, call, current, cheque, debit card, transaction and mortgage offset accounts.

Deposit holders do not have to be Australian residents to obtain the benefit of the Financial Claims Scheme and it applies to deposits denominated in any currency.

From 12 October 2011 the Financial Claims Scheme is to apply to Australian dollar deposits only.

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### GENERAL DISCLOSURES (CONTINUED)

---

#### **Wholesale Funding Guarantee**

The Wholesale Funding Guarantee is a deed governed by the laws of the State of New South Wales and has been executed by the Australian Treasurer on behalf of the Australian Government. Australian institutions which are ADIs under the Banking Act, which includes the Overseas Bank, are entitled to apply for the Wholesale Funding Guarantee to apply to deposit accounts over A\$1 million and certain funding liabilities.

Foreign banks authorised to carry on banking business in Australia may also apply to have certain deposits and funding liabilities held by Australian residents guaranteed by the Australian Government. The Reserve Bank of Australia administers the Wholesale Funding Guarantee.

Under the Wholesale Funding Guarantee, the Commonwealth of Australia irrevocably guarantees the payment of liabilities covered by an eligibility certificate issued by the Australian Government in response to an application made by the ADI, and irrevocably undertakes that whenever the ADI does not pay a liability on the date on which it becomes due or payable, it shall, upon a claim by a person to whom a guaranteed liability is owed, and following the expiry of any applicable grace period, pay the guaranteed liability in accordance with the scheme rules. A claim must be made in the form provided in the scheme rules. In the case of a liability of an Australian ADI, such as the Overseas Bank, the claimant need not be a resident of Australia.

In order to have the Wholesale Funding Guarantee apply, an ADI must apply to the Reserve Bank of Australia for an eligibility certificate. Fees will also be payable, calculated by reference to the term and amount of the liabilities guaranteed and the credit rating of the ADI (as at the date of this document, the fee which will apply to the Overseas Bank based on its rating by Standard and Poor's of AA, is 70 basis points per annum applied in respect of its guaranteed liabilities in accordance with the Wholesale Funding Guarantee). The fees will be levied on a monthly or quarterly basis depending on the liability. An ADI may apply for an eligibility certificate in respect of a programme under which it issues debt instruments from time to time or on a series-by-series basis.

A person to whom a guaranteed liability is owed may rely on the eligibility certificate issued by the Australian Government as conclusive evidence that the liability satisfies the criteria for eligibility to be guaranteed under the Wholesale Funding Guarantee.

An application must set out details of the liabilities to be guaranteed and be accompanied by an executed counter indemnity in favour of the Australian Government, external legal opinions in a prescribed form, an executed fee letter and a letter of prudential compliance. Further information with respect to the application procedure and fees can be found at the Australian Government Guarantee website at [www.guaranteescheme.gov.au](http://www.guaranteescheme.gov.au).

If the ADI is an Australian ADI (such as the Overseas Bank) or an Australian subsidiary of a bank incorporated overseas, it may apply for the guarantee to apply to:

- **Deposit liabilities for amounts over A\$1 million:** The deposit can be at call or with maturity of up to 60 months in excess of \$1 million per customer per ADI, be in any currency and may pre-date the Wholesale Funding Guarantee. There are no restrictions on the types of depositors;
- **Deposits held in overseas branches:** Deposits held in overseas branches of Australian-owned ADIs can be covered by the Wholesale Funding Guarantee. There are no restrictions on the types of depositors;
- **Short Term Wholesale Funding Liabilities:** The liability (which may be in any currency) must be a senior and unsecured debt instrument with a maturity not exceeding 15 months. In addition, the instrument must be "not complex" and be either a bank bill, a certificate of deposit or transferable deposit, a debenture or commercial paper; and
- **Term Wholesale Funding Liabilities:** The liability (which may be in any currency) must be a senior and unsecured debt instrument with a maturity not exceeding 60 months but greater than 15 months. The instrument must also be "not complex" and be either a bond, a note or a debenture.

In the case of all instruments, they may be issued in bearer, registered or dematerialised form. An instrument will not be granted an eligibility certificate unless it is "not complex". The Government has published a list of the features that are likely to be regarded by the Government as "complex".

If the Australian Government does not perform its obligations under the Wholesale Funding Guarantee, a beneficiary of the guarantee could sue the Commonwealth of Australia under the Judiciary Act 1903 of Australia. In such a suit, the rights of parties are as nearly as possible the same as in a suit between subjects of the Commonwealth of Australia. Jurisdiction to hear claims against the Commonwealth of Australia in contract is vested in certain Australian courts under the Judiciary Act 1903 of Australia. If a judgment is obtained against the Australian Government, no execution or attachment can be issued against the property or revenues of the Commonwealth of Australia. However, if any judgment is given against the Australian Government, the Minister for Finance is obliged to satisfy the judgment out of money legally available, on receipt of a certificate of the judgment issued by an officer of a court in which such judgment has been obtained.

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### GENERAL DISCLOSURES (CONTINUED)

---

#### ***Wholesale Funding Guarantee (Continued)***

In order to render money legally available, specific appropriation by legislation passed by the Parliament of the Commonwealth of Australia would be necessary before any payment is made, unless the amount involved is such that it could be paid out of funds available under an existing standing appropriation. The Australian Government has enacted legislation which appropriates funds from consolidated revenue for the purposes of paying claims under the Wholesale Funding Guarantee. The Wholesale Funding Guarantee does not contain any submission to the courts of a foreign jurisdiction or any waiver of any immunity which might be available to the Commonwealth of Australia under the law of any foreign jurisdiction.

The Wholesale Funding Guarantee is subject to being withdrawn or changed, which may have a negative impact on the availability of funding in the markets in which the Overseas Bank operates.

The Australian Government has announced the Wholesale Funding Guarantee will be reviewed on an ongoing basis and revised if necessary.

The Australian Government shall not be liable to perform its obligations under the Wholesale Funding Guarantee in respect of liabilities which have been varied, amended, waived, released, novated, supplemented, extended or restated in any material respect without the written consent of the Australian Government.

The Australian Government may also amend the terms of the Wholesale Funding Guarantee at any time at its discretion, provided that (except insofar as such amendment is required by law) such amendment does not reduce the Australian Government's obligations to the beneficiaries under the Wholesale Funding Guarantee in a manner which is prejudicial to the interests of the beneficiaries in respect of any subsisting liability of the Overseas Bank guaranteed under the Wholesale Funding Guarantee.

Further information on the Wholesale Funding Guarantee including the Wholesale Deed of Guarantee is available in the most recent Supplemental Disclosure Statement.

Copies of eligibility certificates issued by the Reserve Bank of Australia under the Wholesale Funding Guarantee are available at [www.guaranteescheme.gov.au](http://www.guaranteescheme.gov.au).

The name of the Guarantor and address for service is: The Scheme Administrator, Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding, c/- The Secretary, Reserve Bank of Australia, 65 Martin Place, Sydney, New South Wales 2001, Australia.

Further details of the arrangements, together with relevant legislation, regulations and other documents setting out the terms and conditions of the current guarantee arrangements, are available at the Treasury website [www.treasury.gov.au](http://www.treasury.gov.au), [www.apra.gov.au](http://www.apra.gov.au) and [www.guaranteescheme.gov.au](http://www.guaranteescheme.gov.au).

The most recent audited financial statements of the Commonwealth of Australia can be obtained at the Treasury's Budget website [www.budget.gov.au](http://www.budget.gov.au). As at the date of signing of the General Disclosure Statement, the following ratings were assigned to the Commonwealth of Australia's long term, AUD denomination debt: AAA Outlook Stable (Standard & Poor's), Aaa Outlook Stable (Moody's) and AAA Outlook Stable (Fitch). These ratings have remained unchanged in the two preceding years. Refer to 'Credit Rating Information' for a full description of credit rating scales.

#### ***New Zealand Guarantee Arrangements***

The Crown guarantees retail deposits and wholesale funding of participating New Zealand financial institutions under the New Zealand Deposit Guarantee Scheme and New Zealand Wholesale Funding Guarantee Facility respectively. The Registered Bank does not have a guarantee under either Scheme.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**GENERAL DISCLOSURES (CONTINUED)**

---

**PENDING PROCEEDINGS OR ARBITRATION**

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

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

**OTHER MATERIAL MATTERS**

There are no matters relating to the business or affairs of the NZ Branch and the NZ 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 NZ Branch or any member of the NZ Banking Group is the issuer.

**SUPPLEMENTAL DISCLOSURE STATEMENT**

A copy of the most recent Supplemental Disclosure Statement for the year ended 30 September 2009 can be obtained immediately where request is made within normal banking hours at the NZ Branch head office, Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington. It is also available at no charge:

- (a) on the NZ Banking Group's website at [www.anz.co.nz](http://www.anz.co.nz) and [www.anz.com](http://www.anz.com);
- (b) immediately if request is made at the NZ Banking Group's head office; and
- (c) 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 NZ Banking Group's most recent Supplemental Disclosure Statement contains a copy of the 30 September 2009 Annual Report for the Overseas Banking Group and a copy of the Deed of Guarantee for the Guarantee Scheme.

**FINANCIAL STATEMENTS OF THE OVERSEAS BANK AND OVERSEAS BANKING GROUP**

Copies of the most recent publicly available financial statements of the Overseas Bank and Overseas Banking Group will be provided immediately, free of charge, to any person requesting a copy where the request is made at the NZ Branch's head office, Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington. The most recent publicly available financial statements for the Overseas Bank and Overseas Banking Group can also be accessed at the internet address [www.anz.com](http://www.anz.com).

**DIRECTORATE**

Since the authorisation date of the previous General Short Form Disclosure Statement on 31 August 2009, there have been no changes to the Directors of the Overseas Banking Group.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**SUMMARY OF FINANCIAL STATEMENTS**

	NZ Banking Group				
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to <sup>1</sup> 30/09/2007 \$m	Year to <sup>1</sup> 30/09/2006 \$m	Year to <sup>1</sup> 30/09/2005 \$m
<b>Continuing operations</b>					
Interest income	7,479	9,858	8,296	7,195	6,023
Interest expense	5,181	7,829	6,239	5,246	4,325
Net interest income	2,298	2,029	2,057	1,949	1,698
Other operating income	680	1,126	864	801	794
Operating income	2,978	3,155	2,921	2,750	2,492
Operating expenses	1,479	1,445	1,331	1,323	1,312
Profit before provision for credit impairment and income tax	1,499	1,710	1,590	1,427	1,180
Collective provision charge (credit)	270	112	20	(10)	121
Individual provision charge	613	190	54	28	-
Provision for credit impairment	883	302	74	18	121
<b>Profit before income tax</b>	<b>616</b>	<b>1,408</b>	<b>1,516</b>	<b>1,409</b>	<b>1,059</b>
Income tax expense	422	418	551	463	318
<b>Profit after income tax from continuing operations</b>	<b>194</b>	<b>990</b>	<b>965</b>	<b>946</b>	<b>741</b>
<b>Discontinued operations</b>					
Profit from discontinued operations (net of income tax)	-	-	76	5	14
<b>Profit after income tax</b>	<b>194</b>	<b>990</b>	<b>1,041</b>	<b>951</b>	<b>755</b>
<b>Retained profits at beginning of the year</b>	<b>1,667</b>	<b>1,869</b>	<b>1,580</b>	<b>1,350</b>	<b>746</b>
Adjustment on adoption of NZ IFRS on 1 October 2004	-	-	-	-	4
Adjustment on adoption of NZ IAS 39 on 1 October 2005	-	-	-	60	-
<b>Total available for appropriation</b>	<b>1,861</b>	<b>2,859</b>	<b>2,621</b>	<b>2,361</b>	<b>1,505</b>
Actuarial (loss) gain on defined benefit schemes after tax	(18)	(23)	2	(1)	4
Foreign exchange (loss) gain on redemption of redeemable preference shares	-	-	(154)	-	41
Interim ordinary dividends paid	(1,000)	(1,169)	(600)	(780)	(200)
<b>Retained profits at end of the year</b>	<b>843</b>	<b>1,667</b>	<b>1,869</b>	<b>1,580</b>	<b>1,350</b>

	NZ Banking Group				
	As at 30/09/2009 \$m	As at 30/09/2008 \$m	As at <sup>1</sup> 30/09/2007 \$m	As at <sup>1</sup> 30/09/2006 \$m	As at <sup>1</sup> 30/09/2005 \$m
Total impaired assets (on-balance sheet and off-balance sheet)	1,220	333	121	159	220
Total assets	126,314	123,078	107,606	95,929	85,491
Total liabilities	118,999	115,951	100,751	89,543	79,390
Equity	7,315	7,127	6,855	6,386	6,101

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

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



# AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

## INCOME STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Note	NZ Banking Group		NZ Branch	
		Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
Interest income	4	7,479	9,858	241	-
Interest expense	5	5,181	7,829	171	-
Net interest income		2,298	2,029	70	-
Net trading gains	4	187	272	-	-
Other operating income	4	480	743	(10)	-
Share of profit of equity accounted associates and jointly controlled entities	15	13	111	-	-
Operating income		2,978	3,155	60	-
Operating expenses	5	1,479	1,445	11	-
Profit before provision for credit impairment and income tax		1,499	1,710	49	-
Provision for credit impairment	14	883	302	9	-
<b>Profit before income tax</b>		<b>616</b>	<b>1,408</b>	<b>40</b>	<b>-</b>
Income tax expense	6	422	418	12	-
<b>Profit after income tax</b>		<b>194</b>	<b>990</b>	<b>28</b>	<b>-</b>

The notes on pages 12 to 114 form part of and should be read in conjunction with these financial statements.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**STATEMENTS OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2009**

	Note	NZ Banking Group		NZ Branch	
		Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
<b>Available-for-sale revaluation reserve:</b>					
- Valuation gain taken to equity		2	26	-	-
				-	-
<b>Cash flow hedging reserve:</b>					
- Valuation loss taken to equity		(1)	(47)	-	-
- Transferred to income statement		(3)	(37)	-	-
Actuarial loss on defined benefit schemes		(25)	(33)	-	-
Income tax credit on items recognised directly in equity		10	34	-	-
<b>Net expense recognised directly in equity</b>		<b>(17)</b>	<b>(57)</b>	<b>-</b>	<b>-</b>
<b>Profit after income tax</b>		<b>194</b>	<b>990</b>	<b>28</b>	<b>-</b>
<b>Total recognised income and expense for the year</b>		<b>177</b>	<b>933</b>	<b>28</b>	<b>-</b>

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**BALANCE SHEETS**  
**AS AT 30 SEPTEMBER 2009**

	Note	NZ Banking Group		NZ Branch	
		30/09/2009	30/09/2008	30/09/2009	30/09/2008
		\$m	\$m	\$m	\$m
<b>Assets</b>					
Liquid assets	7	2,762	4,839	-	-
Due from other financial institutions	8	4,514	5,032	-	-
Trading securities	9	4,166	2,624	-	-
Derivative financial instruments	10	11,015	7,603	34	-
Available-for-sale assets	11	1,513	109	-	-
Net loans and advances	12	97,024	97,679	8,774	-
Due from related entities		-	1	341	-
Shares in controlled entities, associates and jointly controlled entities	15	464	363	-	-
Current tax assets		115	154	-	-
Other assets	16	1,141	1,000	-	-
Deferred tax assets	17	-	118	3	-
Premises and equipment	18	278	242	-	-
Goodwill and other intangible assets	19	3,322	3,314	-	-
<b>Total assets</b>		<b>126,314</b>	<b>123,078</b>	<b>9,152</b>	<b>-</b>
<b>Liabilities</b>					
Due to other financial institutions	20	12,514	3,311	8,801	-
Deposits and other borrowings	21	71,764	77,136	-	-
Due to subsidiary companies		-	-	-	-
Derivative financial instruments	10	10,974	6,472	254	-
Payables and other liabilities	22	1,547	1,874	43	-
Provisions	24	283	190	-	-
Current tax liability		-	-	15	-
Deferred tax liability	23	15	-	-	-
Bonds and notes	25	17,540	22,382	-	-
Term funding	26	1,766	1,766	-	-
Loan capital	27	2,596	2,820	-	-
<b>Total liabilities (excluding Head Office Account)</b>		<b>118,999</b>	<b>115,951</b>	<b>9,113</b>	<b>-</b>
<b>Net assets (excluding Head Office Account)</b>		<b>7,315</b>	<b>7,127</b>	<b>39</b>	<b>-</b>
<b>Represented by:</b>					
Ordinary share capital & Head Office Account	28	6,424	5,413	11	-
Reserves	29	48	47	-	-
Retained earnings	29	843	1,667	28	-
<b>Total equity &amp; Head Office Account</b>		<b>7,315</b>	<b>7,127</b>	<b>39</b>	<b>-</b>

For and on behalf of the Board of Directors:



Charles Goode  
 Director  
 Australia and New Zealand Banking Group Limited  
 24 November 2009



David Meiklejohn  
 Director  
 Australia and New Zealand Banking Group Limited  
 24 November 2009

# AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

## CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Note	NZ Banking Group		NZ Branch	
		Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Interest received		7,368	9,503	241	-
Dividends received		3	4	-	-
Fees and other income received		945	1,062	4	-
Interest paid		(5,137)	(7,216)	(130)	-
Operating expenses paid		(1,483)	(1,313)	(9)	-
Income taxes paid		(338)	(461)	-	-
Cash flows from operating profits before changes in operating assets and liabilities		1,358	1,579	106	-
Net changes in operating assets and liabilities:					
Increase in due from other financial institutions - term		(246)	(630)	-	-
Increase in trading securities		(1,505)	(617)	-	-
(Increase) decrease in derivative financial instruments		(3,494)	1,361	237	-
Increase in available-for-sale assets		(1,388)	(36)	-	-
Decrease (increase) in loans and advances		43	(9,522)	(9,144)	-
Decrease (increase) in due from related entities		-	-	-	-
Decrease in due to related entities		-	-	(11)	-
(Increase) decrease in other assets		(165)	28	-	-
Increase in due to other financial institutions		9,630	141	8,801	-
Increase in customer deposits		672	3,373	-	-
(Decrease) increase in other borrowings and certificates of deposit		(4,637)	2,044	-	-
(Decrease) increase in payables and other liabilities		(167)	159	-	-
<b>Net cash flows provided by (used in) operating activities</b>	<b>36</b>	<b>101</b>	<b>(2,120)</b>	<b>(11)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of shares in associates and jointly controlled entities		-	-	-	-
Proceeds from sale of premises and equipment		33	2	-	-
Proceeds from sale of software		3	-	-	-
Purchase of shares in associates and jointly controlled entities		(92)	(48)	-	-
Purchase of intangible assets		(21)	(30)	-	-
Purchase of premises and equipment		(95)	(51)	-	-
<b>Net cash flows used in investing activities</b>		<b>(172)</b>	<b>(127)</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from bonds and notes		5,012	9,263	-	-
Redemptions of bonds and notes		(7,751)	(6,433)	-	-
Proceeds from loan capital		-	835	-	-
Redemptions of loan capital		(225)	(100)	-	-
Increase (decrease) in due to parent company		-	-	-	-
Issue of redeemable preference shares		1,000	510	-	-
Dividends paid		(1,000)	(1,169)	-	-
Proceeds from Head Office		11	-	11	-
<b>Net cash flows (used in) provided by financing activities</b>		<b>(2,953)</b>	<b>2,906</b>	<b>11</b>	<b>-</b>
Net cash flows provided by (used in) operating activities		101	(2,120)	(11)	-
Net cash flows used in investing activities		(172)	(127)	-	-
Net cash flows (used in) provided by financing activities		(2,953)	2,906	11	-
Net (decrease) increase in cash and cash equivalents		(3,024)	659	-	-
Cash and cash equivalents at beginning of the year		7,790	7,131	-	-
<b>Cash and cash equivalents at end of the year<sup>1</sup></b>		<b>4,766</b>	<b>7,790</b>	<b>-</b>	<b>-</b>

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

# AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

## 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 - Overseas Incorporated Registered Banks) Order 2008 (the "Order"). The parent company's financial statements are for the New Zealand operations of Australia and New Zealand Banking Group Limited as conducted through the NZ Branch (the "Registered Bank" or "NZ Branch") and the aggregated financial statements are for the New Zealand operations of Australia and New Zealand Banking Group Limited (the "NZ Banking Group"), which includes the NZ Branch and all New Zealand geographic operations, subsidiaries, associate companies and jointly controlled entities as disclosed in Note 37.

These financial statements are for the period from 1 October 2008 to 30 September 2009.

The Reserve Bank of New Zealand granted the NZ Branch registration as a registered bank in New Zealand from 5 January 2009.

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 NZ Banking Group for all periods presented.

These financial statements were authorised for issue by the Overseas Banking Group's Board of Directors on 24 November 2009.

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

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

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

##### iii) Basis of measurement

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

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

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

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

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

##### v) Rounding

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**vi) Comparatives**

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

**vii) Basis of aggregation**

These financial statements aggregate the financial statements of the New Zealand geographic activities of Australia and New Zealand Banking Group Limited as conducted through the NZ Banking Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on aggregation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

***Subsidiaries***

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

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

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

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

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

***Associates and joint ventures***

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

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

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

***Special purpose and off-balance sheet entities***

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

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

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

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

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

**viii) Foreign currency translation**  
***Functional and presentation currency***

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 NZ Banking Group and that revenue can be reliably measured.

**i) Interest income**

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

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

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

**ii) Fee and commission income**

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

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

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

**iii) Dividend income**

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

**iv) Leasing income**

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

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

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

**C) EXPENSE RECOGNITION**

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

**i) Interest expense**

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



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ii) Loan origination expenses**

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

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

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

**iii) Share-based compensation expense**

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

*ANZ ordinary shares*

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

*Share Options*

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

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

*Performance Rights*

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

*Other adjustments*

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

**iv) Lease payments**

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

**D) INCOME TAX**

**i) Income tax expense**

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

**ii) Current tax**

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**iii) Deferred tax**

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

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in controlled entities, branches, associates and joint ventures, except where the NZ 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 related to fair value re-measurement of available-for-sale financial assets and cash flow hedges, which are charged or credited directly to equity, is also charged or credited directly to equity and subsequently recognised in the income statement together with the deferred gain or loss on the related asset or liability.

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 NZ Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

**iv) Offsetting**

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

**E) ASSETS**

**Financial assets**

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

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

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**ii) Derivative financial instruments**

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

Derivative financial instruments are entered into for trading purposes (including customer-related reasons) or for hedging purposes (where the derivative instruments are used to hedge the NZ 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 NZ 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.

Cash flow hedge

The NZ 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 NZ 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 line.

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 NZ Banking Group commits to purchase or sell the asset.

**iv) Net loans and advances**

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

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

Credit assessment

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

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

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

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

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Impairment of loans and advances

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

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

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

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

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

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

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

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

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

**v) Lease receivables**

***Finance leases***

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

***Operating leases***

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

**vi) Repurchase agreements**

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the NZ 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 NZ 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 NZ 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 NZ Banking Group derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the NZ Banking Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

**Non-financial assets**

**viii) Goodwill**

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ix) Other intangible assets**

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

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

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

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

**x) Premises and equipment**

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

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

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

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

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

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

**F) LIABILITIES**

**Financial liabilities**

**i) Deposits and other borrowings**

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The NZ 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 NZ Banking Group, a defined benefit asset is recognised which is capped at the recoverable amount. The present value of the defined benefit obligation is determined by discounting the estimated future outflows by reference to New Zealand 10-year government bond rates.

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

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

The assets of the defined benefit and cash accumulation superannuation schemes are held in trust and are not included in these financial statements as the NZ 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 NZ 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.



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**vi) Provisions**

The NZ 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 AND HEAD OFFICE ACCOUNT**

**i) Ordinary shares**

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

**ii) Head office account**

Head office account comprises funds provided by the Ultimate Parent Bank. It is non-interest bearing and there is no fixed date of repayment.

**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 assets and liabilities**

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

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

**iii) Statement of cash flows**

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

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

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

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

#### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### iv) Segment reporting

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

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

##### v) Goods and services tax

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

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

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

#### I) OTHER

##### i) Contingent liabilities

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

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

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

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

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

Certain entities within the NZ Banking Group act as trustees and/or managers for a number of unit trusts and superannuation investment funds. The NZ 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 NZ Banking Group. Commissions and fees earned in respect of the NZ Banking Group's funds under management are included in net operating income.

Financial services provided by any member of the NZ 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.

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

##### iii) Discontinued operations

A discontinued operation is a component of the NZ 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**iv) Accounting Standards not early adopted**

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

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

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

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

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

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

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

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

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

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

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

---

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES**

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

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

**Critical accounting estimates and assumptions**

**Credit provisioning**

The accounting policy, as explained in Note 1(E)(iv), relating to measuring the impairment of loans and advances, requires the NZ 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 NZ Banking Group's loans is identified as being doubtful. Individual and collective provisioning is calculated using discounted expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are revised regularly to reduce any differences between loss estimates and actual loss experience.

As at 30 September 2009 for the NZ Banking Group, total provision for credit impairment was \$1,281 million representing 1.32% of total net loans and advances (30/09/2008 \$666 million or 0.68%). Of the total provision for 30 September 2009, \$804 million represented collective provisions and \$477 million represented individual provisions (30/09/2008 \$534 million and \$132 million respectively).

As at 30 September 2009 for the NZ Branch, total provision for credit impairment was \$9 million representing 0.10% of total net loans and advances (30/09/2008 \$nil or 0.00%). Of the total provision for 30 September 2009, \$6 million represented collective provisions and \$3 million represented individual provisions (30/09/2008 \$nil and \$nil respectively).

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

**Critical judgements in applying the NZ Banking Group's accounting policies**

**Derivatives and hedging**

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

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

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 NZ Banking Group to the risk of changes in fair value or future cash flows and (b) is designated as being hedged.

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

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

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

Fair values of financial instruments including derivatives

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

**Goodwill**

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

As at 30 September 2009, the balance of goodwill recorded as an asset on the NZ Banking Group's balance sheet as a result of acquisitions was \$3,262 million (30/09/2008 \$3,262 million) of which \$3,230 million relates to the acquisition of NBNZ Group in December 2003 (30/09/2008 \$3,230 million).

As at 30 September 2009, there was no goodwill recorded as an asset on the Registered Bank's balance sheet (30/09/2008 \$nil).

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

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

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

The NZ Banking Group obtained an independent valuation of the ANZ National Bank Limited Group as at 31 March 2009. The recoverable amount was based on a value in use calculation using forecasts covering a 4 year period. Forecast cash flows beyond 4 years are based on the expected nominal growth in cash flows in perpetuity at the valuation date.

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

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

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

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

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

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

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

---

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

#### 3. RISK MANAGEMENT POLICIES

The NZ 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 NZ Banking Group business units to meet their performance objectives.

The NZ 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 ultimately from the Board of the Ultimate Parent Bank and operates within a comprehensive framework comprising:

- The Boards of the entities making up the NZ Banking Group ("the Boards"), providing leadership, setting risk appetite/strategy and monitoring progress;
- A strong framework for development and maintenance of 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 strategies as they are deemed to apply to each entity across the NZ Banking Group;
- Where applicable Business Unit level accountability, as the "first line of defence", and for the management of risks in alignment with the strategy set by the relevant Board; and
- Independent oversight to ensure each entity across the NZ Banking Group, and the Business Units within those entities, comply with policies, regulations and laws, and to provide regular risk evaluation and reporting.

The NZ 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 are conducted within the NZ Banking Group and also by the Ultimate Parent Bank. The Boards have responsibility for reviewing all aspects of risk management.

The Boards have ultimate responsibility for overseeing the effective deployment of risk management frameworks, policies and processes within New Zealand.

The NZ 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.

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

Refer to Note 31 Financial Risk Management for detailed disclosures on the NZ 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 reputation of entities making up the NZ Banking Group.

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.

Group Risk Management is responsible for establishing the ANZ Group-wide operational risk framework and associated Group-level policies. The entities across the NZ Banking Group are responsible for the implementation of the operational risk framework and associated policies along with the identification, analysis, assessment and treatment of operational risks on a day-to-day basis as applicable.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**3. RISK MANAGEMENT POLICIES (Continued)**

**Compliance**

The entities within the NZ Banking Group conduct their business in accordance with all relevant compliance requirements. In order to assist the NZ Banking Group identify, manage, monitor and measure its compliance obligations, a comprehensive regulatory compliance framework is in place, which addresses both external (regulatory) and internal compliance. This is applied according to the requirements of each entity.

Where appropriate, Risk Management, in conjunction with Business Unit staff ensures the key operating entities within the NZ Banking Group operate within the NZ 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 NZ Banking Group's reputation and value that could arise from non-compliance with laws, regulations, industry codes and internal standards and policies. The Board of each entity has primary responsibility for the identification and management of compliance and may be assisted by Risk Management providing 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 Board and the Risk Committee of the Ultimate Parent Bank Board conduct Board and executive oversight.

**Internal audit**

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

Internal Audit reports directly to the Chairman of the ANZ National Bank Audit Committee and through to the Group General Manager Internal Audit. 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 NZ 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 NZ 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 NZ Banking Group. Significant findings are reported quarterly to the Group and ANZ National Bank Limited Audit Committees as appropriate.

The Internal Audit Plan is approved by the ANZ National Bank Limited 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.

---



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**4. INCOME**

	NZ Banking Group		NZ Branch	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
<b>Interest income</b>				
<b>Financial assets at fair value through profit or loss</b>				
Trading securities	187	220	-	-
	<b>187</b>	<b>220</b>	<b>-</b>	<b>-</b>
<b>Financial assets not at fair value through profit or loss</b>				
Liquid assets	118	313	-	-
Other financial institutions	259	321	-	-
Available-for-sale assets	16	3	-	-
Lending on productive loans	6,857	8,979	241	-
Lending on impaired assets	8	6	-	-
Related parties	-	-	-	-
Other	34	16	-	-
	<b>7,292</b>	<b>9,638</b>	<b>241</b>	<b>-</b>
Total interest income	<b>7,479</b>	<b>9,858</b>	<b>241</b>	<b>-</b>
<b>Other operating income</b>				
Net fee income <sup>1</sup>	664	646	-	-
Dividends received	1	4	-	-
Associate investments	-	-	-	-
Net gain on foreign exchange trading	201	166	-	-
Net gain on trading securities	43	45	-	-
Net (loss) gain on trading derivatives	(57)	60	-	-
Net gain on available-for-sale assets	-	-	-	-
Net gain (loss) on hedges not qualifying for hedge accounting	(16)	70	(18)	-
Net ineffectiveness on qualifying cash flow hedges	-	-	-	-
Net ineffectiveness on qualifying fair value hedges	7	(67)	8	-
Net cash flow hedge gains transferred to income statement	3	37	-	-
Net (loss) gain on financial liabilities designated at fair value through profit or loss	(20)	15	-	-
ING New Zealand Funds <sup>2</sup>	(211)	-	-	-
Other income	52	39	-	-
Total other operating income	<b>667</b>	<b>1,015</b>	<b>(10)</b>	<b>-</b>
<b><sup>1</sup>Net fee income comprises:</b>				
Lending and credit facility fee income	161	134	-	-
Fee income on trust and other fiduciary activities	53	47	-	-
Other fee income	592	632	-	-
Total fee income	<b>806</b>	<b>813</b>	<b>-</b>	<b>-</b>
Direct fee expense	142	167	-	-
Net fee income	<b>664</b>	<b>646</b>	<b>-</b>	<b>-</b>

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. EXPENSES**

	NZ Banking Group		NZ Branch	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
<b>Interest expense</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Commercial paper	561	997	-	-
	<b>561</b>	<b>997</b>	<b>-</b>	<b>-</b>
<b>Deposits at amortised cost</b>				
Other financial institutions	434	195	146	-
Deposits and other borrowings	2,959	4,397	-	-
Bonds and notes	835	1,781	16	-
Term funding	101	159	-	-
Loan capital	207	207	-	-
Other	84	93	9	-
	<b>4,620</b>	<b>6,832</b>	<b>171</b>	<b>-</b>
Total interest expense	<b>5,181</b>	<b>7,829</b>	<b>171</b>	<b>-</b>
<b>Operating expenses</b>				
Personnel costs	718	724	-	-
Employee entitlements	73	75	-	-
Pension costs				
- Defined contribution schemes	36	37	-	-
- Defined benefit schemes	8	7	-	-
Share-based payments expense	18	13	-	-
Building occupancy costs	42	38	-	-
Depreciation of premises and equipment	39	38	-	-
Leasing and rental costs	80	80	-	-
Related parties (Note 44)	91	82	1	-
Computer expenses	120	117	-	-
Administrative expenses	178	180	-	-
Other costs	76	54	10	-
	<b>1,479</b>	<b>1,445</b>	<b>11</b>	<b>-</b>
Total operating expenses	<b>1,479</b>	<b>1,445</b>	<b>11</b>	<b>-</b>
	<b>Year to 30/09/2009 \$'000</b>	<b>Year to 30/09/2008 \$'000</b>	<b>Year to 30/09/2009 \$'000</b>	<b>Year to 30/09/2008 \$'000</b>
<b>Auditors' remuneration to KPMG comprises:</b>				
Audit or review of financial statements	2,097	1,942	80	-
Other audit-related services	369	500	-	-
Total auditors' remuneration	<b>2,466</b>	<b>2,442</b>	<b>80</b>	<b>-</b>

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. INCOME TAX EXPENSE**

	NZ Banking Group		NZ Branch	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
RECONCILIATION OF THE PRIMA FACIE INCOME TAX PAYABLE ON PROFIT WITH THE INCOME TAX EXPENSE CHARGED IN THE INCOME STATEMENT				
Profit before income tax	616	1,408	40	-
Prima facie income tax at 30% <sup>1</sup>	185	465	12	-
Rebateable and non-assessable dividends	(8)	(10)	-	-
Additional tax provision	240	-	-	-
Non-deductible expenses (non-assessable income)	6	(36)	-	-
	<b>423</b>	<b>419</b>	<b>12</b>	<b>-</b>
Tax effect of change in domestic tax rate <sup>1</sup>	-	(1)	-	-
Income tax under provided in prior years	(1)	-	-	-
Total income tax expense	<b>422</b>	<b>418</b>	<b>12</b>	<b>-</b>
<b>Effective tax rate (%)</b>	<b>68.5%</b>	<b>29.7%</b>	<b>30.0%</b>	<b>0.0%</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	386	505	15	-
Adjustments recognised in the current year in relation to current tax of prior periods	(1)	-	-	-
<b>Deferred income tax</b>				
Deferred tax (income) expense relating to the origination and reversal of temporary differences	136	(87)	(3)	-
Other (including indemnity)	(99)	-	-	-
Total income tax expense recognised in income statement	<b>422</b>	<b>418</b>	<b>12</b>	<b>-</b>
<b>The following amounts were credited directly to equity:</b>				
<b>Current income tax</b>				
Actuarial loss on defined benefit schemes	(7)	(10)	-	-
<b>Deferred income tax</b>				
Net loss on revaluation of financial instruments	(3)	(24)	-	-
Total income tax credit recognised directly in equity	<b>(10)</b>	<b>(34)</b>	<b>-</b>	<b>-</b>
<b>Imputation Credit Account</b>				
Balance at beginning of the year	696	831	-	-
Imputation credits attached to dividends received	31	33	-	-
Taxation paid	138	211	-	-
Imputation credits attached to dividends paid	(252)	(370)	-	-
Other	32	(9)	-	-
Balance at end of the year	<b>645</b>	<b>696</b>	<b>-</b>	<b>-</b>

The above amounts only include items that give rise to imputation credits that are available for use by the NZ Banking Group.

The companies forming the NZ Banking Group are members of an Imputation Group.

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**7. LIQUID ASSETS**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Cash and balances with central banks	2,373	3,950	-	-
Securities purchased under agreement to resell	-	-	-	-
Money at call	341	807	-	-
Bills receivable and remittances in transit	48	82	-	-
<b>Total liquid assets</b>	<b>2,762</b>	<b>4,839</b>	<b>-</b>	<b>-</b>
<b>Included within liquid assets is the following balance:</b>				
Overnight balances with central banks	2,207	3,779	-	-
The NZ Banking Group's core liquidity portfolio held for managing liquidity risk (Note 36)	11,077	8,736	-	-

**8. DUE FROM OTHER FINANCIAL INSTITUTIONS**

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

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

**9. TRADING SECURITIES**

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**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 NZ Banking Group's trading activities. Derivatives are also used to manage the NZ 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 NZ Banking Group manages these risks in a consistent manner.

**Types of derivatives instruments**

The principal foreign exchange rate contracts used by the NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**10. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

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

The following tables provide an overview of the NZ Banking Group's and the NZ Branch'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:

	NZ Banking Group			NZ Branch		
	Notional Principal Amount	Fair values		Notional Principal Amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
30/09/2009	\$m	\$m	\$m	\$m	\$m	\$m
<b>Derivatives held for trading</b>						
<i>Foreign exchange derivatives</i>						
Spot and forward contracts	29,918	684	1,581	557	1	3
Swap agreements	76,468	2,398	4,076	8,519	-	245
Options purchased	1,018	42	-	-	-	-
Options sold	953	-	52	-	-	-
Collateral received / paid	n/a	(115)	(2,908)	n/a	-	-
	<b>108,357</b>	<b>3,009</b>	<b>2,801</b>	<b>9,076</b>	<b>1</b>	<b>248</b>
<i>Interest rate derivatives</i>						
Forward rate agreements	30,526	2	3	1,972	-	-
Swap agreements	375,488	7,387	6,986	2,058	2	4
Futures contracts	20,647	45	2	-	-	-
Options purchased	2,026	23	-	-	-	-
Options sold	2,034	-	23	-	-	-
	<b>430,721</b>	<b>7,457</b>	<b>7,014</b>	<b>4,030</b>	<b>2</b>	<b>4</b>
<i>Commodity derivatives</i>						
Fuel derivatives	23	1	1	-	-	-
Electricity derivatives	13	1	1	-	-	-
Total derivatives held for trading	<b>539,114</b>	<b>10,468</b>	<b>9,817</b>	<b>13,106</b>	<b>3</b>	<b>252</b>
<b>Derivatives held for hedging</b>						
<b>(a) Designated as cash flow hedges</b>						
<i>Foreign exchange derivatives</i>						
Spot and forward contracts	-	-	-	-	-	-
<i>Interest rate derivatives</i>						
Swap agreements	15,902	140	111	-	-	-
Total derivatives designated as cash flow hedges	<b>15,902</b>	<b>140</b>	<b>111</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(b) Designated as fair value hedges</b>						
<i>Foreign exchange derivatives</i>						
Swap agreements	18	-	-	-	-	-
<i>Interest rate derivatives</i>						
Swap agreements	30,051	407	1,046	6,485	31	2
Total derivatives designated as fair value hedges	<b>30,069</b>	<b>407</b>	<b>1,046</b>	<b>6,485</b>	<b>31</b>	<b>2</b>
Total derivatives held for hedging	<b>45,971</b>	<b>547</b>	<b>1,157</b>	<b>6,485</b>	<b>31</b>	<b>2</b>
Total derivative financial instruments	<b>585,085</b>	<b>11,015</b>	<b>10,974</b>	<b>19,591</b>	<b>34</b>	<b>254</b>

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**10. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

	NZ Banking Group			NZ Branch		
	Notional Principal Amount \$m	Fair values Assets \$m	Liabilities \$m	Notional Principal Amount \$m	Fair values Assets \$m	Liabilities \$m
<b>30/09/2008</b>						
<b>Derivatives held for trading</b>						
<i>Foreign exchange derivatives</i>						
Spot and forward contracts	37,914	1,079	684	-	-	-
Swap agreements	66,759	3,129	1,564	-	-	-
Options purchased	1,828	58	-	-	-	-
Options sold	1,813	-	61	-	-	-
Collateral received / paid	n/a	(586)	(270)	-	-	-
	<b>108,314</b>	<b>3,680</b>	<b>2,039</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Interest rate derivatives</i>						
Forward rate agreements <sup>1</sup>	40,536	22	17	-	-	-
Swap agreements	347,394	3,565	3,631	-	-	-
Futures contracts	20,328	15	6	-	-	-
Options purchased	2,158	11	-	-	-	-
Options sold	2,164	-	11	-	-	-
	<b>412,580</b>	<b>3,613</b>	<b>3,665</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Commodity derivatives</i>						
Fuel derivatives	-	-	-	-	-	-
Electricity derivatives	36	4	4	-	-	-
Total derivatives held for trading	<b>520,930</b>	<b>7,297</b>	<b>5,708</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Derivatives held for hedging</b>						
<b>(a) Designated as cash flow hedges</b>						
<i>Foreign exchange derivatives</i>						
Spot and forward contracts	-	-	-	-	-	-
<i>Interest rate derivatives</i>						
Swap agreements	12,160	161	142	-	-	-
Total derivatives designated as cash flow hedges	<b>12,160</b>	<b>161</b>	<b>142</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(b) Designated as fair value hedges</b>						
<i>Foreign exchange derivatives</i>						
Swap agreements	58	1	-	-	-	-
<i>Interest rate derivatives</i>						
Swap agreements	32,941	144	622	-	-	-
Total derivatives designated as fair value hedges	<b>32,999</b>	<b>145</b>	<b>622</b>	<b>-</b>	<b>-</b>	<b>-</b>
Total derivatives held for hedging	<b>45,159</b>	<b>306</b>	<b>764</b>	<b>-</b>	<b>-</b>	<b>-</b>
Total derivative financial instruments	<b>566,089</b>	<b>7,603</b>	<b>6,472</b>	<b>-</b>	<b>-</b>	<b>-</b>

1. Restated to be comparable with current year treatment.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**10. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

**Hedging relationships**

The NZ Banking Group has two types of allowable hedging relationships entered into by the NZ 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 1E(ii).

**Fair value hedges**

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

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

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Gain or (loss) arising from fair value hedges:				
- hedged item	115	661	(27)	-
- hedging instrument	(108)	(728)	35	-
	<u>7</u>	<u>(67)</u>	<u>8</u>	<u>-</u>

Net ineffectiveness on qualifying fair value hedges

**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 NZ 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 NZ 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.



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**10. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

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

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

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:

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

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

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11. AVAILABLE-FOR-SALE ASSETS**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Government, Local Body stock and bonds	1,394	3	-	-
Other debt securities	48	41	-	-
Equity securities	71	65	-	-
<b>Total available-for-sale assets</b>	<b>1,513</b>	<b>109</b>	<b>-</b>	<b>-</b>

**12. NET LOANS AND ADVANCES**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Overdrafts	2,087	2,140	-	-
Credit card outstandings	1,402	1,434	-	-
Term loans - housing <sup>1</sup>	53,458	53,350	8,795	-
Term loans - non-housing	40,231	40,583	-	-
Finance lease receivables	683	777	-	-
<b>Gross loans and advances</b>	<b>97,861</b>	<b>98,284</b>	<b>8,795</b>	<b>-</b>
Provision for credit impairment (Note 14)	(1,281)	(666)	(9)	-
Unearned finance income	(262)	(346)	-	-
Fair value hedge adjustment	681	353	(27)	-
Deferred fee revenue and expenses	(53)	(55)	(1)	-
Capitalised brokerage/ mortgage origination fees	78	109	16	-
<b>Total net loans and advances</b>	<b>97,024</b>	<b>97,679</b>	<b>8,774</b>	<b>-</b>

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

On 27 February 2009, ANZ National Bank Limited sold \$4,877 million of residential mortgages to the Australia and New Zealand Banking Group Limited – New Zealand Branch. On 28 July 2009 a second tranche of \$4,986 million of residential mortgages was sold to the NZ Branch.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**Individually impaired assets**

	NZ Banking Group			Total \$m
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	
<b>30/09/2009</b>				
Balance at beginning of the year	83	30	214	327
Transfers from productive	586	243	882	1,711
Transfers to productive	(22)	(20)	(25)	(67)
Assets realised or loans repaid	(232)	(45)	(230)	(507)
Write offs	(28)	(149)	(101)	(278)
Individually impaired asset balance at end of the year	<b>387</b>	<b>59</b>	<b>740</b>	<b>1,186</b>
Restructured items	-	2	-	2
Total impaired assets	<b>387</b>	<b>61</b>	<b>740</b>	<b>1,188</b>

**30/09/2008**

Balance at beginning of the year	7	20	88	115
Transfers from productive	103	122	228	453
Transfers to productive	(2)	-	(8)	(10)
Assets realised or loans repaid	(18)	(14)	(86)	(118)
Write offs	(7)	(98)	(8)	(113)
Individually impaired asset balance at end of the year	<b>83</b>	<b>30</b>	<b>214</b>	<b>327</b>
Restructured items	-	-	-	-
Total impaired assets	<b>83</b>	<b>30</b>	<b>214</b>	<b>327</b>

**Individually impaired assets**

	NZ Branch			Total \$m
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	
<b>30/09/2009</b>				
Balance at beginning of the year	-	-	-	-
Transfers from productive	10	-	-	10
Transfers to productive	-	-	-	-
Assets realised or loans repaid	-	-	-	-
Write offs	-	-	-	-
Individually impaired asset balance at end of the year	<b>10</b>	<b>-</b>	<b>-</b>	<b>10</b>
Restructured items	-	-	-	-
Total impaired assets	<b>10</b>	<b>-</b>	<b>-</b>	<b>10</b>

**30/09/2008**

Balance at beginning of the year	-	-	-	-
Transfers from productive	-	-	-	-
Transfers to productive	-	-	-	-
Assets realised or loans repaid	-	-	-	-
Write offs	-	-	-	-
Individually impaired asset balance at end of the year	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Restructured items	-	-	-	-
Total impaired assets	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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 NZ 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 NZ Banking Group's cost of funds.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

Restructured assets	NZ Banking Group			Total \$m
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	
<b>30/09/2009</b>				
Balance at beginning of the year	-	-	-	-
Transfers to restructured items	-	2	18	20
Transfers from restructured items	-	-	(18)	(18)
Balance at end of the year	-	2	-	2
<b>30/09/2008</b>				
Balance at beginning of the year	-	-	-	-
Transfers to restructured items	-	-	-	-
Transfers from restructured items	-	-	-	-
Balance at end of the year	-	-	-	-
<b>Restructured assets</b>	<b>NZ Branch</b>			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
<b>30/09/2009</b>				
Balance at beginning of the year	-	-	-	-
Transfers to restructured items	-	-	-	-
Transfers from restructured items	-	-	-	-
Balance at end of the year	-	-	-	-
<b>30/09/2008</b>				
Balance at beginning of the year	-	-	-	-
Transfers to restructured items	-	-	-	-
Transfers from restructured items	-	-	-	-
Balance at end of the year	-	-	-	-

Renegotiated loans are loans that would otherwise be past due or impaired had their terms not been renegotiated. At 30 September 2009, loans and advances of \$266 million were renegotiated in the Banking Group (30/09/2008 \$9 million). There were no renegotiated loans in the NZ Branch at 30 September 2009 (30/09/2008 \$nil).

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

	NZ Banking Group			
	Retail mortgages	Other retail exposures	Corporate exposures	Total
	\$m	\$m	\$m	\$m
<b>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
Transfers to past due assets	864	149	448	1,461
Transfers from past due assets	(832)	(144)	(348)	(1,324)
Balance at end of the year	276	59	111	446
<b>Other assets under administration</b>				
Balance at beginning of the year	-	-	1	1
Transfers to other assets under administration	-	-	42	42
Transfers from other assets under administration	-	-	(43)	(43)
Balance at end of the year	-	-	-	-
<b>Undrawn facilities with impaired customers</b>				
Balance at beginning of the year	-	-	6	6
Transfers to (from) undrawn facilities with impaired customers	-	-	26	26
Balance at end of the year	-	-	32	32
<b>Interest foregone on impaired assets</b>				
Gross interest receivable on impaired loans	22	4	42	68
Interest recognised	(4)	(1)	(7)	(12)
Net interest foregone on impaired loans	18	3	35	56
<b>30/09/2008</b>				
<b>Past due assets (90 days past due assets)<sup>1</sup></b>				
Balance at beginning of the year	57	19	26	102
Transfers to past due assets	696	146	14	856
Transfers from past due assets	(509)	(111)	(29)	(649)
Balance at end of the year	244	54	11	309
<b>Other assets under administration</b>				
Balance at beginning of the year	-	-	-	-
Transfers to other assets under administration	-	-	1	1
Transfers from other assets under administration	-	-	-	-
Balance at end of the year	-	-	1	1
<b>Undrawn facilities with impaired customers</b>				
Balance at beginning of the year	-	-	6	6
Transfers to (from) undrawn facilities with impaired customers	-	-	-	-
Balance at end of the year	-	-	6	6
<b>Interest foregone on impaired assets</b>				
Gross interest receivable on impaired loans	8	2	14	24
Interest recognised	(2)	-	(4)	(6)
Net interest foregone on impaired loans	6	2	10	18

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

	NZ Branch			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
<b>30/09/2009</b>				
<b>Past due assets (90 days past due assets)<sup>1</sup></b>				
Balance at beginning of the year	-	-	-	-
Transfers to past due assets	12	-	-	12
Transfers from past due assets	(1)	-	-	(1)
Balance at end of the year	11	-	-	11
<b>Other assets under administration</b>				
Balance at beginning of the year	-	-	-	-
Transfers to other assets under administration	-	-	-	-
Transfers from other assets under administration	-	-	-	-
Balance at end of the year	-	-	-	-
<b>Undrawn facilities with impaired customers</b>				
Balance at beginning of the year	-	-	-	-
Transfers to (from) undrawn facilities with impaired customers	-	-	-	-
Balance at end of the year	-	-	-	-
<b>Interest foregone on impaired assets</b>				
Gross interest receivable on impaired loans	-	-	-	-
Interest recognised	-	-	-	-
Net interest foregone on impaired loans	-	-	-	-
<b>30/09/2008</b>				
<b>Past due assets (90 days past due assets)<sup>1</sup></b>				
Balance at beginning of the year	-	-	-	-
Transfers to past due assets	-	-	-	-
Transfers from past due assets	-	-	-	-
Balance at end of the year	-	-	-	-
<b>Other assets under administration</b>				
Balance at beginning of the year	-	-	-	-
Transfers to other assets under administration	-	-	-	-
Transfers from other assets under administration	-	-	-	-
Balance at end of the year	-	-	-	-
<b>Undrawn facilities with impaired customers</b>				
Balance at beginning of the year	-	-	-	-
Transfers to (from) undrawn facilities with impaired customers	-	-	-	-
Balance at end of the year	-	-	-	-
<b>Interest foregone on impaired assets</b>				
Gross interest receivable on impaired loans	-	-	-	-
Interest recognised	-	-	-	-
Net interest foregone on impaired loans	-	-	-	-

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

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**14. PROVISION FOR CREDIT IMPAIRMENT**

	NZ Banking Group			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
<b>30/09/2009</b>				
<b>Collective provision</b>				
Balance at beginning of the year	81	164	289	534
Charge (credit) to income statement	46	(5)	229	270
Balance at end of the year	<b>127</b>	<b>159</b>	<b>518</b>	<b>804</b>
<b>Individual provision (individually impaired assets)</b>				
Balance at beginning of the year	28	10	94	132
Charge to income statement	155	161	297	613
Recoveries of amounts previously written off	1	18	1	20
Bad debts written off	(28)	(149)	(101)	(278)
Discount unwind <sup>1</sup>	-	-	(10)	(10)
Balance at end of the year	<b>156</b>	<b>40</b>	<b>281</b>	<b>477</b>
Total provision for credit impairment	<b>283</b>	<b>199</b>	<b>799</b>	<b>1,281</b>
<b>30/09/2008</b>				
<b>Collective provision</b>				
Balance at beginning of the year	58	130	234	422
Charge to income statement	23	34	55	112
Balance at end of the year	<b>81</b>	<b>164</b>	<b>289</b>	<b>534</b>
<b>Individual provision (individually impaired assets)</b>				
Balance at beginning of the year	4	13	27	44
Charge to income statement	31	80	79	190
Recoveries of amounts previously written off	-	15	2	17
Bad debts written off	(7)	(98)	(8)	(113)
Discount unwind <sup>1</sup>	-	-	(6)	(6)
Balance at end of the year	<b>28</b>	<b>10</b>	<b>94</b>	<b>132</b>
Total provision for credit impairment	<b>109</b>	<b>174</b>	<b>383</b>	<b>666</b>

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**14. PROVISION FOR CREDIT IMPAIRMENT (Continued)**

	NZ Branch			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	Total \$m
<b>30/09/2009</b>				
<b>Collective provision</b>				
Balance at beginning of the year	-	-	-	-
Charge to income statement	6	-	-	6
Balance at end of the year	6	-	-	6
<b>Individual provision (individually impaired assets)</b>				
Balance at beginning of the year	-	-	-	-
Charge to income statement	3	-	-	3
Recoveries of amounts previously written off	-	-	-	-
Bad debts written off	-	-	-	-
Discount unwind <sup>1</sup>	-	-	-	-
Balance at end of the year	3	-	-	3
Total provision for credit impairment	9	-	-	9
<b>30/09/2008</b>				
<b>Collective provision</b>				
Balance at beginning of the year	-	-	-	-
Charge to income statement	-	-	-	-
Balance at end of the year	-	-	-	-
<b>Individual provision (individually impaired assets)</b>				
Balance at beginning of the year	-	-	-	-
Charge to income statement	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Bad debts written off	-	-	-	-
Discount unwind <sup>1</sup>	-	-	-	-
Balance at end of the year	-	-	-	-
Total provision for credit impairment	-	-	-	-

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



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**14. PROVISION FOR CREDIT IMPAIRMENT (Continued)**

Provision movement analysis	NZ Banking Group			Total \$m
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	
<b>30/09/2009</b>				
New and increased provisions	165	182	316	663
Provision releases	(9)	(3)	(18)	(30)
	<b>156</b>	<b>179</b>	<b>298</b>	<b>633</b>
Recoveries of amounts previously written off	(1)	(18)	(1)	(20)
Individual provision charge	155	161	297	613
Collective provision charge (credit)	46	(5)	229	270
Charge to income statement	<b>201</b>	<b>156</b>	<b>526</b>	<b>883</b>
<b>30/09/2008</b>				
New and increased provisions	31	95	97	223
Provision releases	-	-	(16)	(16)
	31	95	81	207
Recoveries of amounts previously written off	-	(15)	(2)	(17)
Individual provision charge	31	80	79	190
Collective provision charge	23	34	55	112
Charge to income statement	54	114	134	302

	NZ Branch			Total \$m
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	
<b>30/09/2009</b>				
New and increased provisions	3	-	-	3
Provision releases	-	-	-	-
	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>
Recoveries of amounts previously written off	-	-	-	-
Individual provision charge	3	-	-	3
Collective provision charge	6	-	-	6
Charge to income statement	<b>9</b>	<b>-</b>	<b>-</b>	<b>9</b>
<b>30/09/2008</b>				
New and increased provisions	-	-	-	-
Provision releases	-	-	-	-
	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Individual provision charge	-	-	-	-
Collective provision charge	-	-	-	-
Charge to income statement	-	-	-	-

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Shares in associates	211	144	-	-
Shares in jointly controlled entities	253	219	-	-
Total shares in associates and jointly controlled entities	464	363	-	-
<b>Shares in associates comprise:</b>				
Balance at beginning of the year	144	10	-	-
Acquisitions	67	48	-	-
Disposals	-	-	-	-
Transfers to subsidiary company	-	-	-	-
Other	(2)	(2)	-	-
Share of profit of equity accounted associates <sup>1</sup>	2	88	-	-
Balance at end of the year	211	144	-	-

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

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
<b>Shares in jointly controlled entities comprise:</b>				
Balance at beginning of the year	219	196	-	-
Acquisitions	23	-	-	-
Disposals	-	-	-	-
Transfers to subsidiary company	-	-	-	-
Share of profit of equity accounted jointly controlled entities	11	23	-	-
Balance at end of the year	253	219	-	-

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

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

**16. OTHER ASSETS**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Accrued interest and prepaid discounts	397	535	-	-
Accrued commission	19	20	-	-
Defined benefit schemes surplus	-	-	-	-
Share-based payments asset	52	50	-	-
Prepaid expenses	86	57	-	-
Security settlements	291	85	-	-
Other assets	296	253	-	-
Total other assets	1,141	1,000	-	-

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**17. DEFERRED TAX ASSETS**

Deferred tax assets	NZ Banking Group		NZ Branch	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
Balance at beginning of the year	118	7	-	-
Credited to income statement	254	59	3	-
Set-off of deferred tax liabilities pursuant to set-off provisions <sup>1</sup>	(372)	52	-	-
Balance at end of the year	-	118	3	-
<b>Deferred tax assets comprise the following temporary differences:</b>				
Provision for credit impairment	384	200	3	-
Deferred fee revenue and expenses	4	3	-	-
Premises and equipment	2	-	-	-
Software	5	11	-	-
Provisions and accruals	191	125	-	-
Derivative financial instruments	-	3	-	-
Defined benefit schemes	17	8	-	-
Other	4	3	-	-
	607	353	3	-
Set-off of deferred tax liabilities pursuant to set-off provisions <sup>1</sup>	(607)	(235)	-	-
Net deferred tax assets	-	118	3	-
<b>The deferred tax credited (charged) to the income statement comprises the following temporary differences:</b>				
Provision for credit impairment	184	60	3	-
Deferred fee revenue and expenses	1	-	-	-
Premises and equipment	2	(2)	-	-
Software	(6)	(21)	-	-
Provisions and accruals	66	22	-	-
Derivative financial instruments	(3)	-	-	-
Defined benefit schemes	9	8	-	-
Other	1	(8)	-	-
Total deferred tax credited to the income statement	254	59	3	-

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

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**18. PREMISES AND EQUIPMENT**

	NZ Banking Group		NZ Branch	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
<b>Freehold and leasehold land and buildings</b>				
At cost	63	69	-	-
Accumulated depreciation	(11)	(12)	-	-
Total carrying amount	52	57	-	-
<b>Leasehold improvements</b>				
At cost	99	98	-	-
Accumulated depreciation	(78)	(75)	-	-
Total carrying amount	21	23	-	-
<b>Furniture and equipment</b>				
At cost	265	255	-	-
Accumulated depreciation	(191)	(176)	-	-
Total carrying amount	74	79	-	-
<b>Computer and office equipment</b>				
At cost	251	246	-	-
Accumulated depreciation	(200)	(196)	-	-
Total carrying amount	51	50	-	-
Work in progress	80	33	-	-
Total premises and equipment	278	242	-	-

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

<b>Freehold and leasehold land and buildings</b>				
Balance at beginning of the year	57	57	-	-
Additions	10	1	-	-
Disposals	(15)	-	-	-
Depreciation	-	(1)	-	-
Balance at end of the year	52	57	-	-
<b>Leasehold improvements</b>				
Balance at beginning of the year	23	24	-	-
Additions	3	3	-	-
Disposals	-	-	-	-
Depreciation	(5)	(4)	-	-
Balance at end of the year	21	23	-	-
<b>Furniture and equipment</b>				
Balance at beginning of the year	79	78	-	-
Additions	10	16	-	-
Disposals	(1)	-	-	-
Depreciation	(14)	(15)	-	-
Balance at end of the year	74	79	-	-
<b>Computer and office equipment</b>				
Balance at beginning of the year	50	50	-	-
Additions	24	18	-	-
Disposals	(4)	(1)	-	-
Depreciation	(19)	(17)	-	-
Balance at end of the year	51	50	-	-
<b>Work in progress</b>				
Balance at beginning of the year	33	23	-	-
Net additions	47	10	-	-
Balance at end of the year	80	33	-	-
Total premises and equipment	278	242	-	-

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**19. GOODWILL AND OTHER INTANGIBLE ASSETS**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
<b>Goodwill</b>				
<i>Gross carrying amount</i>				
Balance at beginning and end of the year	<b>3,262</b>	3,262	-	-
<b>Software</b>				
<i>Gross carrying amount</i>				
Balance at beginning of the year	<b>96</b>	68	-	-
Additions from internal developments	<b>19</b>	28	-	-
Balance at end of the year	<b>115</b>	96	-	-
<i>Accumulated amortisation</i>				
Balance at beginning of the year	<b>(47)</b>	(39)	-	-
Amortisation expense <sup>1</sup>	<b>(11)</b>	(8)	-	-
Balance at end of the year	<b>(58)</b>	(47)	-	-
Total software	<b>57</b>	49	-	-
<b>Other intangible assets</b>	<b>3</b>	3	-	-
Total goodwill and other intangible assets	<b>3,322</b>	3,314	-	-

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

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

**20. DUE TO OTHER FINANCIAL INSTITUTIONS**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	<b>9,286</b>	1,001	<b>8,801</b>	-
Securities sold under agreements to repurchase from other financial institutions	<b>159</b>	97	-	-
Securities sold under agreements to repurchase from central banks <sup>1</sup>	<b>1,806</b>	-	-	-
Other financial institutions	<b>1,263</b>	2,213	-	-
Total due to other financial institutions	<b>12,514</b>	3,311	<b>8,801</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	<b>485</b>	1,001	-	-
Australia and New Zealand Banking Group Limited - NZ Branch	<b>8,801</b>	-	<b>8,801</b>	-

Balances owing to the Ultimate Parent Bank are due over a range of time periods to 2014. Interest is paid at variable bank rates.

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**21. DEPOSITS AND OTHER BORROWINGS**

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

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

The NZ Banking Group has not defaulted on any principal, interest or redemption amounts on its borrowed funds during the year ended 30 September 2009 (30/09/2008 \$nil). Deposits from customers are unsecured and rank equally with other unsecured liabilities of the NZ Banking Group. In the unlikely event that an entity within the NZ Banking Group was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

**Included within deposits and other borrowings are the following balances:**

Commercial paper issued by ANZ National (Int'l) Limited guaranteed by ANZ National Bank Limited at amortised cost	7,388	12,670	-	-
--	-------	--------	---	---

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

**UDC Finance Limited secured debentures**

Carrying value of total tangible assets	1,877	2,032	-	-
---	-------	-------	---	---

**22. PAYABLES AND OTHER LIABILITIES**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Creditors	81	77	-	-
Accrued interest and unearned discounts	732	991	41	-
Defined benefit schemes deficit	55	27	-	-
Share-based payments liability	28	29	-	-
Accrued charges	257	216	2	-
Security settlements	205	235	-	-
Equitable assignment of mortgages <sup>1</sup>	19	25	-	-
Other liabilities	170	274	-	-
Total payables and other liabilities	<b>1,547</b>	<b>1,874</b>	<b>43</b>	-

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**23. DEFERRED TAX LIABILITIES**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
<b>Provision for deferred income tax</b>				
Balance at beginning of the year	-	-	-	-
Charged (credited) to income statement	390	(28)	-	-
Credited directly to equity	(3)	(24)	-	-
Set-off of deferred tax liabilities pursuant to set-off provisions <sup>1</sup>	(372)	52	-	-
Balance at end of the year	15	-	-	-
<b>Deferred tax liabilities comprise the following temporary differences:</b>				
Lease finance	113	90	-	-
Other (including provisions)	509	145	-	-
	622	235	-	-
Set-off of deferred tax liabilities pursuant to set-off provisions <sup>1</sup>	(607)	(235)	-	-
Net deferred tax liabilities	15	-	-	-
<b>The deferred tax charged (credited) to the income statement comprises the following temporary differences:</b>				
Lease finance	23	(20)	-	-
Defined benefit schemes	-	(2)	-	-
Other (including provisions)	367	(6)	-	-
Total deferred tax charged (credited) to the income statement	390	(28)	-	-
<b>The deferred tax credited to equity comprises the following temporary differences:</b>				
Financial instruments	(3)	(24)	-	-
Total deferred tax credited directly to equity	(3)	(24)	-	-

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**24. PROVISIONS**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
<b>Non-lending losses, frauds and forgeries</b>	<b>4</b>	<b>11</b>	<b>-</b>	<b>-</b>
<b>Employee entitlements<sup>1</sup></b>				
Balance at beginning of the year	117	110	-	-
New provisions	60	62	-	-
Provisions utilised	(58)	(55)	-	-
Balance at end of the year	119	117	-	-
<b>Personnel restructuring costs<sup>2</sup></b>				
Balance at beginning of the year	32	2	-	-
New provisions	17	30	-	-
Provisions utilised	(43)	-	-	-
Balance at end of the year	6	32	-	-
<b>Redundant assets restructuring costs<sup>2</sup></b>				
Balance at beginning of the year	1	2	-	-
New provisions	17	-	-	-
Transfers from subsidiary companies	-	-	-	-
Provisions utilised	-	(1)	-	-
Balance at end of the year	18	1	-	-
<b>Other provisions<sup>3</sup></b>				
Balance at beginning of the year	29	48	-	-
New provisions	257	11	-	-
Provisions utilised	(150)	(30)	-	-
Balance at end of the year	136	29	-	-
Total provisions	283	190	-	-

**1. Employee entitlements**

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

**2. Personnel restructuring costs and redundant assets restructuring costs**

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

**3. ING New Zealand Funds**

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



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**25. BONDS AND NOTES**

					<b>NZ Banking Group</b>	
					<b>30/09/2009</b>	<b>30/09/2008</b>
					<b>\$m</b>	<b>\$m</b>
<b>Issued by ANZ National Bank Limited</b>						
<b>Denomination</b>	<b>Face value</b>		<b>Maturity</b>	<b>Interest rate %</b>		
NZD	150m	fixed rate notes	2009	6.82%	-	150
NZD	50m	floating rate notes	2009	3 month BKBM + 0.30%	-	50
NZD	70m	floating rate notes	2010	3 month BKBM + 0.35%	<b>70</b>	70
NZD	100m	fixed rate notes	2010	8.50%	<b>100</b>	100
NZD	75m	fixed rate notes	2010	8.50%	<b>75</b>	-
NZD	65m	fixed rate notes	2010	3 month BKBM + 0.80%	<b>65</b>	-
NZD	50m	floating rate notes	2011	3 month BKBM + 1.24%	<b>50</b>	-
NZD	150m	fixed rate notes	2011	6.80%	<b>150</b>	150
NZD	170m	floating rate notes	2011	3 month BKBM + 0.90%	<b>170</b>	170
NZD	50m	fixed rate notes	2011	8.25%	<b>50</b>	50
NZD	100m	floating rate notes	2012	3 month BKBM + 1.025%	<b>100</b>	-
NZD	150m	fixed rate notes	2012	5.63%	<b>150</b>	-
NZD	175m	fixed rate notes	2014	8.50%	<b>175</b>	175
NZD	60m	fixed rate notes	2014	8.50%	<b>60</b>	-
Index linked notes					<b>78</b>	146
Fair value hedge adjustment					<b>223</b>	62
					<b>1,516</b>	<b>1,123</b>
<b>Issued by ANZ National (Int'l) Limited</b>						
<b>Denomination</b>	<b>Face value</b>		<b>Maturity</b>	<b>Interest rate %</b>		
GBP	300m	floating rate notes	2008	3 month GBP LIBOR + 0.01%	-	806
USD	120m	floating rate notes	2008	3 month LIBOR - 0.06%	-	179
USD	170m	floating rate notes <sup>2</sup>	2008	1 month LIBOR + 0.01%	-	254
NZD	200m	fixed rate notes	2008	9.20%	-	200
JPY	15,000m	floating rate notes	2008	3 month JPY LIBOR	-	215
EUR	750m	floating rate notes	2009	3 month EURIBOR + 0.12%	-	1,607
HKD	1,000m	fixed rate notes	2009	4.40%	-	193
NZD	150m	floating rate notes	2009	3 month BKBM + 0.10%	<b>150</b>	150
HKD	300m	fixed rate notes	2009	4.93%	-	58
HKD	280m	fixed rate notes	2009	4.44%	-	54
USD	750m	floating rate notes	2009	3 month LIBOR + 0.04%	-	1,120
USD	250m	floating rate notes	2009	3 month Prime - 2.9125%	-	373
USD	300m	floating rate notes	2009	1 month LIBOR + 0.04%	<b>416</b>	448
NZD	20m	floating rate notes	2009	3 month BKBM + 0.05%	-	20
EUR	300m	floating rate notes	2009	3 month EUR LIBOR + 0.15%	-	643
JPY	17,770m	fixed rate notes	2009	0.055%	-	254
JPY	17,500m	floating rate notes	2009	3 month JPY LIBOR	-	250
USD	1m	floating rate notes <sup>1</sup>	2009	1 month LIBOR + 0.01%	-	1
USD	1,211m	floating rate notes <sup>2</sup>	2009	3 month LIBOR + 0.22%	-	1,807
USD	789m	floating rate notes <sup>2</sup>	2009	3 month LIBOR + 0.22%	<b>1,093</b>	1,178
JPY	8,640m	fixed rate notes	2009	0.114%	-	124
JPY	1,000m	fixed rate notes	2009	0.01%	-	14
JPY	6,000m	floating rate notes	2009	3 month JPY LIBOR	<b>92</b>	86
USD	8m	floating rate notes <sup>1</sup>	2010	1 month LIBOR + 0.01%	<b>11</b>	12
USD	750m	floating rate notes	2010	3 month LIBOR + 0.11%	<b>1,039</b>	1,120
NZD	100m	floating rate notes	2010	3 month BKBM + 0.05%	<b>100</b>	100
CHF	275m	floating rate notes	2010	3 month CHF LIBOR + 0.75%	<b>369</b>	375
SGD	200m	fixed rate notes	2010	3.22%	<b>196</b>	209

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**25. BONDS AND NOTES (Continued)**

					NZ Banking Group	
					30/09/2009	30/09/2008
					\$m	\$m
USD	100m	floating rate notes	2010	3 month LIBOR + 0.55%	139	149
AUD	50m	floating rate notes	2010	3 month BBSW + 0.61%	61	60
USD	890m	floating rate notes <sup>3</sup>	2010	3 month LIBOR + 1.03%	1,234	1,328
USD	300m	fixed rate notes	2011	5.50%	416	448
GBP	435m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	966	1,169
GBP	105m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	233	-
USD	500m	floating rate notes <sup>4</sup>	2011	3 month LIBOR + 0.18%	693	-
USD	250m	floating rate notes	2011	3 month LIBOR + 0.70%	346	-
USD	100m	floating rate notes <sup>4</sup>	2011	3 month LIBOR + 0.32%	139	-
USD	20m	floating rate notes <sup>4</sup>	2011	3 month LIBOR + 0.20%	28	-
USD	100m	floating rate notes	2011	3 month LIBOR + 0.65%	139	-
HKD	155m	floating rate notes	2011	3 month HIBOR + 0.51%	28	-
GBP	450m	floating rate notes <sup>3</sup>	2012	6 month GBP LIBOR + 0.08%	999	1,210
USD	1,500m	fixed rate notes <sup>4</sup>	2012	3.25%	2,079	-
USD	100m	floating rate notes <sup>4</sup>	2012	3 month LIBOR + 0.25%	139	-
USD	15m	floating rate notes	2012	3 month LIBOR + 0.80%	21	-
USD	2,000m	fixed rate notes	2013	6.20%	2,772	2,985
USD	100m	floating rate notes <sup>4</sup>	2014	3 month LIBOR + 0.44%	139	-
HKD	100m	fixed rate notes	2014	3.40%	18	-
USD	250m	floating rate notes	2015	3 month LIBOR + 0.90%	346	373
					<b>14,401</b>	<b>19,572</b>
<b>Issued by Samson Funding Limited</b>						
<b>Denomination</b>	<b>Face value</b>		<b>Maturity</b>	<b>Interest rate %</b>		
USD	350m	fixed rate notes <sup>5</sup>	2010	4.484%	516	527
USD	750m	fixed rate notes <sup>5</sup>	2053	5.36%	1,107	1,160
					<b>1,623</b>	<b>1,687</b>
Total bonds and notes					<b>17,540</b>	<b>22,382</b>

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

Subsidiaries of the Australia and New Zealand Banking Group Limited	2,233	2,538
---	-------	-------

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

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

- The interest rate payable on these notes is stepped as follows: Year 1 1 month LIBOR - 0.02%, Year 2 1 month LIBOR, Year 3 1 month LIBOR + 0.01%, Year 4 1 month LIBOR + 0.02% and Year 5 1 month LIBOR + 0.03%. The investors were able to elect to extend the maturity of the notes for a year on a monthly basis. These notes were originally for USD1.5 billion, but between 7 August 2007 and 6 March 2009, investors elected not to extend these bonds. As a result these bonds carry a fixed maturity as follows: 7 August 2008 USD 89 million; 5 September 2008 USD 1,232 million; 7 October 2008 USD 164 million; 5 December 2008 USD million; 7 May 2009 USD 1 million; and 5 March 2010 USD 8 million.
- The interest rate payable on these notes is stepped as follows: Year 1 3 month LIBOR + 0.22%, Year 2 3 month LIBOR + 0.24% Year 3 3 month LIBOR + 0.26%, Year 4 3 month LIBOR + 0.28% and Year 5 3 month LIBOR + 0.29%. The investors were able to elect to extend the maturity of the notes for a year on a 3 monthly basis. On 10 June 2008 and 10 September 2008 and 10 December 2008, investors elected not to extend USD 686 million, USD 525 million and USD 789 million of bonds which has resulted in these bonds carrying a fixed maturity on 9 April 2009, 10 July 2009 and 9 October 2009 respectively.
- These notes were issued to subsidiaries of the ANZ Group.
- These notes are guaranteed by the NZ Banking Group and benefit from a supporting guarantee from the NZ Crown.
- These notes were issued in two tranches of USD 350 million and USD 750 million by Samson Funding Limited on 26 November 2003. The notes are 'stapled' to preference shares issued by the Ultimate Parent Bank and may not be traded separately from them. They can be repaid on 15 January 2010 (USD 350 million) and 15 December 2013 (USD 750 million). The USD 350 million note will be repaid on 15 January 2010. Interest is payable half yearly in arrears at a fixed rate of 4.484% p.a. (USD 350 million) and 5.36% p.a. (USD 750 million) with interest payments due 15 June and 15 December.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**26. TERM FUNDING**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
ANZ Funds Pty Limited	<u>1,766</u>	<u>1,766</u>	<u>-</u>	<u>-</u>

**ANZ Funds Pty Limited (Related Company)**

This New Zealand dollar loan was made on 1 December 2003 and is repayable upon demand being made by ANZ Funds Pty Limited, where 12 months prior written notice is given, unless a shorter notice period is agreed upon. Interest is currently payable quarterly in arrears based on 3 month BKBM + 1.525% p.a., with interest payments due 1 March, 1 June, 1 September and 1 December. As part of the annual review of terms and conditions of the loan, the margin was increased from 0.32% p.a. to 1.525% p.a., effective from 1 December 2008.

**27. LOAN CAPITAL**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
AUD 207,450,000 term subordinated floating rate loan	-	248	-	-
AUD 265,740,000 perpetual subordinated floating rate loan	324	317	-	-
AUD 186,100,000 term subordinated floating rate loan	227	222	-	-
AUD 43,767,507 term subordinated floating rate loan	53	52	-	-
AUD 169,520,000 term subordinated floating rate loan	207	202	-	-
Term subordinated fixed rate bonds	950	950	-	-
Perpetual subordinated bond	835	835	-	-
Total loan capital issued	<u>2,596</u>	<u>2,826</u>	<u>-</u>	<u>-</u>
Less loan capital instruments held by the Banking Group	-	(6)	-	-
Total loan capital	<u>2,596</u>	<u>2,820</u>	<u>-</u>	<u>-</u>

**Included within loan capital is the following related party balance:**

Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	811	1,041	-	-
---	-----	-------	---	---

**AUD 207,450,000 loan**

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

**AUD 265,740,000 loan**

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

**AUD 186,100,000 loan**

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

**AUD 43,767,507 loan**

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

**AUD 169,520,000 loan**

This loan was drawn down on 17 September 2007 with an ultimate maturity date of 17 September 2017. The NZ Banking Group 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**27. 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*

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

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

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

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

*Perpetual subordinated bond*

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

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

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

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

All of the NZD subordinated bonds are listed on the NZX. The Market Surveillance Panel of the NZX granted ANZ National Bank Limited a waiver from the requirements of Listing Rules 10.4 and 10.5. Rule 10.4 relates to the provision of preliminary announcements of half yearly and annual results to the NZX. Rule 10.5 relates to preparing and providing a copy of half yearly and annual reports to the NZX. ANZ National Bank Limited has been granted a waiver from these rules on the conditions that the Bank's quarterly General Disclosure Statement ("GDS") is available on the NZ Banking Group'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 NZ Banking Group.

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.

---

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. ORDINARY SHARE CAPITAL AND HEAD OFFICE ACCOUNT**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	Number of Issued Shares	Number of Issued Shares	Number of Issued Shares	Number of Issued Shares
<b>Issued share capital</b>				
Ordinary shares at beginning and end of the year	382,238,236	382,238,236	-	-
Redeemable preference shares at beginning of the year	3,210,066,601	2,700,066,601	-	-
Issue of redeemable preference shares during year	795,228,628	510,000,000	-	-
Redemption of redeemable preference shares during year	-	-	-	-
Redeemable preference shares at end of the year	4,005,295,229	3,210,066,601	-	-
	<b>4,387,533,465</b>	<b>3,592,304,837</b>	<b>-</b>	<b>-</b>
	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
<b>Paid in share capital &amp; Head Office Account</b>				
Ordinary share capital at beginning and end of the year	1,453	1,453	-	-
Redeemable preference shares at beginning of the year	3,960	3,450	-	-
Redeemable preference shares issued during the year	1,000	510	-	-
	<b>4,960</b>	<b>3,960</b>	<b>-</b>	<b>-</b>
Paid in share capital at end of year	6,413	5,413	-	-
Head Office Account	11	-	11	-
Total Capital & Head Office Account at end of year	<b>6,424</b>	<b>5,413</b>	<b>11</b>	<b>-</b>

On 24 March 2009, the NZ Banking Group paid a \$1 billion dividend to its parent company. On the same day, the NZ Banking Group issued 795,228,628 redeemable preference shares to the value of \$1 billion.

**Voting rights**

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

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

**29. RESERVES AND RETAINED EARNINGS**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
<b>Available-for-sale revaluation reserve</b>				
Balance at beginning of the year	23	(1)	-	-
Valuation gain recognised after tax	2	24	-	-
Balance at end of the year	<b>25</b>	<b>23</b>	<b>-</b>	<b>-</b>
<b>Cash flow hedging reserve</b>				
Balance at beginning of the year	24	84	-	-
Valuation loss recognised after tax	-	(34)	-	-
Transferred to income statement	(1)	(26)	-	-
Balance at end of the year	<b>23</b>	<b>24</b>	<b>-</b>	<b>-</b>
Total reserves	<b>48</b>	<b>47</b>	<b>-</b>	<b>-</b>
<b>Retained earnings</b>				
Balance at beginning of the year	1,667	1,869	-	-
Profit after income tax	194	990	28	-
Total available for appropriation	<b>1,861</b>	<b>2,859</b>	<b>28</b>	<b>-</b>
Actuarial loss on defined benefit schemes after tax	(18)	(23)	-	-
Interim ordinary dividend paid	(1,000)	(1,169)	-	-
Balance at end of the year	<b>843</b>	<b>1,667</b>	<b>28</b>	<b>-</b>

The paid dividend on ordinary shares was \$2.64 per share (30/09/2008 \$3.06 per share).

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**30. CAPITAL ADEQUACY**

**OVERSEAS BANKING GROUP CAPITAL ADEQUACY RATIO**

	Overseas Banking Group		Overseas Bank (Extended Licensed Entity)	
	Unaudited 30/09/2009 Basel II	Unaudited 30/09/2008 Basel II	Unaudited 30/09/2009 Basel II	Unaudited 30/09/2008 Basel II
Tier One Capital	10.6%	7.7%	11.6%	8.4%
Total Capital	13.7%	11.1%	14.2%	11.6%

Basel II came into force on 1 January 2008. The Overseas Banking Group received accreditation from APRA to apply the Advanced Internal Ratings Based ("Advanced IRB") methodology for credit risk weighted assets and the Advanced Measurement Approach ("AMA") for operational risk weighted asset equivalents.

The Overseas Banking Group has Advanced IRB accreditation under Basel II rules. The Overseas Banking Group met the requirements imposed by APRA as at 30 September 2009.

Further details of the Overseas Banking Group's capital adequacy requirements and credit risk management processes can be found in its 2009 Annual Report. This report can be accessed at the following website address: [www.anz.com](http://www.anz.com).

**RISK WEIGHTED CREDIT RISK EXPOSURES**

Risk weighted exposures for the NZ Banking Group and NZ Branch have been derived in accordance with the RBNZ document entitled 'Capital Adequacy Framework (Basel I Approach)' ("BS2") dated March 2008.

**Total Risk Weighted Exposures of the NZ Banking Group as at 30 September 2009 (unaudited):**

On-balance sheet exposures	Principal amount	Risk weight	Risk weighted exposure	
			\$m	\$m
Cash and short term claims on Government	3,765	0%	-	-
Long term claims on Government	2,284	10%	228	
Claims on banks	6,381	20%	1,276	
Claims on public sector entities	751	20%	150	
Residential mortgages	53,897	50%	26,949	
Other	44,993	100%	44,993	
Non risk weighted assets	14,245	n/a	-	
	<b>126,316</b>		<b>73,596</b>	

Off-balance sheet exposures	Principal amount	Credit conversion factor	Credit equivalent amount	Average counterparty risk weight	Risk weighted exposure
					\$m
Direct credit substitutes	2,094	100%	2,094	34%	712
Commitments with certain drawdown	735	100%	735	60%	440
Transaction related contingent items	982	50%	491	71%	347
Short term, self liquidating trade related contingencies	89	20%	18	45%	8
Other commitments to provide financial services which have an original maturity of 1 year or more	5,139	50%	2,570	100%	2,570
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	16,989	0%	-	n/a	-
Market related contracts <sup>1</sup>					
- Foreign exchange	108,375		5,982	22%	1,341
- Interest rate	476,674		9,329	23%	2,163
- Other	36		6	67%	4
	<b>611,113</b>		<b>21,225</b>		<b>7,585</b>

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**30. CAPITAL ADEQUACY (Continued)**

**Total Risk Weighted Exposures of the NZ Branch as at 30 September 2009 (unaudited):**

<b>On-balance sheet exposures</b>	<b>Principal amount \$m</b>	<b>Risk weight</b>	<b>Risk weighted exposure \$m</b>
Cash and short term claims on Government	-	0%	-
Long term claims on Government	-	10%	-
Claims on banks	11	20%	2
Claims on public sector entities	-	20%	-
Residential mortgages	8,746	50%	4,373
Other	355	100%	355
Non risk weighted assets	40	n/a	-
	<b>9,152</b>		<b>4,730</b>

<b>Off-balance sheet exposures</b>	<b>Principal amount \$m</b>	<b>Credit conversion factor</b>	<b>Credit equivalent amount \$m</b>	<b>Average counterparty risk weight</b>	<b>Risk weighted exposure \$m</b>
Direct credit substitutes	-	100%	-	n/a	-
Commitments with certain drawdown	-	100%	-	n/a	-
Transaction related contingent items	-	50%	-	n/a	-
Short term, self liquidating trade related contingencies	-	20%	-	n/a	-
Other commitments to provide financial services which have an original maturity of 1 year or more	34	50%	17	100%	17
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	-	0%	-	n/a	-
Market related contracts <sup>1</sup>					
- Foreign exchange	9,076		42	20%	8
- Interest rate	10,515		46	20%	9
- Other	-		-	0%	-
	<b>19,625</b>		<b>105</b>		<b>34</b>

**RETAIL MORTGAGES BY LOAN-TO-VALUATION ("LVR") RATIO**

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

**Retail mortgages by LVR for the NZ Banking Group as at 30 September 2009 (unaudited):**

<b>LVR range</b>	<b>Exposure Amount \$m</b>
0% - 80%	41,557
80% - 90%	6,827
Over 90%	5,940
	<b>54,324</b>

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**30. CAPITAL ADEQUACY (Continued)**

**MARKET RISK**

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

The peak end-of-day market risk exposures for the quarter are measured over the Overseas Banking Group's 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.

	Implied risk weighted		NZ Banking Group Aggregate capital charge		Aggregate capital charge as a percentage of the Overseas Banking Group's Equity	
	As at \$m	Peak \$m	As at \$m	Peak \$m	As at %	Peak %
	<b>Audited 30/09/2009</b>					
Interest rate risk	3,990	4,321	320	346	1.0%	1.1%
Foreign currency risk	5	301	-	24	0.0%	0.1%
Equity risk	69	82	6	7	0.0%	0.0%
	<u>4,064</u>		<u>326</u>			
<b>Audited 30/09/2008</b>						
Interest rate risk	3,736	3,984	299	319	1.1%	1.2%
Foreign currency risk	35	160	3	13	0.0%	0.0%
Equity risk	64	75	5	6	0.0%	0.0%
	<u>3,835</u>		<u>307</u>			



### **31. FINANCIAL RISK MANAGEMENT**

#### **Strategy in using financial instruments**

Financial instruments are fundamental to the NZ 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 NZ 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 NZ Banking Group's balance sheet. These risks and the NZ Banking Group's policies and objectives for managing such risks are outlined below. The NZ Banking Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the NZ Banking Group.

#### **CREDIT RISK**

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The NZ 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 NZ Banking Group has an overall lending objective of sound growth for appropriate returns. The credit risk objectives of the entities within the NZ Banking Group are set by each 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.

A 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 independent credit chains and is supported by comprehensive risk analysis, risk tools, monitoring processes and policies.

#### **CREDIT RISK MANAGEMENT**

Where appropriate the Group-wide credit risk management framework is applied to each entity across the NZ Banking Group with the aim of ensuring a structured and disciplined approach is maintained in achieving the objectives set by each 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 staffed by risk specialists assists with credit risk management across each entity as required. 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 Overseas Banking Group Board establishing 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 entities and Business Units within the NZ Banking Group. 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. For the key operating entities within the NZ Banking Group credit risk policy and management is executed through the Chief Risk Officer who has various dedicated areas within the Risk Management division. A formal outsourcing agreement provides for credit risk functions to be provided to a number of NZ Banking Group entities by staff of ANZ National Bank Limited.

The credit risk review function within Internal Audit, either within Australia or New Zealand, also provides a further independent check mechanism to ensure the quality of credit decisions. This may include providing independent periodic checks on asset quality and compliance with the agreed standards and policies across the NZ Banking Group.

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

#### 31. FINANCIAL RISK MANAGEMENT (Continued)

##### Country risk management

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

Country ratings are assigned to each country where the NZ Banking Group incurs country risk and have a direct bearing on the NZ 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 use of capital pricing model for cross border flows.

The recording of country limits provides the NZ 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 Overseas 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. Stress testing programmes have been implemented within the key operating business of the NZ Banking Group.

The Overseas Bank has a dedicated stress testing team within Risk Management that assists business and risk executives in the NZ Banking Group to model and report 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 reporting processes, which include a monthly 'asset quality' reporting function closely supported and overseen by the NZ Banking Group Risk function ensuring an efficient and independent conduit exists to quickly identify and communicate emerging credit issues to NZ Banking Group executives and each Board.

##### Collateral management

ANZ Group-wide credit principles specify to lend only what the counterparty has the capacity and ability to repay. The entities within the NZ Banking Group set 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. Credit policies for each entity set 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 NZ Banking Group does not usually hold any real estate or other assets acquired through the enforcement of security.

The key operating entities within the NZ Banking Group use International Swaps and Derivatives Association ("ISDA") Master Agreements to document derivatives activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that, if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Further, it is 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**CONCENTRATIONS OF CREDIT RISK**

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

Where applicable, entities within the NZ Banking Group monitor lending 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 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:

	NZ Banking Group							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 <sup>3</sup> \$m		
<b>30/09/2009</b>								
<b>Industry</b>								
Agriculture, forestry, fishing	48	-	261	20,328	209	1,555	22,401	
Business services	2	-	13	857	9	638	1,519	
Construction	-	-	3	848	9	853	1,713	
Entertainment, leisure and tourism	-	48	28	1,011	10	487	1,584	
Finance and insurance	4,606	4,191	10,064	1,297	13	1,371	21,542	
Government and local authority <sup>1</sup>	2,412	1,392	175	1,412	15	802	6,208	
Manufacturing	83	1	96	2,786	29	3,835	6,830	
Personal lending	-	-	1	54,638	560	10,495	65,694	
Property services	3	-	36	8,231	85	1,723	10,078	
Retail trade	91	-	74	1,592	16	1,206	2,979	
Transport and storage	6	8	80	1,561	16	686	2,357	
Wholesale trade	19	-	6	1,706	18	1,036	2,785	
Other <sup>2</sup>	6	39	178	1,357	14	1,341	2,935	
	<b>7,276</b>	<b>5,679</b>	<b>11,015</b>	<b>97,624</b>	<b>1,003</b>	<b>26,028</b>	<b>148,625</b>	
Individual provision for credit impairment	-	-	-	(477)	-	-	(477)	
Collective provision for credit impairment	-	-	-	(804)	-	-	(804)	
	-	-	-	(1,281)	-	-	(1,281)	
Fair value hedge adjustment	-	-	-	681	-	-	681	
Total financial assets	<b>7,276</b>	<b>5,679</b>	<b>11,015</b>	<b>97,024</b>	<b>1,003</b>	<b>26,028</b>	<b>148,025</b>	
<b>Geography</b>								
New Zealand	6,213	3,272	2,951	95,549	1,003	26,028	135,016	
Overseas	1,063	2,407	8,064	1,475	-	-	13,009	
Total financial assets	<b>7,276</b>	<b>5,679</b>	<b>11,015</b>	<b>97,024</b>	<b>1,003</b>	<b>26,028</b>	<b>148,025</b>	

1. Government and local authority includes exposures to government administration and defence, education and health and community services.
2. Other includes exposures to electricity, gas and water, communications, and personal services.
3. Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer. Credit related commitments for 2008 have been restated to be consistent with current year treatment.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

30/09/2008	NZ Banking Group							Total \$m
	Liquid assets and due from other financial institutions	Trading securities and available- for-sale assets	Derivative financial instruments	Net loans and advances	Other financial assets	Credit related commitments <sup>3</sup>		
	\$m	\$m	\$m	\$m	\$m	\$m		
<b>Industry</b>								
Agriculture, forestry, fishing	105	-	74	17,925	163	2,169	20,436	
Business services	-	-	9	1,201	11	426	1,647	
Construction	-	-	1	921	8	510	1,440	
Entertainment, leisure and tourism	-	28	7	1,051	10	132	1,228	
Finance and insurance	5,105	2,423	6,879	1,817	17	1,737	17,978	
Government and local authority <sup>1</sup>	3,966	255	277	642	6	1,238	6,384	
Manufacturing	209	8	208	3,129	29	3,993	7,576	
Personal lending	-	-	-	54,831	499	10,704	66,034	
Property services	-	-	20	9,271	84	1,570	10,945	
Retail trade	392	-	13	1,903	17	808	3,133	
Transport and storage	31	4	20	1,392	13	858	2,318	
Wholesale trade	23	-	11	1,849	17	1,265	3,165	
Other <sup>2</sup>	40	15	84	2,060	19	2,025	4,243	
	<b>9,871</b>	<b>2,733</b>	<b>7,603</b>	<b>97,992</b>	<b>893</b>	<b>27,435</b>	<b>146,527</b>	
Individual provision for credit impairment	-	-	-	(132)	-	-	(132)	
Collective provision for credit impairment	-	-	-	(534)	-	-	(534)	
	-	-	-	(666)	-	-	(666)	
Fair value hedge adjustment	-	-	-	353	-	-	353	
Total financial assets	<b>9,871</b>	<b>2,733</b>	<b>7,603</b>	<b>97,679</b>	<b>893</b>	<b>27,435</b>	<b>146,214</b>	
<b>Geography</b>								
New Zealand	7,582	1,229	1,839	96,452	893	27,435	135,430	
Overseas	2,289	1,504	5,764	1,227	-	-	10,784	
Total financial assets	<b>9,871</b>	<b>2,733</b>	<b>7,603</b>	<b>97,679</b>	<b>893</b>	<b>27,435</b>	<b>146,214</b>	

30/09/2009	NZ Branch							Total \$m
	Liquid assets and due from other financial institutions	Trading securities and available- for-sale assets	Derivative financial instruments	Net loans and advances	Due from related entities	Other financial assets	Credit related commitments <sup>3</sup>	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Industry</b>								
Agriculture, forestry, fishing	-	-	-	-	-	-	-	-
Business services	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-
Entertainment, leisure and tourism	-	-	-	-	-	-	-	-
Finance and insurance	-	-	34	-	341	-	-	375
Government and local authority <sup>1</sup>	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-
Personal lending	-	-	-	8,810	-	-	34	8,844
Property services	-	-	-	-	-	-	-	-
Retail trade	-	-	-	-	-	-	-	-
Transport and storage	-	-	-	-	-	-	-	-
Wholesale trade	-	-	-	-	-	-	-	-
Other <sup>2</sup>	-	-	-	-	-	-	-	-
	-	-	34	8,810	341	-	34	9,219
Individual provision for credit impairment	-	-	-	(3)	-	-	-	(3)
Collective provision for credit impairment	-	-	-	(6)	-	-	-	(6)
	-	-	-	(9)	-	-	-	(9)
Fair value hedge adjustment	-	-	-	(27)	-	-	-	(27)
Total financial assets	-	-	34	8,774	341	-	34	9,183
<b>Geography</b>								
New Zealand	-	-	-	8,774	341	-	34	9,149
Overseas	-	-	34	-	-	-	-	34
Total financial assets	-	-	34	8,774	341	-	34	9,183

1. Government and local authority includes exposures to government administration and defence, education and health and community services.
2. Other includes exposures to electricity, gas and water, communications, and personal services.
3. Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer. Credit related commitments for 2008 have been restated to be consistent with current year treatment.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

30/09/2008	NZ Branch							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 related entities \$m	Other financial assets \$m	Credit related commitments <sup>3</sup> \$m	
<b>Industry</b>								
Agriculture, forestry, fishing	-	-	-	-	-	-	-	-
Business services	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-
Entertainment, leisure and tourism	-	-	-	-	-	-	-	-
Finance and insurance	-	-	-	-	-	-	-	-
Government and local authority <sup>1</sup>	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-
Personal lending	-	-	-	-	-	-	-	-
Property services	-	-	-	-	-	-	-	-
Retail trade	-	-	-	-	-	-	-	-
Transport and storage	-	-	-	-	-	-	-	-
Wholesale trade	-	-	-	-	-	-	-	-
Other <sup>2</sup>	-	-	-	-	-	-	-	-
Individual provision for credit impairment	-	-	-	-	-	-	-	-
Collective provision for credit impairment	-	-	-	-	-	-	-	-
Fair value hedge adjustment	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-
<b>Geography</b>								
New Zealand	-	-	-	-	-	-	-	-
Overseas	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-

1. Government and local authority includes exposures to government administration and defence, education and health and community services.
2. Other includes exposures to electricity, gas and water, communications, and personal services.
3. Credit related commitments comprise undrawn facilities, customer contingent liabilities, and letters of offer. Credit related commitments for 2008 have been restated to be consistent with current year treatment.

**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 NZ Banking Group would have to pay if the contingency is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

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

30/09/2009	NZ Banking Group				NZ Branch			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>4</sup> \$m	Total maximum exposure to credit risk \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>4</sup> \$m	Total maximum exposure to credit risk \$m
<b>On and off-balance sheet positions</b>								
Liquid assets	-	-	2,762	2,762	-	-	-	-
Due from other financial institutions	-	-	4,514	4,514	-	-	341	341
Trading securities	-	-	4,166	4,166	-	-	-	-
Derivative financial instruments	-	-	11,015	11,015	-	-	34	34
Available-for-sale assets	-	-	1,513	1,513	-	-	-	-
Net loans and advances	51,562	4,456	41,006	97,024	8,774	-	-	8,774
Other financial assets	-	-	1,003	1,003	-	-	-	-
Credit related commitments	5,726	4,769	15,533	26,028	34	-	-	34
Total exposure to credit risk	57,288	9,225	81,512	148,025	8,808	-	375	9,183
<b>30/09/2008</b>								
<b>On and off-balance sheet positions</b>								
Liquid assets	-	-	4,839	4,839	-	-	-	-
Due from other financial institutions	-	-	5,032	5,032	-	-	-	-
Trading securities	-	-	2,624	2,624	-	-	-	-
Derivative financial instruments	-	-	7,603	7,603	-	-	-	-
Available-for-sale assets	-	-	109	109	-	-	-	-
Net loans and advances	49,867	5,207	42,605	97,679	-	-	-	-
Other financial assets	-	-	893	893	-	-	-	-
Credit related commitments	5,397	5,307	16,731	27,435	-	-	-	-
Total exposure to credit risk	55,264	10,514	80,436	146,214	-	-	-	-

4. Includes corporates, sovereigns and banks.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**CREDIT QUALITY**

A core component of the NZ 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.

Where applicable, credit 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 past due financial assets**

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. Where applicable the policies relating to impaired assets conform to RBNZ's guidelines.

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 NZ 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 risk grading principles and policies adopted across the NZ Banking Group where these are also supported by a complementary risk grading methodology. The following table presents an analysis of gross loans and advances, prior to deducting the fair value hedge adjustment and provision for credit impairment, by summarised Basel II asset class into exposures neither past due nor impaired, past due and impaired.

	NZ Banking Group				NZ Branch			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>4</sup> \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>4</sup> \$m	Total \$m
<b>30/09/2009</b>								
Neither past due nor impaired	48,490	3,822	41,256	93,568	8,557	-	-	8,557
Past due but not impaired (1 to 89 days)	1,445	315	662	2,422	232	-	-	232
Past due but not impaired (over 90 days)	276	59	111	446	11	-	-	11
Impaired	387	61	740	1,188	10	-	-	10
	<b>50,598</b>	<b>4,257</b>	<b>42,769</b>	<b>97,624</b>	<b>8,810</b>	<b>-</b>	<b>-</b>	<b>8,810</b>
<b>30/09/2008</b>								
Neither past due nor impaired	47,520	4,912	41,886	94,318	-	-	-	-
Past due but not impaired (1 to 89 days)	1,776	385	877	3,038	-	-	-	-
Past due but not impaired (over 90 days)	244	54	11	309	-	-	-	-
Impaired	83	30	214	327	-	-	-	-
	<b>49,623</b>	<b>5,381</b>	<b>42,988</b>	<b>97,992</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

4. Includes corporates, sovereigns and banks.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

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

Where applicable, the credit quality of financial assets is assessed by the entities within the NZ 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.

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:

	NZ Banking Group				NZ Branch			
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>4</sup> \$m	Total \$m	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures <sup>4</sup> \$m	Total \$m
<b>30/09/2009</b>								
Strong risk rating	44,650	1,459	17,756	63,865	7,939	-	-	7,939
Satisfactory risk rating	3,156	2,010	19,078	24,244	510	-	-	510
Substandard but not past due or impaired	684	353	4,422	5,459	108	-	-	108
	<b>48,490</b>	<b>3,822</b>	<b>41,256</b>	<b>93,568</b>	<b>8,557</b>	<b>-</b>	<b>-</b>	<b>8,557</b>
<b>30/09/2008</b>								
Strong risk rating	43,866	1,849	19,827	65,542	-	-	-	-
Satisfactory risk rating	3,041	2,800	19,987	25,828	-	-	-	-
Substandard but not past due or impaired	613	263	2,072	2,948	-	-	-	-
	<b>47,520</b>	<b>4,912</b>	<b>41,886</b>	<b>94,318</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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

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

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the fair value of associated security is sufficient to ensure that the NZ 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.

4. Includes corporates, sovereigns and banks.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

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

	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures <sup>4</sup>	Total	Retail mortgages	Other retail exposures	Corporate exposures <sup>4</sup>	Total
30/09/2009	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1 to 5 days	310	104	397	811	40	-	-	40
6 to 29 days	740	136	122	998	154	-	-	154
30 to 59 days	264	49	71	384	27	-	-	27
60 to 89 days	131	26	72	229	11	-	-	11
90 days or over	276	59	111	446	11	-	-	11
	<b>1,721</b>	<b>374</b>	<b>773</b>	<b>2,868</b>	<b>243</b>	<b>-</b>	<b>-</b>	<b>243</b>
<b>30/09/2008</b>								
1 to 5 days	544	137	534	1,215	-	-	-	-
6 to 29 days	798	155	193	1,146	-	-	-	-
30 to 59 days	304	63	106	473	-	-	-	-
60 to 89 days	130	30	44	204	-	-	-	-
90 days or over	244	54	11	309	-	-	-	-
	<b>2,020</b>	<b>439</b>	<b>888</b>	<b>3,347</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

The key operating entities within the NZ Banking Group regularly review their portfolios 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:

	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures <sup>4</sup>	Total	Retail mortgages	Other retail exposures	Corporate exposures <sup>4</sup>	Total
30/09/2009	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Impaired financial assets	387	61	740	1,188	10	-	-	10
Undrawn facilities with impaired customers	-	-	32	32	-	-	-	-
Individual provision balance	156	40	281	477	3	-	-	3
Net impaired financial assets	<b>231</b>	<b>21</b>	<b>491</b>	<b>743</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>7</b>
Collective provision balance	<b>127</b>	<b>159</b>	<b>518</b>	<b>804</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>
<b>30/09/2008</b>								
Impaired financial assets	83	30	214	327	-	-	-	-
Undrawn facilities with impaired customers	-	-	6	6	-	-	-	-
Individual provision balance	28	10	94	132	-	-	-	-
Net impaired financial assets	<b>55</b>	<b>20</b>	<b>126</b>	<b>201</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Collective provision balance	<b>81</b>	<b>164</b>	<b>289</b>	<b>534</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Security held by the NZ Banking Group in respect of individually impaired financial assets, both drawn and undrawn, in the analysis above has an estimated fair value of \$743 million (30/09/2008 \$201 million).

Security held by the NZ Branch in respect of individually impaired financial assets, both drawn and undrawn, in the analysis above has an estimated fair value of \$7 million (30/09/2008 \$nil).

4. Includes corporates, sovereigns and banks.



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**Restructured and other individually impaired assets**

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

**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.

	NZ Banking Group						
	Liquid assets and due from other financial institutions	Trading securities and available-for-sale assets	Derivative financial instruments	Net loans and advances	Other financial assets	Credit related commitments <sup>5</sup>	Total
30/09/2009	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	488	-	-	488
Other	-	-	-	223	-	32	255
Total value of collateral	-	-	-	711	-	32	743
Credit exposure	-	-	-	1,188	-	32	1,220
Unsecured portion of credit	-	-	-	477	-	-	477
30/09/2008	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	112	-	-	112
Other	-	-	-	83	-	6	89
Total value of collateral	-	-	-	195	-	6	201
Credit exposure	-	-	-	327	-	6	333
Unsecured portion of credit	-	-	-	132	-	-	132
	NZ Branch						
	Liquid assets and due from other financial institutions	Trading securities and available-for-sale assets	Derivative financial instruments	Net loans and advances	Other financial assets	Credit related commitments <sup>5</sup>	Total
30/09/2009	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	7	-	-	7
Other	-	-	-	-	-	-	-
Total value of collateral	-	-	-	7	-	-	7
Credit exposure	-	-	-	10	-	-	10
Unsecured portion of credit	-	-	-	3	-	-	3
30/09/2008	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total value of collateral	-	-	-	-	-	-	-
Credit exposure	-	-	-	-	-	-	-
Unsecured portion of credit	-	-	-	-	-	-	-

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

### **31. FINANCIAL RISK MANAGEMENT (Continued)**

#### **MARKET RISK**

Market risk is the risk to the NZ 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 NZ 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 NZ 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 NZ Banking Group has been set by the Board and Risk Committee of either ANZ National Bank Limited or the Ultimate Parent Bank, as appropriate. Likewise oversight and monitoring of material market risk exposures of the NZ Banking Group is undertaken by the Market Risk functions of ANZ National Bank Limited and also the Ultimate Parent Bank. Throughout this document, references to the risk management of the operations within the entities comprising the NZ 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 ANZ National Bank Limited Asset & Liability Committee ("ALCO"). The CMRC, chaired by the ANZ Group Chief Risk Officer, is responsible for traded market risk, while the ALCO, chaired by the NZ Group Chief Executive Officer, is responsible for non-traded market risk (or balance sheet risk). All committees receive regular reporting on the range of trading and balance sheet market risks incurred.

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

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

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

#### 31. FINANCIAL RISK MANAGEMENT (Continued)

These risks are monitored daily against a comprehensive limit framework that includes Value at Risk ("VAR"), aggregate market position and sensitivity, product and geographic thresholds. To facilitate the management, control, measurements and reporting of market risk, the NZ 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 NZ Banking Group acts as principal with customers, financial exchanges or interbank counterparties. 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 NZ Banking Group to market risk. These include equity securities classified as available-for-sale. Regular reviews are performed to substantiate valuation of the investments within this portfolio.

The traded market risk function provides specific oversight of each of the main trading areas and is responsible for the establishment of a VaR framework and detailed control limits. In all trading areas the NZ 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 Asset and Liability Committees of both the ANZ National Bank Limited and the ANZ Banking Group provide monthly oversight of market risk.

The ANZ National Bank Limited Chief Risk Officer is responsible for daily review and oversight of traded market risk reports via a service level agreement with the Ultimate Parent Bank. The Chief Risk Officers have 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 VaR. VaR is a statistical estimate of the likely daily loss and is based on historical market movements. VaR calculations and limits are prepared separately for ANZ National Bank Limited and the NZ Branch.

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 NZ Banking Group's standard VaR approach for both traded and non-traded risk is historical simulation. The NZ 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 NZ Banking Group could experience from an extreme market event. As a result of this limitation, the NZ Banking Group utilises a number of other risk measures (e.g. stress testing) and associated detailed control limits to measure and manage market risk.

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**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 NZ Banking Group.

	NZ Banking Group				NZ Banking Group			
	Value at risk at 97.5% confidence				Value at risk at 99% confidence			
	As at	High for	Low for	Average for	As at	High for	Low for	Average for
	\$m	period	period	period	\$m	period	period	period
		\$m	\$m	\$m		\$m	\$m	\$m
<b>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>
<b>30/09/2008</b>								
Foreign exchange risk	0.2	1.3	0.1	0.3	0.2	1.6	0.2	0.5
Interest rate risk	1.6	1.9	0.5	0.9	2.7	2.7	0.6	1.3
Credit spread risk	0.2	0.3	0.1	0.1	0.4	0.4	0.2	0.2
Diversification benefit	(0.3)	n/a	n/a	(0.5)	(0.6)	n/a	n/a	(0.7)
<b>Total VaR</b>	<b>1.7</b>	<b>2.0</b>	<b>0.3</b>	<b>0.8</b>	<b>2.7</b>	<b>2.8</b>	<b>0.5</b>	<b>1.3</b>

VaR is calculated separately for foreign exchange and for interest rate/debt markets businesses as well as for the overall trading activities of each relevant entity within the NZ Banking Group. The diversification benefit reflects the historical correlation between these products.

To supplement the VaR methodology, the NZ Banking Group applies a wide range of stress tests, both on individual portfolios and for the overall trading activities of each relevant entity within the NZ Banking Group. The NZ 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 NZ Banking Group.

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

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

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

	As at \$m	NZ Banking Group High for period \$m	Low for period \$m	Average for period \$m
<b>30/09/2009</b>				
Value at risk at 97.5% confidence	22.4	22.9	18.9	20.9
<b>30/09/2008</b>				
Value at risk at 97.5% confidence	12.8	13.0	10.4	11.9

To supplement the VaR methodology, the NZ Banking Group applies a wide range of stress tests, both on individual portfolios and for the overall trading activities of each material entity within the NZ Banking Group level. The NZ 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 NZ Banking Group.

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

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

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

	NZ Banking Group	
	30/09/2009	30/09/2008
<b>Impact of 1% Rate Shock</b>		
As at	0.2%	0.0%
Maximum exposure	0.6%	1.8%
Minimum exposure	-0.1%	0.0%
Average exposure (in absolute terms)	0.3%	0.8%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income. For relevant entities within the NZ Banking Group, quantification of the potential variation in future net interest income as a result of these repricing mismatches is performed 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 NZ 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.

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 NZ 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 NZ 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 NZ 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

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 NZ 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 NZ 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 NZ Banking Group policy.

The following tables represent the interest rate sensitivity of the NZ 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.

30/09/2009	NZ Banking Group						
	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>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	11,015	-	-	-	-	-	11,015
Available-for-sale assets	1,513	149	1,286	-	9	-	69
Net loans and advances	97,024	50,539	7,668	14,024	24,831	55	(93)
Other financial assets	1,003	-	-	-	-	-	1,003
Total financial assets	121,997	57,726	9,320	14,442	27,478	733	12,298
Non-financial assets	4,317	-	-	-	-	-	4,317
Total assets	126,314	57,726	9,320	14,442	27,478	733	16,615
<b>Liabilities</b>							
Due to other financial institutions	12,514	11,533	550	277	22	-	132
Deposits and other borrowings	71,764	45,087	14,019	5,497	2,788	-	4,373
Derivative financial instruments	10,974	-	-	-	-	-	10,974
Payables and other financial liabilities	1,149	66	-	-	-	-	1,083
Bonds and notes	17,540	9,586	672	371	6,911	-	-
Term funding	1,766	1,766	-	-	-	-	-
Loan capital	2,596	227	584	-	1,785	-	-
Total financial liabilities	118,303	68,265	15,825	6,145	11,506	-	16,562
Non-financial liabilities	696	-	-	-	-	-	696
Equity	7,315	-	-	-	-	-	7,315
Total liabilities and equity	126,314	68,265	15,825	6,145	11,506	-	24,573
On-balance sheet interest sensitivity gap	-	(10,539)	(6,505)	8,297	15,972	733	(7,958)
Hedging instruments	-	11,589	5,630	(11,762)	(4,417)	(1,040)	-
Interest sensitivity gap - net	-	1,050	(875)	(3,465)	11,555	(307)	(7,958)
Interest sensitivity gap - cumulative	-	1,050	175	(3,290)	8,265	7,958	-

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

30/09/2008	NZ Banking Group						
	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>Assets</b>							
Liquid assets	4,839	4,668	-	-	-	-	171
Due from other financial institutions	5,032	3,080	450	-	134	-	1,368
Trading securities	2,624	1,043	10	-	1,332	239	-
Derivative financial instruments	7,603	-	-	-	-	-	7,603
Available-for-sale assets	109	30	-	-	14	-	65
Net loans and advances	97,679	44,105	6,682	13,308	33,877	46	(339)
Other financial assets	893	-	-	-	-	-	893
<b>Total financial assets</b>	<b>118,779</b>	<b>52,926</b>	<b>7,142</b>	<b>13,308</b>	<b>35,357</b>	<b>285</b>	<b>9,761</b>
Non-financial assets	4,299	-	-	-	-	-	4,299
<b>Total assets</b>	<b>123,078</b>	<b>52,926</b>	<b>7,142</b>	<b>13,308</b>	<b>35,357</b>	<b>285</b>	<b>14,060</b>
<b>Liabilities</b>							
Due to other financial institutions	3,311	2,379	114	378	381	40	19
Deposits and other borrowings	77,136	54,827	10,671	6,813	896	1	3,928
Derivative financial instruments	6,472	-	-	-	-	-	6,472
Payables and other financial liabilities	1,499	93	-	-	60	7	1,339
Bonds and notes	22,382	15,732	472	374	4,464	1,295	45
Term funding	1,766	1,766	-	-	-	-	-
Loan capital	2,820	216	819	-	1,785	-	-
<b>Total financial liabilities</b>	<b>115,386</b>	<b>75,013</b>	<b>12,076</b>	<b>7,565</b>	<b>7,586</b>	<b>1,343</b>	<b>11,803</b>
Non-financial liabilities	565	-	-	-	-	-	565
Equity	7,127	-	-	-	-	-	7,127
<b>Total liabilities and equity</b>	<b>123,078</b>	<b>75,013</b>	<b>12,076</b>	<b>7,565</b>	<b>7,586</b>	<b>1,343</b>	<b>19,495</b>
On-balance sheet interest sensitivity gap	-	(22,087)	(4,934)	5,743	27,771	(1,058)	(5,435)
Hedging instruments	-	18,597	5,578	(6,078)	(18,964)	867	-
Interest sensitivity gap - net	-	(3,490)	644	(335)	8,807	(191)	(5,435)
Interest sensitivity gap - cumulative	-	(3,490)	(2,846)	(3,181)	5,626	5,435	-

30/09/2009	NZ Branch						
	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>Assets</b>							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments	34	-	-	-	-	-	34
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances	8,774	2,125	1,165	1,757	3,726	-	1
Due from related entities	341	341	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>9,149</b>	<b>2,466</b>	<b>1,165</b>	<b>1,757</b>	<b>3,726</b>	<b>-</b>	<b>35</b>
Non-financial assets	3	-	-	-	-	-	3
<b>Total assets</b>	<b>9,152</b>	<b>2,466</b>	<b>1,165</b>	<b>1,757</b>	<b>3,726</b>	<b>-</b>	<b>38</b>
<b>Liabilities</b>							
Due to other financial institutions	8,801	8,679	122	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-
Derivative financial instruments	254	-	-	-	-	-	254
Payables and other financial liabilities	41	-	-	-	-	-	41
Bonds and notes	-	-	-	-	-	-	-
Term funding	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>9,096</b>	<b>8,679</b>	<b>122</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>295</b>
Non-financial liabilities	17	-	-	-	-	-	17
Equity	39	-	-	-	-	-	39
<b>Total liabilities and equity</b>	<b>9,152</b>	<b>8,679</b>	<b>122</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>351</b>
On-balance sheet interest sensitivity gap	-	(6,213)	1,043	1,757	3,726	-	(313)
Hedging instruments	-	6,553	(789)	(2,088)	(3,676)	-	-
Interest sensitivity gap - net	-	340	254	(331)	50	-	(313)
Interest sensitivity gap - cumulative	-	340	594	263	313	313	-

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

30/09/2008	Total \$m	Less than 3 months \$m	NZ Branch			1 to 5 years \$m	Beyond 5 years \$m	Not bearing interest \$m
			3 to 6 months \$m	6 to 12 months \$m				
<b>Assets</b>								
Liquid assets	-	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-	-
Net loans and advances	-	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Non-financial assets	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>								
Due to other financial institutions	-	-	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Payables and other financial liabilities	-	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-	-
Term funding	-	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Non-financial liabilities	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
On-balance sheet interest sensitivity gap	-	-	-	-	-	-	-	-
Hedging instruments	-	-	-	-	-	-	-	-
Interest sensitivity gap - net	-	-	-	-	-	-	-	-
Interest sensitivity gap - cumulative	-	-	-	-	-	-	-	-



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**Equity securities classified as available-for-sale**

The portfolio of financial assets, classified as available-for-sale for measurement and financial reporting purposes, also contains equity investment holdings which predominantly comprise investments held for longer term strategic intentions. These equity investments are also subject to market risk which is not captured by the VaR measures for traded and non-traded market risks. The fair value of these securities as at 30 September 2009 was \$69 million (30/09/2008 \$65 million). Regular reviews are performed to substantiate valuation of the investments within the portfolio. The fair value of the equity securities classified as available-for-sale can fluctuate considerably. A 10 per cent reduction in the value of the available-for-sale equity securities at 30 September 2009 would have reduced equity by \$6.9 million (30/09/2008 \$6.5 million).

**Foreign currency related risks**

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

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

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

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

**LIQUIDITY RISK**

Liquidity risk is the risk that the NZ 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 NZ Banking Group.

The NZ 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 NZ Banking Group's framework is to manage liquidity to meet obligations as they fall due, without incurring unacceptable losses. In response to the impact of the global financial crisis, the framework has been reviewed and updated.

Central to the NZ Banking Group's liquidity risk management approach is the establishment of a liquidity risk appetite framework to which the NZ Banking Group must conform to at all times. The risk appetite for liquidity has been set as low, and this objective is achieved by the NZ 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 NZ Banking Group's balance sheet structure to ensure long term resilience in the NZ Banking Group's liquidity and funding risk profile.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**31. FINANCIAL RISK MANAGEMENT (Continued)**

- Limiting the potential earnings at risk implications associated with unexpected increases in funding costs or the liquidation of assets under stress.
- Ensuring the liquidity management framework is compatible with regulatory requirements.
- Daily liquidity reporting and scenario analysis, quantifying the Banking Group's positions.
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.
- Holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations.
- Establishing detailed contingency plans to cover different liquidity crisis events.

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

**Scenario Modelling**

A key component of the NZ 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 NZ Banking Group must be able to meet all commitments and obligations under a going concern scenario, within the NZ Banking Group normal funding capacity ('available to fund' limit), over at least the following 30 calendar days.

In estimating the funding requirement, the NZ Banking Group models expected cash flows by reference to historical behaviour and contractual maturity data. As of 30 September 2009 the NZ 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 NZ Banking Group or adverse rating changes.

Under this scenario the NZ Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the NZ Banking Group must be cash flow positive over an eight calendar day period. As of 30 September 2009 the NZ 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 NZ Banking Group has recently enhanced its liquidity risk scenario modelling. The NZ Banking Group has linked its liquidity risk appetite to defined liquidity "survival horizons" (i.e. the time period under which the NZ 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.

**NZ Banking Group Funding Composition**

The NZ Banking Group actively uses balance sheet disciplines to prudently manage the funding mix. The NZ 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

The table below outlines total NZ Banking Group volumes of customer deposits and wholesale funding:

Funding composition	NZ Banking Group		NZ Branch	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
<b>Customer deposits<sup>1</sup></b>				
New Zealand	52,065	52,199	-	-
Overseas	7,866	6,757	-	-
Total customer deposits	59,931	58,956	-	-
<b>Wholesale funding</b>				
Bonds and notes	17,540	22,382	-	-
Loan capital	2,596	2,820	-	-
Certificates of deposit	4,441	5,527	-	-
Commercial paper	7,392	12,653	-	-
Term funding	1,766	1,766	-	-
Due to other financial institutions	12,514	3,311	8,801	-
Total wholesale funding	46,249	48,459	8,801	-
Total funding	106,180	107,415	8,801	-
<b>Concentrations of funding by industry</b>				
Households	37,738	36,239	-	-
Agriculture, forestry and fishing	3,872	4,517	-	-
Manufacturing	1,354	1,465	-	-
Entertainment, leisure and tourism	573	611	-	-
Finance and insurance	53,468	54,546	8,801	-
Retail trade	753	752	-	-
Wholesale trade	602	626	-	-
Business and property services	3,960	4,686	-	-
Transport and storage	614	594	-	-
Construction	736	722	-	-
Government and local authority	1,548	1,585	-	-
Other <sup>2</sup>	962	1,072	-	-
Total concentrations of funding by industry	106,180	107,415	8,801	-
<b>Concentrations of funding by geography<sup>3</sup></b>				
New Zealand	61,612	60,660	-	-
United States	17,031	24,178	-	-
Europe	7,511	11,484	-	-
Other countries	20,026	11,093	8,801	-
Total concentrations of funding by geography	106,180	107,415	8,801	-

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

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

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

3 Funding of the NZ Banking Group 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**Wholesale funding**

The NZ 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 NZ Banking Group also uses maturity concentration limits under the wholesale funding and liquidity management framework. 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 NZ 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 NZ Banking Group's Senior Management. The plan is supplemented by monthly updates, and is linked to the NZ Banking Group's three year strategic planning cycle.

**Liquidity portfolio management**

The NZ Banking Group holds a diversified portfolio of cash and high-quality highly-liquid securities that may be sold or pledged to provide same day liquidity.

The size of the NZ Banking Group's liquidity portfolio is based on the amount of liquidity required to meet the liquidity policy outlined on pages 80 to 83.

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

**Liquidity crisis contingency planning**

The NZ Banking Group maintains liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity-threatening event at a NZ 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 NZ Banking Group's financial assets and liabilities, within relevant maturity groupings based on the earliest date on which the NZ Banking Group may be required to pay. The amounts represent principal and interest cash flows and may differ compared to the amounts reported on the balance sheet.

The management of liquidity risk is detailed on pages 80 to 85. The analysis presented below has been made on an undiscounted basis.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

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

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

	Total \$m	At call \$m	NZ Banking Group		1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
			Less than 3 months \$m	3 to 12 months \$m			
<b>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	-	361	507	2,620	678	-
Derivative financial instruments	11,015	-	-	-	-	-	11,015
Available-for-sale assets	1,513	-	119	1,294	9	22	69
Net loans and advances	97,024	-	7,534	14,101	26,542	48,940	(93)
Other financial assets	1,003	-	1,003	-	-	-	-
Interest	46,411	-	1,594	4,019	14,423	26,375	-
Total financial assets (inclusive of interest)	<b>168,408</b>	<b>2,934</b>	<b>14,499</b>	<b>20,312</b>	<b>43,657</b>	<b>76,015</b>	<b>10,991</b>
<b>Liabilities</b>							
Due to other financial institutions	12,514	1,039	2,838	1,948	6,246	443	-
Deposits and other borrowings	71,764	25,397	22,757	20,835	2,775	-	-
Derivative financial instruments	10,974	-	-	-	-	-	10,974
Other financial liabilities	1,149	-	1,149	-	-	-	-
Bonds and notes	17,540	-	2,149	2,640	12,404	347	-
Term funding	1,766	-	-	1,766	-	-	-
Loan capital	2,596	-	-	-	-	1,437	1,159
Interest	5,646	-	721	1,444	3,224	257	-
Total financial liabilities (inclusive of interest)	<b>123,949</b>	<b>26,436</b>	<b>29,614</b>	<b>28,633</b>	<b>24,649</b>	<b>2,484</b>	<b>12,133</b>

	Total \$m	At call \$m	NZ Banking Group		1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
			Less than 3 months \$m	3 to 12 months \$m			
<b>30/09/2008</b>							
<b>Assets</b>							
Liquid assets	4,839	4,839	-	-	-	-	-
Due from other financial institutions	5,032	435	3,629	462	506	-	-
Trading securities	2,624	-	1,009	-	1,376	239	-
Derivative financial instruments	7,603	-	-	-	-	-	7,603
Available-for-sale assets	109	-	-	-	14	30	65
Net loans and advances	97,679	-	8,822	12,849	27,579	48,762	(333)
Other financial assets	893	-	893	-	-	-	-
Interest	66,834	-	2,340	5,951	20,137	38,406	-
Total financial assets (inclusive of interest)	<b>185,613</b>	<b>5,274</b>	<b>16,693</b>	<b>19,262</b>	<b>49,612</b>	<b>87,437</b>	<b>7,335</b>
<b>Liabilities</b>							
Due to other financial institutions	3,311	1,713	685	492	381	40	-
Deposits and other borrowings	77,136	27,058	31,736	17,444	898	-	-
Derivative financial instruments	6,472	-	-	-	-	-	6,472
Other financial liabilities	1,499	-	1,432	-	60	7	-
Bonds and notes	22,382	-	1,862	6,719	12,088	1,668	45
Term funding	1,766	-	-	1,766	-	-	-
Loan capital	2,820	-	-	-	-	1,668	1,152
Interest	8,895	-	1,813	1,915	4,438	729	-
Total financial liabilities (inclusive of interest)	<b>124,281</b>	<b>28,771</b>	<b>37,528</b>	<b>28,336</b>	<b>17,865</b>	<b>4,112</b>	<b>7,669</b>

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

	Total \$m	At call \$m	NZ Branch		1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
			Less than 3 months \$m	3 to 12 months \$m			
<b>30/09/2009</b>							
<b>Assets</b>							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments	34	-	-	-	-	-	34
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances	8,774	-	1,241	36	7,496	-	1
Due from subsidiary companies	341	-	341	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Interest	793	-	178	299	316	-	-
Total financial assets (inclusive of interest)	9,942	-	1,760	335	7,812	-	35
<b>Liabilities</b>							
Due to other financial institutions	8,801	-	679	1,272	6,400	450	-
Deposits and other borrowings	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-
Derivative financial instruments	254	-	-	-	-	-	254
Other financial liabilities	41	-	41	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-
Term funding	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-
Interest	1,232	-	66	278	882	6	-
Total financial liabilities (inclusive of interest)	10,328	-	786	1,550	7,282	456	254

	Total \$m	At call \$m	NZ Branch		1 to 5 years \$m	Beyond 5 years \$m	No maturity specified \$m
			Less than 3 months \$m	3 to 12 months \$m			
<b>30/09/2008</b>							
<b>Assets</b>							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total financial assets (inclusive of interest)	-	-	-	-	-	-	-
<b>Liabilities</b>							
Due to other financial institutions	-	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-
Term funding	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total financial liabilities (inclusive of interest)	-	-	-	-	-	-	-

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**32. CONCENTRATIONS OF CREDIT RISK**

The NZ Banking Group has no credit exposures, on the basis of limits, to individual counterparties or groups of closely related counterparties (whether bank or non-bank exposures) which equal or exceed 10% of the Overseas Banking Group's equity as at 30 September 2009 or 30 September 2008, or in respect of peak end-of-day aggregate credit exposures for the quarter ended 30 September 2009. The peak end-of-day exposures have been calculated using the Overseas Banking Group equity as at 30 September 2009. These calculations exclude credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent.

---

**33. INTEREST EARNING AND DISCOUNT BEARING ASSETS AND LIABILITIES**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Interest earning and discount bearing assets	<b>109,699</b>	109,017	<b>9,114</b>	-
Interest and discount bearing liabilities	<b>101,741</b>	103,583	<b>8,801</b>	-

---

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

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

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

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

A significant number of financial instruments are carried at fair value in the balance sheet. Below is a comparison of the carrying amounts, as reported on the balance sheet, and fair values of all financial assets and liabilities. 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. In our view, the aggregate fair value amounts do not represent the underlying value of the NZ Banking Group.

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

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

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

**FINANCIAL ASSETS**

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

The carrying values of these financial instruments where there has been no significant change in credit risk are considered to approximate their net fair values as they are short-term in nature or are receivable on demand, or 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**

Derivative financial instruments are carried at fair value. 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.



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**34. 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 NZ Banking Group's cost of wholesale funding and movements in customer margin. For floating rate loans, only changes in wholesale market rates and the NZ Banking Group's cost of wholesale funding are incorporated in the discount rate. For variable rate loans where the NZ 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 NZ Banking Group has not reclassified any financial assets previously measured at amortised cost to fair value, or previously measured at fair value to amortised cost, during the year ended 30 September 2009 (30/09/2008 \$nil).

**FINANCIAL LIABILITIES**

**Due to other financial institutions**

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

**Deposits and other borrowings**

For interest bearing fixed maturity deposits and other borrowings with 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 deposits and other borrowings have been designated at fair value through profit or loss and are carried at fair value.

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

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

**Bonds and notes, term funding 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.

**Payables and other financial liabilities**

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)**

**Commitments and contingencies**

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

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

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

**VALUATION METHODOLOGY**

A significant number of financial instruments are carried on the balance sheet at fair value. The NZ 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)**

Carrying amount Financial assets	At amortised cost			NZ Banking Group At fair value though profit or loss		Hedging	Available- for-sale assets	Total
	Loans and receivables \$m	Other financial assets at amortised cost \$m	Sub-total \$m	Held for trading \$m				
<b>30/09/2009</b>								
Liquid assets	-	2,762	2,762	-	-	-	-	2,762
Due from other financial institutions	-	1,778	1,778	-	-	-	2,736	4,514
Trading securities	-	-	-	4,166	-	-	-	4,166
Derivative financial instruments <sup>1</sup>	-	-	-	10,468	547	-	-	11,015
Available-for-sale assets	-	-	-	-	-	-	1,513	1,513
Net loans and advances <sup>2</sup>	97,024	-	97,024	-	-	-	-	97,024
Other financial assets	-	1,003	1,003	-	-	-	-	1,003
<b>Total financial assets</b>	<b>97,024</b>	<b>5,543</b>	<b>102,567</b>	<b>14,634</b>	<b>547</b>	<b>4,249</b>	<b>121,997</b>	
<b>30/09/2008</b>								
Liquid assets	-	4,839	4,839	-	-	-	-	4,839
Due from other financial institutions	-	2,585	2,585	-	-	-	2,447	5,032
Trading securities	-	-	-	2,624	-	-	-	2,624
Derivative financial instruments <sup>1</sup>	-	-	-	7,297	306	-	-	7,603
Available-for-sale assets	-	-	-	-	-	-	109	109
Net loans and advances <sup>2</sup>	97,679	-	97,679	-	-	-	-	97,679
Other financial assets	-	893	893	-	-	-	-	893
<b>Total financial assets</b>	<b>97,679</b>	<b>8,317</b>	<b>105,996</b>	<b>9,921</b>	<b>306</b>	<b>2,556</b>	<b>118,779</b>	

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

	NZ Banking Group			
	30/09/2009		30/09/2008	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Liquid assets	2,762	2,762	4,839	4,839
Due from other financial institutions	1,778	1,778	2,585	2,585
Net loans and advances <sup>2</sup>	97,024	96,798	97,679	97,429
Other financial assets	1,003	1,003	893	893
<b>Total financial assets at amortised cost</b>	<b>102,567</b>	<b>102,341</b>	<b>105,996</b>	<b>105,746</b>

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)**

Carrying amount Financial liabilities	At amortised cost	NZ Banking Group At fair value through profit or loss			Hedging	Total
		Designated on initial recognition	Held for trading	Sub-total		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>30/09/2009</b>						
Due to other financial institutions	12,514	-	-	-	-	12,514
Deposits and other borrowings	64,372	7,392	-	7,392	-	71,764
Derivative financial instruments <sup>1</sup>	-	-	9,817	9,817	1,157	10,974
Other financial liabilities	1,149	-	-	-	-	1,149
Bonds and notes <sup>2</sup>	17,540	-	-	-	-	17,540
Term funding	1,766	-	-	-	-	1,766
Loan capital	2,596	-	-	-	-	2,596
<b>Total financial liabilities</b>	<b>99,937</b>	<b>7,392</b>	<b>9,817</b>	<b>17,209</b>	<b>1,157</b>	<b>118,303</b>
<b>30/09/2008</b>						
Due to other financial institutions	3,311	-	-	-	-	3,311
Deposits and other borrowings	64,483	12,653	-	12,653	-	77,136
Derivative financial instruments <sup>1</sup>	-	-	5,708	5,708	764	6,472
Other financial liabilities	1,499	-	-	-	-	1,499
Bonds and notes <sup>2</sup>	22,382	-	-	-	-	22,382
Term funding	1,766	-	-	-	-	1,766
Loan capital	2,820	-	-	-	-	2,820
<b>Total financial liabilities</b>	<b>96,261</b>	<b>12,653</b>	<b>5,708</b>	<b>18,361</b>	<b>764</b>	<b>115,386</b>

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

	NZ Banking Group			
	30/09/09		30/09/2008	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Due to other financial institutions	12,514	12,732	3,311	3,295
Deposits and other borrowings	64,372	64,404	64,483	64,532
Other financial liabilities	1,149	1,149	1,499	1,499
Bonds and notes <sup>2</sup>	17,540	17,502	22,382	21,897
Term funding	1,766	1,766	1,766	1,764
Loan capital	2,596	2,516	2,820	2,687
<b>Total financial liabilities at amortised cost</b>	<b>99,937</b>	<b>100,069</b>	<b>96,261</b>	<b>95,674</b>

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)**

Carrying amount Financial assets	At amortised cost			NZ Branch At fair value though profit or loss	Hedging	Available- for-sale assets	Total \$m
	Loans and receivables \$m	Other financial assets at amortised cost \$m	Sub-total \$m	Held for trading \$m	\$m	\$m	
<b>30/09/2009</b>							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments <sup>1</sup>	-	-	-	3	31	-	34
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances <sup>2</sup>	8,774	-	8,774	-	-	-	8,774
Due from related entities	-	341	341	-	-	-	341
Other financial assets	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>8,774</b>	<b>341</b>	<b>9,115</b>	<b>3</b>	<b>31</b>	<b>-</b>	<b>9,149</b>
<b>30/09/2008</b>							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments <sup>1</sup>	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances <sup>2</sup>	-	-	-	-	-	-	-
Due from related entities	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

	NZ Branch			
	30/09/09		30/09/2008	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Liquid assets	-	-	-	-
Due from other financial institutions	-	-	-	-
Net loans and advances <sup>2</sup>	8,774	8,797	-	-
Due from related entities	341	341	-	-
Other financial assets	-	-	-	-
<b>Total financial assets at amortised cost</b>	<b>9,115</b>	<b>9,138</b>	<b>-</b>	<b>-</b>

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)**

Carrying amount Financial liabilities	At amortised cost	NZ Branch			Hedging	Total
		At fair value through profit or loss				
		Designated on initial recognition	Held for trading	Sub-total		
30/09/2009	\$m	\$m	\$m	\$m	\$m	\$m
Due to other financial institutions	8,801	-	-	-	-	8,801
Deposits and other borrowings	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-
Derivative financial instruments <sup>1</sup>	-	-	252	252	2	254
Other financial liabilities	41	-	-	-	-	41
Bonds and notes <sup>2</sup>	-	-	-	-	-	-
Term funding	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>8,842</b>	<b>-</b>	<b>252</b>	<b>252</b>	<b>2</b>	<b>9,096</b>
<b>30/09/2008</b>						
Due to other financial institutions	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-
Derivative financial instruments <sup>1</sup>	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Bonds and notes <sup>2</sup>	-	-	-	-	-	-
Term funding	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

	NZ Branch			
	30/09/09		30/09/2008	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Due to other financial institutions	8,801	9,019	-	-
Deposits and other borrowings	-	-	-	-
Due to subsidiary companies	-	-	-	-
Other financial liabilities	41	41	-	-
Bonds and notes <sup>2</sup>	-	-	-	-
Term funding	-	-	-	-
Loan capital	-	-	-	-
<b>Total financial liabilities at amortised cost</b>	<b>8,842</b>	<b>9,060</b>	<b>-</b>	<b>-</b>

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**34. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)**

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

	Valuation technique			Total \$m
	Quoted market price \$m	Using observable inputs \$m	Using significant non-observable inputs \$m	
<b>30/09/2009</b>				
<b>NZ Banking Group</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	11,015	-	11,060
<b>Total financial assets</b>	<b>5,455</b>	<b>14,020</b>	<b>-</b>	<b>19,475</b>
<b>Financial liabilities</b>				
Derivative financial instruments	2	10,974	-	10,976
Commercial paper	-	7,392	-	7,392
<b>Total financial liabilities</b>	<b>2</b>	<b>18,366</b>	<b>-</b>	<b>18,368</b>

	Valuation technique			Total \$m
	Quoted market price \$m	Using observable inputs \$m	Using significant non-observable inputs \$m	
<b>30/09/2009</b>				
<b>NZ Branch</b>				
<b>Financial assets</b>				
Trading securities	-	-	-	-
Available-for-sale assets	-	-	-	-
Derivative financial instruments	-	34	-	34
<b>Total financial assets</b>	<b>-</b>	<b>34</b>	<b>-</b>	<b>34</b>
<b>Financial liabilities</b>				
Derivative financial instruments	-	254	-	254
<b>Total financial liabilities</b>	<b>-</b>	<b>254</b>	<b>-</b>	<b>254</b>

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

#### 35. SEGMENTAL ANALYSIS

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

A summarised description of each business segment is shown below:

##### **Retail**

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

##### **Commercial**

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

##### **Institutional**

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

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

##### **Other**

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

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



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**35. SEGMENTAL ANALYSIS (Continued)**

**BUSINESS SEGMENT ANALYSIS<sup>1,2</sup>**

	NZ Banking Group				Total \$m
	Retail Banking <sup>4</sup> \$m	Commercial Banking \$m	Institutional \$m	Other \$m	
<b>30/09/2009</b>					
External interest income	4,405	2,696	439	(61)	7,479
External interest expense	(1,775)	(533)	(731)	(2,142)	(5,181)
Net intersegment interest	(1,468)	(1,398)	758	2,108	-
Net interest income	1,162	765	466	(95)	2,298
Other external operating income	280	98	309	(20)	667
Share of profit of equity accounted associates and jointly controlled entities	13	-	(2)	2	13
Operating income <sup>4</sup>	1,455	863	773	(113)	2,978
Other external expenses	623	160	111	494	1,388
Net intersegment and related party expenses <sup>3</sup>	333	114	60	(416)	91
Operating expenses	956	274	171	78	1,479
Profit before provision for credit impairment and income tax	499	589	602	(191)	1,499
Provision for credit impairment	359	419	95	10	883
Profit before income tax	140	170	507	(201)	616
Income tax expense	37	50	145	190	422
Profit after income tax	103	120	362	(391)	194
<b>Non-cash expenses</b>					
Depreciation and amortisation	17	2	2	29	50
<b>Balance sheet</b>					
Total external assets	54,340	36,506	29,966	5,502	126,314
Share in associates and jointly controlled entities	327	-	-	137	464
Total external liabilities	38,981	10,509	38,660	30,849	118,999

	NZ Banking Group				Total \$m
	Retail Banking \$m	Commercial Banking \$m	Institutional \$m	Other \$m	
<b>30/09/2008</b>					
External interest income	4,729	3,219	1,873	37	9,858
External interest expense	(2,498)	(819)	(1,247)	(3,265)	(7,829)
Net intersegment interest	(951)	(1,618)	(472)	3,041	-
Net interest income	1,280	782	154	(187)	2,029
Other external operating income	506	82	413	14	1,015
Share of profit of equity accounted associates and jointly controlled entities	23	-	-	88	111
Operating income	1,809	864	567	(85)	3,155
Other external expenses	632	155	102	474	1,363
Net intersegment and related party expenses <sup>3</sup>	337	114	55	(424)	82
Operating expenses	969	269	157	50	1,445
Profit before provision for credit impairment and income tax	840	595	410	(135)	1,710
Provision for credit impairment	179	108	13	2	302
Profit before income tax	661	487	397	(137)	1,408
Income tax expense	211	158	118	(69)	418
Profit after income tax	450	329	279	(68)	990
<b>Non-cash expenses</b>					
Depreciation and amortisation	16	1	2	27	46
<b>Balance sheet</b>					
Total external assets	55,779	36,153	26,564	4,582	123,078
Share in associates and jointly controlled entities	212	-	-	151	363
Total external liabilities	39,172	11,717	28,786	36,276	115,951

1. Results are equity standardised.
2. Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
3. Net intersegment expenses are eliminated at the Overseas Bank level.
4. Includes \$211 million charge in relation to ING New Zealand Funds. Refer to Note 41 Contingent Liabilities and Credit Related Commitments for further details.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**36. NOTES TO THE CASH FLOW STATEMENTS**

	NZ Banking Group		NZ Branch	
	Year to 30/09/2009	Year to 30/09/2008	Year to 30/09/2009	Year to 30/09/2008
	\$m	\$m	\$m	\$m
<b>Reconciliation of profit after income tax to net cash flows provided by (used in) operating activities</b>				
Profit after income tax	194	990	28	-
<b>Non-cash items:</b>				
Depreciation and amortisation	50	46	-	-
Provision for credit impairment	883	302	9	-
Deferred fee revenue and expenses	(8)	(3)	-	-
MtM derivatives through profit or loss	10	-	10	-
Share-based payments expense	18	13	-	-
Amortisation of capitalised brokerage/ mortgage origination fees	54	57	4	-
<b>Deferrals or accruals of past or future operating cash receipts or payments:</b>				
Increase in operating assets and liabilities	(1,356)	(3,699)	(117)	-
Decrease in interest receivable	138	2	-	-
(Decrease) increase in interest payable	(259)	206	41	-
Decrease (increase) in accrued income	1	(8)	-	-
Increase in accrued expenses	41	46	2	-
Increase in provisions	100	25	-	-
Amortisation of premiums and discounts	76	56	-	-
Decrease (increase) in income tax assets	183	(43)	12	-
<b>Items classified as investing/financing:</b>				
Share of profit of equity accounted associates and jointly controlled entities	(11)	(111)	-	-
Loss on disposal of premises and equipment	(13)	1	-	-
<b>Net cash flows used in operating activities</b>	<b>101</b>	<b>(2,120)</b>	<b>(11)</b>	<b>-</b>

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

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

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
Cash and balances with central banks	2,207	3,779	-	-
Securities purchased under agreement to resell	1,075	134	-	-
Certificates of deposit	2,736	3,343	-	-
Government, Local Body stock and bonds	1,102	180	-	-
Available-for-sale assets	1,435	-	-	-
Other bank bonds	2,522	1,300	-	-
<b>Total liquidity portfolio<sup>1</sup></b>	<b>11,077</b>	<b>8,736</b>	<b>-</b>	<b>-</b>
<b>Reconciliation to cash and cash equivalents:</b>				
<i>Other cash items not included within liquidity portfolio:</i>				
Liquid assets not with central banks	556	1,060	-	-
Due from other financial institutions - less than 90 days	550	1,948	-	-
<i>Non-cash items included within liquidity portfolio</i>				
Trading securities	(3,624)	(2,376)	-	-
Available-for-sale assets	(1,435)	-	-	-
Due from other financial institutions - greater than 90 days	(2,358)	(1,578)	-	-
<b>Total cash and cash equivalents</b>	<b>4,766</b>	<b>7,790</b>	<b>-</b>	<b>-</b>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>				
Liquid assets	2,763	4,839	-	-
Due from other financial institutions - less than 90 days	2,003	2,951	-	-
<b>Total cash and cash equivalents</b>	<b>4,766</b>	<b>7,790</b>	<b>-</b>	<b>-</b>

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**37. SIGNIFICANT CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES AS AT 30 SEPTEMBER 2009**

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**37. SIGNIFICANT CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES AS AT 30 SEPTEMBER 2009 (Continued)**

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

The ownership interest percentage may be held either directly or through other controlled entities of the Ultimate Parent Bank.

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 NZ Banking Group having 100% of the voting rights.

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

**Movements in controlled entities**

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

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

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

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

On 23 January 2008, ANZ Commodity Trading (New Zealand Branch) was deregistered as an overseas company in New Zealand.

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

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

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

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

**Associates**

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**37. SIGNIFICANT CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES AS AT 30 SEPTEMBER 2009 (Continued)**

**Movements in associates**

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

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

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

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

**Jointly controlled entities**

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

All jointly controlled entities are incorporated in New Zealand.

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

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

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

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

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**38. ULTIMATE PARENT BANK**

The Ultimate Parent Bank is Australia and New Zealand Banking Group Limited which is incorporated in Australia.

---

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

**Securitisation**

The NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group'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.

On 10 October 2008, the NZ Banking Group established an in-house RMBS facility that could issue securities meeting the RBNZ criteria. The establishment of the facility resulted in the ANZ National Bank Limited financial statements recognising a payable and receivable of equal amount totalling \$3,721 million to Kingfisher NZ Trust 2008-1 ("the Trust"), a newly established consolidated entity. On 12 December 2008, a further tranche totalling \$5,521 million was also sold to the Trust, creating a second payable and receivable of equal amount. These assets do not qualify for derecognition as the NZ Banking Group retains a continuing involvement in the transferred assets, therefore the NZ Banking Group's financial statements do not change as a result of establishing these facilities.

The RMBS facility is dynamic in nature reflecting the underlying movement in loan balances. To the extent that any loans are found to be ineligible in terms of the RBNZ criteria, they are automatically removed from the facility. Additional lending to existing RMBS customers is added into the facility on a quarterly basis.

The establishment of this facility increases the NZ Banking Group's contingent funding ability from the RBNZ.

**Funds management**

Certain subsidiaries of the NZ Banking Group act as trustee and/or manager for a number of unit trusts and investment and superannuation funds. ANZ National Bank Limited provides private banking services to a number of clients, including investment advice and portfolio management. The 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 NZ Banking Group, they are not included in these financial statements. The NZ 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 NZ 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 NZ Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2009, \$2,664 million of funds under management were invested in the NZ Banking Group's own products or securities (30/09/2008 \$2,229 million).

Funds management activities conducted by the ING New Zealand joint venture are not included in the funds managed by the NZ Banking Group, as the NZ Banking Group does not have control of the ING New Zealand joint venture.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

The aggregate value of funds managed by the NZ Banking Group at balance date was:

	<b>NZ Banking Group</b>	
	<b>30/09/2009</b>	<b>30/09/2008</b>
	<b>\$m</b>	<b>\$m</b>
Bonus Bonds	<b>2,889</b>	2,417
Discretionary funds	<b>4,360</b>	3,440
Totals funds under management	<b>7,249</b>	5,857

On 1 October 2007, the Direct Broking Call Account was registered as a portfolio investment entity ("PIE").

On 25 March 2008, the UDC Superbonds Superannuation Scheme managed by UDC Finance Limited was wound up.

On 1 April 2008, the National Bank Call Fund, Private Banking Portfolio Call Fund and National Bank Private Banking Call Fund, all managed by ANZ Investments Services (New Zealand) Limited, commenced as PIEs. The funds invest in call deposits with the Bank.

On 9 April 2008, the Term Maximiser Fund and Call Maximiser Fund managed by UDC Finance Limited commenced as PIEs. The funds invest in secured debentures issued by UDC Finance Limited.

On 1 October 2008, the ANZ Call Fund and ANZ Term Fund, managed by UDC Finance Limited, commenced as PIEs. The funds invest in New Zealand dollar call and term deposits with the Bank.

**Custodial services**

The NZ Banking Group provides custodial services to customers in respect of assets that are beneficially owned by those customers.

**Marketing and distribution of insurance products**

The NZ Banking Group markets and distributes a range of insurance products which are underwritten by several insurance companies. These activities are managed in association with the ING New Zealand joint venture.

**Insurance business**

The NZ Banking Group does not conduct any insurance business directly, although the NZ Banking Group holds a 49% share in the ING NZ joint venture which does conduct insurance business.

**Provision of financial services**

Financial services provided by the NZ 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 NZ 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 NZ Banking Group (30/09/2008 \$nil).

**Risk management**

The entities of the NZ 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 Registered 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.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

In addition, the following measures have been taken to manage any risk to the NZ Banking Group of marketing and distributing insurance products:

Investment statements, prospectuses and brochures for insurance products include disclosures that the Registered Bank nor any member of the NZ Banking Group does 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 entities within the NZ Banking Group;
- the policies are subject to investment risk, including possible loss of income and principal; and
- entities within the NZ Banking Group 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 entities within the NZ Banking Group 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 entities within the NZ Banking Group;
- the securities are subject to investment risk including possible loss of income and principal invested; and
- the entities within the NZ Banking Group does not guarantee the capital value or performance of the securities.

Application forms for funds management products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures for funds management products noted above.

**40. COMMITMENTS**

	NZ Banking Group		NZ Branch	
	30/09/2009	30/09/2008	30/09/2009	30/09/2008
	\$m	\$m	\$m	\$m
<b>Capital expenditure</b>				
Contracts for outstanding capital expenditure:				
<b>Premises and equipment</b>				
Not later than 1 year	19	26	-	-
Total capital expenditure commitments	19	26	-	-
<b>Lease rentals</b>				
Future minimum lease payments under non-cancellable operating leases:				
<b>Premises and equipment</b>				
Not later than 1 year	82	86	-	-
Later than 1 year but not later than 5 years	155	167	-	-
Later than 5 years	31	27	-	-
Total lease rental commitments	268	280	-	-
Total commitments	287	306	-	-



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**41. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS**

For contingent exposures, the maximum exposure to credit risk is the maximum amount that the NZ Banking Group would have to pay if the contingent exposure is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	NZ Banking Group Face or contract value		NZ Branch Face or contract value	
	30/09/2009 \$m	30/09/2008 \$m	30/09/2009 \$m	30/09/2008 \$m
<b>Credit related commitments</b>				
Commitments with certain drawdown due within one year	735	659	-	-
Commitments to provide financial services	22,128	23,150	34	-
Total credit related commitments	22,863	23,809	34	-
<b>Contingent liabilities</b>				
Financial guarantees	1,753	2,017	-	-
Standby letters of credit	341	401	-	-
Transaction related contingent items	982	1,090	-	-
Trade related contingent liabilities	89	118	-	-
Total contingent liabilities	3,165	3,626	-	-

The NZ Banking Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including its Ultimate Parent Bank. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio management and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

A summary of contingent liabilities is set out below.

**Contingent tax liability**

The New Zealand Inland Revenue Department ("IRD") is reviewing a number of structured finance transactions as part of an audit of the 2000 to 2005 tax years. A number of cases are before the courts and two decisions have been issued in the High Court, on 16 July 2009 and 7 October 2009, in favour of the IRD in respect of proceedings taken against other Banks.

The NZ Banking Group has a provision which covers its exposure to primary tax and interest (tax-effected), net of an amount receivable from Lloyds Banking Group plc ("Lloyds") reflecting an indemnity given by Lloyds under the agreement by which the NZ Banking Group acquired the NBNZ Holdings Limited Group.

The possible application of penalties has yet to be considered by the IRD. Having regard to the circumstances and advice received, the Bank considers the application of penalties to be both inappropriate and unlikely.

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

Other audits and risk reviews are being undertaken by the IRD and by revenue authorities in other jurisdictions, as part of normal revenue authority activity in those countries.

The NZ Banking Group has assessed these and other taxation claims arising in New Zealand, including seeking independent advice where appropriate, and considers that it holds appropriate provisions.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**41. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS (Continued)**

**Commerce Commission**

In November 2006, the Commerce Commission brought proceedings under the Commerce Act 1986 against Visa, MasterCard and all New Zealand issuers of Visa and MasterCard credit cards, including ANZ National Bank Limited. The Commerce Commission alleged price fixing and substantially lessening competition in relation to the setting of credit card interchange fees.

Subsequently, several major New Zealand retailers issued proceedings against ANZ National Bank Limited and the other abovementioned defendants seeking unquantified damages, based on allegations similar to those contained in the Commerce Commission proceedings.

ANZ National Bank Limited settled the claims with the Commission and the retailers without any admission of liability. Similar settlements were reached by the other parties. The proceedings against all parties were discontinued in October 2009.

In addition, ANZ National Bank Limited is aware that the Commerce Commission is looking closely at credit contract fees under the Credit Contracts and Consumer Finance Act 2003 ("CCCFA"). In its 2008-2011 Statement of Intent the Commission stated that:

*"The Commission is turning more to litigation under the Credit Contracts and Consumer Finance Act to ensure credit contract fees are reasonable and disclosed. Currently the credit industry is not fully compliant with the legislation and taking more action through the courts will encourage better compliance and clarify any areas of the law that may be uncertain."*

In particular ANZ National Bank Limited is aware that the Commerce Commission is investigating the level of default fees charged on credit cards and the level of currency conversion charges on overseas transactions using credit cards under the CCCFA. The Commission is also investigating early repayment charges on fixed rate mortgages. At this stage the possible outcome of these investigations and any liability or impact on fees cannot be determined with any certainty.

**ING New Zealand Funds**

ANZ National Bank Limited ("the Bank") markets and distributes a range of wealth management products in New Zealand, which are managed by ING (NZ) Limited. Trading in the ING Diversified Yield Fund and the ING Regular Income Fund ("the Funds") was suspended on 13 March 2008, due to deterioration in the liquidity and credit markets. Units in these Funds were sold by the Bank to Bank customers.

On 5 June 2009, ING NZ AUT Investments Limited, a subsidiary of ING (NZ) Limited, made an offer to investors in the Funds. The offer closed on 13 July 2009. Investors holding approximately 99% of the funds accepted the offer and have received a payment of 60 cents per unit in the ING Diversified Yield Fund or 62 cents per unit in the ING Regular Income Fund, as applicable, either (i) in cash, or (ii) by way of deposit in an on-call account with the Bank, paying 8.30% per annum fixed for up to five years.

Although acceptance of this offer includes a waiver of claims, Bank customers were offered an additional opportunity to access the Bank customer complaints team (and, where still unsatisfied, the New Zealand Banking Ombudsman) even where the investors have accepted the offer. This opportunity was available until 31 July 2009 and approximately 1,300 customers asked for their circumstances to be considered.

The Commerce Commission has sought information regarding the Funds and the sale of units in the Funds and is investigating this matter. At this stage it is not possible to predict the outcome of any investigation.

The Bank considers it has adequately provided for these obligations at this time. Allowance for the cost to the Bank is recognised as a reduction in other operating income in the income statement for the year ended 30 September 2009 with a corresponding provision in the balance sheet.

The ultimate cost to the Bank will depend on the final value of units in the Funds, any recoveries under insurance, the assessment and outcome of the customer complaints and the results of any litigation and regulatory proceedings that may be brought in connection with the Funds or their sale.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**41. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS (Continued)**

**Other contingent liabilities**

The NZ Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the NZ Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where appropriate. As at 30 September 2009, there were no other contingent assets or liabilities required to be disclosed (30/09/2008 \$nil).

---

**42. EMPLOYEE SHARE AND OPTION PLANS**

The NZ Banking Group participates in the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan operated by the ANZ Banking Group. Any shares or options granted under these plans are shares in Australia and New Zealand Banking Group Limited.

The closing market price of one ordinary share of ANZ quoted on the Australian Stock Exchange ("ASX") at 30 September 2009 was A\$24.39 (30/09/2008 A\$18.75).

**ANZ EMPLOYEE SHARE ACQUISITION PLAN**

The ANZ Employee Share Acquisition Plan includes the A\$1,000 Share Plan, the Deferred Share Plan and the Restricted Share Plan.

**A\$1,000 share plan**

Each permanent employee who has had continuous service for one year with the NZ 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 NZ Banking Group's employees are required to pay NZ 1 cent per share at the time the shares are transferred to them. During the year to 30 September 2009, 540,305 shares with an average issue price of A\$14.94 were issued under the A\$1,000 Share Plan (30/09/2008 267,523 shares with an average issue price of A\$27.96 were issued).

**Deferred share plan**

The NZ 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**

Restricted Shares are available to selected employees and are issued under the ANZ Employee Share Acquisition 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 ANZ shares granted. The fair value of shares granted in the current period, measured at the date of grant of the shares, is NZ \$9.8 million based on 540,305 shares at a weighted average price of A\$14.94 converted at the exchange rate of 0.8232 (30/09/2008 NZ \$8.5 million based on 267,523 shares at a weighted average price of A\$27.96 converted at the exchange rate of 0.8809 were issued).

The average issue price of shares granted and the number of shares that are expected to ultimately vest to the employees at the end of the vesting period are used to calculate the fair value of shares. No dividends are incorporated into the measurement of the fair value of shares.

## **42. EMPLOYEE SHARE AND OPTION PLANS (Continued)**

### **ANZ SHARE OPTION PLAN**

Selected employees may be granted options, which entitle them to purchase ordinary fully paid shares in ANZ at a price fixed at the time when the options were issued. Voting and dividend rights will be attached to the unissued ordinary shares when the options have been exercised. Each option entitles a holder to purchase one ordinary share subject to any terms and conditions imposed on issue. The exercise price of the options (excluding zero-priced options) is determined in accordance with the rules of the plan, and is based on the weighted average price of the Ultimate Parent Bank's shares traded during the five business days preceding the date of granting the options.

The main schemes of the ANZ Share Option Plan are as follows:

#### **Current option plans**

##### ***Special Retention Deferred Share Rights***

This is a programme available to certain Banking Group employees. It grants the right to acquire ANZ shares at nil cost subject to satisfactorily meeting the time based hurdle. The Special Retention Deferred Share Rights can only be exercised between the third and fifth anniversary of their allocation (the 'Exercise Period'). In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of termination on notice, retrenchment, retirement, death or total and permanent disablement, a grace period is provided in which to exercise all deferred share rights.

##### ***Performance rights plan***

This scheme is a long term incentive programme available to certain NZ Banking Group employees since November 2005 and grants the right to acquire ANZ shares at nil cost, subject to a three year vesting period and a Total Shareholder Return ("TSR") performance hurdle. The proportion of rights that will become exercisable will depend upon the TSR achieved by ANZ relative to the companies in the comparator group, which consists of selected major financial services companies in the Standard & Poor's and ASX 100 Index. Performance equal to the median TSR of the comparator group will result in half the rights becoming exercisable. Performance above the median will result in further performance rights becoming exercisable, increasing on a straight line basis until all of the rights become exercisable where ANZ's TSR is at or above the 75th percentile in the comparator group.

The TSR hurdle will only be tested once at the end of the three-year vesting period. If the rights do not pass the hurdle on testing date, or if they pass the hurdle on testing date and are not exercised by the end of five years from the grant date, the rights will lapse. In the case of resignation or termination on notice, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of retrenchment or retirement, performance rights will be performance tested at the date of termination and where performance hurdles have been met, performance rights will be pro-rated and a grace period provided in which to exercise the rights. In case of death or total and permanent disablement, a grace period is provided in which to exercise all performance rights.

##### ***LTI Deferred Share Rights***

This scheme is a long term incentive programme available to certain Banking Group employees and grants the right to acquire a share at nil cost, subject to satisfactorily meeting the time based hurdle. The LTI Deferred Share Rights can only be exercised between the third and fifth anniversary of their allocation (their 'Exercise Period'). In the case of resignation, all unvested LTI Deferred Share Rights (in addition to any vested unexercised rights) as at the time notice of resignation is given, will be forfeited. In case of termination on notice by ANZ, all unvested LTI Deferred Share Rights as at the time notice of termination of notice is received, will be forfeited. Any vested unexercised LTI Deferred Share Rights will be delivered as shares. In case of retrenchment (redundancy), any unvested LTI Deferred Share Rights as at the termination date will be pro-rated and be delivered as shares. In case of death or total and permanent disablement, all LTI Deferred Share Rights will vest and be delivered as shares.

##### ***Deferred share rights***

This scheme is a short term incentive programme available to certain NZ Banking Group employees since November 2004 and grants the right to acquire ANZ shares at nil cost after a specified vesting period ranging from one to three years. Deferred share rights must be exercised by the seventh anniversary of grant date. In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of termination on notice, retrenchment, retirement, death or total and permanent disablement, a grace period is provided in which to exercise all deferred share rights.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42. EMPLOYEE SHARE AND OPTION PLANS (Continued)**

***Deferred share options***

This scheme is a part of the short term incentive programme available whereby certain Banking Group employees receive a mandatory deferred bonus under ANZ's Short Term Incentive ("STI") programme. The options can only be exercised between the first and fifth anniversary (one-year deferred options) and between the second and fifth anniversary (two-year deferred options) of the grant date (exercise period) and subject to the requirement that the share price is greater than the exercise price. In the case of dismissal for serious misconduct, irrespective of whether it is on notice or not, all unvested STI deferred options and any vested unexercised options will be forfeited. In the case of resignation, all unvested STI deferred options and any vested unexercised options as at the time notice of resignation is given will be forfeited. In the case of redundancy, retrenchment, death or total and permanent disablement, all STI deferred options will vest and a grace period is provided in which to exercise all deferred share options.

**Legacy option plans**

***Performance options plan***

This scheme is a long term incentive programme available to certain NZ 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 NZ 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 NZ Banking Group employees after November 2005.

***Zero-price options ("ZPO")***

A ZPO is a right to acquire an ANZ share at nil cost and is granted to certain employees as part of their employment contracts. The ZPO's have no time based vesting criteria, so can be exercised at any time during employment and within 6 months of termination of employment. ZPO's must be exercised within two years of grant date or they lapse.

Other past option plans which are no longer available to the NZ Banking Group's employees, but continue to be amortised during their appropriate vesting periods are hurdled options and index linked options ("ILOs").

Details of the options over unissued ANZ ordinary shares and their related weighted average exercise prices as at the beginning and end of the year and movements during the year are set out below:

	30/09/2009		30/09/2008	
	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 year	1,741,771	10.86	1,616,716	13.93
Share options granted	709,805	2.51	376,715	-
Share options exercised	(109,936)	5.73	(130,988)	16.13
Share options forfeited and expired	(274,295)	10.44	(120,672)	12.27
Share options at end of the year	<b>2,067,345</b>	<b>8.32</b>	<b>1,741,771</b>	<b>10.86</b>
Weighted average share price during the year		16.53		21.37
Range of exercise prices on share options at end of the year		0.00 - 23.49		0.00 - 23.49
Weighted average remaining contractual life on share options at end of the year		35 months		36 months

**Options valuations**

The fair value of services received in return for share options are measured by referring to the fair value of ANZ share options granted. The fair value of options granted in the current period, measured at the date of grant are calculated using one of the following models:

- Monte-Carlo simulation model utilising the assumptions underlying Black-Scholes. In terms of factoring in early exercise, the model assumes that deferred share rights and performance rights are exercised as soon as they vest so that the option holder can benefit from the dividends. It assumes that the performance options are exercised when the share price reaches twice the exercise price; or
- An adjusted form of the Binomial Option pricing model ("BOM"). In terms of factoring in early exercise, the model assumes that the expected life of vanilla options is 5 years, performance rights is 4 years and that deferred share rights are exercised immediately to account for lack of marketability.

1. Calculation of weighted average exercise prices are affected by performance rights, deferred share rights and ZPO plans which have nil exercise prices.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**42. EMPLOYEE SHARE AND OPTION PLANS (Continued)**

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 period. All prices are quoted in Australian dollars:

<b>Option type</b>	<b>Special retention deferred share rights</b>	<b>Performance rights</b>	<b>LTI deferred share rights</b>	<b>STI deferred share rights</b>	<b>STI restricted deferred share rights</b>
Grant date	9-Dec-2008	31-Oct-2008	31-Oct-2008	31-Oct-2008	31-Oct-2008
Number of options	18,210	50,050	364,112	89,121	601
Option value	\$11.84	\$9.99	\$14.58	\$15.45	\$16.38
Exercise price (5 day VWAP)	\$nil	\$nil	\$nil	\$nil	\$nil
Share price at grant (\$A)	\$14.10	\$17.36	\$17.36	\$17.36	\$17.36
ANZ expected volatility <sup>2</sup>	34%	30%	30%	30%	30%
Option term	5 years	5 years	5 years	5 years	5 years
Vesting period	3 years	3 years	3 years	2 years	1 year
Expected life	3 years	3 years	3 years	2 years	1 year
Expected dividends	6.00%	6.00%	6.00%	6.00%	6.00%
Risk free interest rate	3.49%	4.25%	4.48%	4.48%	4.28%

<b>Option type</b>	<b>STI deferred share rights</b>	<b>STI restricted share rights</b>	<b>STI deferred share rights</b>	<b>STI deferred share rights</b>
Grant date	31-Oct-2008	31-Oct-2008	31-Oct-2008	31-Oct-2008
Number of options	84,058	28,851	37,400	37,402
Option value	\$16.38	\$2.80	\$2.94	\$2.80
Exercise price (5 day VWAP)	\$nil	\$17.18	\$17.18	\$17.18
Share price at grant (\$A)	\$17.36	\$17.36	\$17.36	\$17.36
ANZ expected volatility <sup>2</sup>	30%	30%	30%	30%
Option term	5 years	5 years	5 years	5 years
Vesting period	1 year	1 year	2 years	1 year
Expected life	1 year	1 year	2 years	1 year
Expected dividends	6.00%	6.00%	6.00%	6.00%
Risk free interest rate	4.28%	4.48%	4.64%	4.48%

2. Expected volatility is based on ANZ's historic volatility.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**43. RETIREMENT BENEFIT OBLIGATIONS**

The NZ Banking Group has established a number of pension and superannuation schemes. The NZ 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> or	Nil	Balance of cost <sup>4</sup>
	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> or	5% of salary	Balance of cost <sup>5</sup>
	Defined Contribution Scheme	2.0% minimum of salary	11.5% of salary <sup>7</sup>

1. These schemes provide for pension benefits and provide for lump sum benefits.
2. Closed to new members on 31 March 1990. Operates to make pension payments to retirees who were members of that section of the scheme or to dependents of the members.
3. Closed to new members on 1 October 1991.
4. 30/09/2009: \$nil (30/09/2008 \$nil).
5. 30/09/2009: 24.8% (30/09/2008 24.8%) of members' salaries.
6. 30/09/2009: 7.5% (30/09/2008 7.5%) of members' salaries.
7. 30/09/2009: 11.5% (30/09/2008 11.5%) of members' salaries.

Details of the defined benefit schemes are as follows:

Actuarial valuations for financial reporting purposes are undertaken every six months. The latest valuations were carried out as at 30 September 2009.

	NZ Banking Group	
	30/09/2009 \$m	30/09/2008 \$m
<b>The amounts recognised in the balance sheet arising from the NZ Banking Group's obligation in respect of its defined benefit schemes are determined as follows:</b>		
Defined benefit obligation at beginning of the year	179	181
Current service cost	3	3
Interest cost	11	12
Contributions by scheme participants	1	1
Actuarial (gains) losses	(2)	3
Benefits paid	(18)	(21)
Present value of funded defined benefit obligations	<u>174</u>	<u>179</u>
Fair value of scheme assets at beginning of the year	152	189
Expected return on scheme assets (net of tax)	8	10
Actuarial losses	(27)	(30)
Contributions by employer	3	3
Contributions by scheme participants	1	1
Benefits paid	(18)	(21)
Fair value of scheme assets	<u>119</u>	<u>152</u>
Net defined benefit liability recognised on balance sheet	<u>(55)</u>	<u>(27)</u>

The fair value of scheme assets include cash deposits and fixed interest investments of \$4 million with the NZ Banking Group as at 30 September 2009 (30/09/2008 \$5 million).

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

Current service cost/contributions	3	3
Interest cost	11	12
Expected return on scheme assets (net of tax)	(8)	(10)
Contribution withholding tax	2	2
Total pension costs recognised in the income statement - defined benefit superannuation schemes	<u>8</u>	<u>7</u>

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**43. RETIREMENT BENEFIT OBLIGATIONS (Continued)**

The actuarial gains and losses recognised directly in equity via the statement of recognised income and expense are as follows:

	<b>NZ Banking Group</b>	
	<b>30/09/2009</b>	<b>30/09/2008</b>
	<b>\$m</b>	<b>\$m</b>
Actuarial (loss) gains (pre-tax) at beginning of the year	<b>(25)</b>	8
Actuarial loss (pre-tax) incurred during the year	<b>(25)</b>	(33)
Balance of actuarial losses (pre-tax) at end of the year	<b>(50)</b>	(25)
Income tax credit recognised directly in equity	<b>15</b>	8
Balance of actuarial losses at end of the year	<b>(35)</b>	(17)

The principal actuarial assumptions used were as follows:

	<b>The National Bank Staff Superannuation Fund</b>		<b>ANZ National Bank Staff Superannuation Scheme</b>	
	<b>30/09/2009</b>	<b>30/09/2008</b>	<b>30/09/2009</b>	<b>30/09/2008</b>
<i>Defined benefits calculation</i>				
Discount rate (gross of tax)	<b>6.0%</b>	6.0%	<b>6.0%</b>	6.0%
Future price inflation	<b>2.5%</b>	2.5%	<b>2.5%</b>	2.5%
Future pension increases	<b>2.5%</b>	2.5%	<b>2.5%</b>	2.5%
Future salary increases		3.7%	<b>n/a</b>	n/a
2009 & 2010	<b>2.5%</b>			
Post 2010	<b>3.0%</b>			
<i>Scheme assets calculation</i>				
Expected return on scheme assets (net of tax)	<b>5.5%</b>	5.5%	<b>4.5%</b>	4.5%

The overall expected return on scheme assets is determined by reference to market expectations at the beginning of the relevant period, of asset performance applicable to the period over which the defined benefit obligation is to be settled. The overall expected return on scheme assets reflects an aggregation of the expected returns on the underlying asset classes.

The actual return on scheme assets (net of tax) for The National Bank Staff Superannuation Fund was -0.7% for the year ended 30 September 2009 (30/09/2008 -9.0%). The actual return on scheme assets (net of tax) for the ANZ National Bank Staff Superannuation Scheme was 0.0% for the year ended 30 September 2009 (30/09/2008 -6.0%).

The investment return on scheme assets is taxed at 30% (30/09/2008 33%).

The major categories of scheme assets as a percentage of the fair value of scheme plan assets are as follows:

	<b>The National Bank Staff Superannuation Fund</b>		<b>ANZ National Bank Staff Superannuation Scheme</b>	
	<b>30/09/2009</b>	<b>30/09/2008</b>	<b>30/09/2009</b>	<b>30/09/2008</b>
Cash and short term debt instruments	<b>14.1%</b>	19.9%	<b>8.1%</b>	17.1%
New Zealand fixed interest	<b>12.6%</b>	14.5%	<b>22.4%</b>	23.2%
Overseas fixed interest	<b>24.3%</b>	16.1%	<b>30.6%</b>	20.8%
Australasian shares	<b>10.4%</b>	9.7%	<b>10.2%</b>	9.3%
Overseas shares	<b>38.6%</b>	39.8%	<b>24.2%</b>	23.9%
Property fund units	<b>0.0%</b>	0.0%	<b>4.5%</b>	5.7%
	<b>100.0%</b>	100.0%	<b>100.0%</b>	100.0%

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



**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**43. RETIREMENT BENEFIT OBLIGATIONS (Continued)**

**Historical summary**

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred in the period) and the effects of changes in actuarial assumptions on valuation date. The history of the schemes' net position and experience adjustments is as follows:

	<b>NZ Banking Group</b>				
	<b>30/09/2009</b>	30/09/2008	30/09/2007	30/09/2006	30/09/2005
	<b>\$m</b>	\$m	\$m	\$m	\$m
Defined benefit obligation	<b>(174)</b>	(179)	(181)	(190)	(187)
Fair value of scheme assets	<b>119</b>	152	189	196	195
Net benefit (liability) asset	<b>(55)</b>	(27)	8	6	8
Experience adjustments on scheme liabilities	<b>1</b>	5	(1)	3	-
Experience adjustment on scheme assets	<b>(20)</b>	(21)	(7)	5	11

**Employer contributions**

To ensure the defined benefit schemes remain solvent, the schemes' independent actuaries recommend an employer contribution rate to the Banking Group annually for The National Bank Staff Superannuation Fund and every three years for the ANZ National Bank Staff Superannuation Scheme. The funding methods and current contribution rates of the individual schemes are determined in accordance with NZ IAS 19 Employee Benefits ('NZ IAS 19') for annual periods beginning on or after 1 January 2007.

The National Bank Staff Superannuation Fund deficit for funding purposes was valued at \$18.8m in the most recent actuarial review at 1 April 2008 determined in accordance with NZ IAS 19. The ANZ National Bank Staff Superannuation Scheme surplus was valued at \$0.2 million in the most recent actuarial valuation at 31 December 2007 determined in accordance with NZ IAS 19.

The Banking Group contributed \$3 million (net of contributions withholding tax) to its defined benefit schemes in the year to 30 September 2009 (30/09/2008 \$3 million). Employer contributions are taxed at a maximum rate of 33% (30/09/2008 33%).

**Contingent liabilities**

***The National Bank Staff Superannuation Fund***

Under the Fund's Trust Deed, if this scheme were wound up, the NZ Banking Group is required to pay the Trustee of the Fund an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled.

***ANZ National Bank Staff Superannuation Scheme***

If the Scheme is wound up then its assets must be cashed up and applied to all members' benefits. If Scheme funds are insufficient to pay all members' benefits then the NZ Banking Group must pay to the Scheme such amounts as the Scheme Actuary determines are necessary to pay those benefits.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**44. RELATED PARTY TRANSACTIONS**

	NZ Banking Group		NZ Branch	
	Year to 30/09/2009 \$'000	Year to 30/09/2008 \$'000	Year to 30/09/2009 \$'000	Year to 30/09/2008 \$'000
<b>Key management personnel</b>				
<i>Key management personnel compensation</i>				
Salaries and short-term employee benefits	10,748	11,919	-	-
Post-employment benefits	373	786	-	-
Other long-term benefits	782	127	-	-
Termination benefits	58	-	-	-
Share-based payments	4,339	2,665	-	-
Total compensation of key management personnel	16,300	15,497	-	-
Loans to key management personnel	4,424	7,272	-	-
Deposits from key management personnel	5,543	3,594	-	-

Key management personnel are defined as being Directors and senior management of the NZ 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 NZ Banking Group's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (30/09/2008 \$nil).

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

**Transactions with the Ultimate Parent Bank and subsidiaries**

Details of amounts provided by/to the Ultimate Parent Bank and entities within the NZ Banking Group during the ordinary course of business are set out in the relevant notes to these financial statements. No provision for credit impairment has been recognised during the year ended 30 September 2009 (30/09/2008 \$nil).

On 27 February 2009, ANZ National Bank Limited sold \$4,877 million of residential mortgage assets to the NZ Branch. On 28 July 2009, a further \$4,986 million of residential mortgage assets were sold. These assets qualify for derecognition as the Bank does not retain the risks and rewards associated with these mortgages.

	NZ Banking Group		NZ Branch	
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
Interest income				
- Ultimate Parent Bank	48	4	-	-
Interest expense				
- ANZ Funds Pty Ltd	100	159	-	-
- Ultimate Parent Bank	354	193	146	-
Operating expenses				
- Ultimate Parent Bank	91	82	-	-

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**44. RELATED PARTY TRANSACTIONS (Continued)**

**Transactions with associates and joint venture entities**

During the period the NZ Banking Group conducted transactions with associates and joint venture entities on normal commercial terms and conditions as shown below:

	NZ Banking Group		NZ Branch	
	As at 30/09/2009 \$m	As at 30/09/2008 \$m	As at 30/09/2009 \$m	As at 30/09/2008 \$m
Amounts receivable				
- associates	21	28	-	-
- joint venture entities	36	36	-	-
Amounts payable				
- associates	85	85	-	-
	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m	Year to 30/09/2009 \$m	Year to 30/09/2008 \$m
Interest income				
- associates	2	2	-	-
- joint venture entities	3	4	-	-
Interest expense				
- associates	4	4	-	-
Commission received from ING NZ joint venture	39	23	-	-
Costs recovered from ING NZ joint venture	1	1	-	-

The NZ Banking Group provides general administration, strategic and governance services to ING (NZ) Limited under a Technical Services Agreement.

A provision for credit impairment of \$10 million is recognised for amounts outstanding from associates as at 30 September 2009 (30/09/2008 \$5 million). A credit impairment loss of \$5 million was charged during the year ended 30 September 2009 (30/09/2008 \$nil charged).

**45. SUBSEQUENT EVENTS**

On 25 September 2009, the Overseas Bank announced it had reached agreement with ING Groep to acquire ING Groep's 51% shareholdings in the ANZ-ING wealth management and life insurance joint ventures in Australia and New Zealand for AUD1,760 million, taking its ownership interest to 100%. As part of this agreement the NZ Banking Group acquired ING Groep's interests in the NZ joint venture, the Diversified Yield Fund ("DYF") and the Regular Income Fund ("RIF") for \$246 million. Completion is subject to various conditions, including regulatory approval, and is expected to occur during the fourth quarter of calendar 2009.

Once completed, the acquisition will result in the NZ Banking Group fully consolidating the assets, liabilities and operations of ING (NZ) Holdings Limited ("ING NZ") and its subsidiary companies and the DYF and the RIF into the NZ Banking Group's results. At acquisition date, under the step acquisition provisions of NZ IFRS3, the NZ Banking Group will remeasure its existing 49% interests in ING NZ, the DYF and the RIF, which are all accounted for under the equity method, at their acquisition date fair values and will recognise the resulting gain or loss in the income statement.

The 49% interest in ING NZ, the DYF and the RIF were all equity accounted at 30 September 2009. The interest in ING NZ was assessed for impairment by comparing the carrying value to both the fair market value and the value in use, which is based on a discounted cash flow analysis. The investment was not considered impaired as the value in use exceeded the carrying value. The investment in DYF and RIF were not considered impaired comparing the carrying value to fair value.

On 6 November 2009, ANZ National Bank Limited agreed to sell a further \$1,528 million of residential mortgage assets to the Australia and New Zealand Banking Group Limited – New Zealand Branch.

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH DIRECTORATE AND AUDITORS

---

### Directorate and Auditors

The address to which any document or communication may be sent to any Director or the Chief Executive Officer, NZ Branch is Australia and New Zealand Banking Group Limited – New Zealand Branch, Level 14, 215-229 Lambton Quay, Wellington, New Zealand. The document or communication should be marked for the attention of that Director or the Chief Executive Officer.

### Directors' Interests

The Board of the Overseas Bank has adopted procedures to ensure that conflicts and potential conflicts of interest between the Directors' duties to the Overseas Bank and their own interests are avoided or dealt with. Pursuant to these procedures:

- a. each Director should disclose to all Directors any material personal interest they have in any matter which relates to the affairs of the Overseas Bank and any other interest which the Director believes is appropriate to disclose in order to avoid an actual conflict of interest or the perception of a conflict of interest. This disclosure should be made as soon as practicable after the Director becomes aware of their interest or the need to make a disclosure; and
- b. a Director who has an interest of the type referred to in a) above in a matter that is to be considered at a Directors' meeting, must not vote on the matter nor be present while the matter is considered at the meeting, unless a majority of Directors who do not have such an interest in the matter agree that the interest should not disqualify such Director from being present while the matter is being considered and from voting on the matter. The minutes of the meeting should record the decision taken by the Directors who do not have an interest in the matter.

In addition, Standing Notices about interests are maintained for each Director. If the Director's interests change, the Director shall disclose the change as soon as practicable and an updated Standing Notice shall be tabled at the next Board meeting and recorded in the minutes of that meeting.

### Transactions with Directors and the Chief Executive Officer, NZ Branch

There are no transactions entered into by any Director, the Chief Executive Officer, NZ Branch or any immediate relative or close business associate of any Director or the Chief Executive Officer, NZ Branch, with the NZ Branch or any member of the NZ 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 Directors' or Chief Executive Officer, NZ Branch, duties as Director or Chief Executive Officer of the NZ Branch and NZ Banking Group.

### Changes in Directorships

Since the authorisation date of the previous General Short Form Disclosure Statement on 31 August 2009, there have been no changes to Directors of the Bank.

---

### Board Members as at 24 November 2009

The names, qualifications, occupation, country of residence and material external directorships of each director of the Overseas Bank as at the date this General Disclosure Statement was signed were:

#### Independent Non-Executive Director, Chairman

##### ***Charles Barrington Goode, AC***

BCom (Hons), MBA (Columbia), Hon LLD (Melb), Hon LLD (Monash)  
Company Director  
*Melbourne, Australia*

Mr Goode is an ex-officio member of all Board Committees.

##### *External Directorships*

*Chairman:* Australian United Investment Company Limited, Diversified United Investment Limited, Grosvenor Australia Properties Pty Ltd, The Ian Potter Foundation Ltd

*Member:* International Council of the Asia Society, Asia Society Australasia Centre, AsiaLink Council, The Global Foundation

---

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH  
DIRECTORATE AND AUDITORS (CONTINUED)**

---

**Chief Executive Officer – Australia and New Zealand Banking Group Limited**

***Michael Roger Pearson Smith, OBE***

BSc (Hons)  
Chief Executive Officer  
Melbourne, Australia

*External Directorships*

*Director:* The Financial Markets Foundation for Children  
*Member:* Chongqing Mayor's International Economic Advisory Council, Australian Bankers' Association Incorporated, Asia Business Council, Financial Literacy Advisory Board, Visa Asia Pacific Senior Advisory Council  
*Fellow:* The Hong Kong Management Association

---

**Non-Executive Directors**

***Dr Gregory John Clark***

BSc (Hons), PhD, FAPS, FTSE  
Company Director  
Based in New York, United States of America  
and also resides in Sydney, Australia

Dr Clark is Chair of the Technology Committee and a member of the Governance Committee and the Human Resources Committee.

*External Directorships*

*Chairman:* KaComm Communications Pty Limited  
*Director:* Eircom Holdings Limited  
*Principal:* Clark Capital Partners

***Jeremy Kitson Ellis***

MA Oxon, FAICD, Hon FIE AUST, FAus IMM, FTSE,  
Hon LLD (Monash), Hon DR ENG (CQU)  
Company Director  
Melbourne, Australia

Mr Ellis is a member of the Audit Committee and the Technology Committee.

*External Directorships*

*Chairman:* MBD Energy Limited, Landcare Australia Limited, Future Eye Pty Ltd Advisory Board, Pacific Road Corporate Finance Pty Limited Advisory Board, Earth Resources Development Council  
*Director:* Future Directions International Pty Limited  
*Member:* The Sentient Group Advisory Council, Anglo American Plc's Australian Advisory Board

***Ian John Macfarlane, AC***

BEd (Hons), MEc, Hon DSc (Syd), Hon DSc (UNSW), Hon DCom (Melb), Hon DLitt (Macq), Hon LLD (Monash)  
Company Director  
Sydney, Australia

Mr Macfarlane is Chair of the Governance Committee and a member of the Risk Committee and the Technology Committee.

*External Directorships*

*Director:* Woolworths Limited, Leighton Holdings Limited, Lowy Institute for International Policy  
*Member:* Council of International Advisors to the China Banking Regulatory Commission, International Advisory Board of Goldman Sachs JB Were, International Advisory Board of CHAMP Private Equity

***David Edward Meiklejohn***

BCom, Dip Ed, FCPA, FAICD, FAIM  
Company Director  
Melbourne, Australia

Mr Meiklejohn is Chair of the Audit Committee and a member of the Governance Committee and the Risk Committee.

*External Directorships*

*Chairman:* PaperlinX Limited  
*Director:* Coca Cola Amatil Limited, Mirrabooka Investments Limited  
*President:* Melbourne Cricket Club

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH  
DIRECTORATE AND AUDITORS (CONTINUED)**

---

***Peter Algernon Franc Hay***

LLB (Melb)  
Company Director  
*Melbourne, Australia*

Mr Hay is a member of the Risk Committee and the Governance Committee.

*External Directorships*

*Chairman:* Advisory Board of Lazard Pty Ltd  
*Director:* Alumina Limited, Landcare Australia Limited, GUD Holdings Limited, NBN Co Limited  
*Part Time Member:* Takeovers Panel

***Lee Hsien Yang***

MSc, BA  
Company Director  
*Singapore*

Mr Lee is a member of the Technology Committee.

*External Directorships*

*Chairman:* Fraser & Neave Limited, Civil Aviation Authority of Singapore  
*Director:* Singapore Exchange Limited, The Islamic Bank of Asia Limited, Kwa Geok Choo Pte Ltd  
*Member:* Governing Board of Lee Kuan Yew School of Public Policy, Rolls Royce International Advisory Council, Merrill Lynch PacRim Advisory Council  
*Consultant:* Capital International Inc Advisory Board

**Chief Executive Officer, Australia and New Zealand Banking Group – New Zealand Branch**

***Susan Ruth Peterson***

BCom, LLB  
Chief Executive Officer & Managing Director, NZ Branch  
*Auckland, New Zealand*

*External Directorships*

*Director:* IHC New Zealand

---

***John Powell Morschel***

DipQS, FAICD  
Company Director  
*Sydney, Australia*

Mr Morschel is Chair of the Risk Committee and a member of the Human Resources Committee.

*External Directorships*

*Director:* Singapore Telecommunications Limited, Tenix Pty Limited, Gifford Communications Pty Limited

***Alison Mary Watkins***

BCom, FCA, F Fin, MAICD  
Chief Executive Officer – Bennelong Group  
*Melbourne, Australia*

Ms Watkins is Chair of the Human Resources Committee and a member of the Audit Committee.

*External Directorships*

*Director:* Bennelong Group & related entities, Woolworths Limited, Yarra Capital Partners Pty Ltd, AICD, The Nature Conservancy Australian Advisory Board

**Auditors**

***KPMG***

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

---

## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### CONDITIONS OF REGISTRATION

---

#### Conditions of Registration, applicable as at 24 November 2009.

The Conditions of Registration imposed on the NZ Branch, which apply from the date of registration are:

1. That the New Zealand 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.
2. That the New Zealand 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 New Zealand 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.
3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the business of the Australia and New Zealand Banking Group Limited.
4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made 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.
5. That Australia and New Zealand Banking Group Limited complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
6. That Australia and New Zealand Banking Group Limited complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
  - tier one capital of the Australia and New Zealand Banking Group Limited is not less than 4 percent of risk weighted exposures;
  - capital of Australia and New Zealand Banking Group Limited is not less than 8 percent of risk weighted exposures.

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH**  
**CONDITIONS OF REGISTRATION (CONTINUED)**

---

7. That the business of the registered bank in New Zealand is restricted to:
  - i. acquiring for fair value, and holding, mortgages originated by ANZ National Bank Limited; and
  - ii. any other business for which the prior written approval of the Reserve Bank of New Zealand has been obtained; and
  - iii. activities that are necessarily incidental to the business specified in paragraphs (i) and (ii).
8. That the value of the mortgages held by the registered bank in New Zealand must not exceed \$15 billion in aggregate.
9. That the registered bank in New Zealand may not incur any liabilities except:
  - i. to the government of New Zealand in respect of taxation and other charges; and
  - ii. to other branches or the head office of the registered bank; and
  - iii. to trade creditors and staff; and
  - iv. to ANZ National Bank Limited in respect of activities, other than borrowing, that are necessarily incidental to the business specified in paragraphs (i) and (ii) of condition 7; and
  - v. any other liabilities for which the prior written approval of the Reserve Bank has been obtained.

For the purposes of these Conditions of Registration, the term "Banking Group" means the New Zealand operations of Australia and New Zealand Banking Group Limited whose business is required to be reported in the financial statements for the Group's New Zealand business, prepared in accordance with section 9(2) of the Financial Reporting Act 1993.



## AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

### CREDIT RATING INFORMATION

#### Credit Ratings applicable as at 24 November 2009

The Overseas Bank has three current credit ratings, which are applicable to its long-term senior unsecured obligations, including obligations 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	Aa1	Outlook Negative
Fitch Ratings	AA-	Outlook Stable

During the two-year period ended 30 September 2009, the Standard and Poor's credit rating and qualification remained at AA and Outlook Stable.

During the two-year period ended 30 September 2009, the Moody's Investors Service credit rating and qualification remained at Aa1. On 2 March 2009 the Outlook changed from Stable to Negative.

During the two-year period ended 30 September 2009, the Fitch Ratings credit rating and qualification remained at AA- and Outlook Stable. Fitch Ratings were formally engaged by the Overseas Bank on 18 March 2008 to provide credit rating services. Previously Fitch Ratings had rated the Overseas Bank on an unsolicited basis as AA-.

	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.

#### FINANCIAL STATEMENTS OF THE OVERSEAS BANK AND OVERSEAS BANKING GROUP

Copies of the most recent publicly available financial statements of the Overseas Bank and Overseas Banking Group, will be provided immediately, free of charge, to any person requesting a copy where the request is made at the NZ Branch's head office, Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington. The most recent publicly available financial statements for the Overseas Bank and Overseas Banking Group can also be accessed at the internet address [www.anz.com](http://www.anz.com).

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH  
DIRECTORS' AND NEW ZEALAND CHIEF EXECUTIVE OFFICER'S STATEMENT**

---

**Directors' and New Zealand Chief Executive Officer's Statement**

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed:

- i. The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half Year - Overseas Incorporated Registered Banks) Order 2008;
- ii. The Disclosure Statement is not false or misleading.

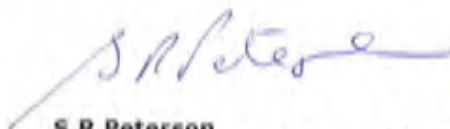
Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, over the year ended 30 September 2009:

- i. The NZ Banking Group has complied with all the conditions of registration;
- ii. The NZ Banking Group had systems in place to monitor and control adequately the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were being properly applied.

**This General Disclosure Statement is dated this 24 November 2009, and has been signed by the Chairman of the Overseas Bank as agent for all Directors and by the Chief Executive Officer, NZ Branch.**



**C B Goode**  
Chairman



**S R Peterson**  
Chief Executive Officer, NZ Branch



## **Report to the Directors of Australia and New Zealand Banking Group Limited – New Zealand Branch**

We have audited the financial statements on pages 8 to 114 prepared and disclosed in accordance with Clause 22 of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2008 (the 'Order') and the supplementary information prescribed in Schedules 4, 6 to 8 and Clauses 19 and 20 of Schedule 3 of the Order and reviewed the supplemental information in respect of Schedule 5. The financial statements, and supplementary information, provide information about the past financial performance and cash flows of Australia and New Zealand Banking Group Limited – New Zealand Branch (the 'NZ Branch') and its related entities (the 'NZ Banking Group') and their financial position as at 30 September 2009. This information is stated in accordance with the accounting policies set out on pages 12 to 26.

### **Directors' responsibilities**

The Directors of Australia and New Zealand Banking Group Limited – New Zealand Branch are responsible for the preparation and presentation of financial statements in accordance with Clause 22 of the Order which give a true and fair view of the financial position of the NZ Branch and NZ Banking Group as at 30 September 2009 and their financial performance and cash flows for the year ended on that date.

They are also responsible for the preparation of supplementary information which gives a fair view, in accordance with the Order, of the matters to which it relates; and complies with Schedules 4 to 8 and Clauses 19 and 20 of Schedule 3 of the Order.

### **Auditors' responsibilities**

It is our responsibility to express an independent opinion on the financial statements, including the supplementary information disclosed in accordance with Schedules 4, 6 to 8, and Clauses 19 and 20 of Schedule 3 and presented to us by the Directors and report our opinion to you in accordance with Clause 19 of the Order.

It is also our responsibility to express an independent opinion on the supplementary information in respect to capital adequacy as required by Schedule 5 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 5 is not in all material respects prepared in accordance with the NZ Branch's Conditions of Registration and with the Capital Adequacy Framework (Basel 1 Approach) (BS2) and the Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 5 of the Order and for reporting our findings to you.

### **Basis of opinion**

#### ***Audit of the financial statements and supplementary information***

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements and supplementary information. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements and supplementary information; and
- whether the accounting policies are appropriate to the NZ Branch's and NZ Banking Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We conducted our audit of the supplementary information (excluding capital adequacy disclosures required under Schedule 5) in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the supplementary information that is required to be disclosed under Schedules 4, 6 to 8, and Clauses 19 and 20 of Schedule 3 (as applicable) fairly states the matters to which it relates in accordance with those schedules. In forming our opinion we also evaluated the overall adequacy of the presentation of the supplementary information.



## **Review of capital adequacy**

We conducted our review of the supplementary information relating to capital adequacy disclosures in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. A review is limited primarily to enquiries of the NZ Branch and the NZ Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed audit procedures in respect of the capital adequacy disclosures and accordingly, we do not express an audit opinion in relation to the capital adequacy disclosures. The Review Engagement Standards require that we plan and perform our review to obtain moderate assurance as to whether the capital adequacy disclosures are free of material misstatement, whether caused by fraud or error. We also evaluated the overall adequacy of the presentation of supplementary information relating to capital adequacy disclosures.

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

## **Unqualified Opinion**

### ***Audit Opinion***

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

In our opinion:

- proper accounting records have been kept by the NZ Branch as far as appears from our examination of those records;
- the financial statements on pages 8 to 114 (excluding the supplementary information included in Notes 30, 32, 33 and 39):
  - comply with New Zealand generally accepted accounting practice; and
  - give a true and fair view of the financial position of the NZ Branch and NZ Banking Group as at 30 September 2009 and the results of their operations and cash flows for the year ended on that date;
- the supplementary information included within the financial statements has been prepared in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration, and is in accordance with the books and records of the NZ Branch;
- the supplementary information disclosed in Notes 32, 33 and 39 prescribed by Schedules 4, 6 to 8 and Clauses 19 and 20 of Schedule 3 fairly states the matters to which it relates in accordance with those Schedules;

### ***Review Opinion***

- nothing has come to our attention that causes us to believe that the supplementary information, disclosed in Note 30 Capital Adequacy that is required to be disclosed under Schedule 5, is not in all material respects prepared in accordance with the NZ Branch's Conditions of Registration, with the Reserve Bank of New Zealand documents Capital Adequacy Framework (Basel 1 Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A), and disclosed in accordance with Schedule 5.

Our audit and review was completed on 24 November 2009 and our unqualified opinion is expressed as at that date.

*U.P.M.G.*

Wellington

# AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – NEW ZEALAND BRANCH

## INDEX

General Disclosures	2 - 6	25. Bonds and Notes	56 - 57
Summary of Financial Statements	7	26. Term Funding	58
Income Statements	8	27. Loan Capital	58 - 59
Statements of Recognised Income and Expense	9	28. Ordinary Share Capital and Head Office Account	60
Balance Sheets	10	29. Reserves and Retained Earnings	60
Cash Flow Statements	11	30. Capital Adequacy	61 - 63
1. Significant Accounting Policies	12 - 26	31. Financial Risk Management	64 - 85
2. Critical Estimates and Judgements Used in Applying Accounting Policies	27 - 29	32. Concentrations of Credit Risk	86
3. Risk Management Policies	30 - 31	33. Interest Earning and Discount Bearing Assets and Liabilities	86
4. Income	32	34. Fair Value of Financial Assets and Financial Liabilities	87 - 94
5. Expenses	33	35. Segmental Analysis	95 - 96
6. Income Tax Expense	34	36. Notes to the Cash Flow Statements	97
7. Liquid Assets	35	37. Significant Controlled Entities, Associates and Interests in Jointly Controlled Entities	98 - 100
8. Due from Other Financial Institutions	35	38. Ultimate Parent Bank	101
9. Trading Securities	35	39. Securitisation, Funds Management, Other Fiduciary Activities and the Marketing and Distribution of Insurance Products	101 - 103
10. Derivative Financial Instruments	36 - 40	40. Commitments	103
11. Available-for-Sale Assets	41	41. Contingent Liabilities and Credit Related Commitments	104 - 106
12. Net Loans and Advances	41	42. Employee Share and Option Plans	106 - 109
13. Impaired Assets, Past Due Assets and Other Assets Under Administration	42 - 45	43. Retirement Benefit Obligations	110 - 112
14. Provision for Credit Impairment	46 - 48	44. Related Party Transactions	113 - 114
15. Shares in Associates and Jointly Controlled Entities	49	45. Subsequent Events	114
16. Other Assets	49	Directorate and Auditors	115 - 117
17. Deferred Tax Assets	50	Conditions of Registration	118 - 119
18. Premises and Equipment	51	Credit Rating Information	120
19. Goodwill and Other Intangible Assets	52	Directors' and New Zealand Chief Executive Officer's Statement	121
20. Due to Other Financial Institutions	52	Independent Audit Report	122 - 123
21. Deposits and Other Borrowings	53		
22. Payables and Other Liabilities	53		
23. Deferred Tax Liabilities	54		
24. Provisions	55		