

## 1: Significant Accounting Policies

The financial report of Australia and New Zealand Banking Group Limited (the Company or the Parent entity) and its controlled entities (the Group) for the year ended 30 September 2008 was authorised for issue in accordance with the resolution of the directors on 7 November, 2008.

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

### A) BASIS OF PREPARATION

#### i) Statement of compliance

The financial report of the Company and Group is a general purpose financial report which has been prepared in accordance with the accounts provisions of the Banking Act 1959 (as amended), Australian Accounting Standards (AASs), Australian Accounting Standards Board (AASB) Interpretations, other authoritative pronouncements of the AASB, and the Corporations Act 2001.

International Financial Reporting Standards (IFRS) are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). IFRS forms the basis of AASs and Interpretations issued by the AASB. The Group's application of AASs and Interpretations ensures that the consolidated financial report of the Group and the financial report of the Company comply with IFRS.

#### ii) Use of estimates and assumptions

The preparation of the financial report 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 these 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 report has been prepared 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 (refer note 1 E(ii)) the fair value of any applicable underlying exposure;
- assets treated as available-for-sale;
- financial instruments held for trading;
- assets and liabilities designated at fair value through profit and loss; and
- defined benefit plan assets and liabilities.

#### iv) Changes in accounting policy and early adoptions

There has been no material change in accounting policies or early adoption of AASs in the preparation or presentation of this financial report.

This is the first year that AASB 7 Financial Instruments: Disclosures has been applied in the Group's financial statements. This standard requires disclosures about the significance of financial instruments to the Group's financial position and result and the nature and extent of credit, market and liquidity risks arising from financial instruments, including how they are managed. This standard has no impact on the recognition or measurement of financial instruments, and therefore no impact on the Group's financial position or result.

#### v) Rounding

The Parent entity is an entity of the kind referred to in Australian Securities and Investments Commission class order 98/100 dated 10 July 1998 (as amended). Consequently, amounts in the financial report have been rounded to the nearest million dollars, except where otherwise indicated.

#### vi) Comparatives

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

#### vii) Principles of consolidation

##### Subsidiaries

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

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

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

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

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

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

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

Further detail on special purpose entities is provided in note 2(i).

# Notes to the Financial Statements

## 1: Significant Accounting Policies (continued)

### Associates and joint ventures

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

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

In the Company's financial statements, investments in associates and joint venture entities are carried at cost.

### viii) Foreign currency translation

#### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

#### Foreign currency transactions

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

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

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

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

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

#### Foreign operations

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy), that have a functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:

- assets and liabilities of each foreign operation are translated at the rates of exchange ruling at balance date;
- revenue and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case revenue and expenses are translated at the exchange rate ruling at transaction date; and
- all resulting exchange differences are recognised in the foreign currency translation reserve.

When a foreign operation is disposed, exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign entity and translated at the rate ruling at balance date.

## B) INCOME RECOGNITION

### i) Interest income

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

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

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

### ii) Fee and commission income

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

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

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

### iii) Dividend income

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

### iv) Leasing income

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

### 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.

## 1: Significant Accounting Policies (continued)

### C) EXPENSE RECOGNITION

#### 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).

#### 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 Group has various equity settled share-based compensation plans. These are described in note 46 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 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 reserve.

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. This is recognised as an employee expense with a corresponding increase in the share options reserve.

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

#### iii) Deferred tax

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

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

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 Group is able to control the reversal of the temporary differences and it is probable that temporary differences will not reverse in the foreseeable future. Deferred tax assets associated with these interests are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

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

# Notes to the Financial Statements

## 1: Significant Accounting Policies (continued)

### E) ASSETS

#### Financial assets

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

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

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

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

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 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 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 the 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 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 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 the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

#### Cash flow hedge

The 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, is terminated, is 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.

#### Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The gain or loss from remeasuring the fair value of the hedging instrument relating to the effective portion of the hedge is deferred in the foreign currency translation reserve in equity and the ineffective portion is recognised immediately in the income statement.

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

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

#### Set-off arrangements

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

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

## 1: Significant Accounting Policies (continued)

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

Available-for-sale assets comprise non-derivative financial assets which the 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 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 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 rate method (refer note 1(B)(i)), unless specifically designated on initial recognition at fair value through profit or loss.

All loans are graded according to the level of credit risk.

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

#### 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 assets' 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 judgment. These judgments 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. 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 to be onerous.

### v) Lease receivables

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

### vi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the 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 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.

# Notes to the Financial Statements

## 1: Significant Accounting Policies (continued)

### vii) Derecognition

The 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 Group derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

### Non-financial assets

#### viii) Goodwill

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

#### ix) Other intangible assets

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

Software is amortised using the straight-line method over its expected useful life to the 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, software 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 (principally the new office building in Docklands area, Melbourne Australia) 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 Group's internal cost of capital.

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

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

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 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. If it is not possible to estimate the recoverable amount of an individual asset, the 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 and other related interest bearing financial instruments. They are measured at amortised cost. The interest expense is recognised using the effective interest method as explained in note 1(B)(i).

#### ii) Acceptances

Commercial bills accepted but not held in portfolio are accounted for as a liability with a corresponding contra asset. The liability is disclosed as liability for acceptances, and the asset is disclosed as Customer's liability for acceptances.

The Group's own acceptances discounted are held as part of the trading securities portfolio.

#### iii) Bonds, notes and loan capital

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

#### iv) 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 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 the history of past losses.

## 1: Significant Accounting Policies (continued)

### v) Derecognition

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

### Non-financial liabilities

#### vi) 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.

##### Defined contribution superannuation schemes

The 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 Group's contributions to these schemes are recognised as an expense in the income statement when incurred.

##### Defined benefit superannuation schemes

The Group operates a small number of defined benefit schemes. The liability and expense related to providing benefits to employees under each defined benefit scheme 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 Group, a defined benefit asset is recognised, which is capped at the recoverable amount. In each subsequent reporting period, ongoing movements in the defined benefit liability or asset carrying value is 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.

### vii) Provisions

The 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 reporting date, taking into account the risks and uncertainties surrounding the obligation at 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.

## G) EQUITY

### i) Ordinary shares

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

### ii) Treasury shares

Shares in the Company which are purchased on-market by the ANZ Employee Share Acquisition Plan or issued by the Company to the ANZ Employee Share Acquisition Plan are classified as treasury shares (to the extent that they relate to unvested employee share-based awards) and deducted from share capital.

### iii) Minority interests

Minority interests represent the share in the net assets of subsidiaries attributable to equity interests not owned directly or indirectly by the Company.

### iv) Reserves

#### Foreign currency translation reserve

As indicated in note 1(A)(viii), exchange differences arising on translation of the assets and liabilities of all Group entities are reflected in the foreign currency translation reserve. Any offsetting gains or losses on hedging these balances, together with any tax effect, are also reflected in this reserve.

#### 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 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.

#### Share-based payment reserves

Share-based payment reserves include the share options reserve and other equity reserves which arise on the recognition of share-based compensation expense (see note 1(C)(iii)).

# Notes to the Financial Statements

## 1: Significant Accounting Policies (continued)

### H) PRESENTATION

#### i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. At the Group level, 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 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) Cash and cash equivalents

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

#### iv) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), that is subject to risks and returns that are different from those of other business or geographical segments.

#### 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 Australian Tax Office (ATO). 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 ATO is included as an other asset or liability 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 ATO are classified as operating cash flows.

### I) OTHER

#### i) Contingent liabilities

A contingent liability is a liability of sufficient uncertainty that it does not qualify for recognition as a provision.

Further disclosure is made in note 44 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.

#### ii) Earnings per share

Basic earnings per share is calculated by dividing net profit after tax applicable to equity holders of the Company, excluding any costs of servicing other equity instruments, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effective interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

# Notes to the Financial Statements

## 1: Significant Accounting Policies (continued)

### iii) Accounting Standards and Interpretations not early adopted

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

AASB amendment/ standard	Affected Standard(s)	Possible impact on Group's financial report in period of initial adoption	Application date for the Group <sup>1</sup>
AASB 3	AASB 3 Business Combinations (revised)	<p>This standard makes changes to certain aspects of accounting for business combinations including:</p> <ul style="list-style-type: none"> <li>■ Transaction costs associated with a business combination are immediately expensed, unless the cost relates to issuing debt or equity securities; and</li> <li>■ Contingent consideration must be recognised at its fair value at acquisition date and classified as a liability or equity. If the contingent consideration is classified as a liability, subsequent changes in that liability are recognised in profit or loss. If classified as equity, it is not remeasured in subsequent periods.</li> </ul> <p>The potential impact of this revised Standard on the Company or the Group has not yet been determined.</p>	1 October 2009
AASB 8	AASB 8 Operating Segments	<p>This standard requires the 'management approach' to disclosing information about reportable segments. Under this approach, financial information is reported on the same basis as is used internally by the chief decision maker for evaluating operating segment performance and on deciding how to allocate resources to operating segments.</p> <p>The application of this standard is not expected to have a material impact of the financial results of the Company or the Group as this standard is only concerned with disclosure.</p>	1 October 2009
AASB 101	AASB 101 Presentation of Financial Statements (revised)	<p>The main change made by this standard is the specification of a new structure for financial statements under which:</p> <ul style="list-style-type: none"> <li>■ The "balance sheet" will revert to its former title "statement of financial position" and the "cash flow statement" will revert to its former title "statement of cash flows";</li> <li>■ A "statement of comprehensive income" will be required showing revenues and expenses recognised in profit or loss and directly against equity. Alternatively, an income statement may be presented showing revenues and expenses recognised in profit or loss and, separately, a statement of comprehensive income showing net profit or loss and revenues and expenses recognised directly in equity; and</li> <li>■ A "statement of changes in equity" showing total comprehensive income, transactions with owners in their capacity as owners and the effect of retrospective applications or restatements.</li> </ul> <p>The application of this standard is not expected to have a material impact of the financial results or position of the Company or the Group as this standard is only concerned with disclosure.</p>	1 October 2009

# Notes to the Financial Statements

## 1: Significant Accounting Policies (continued)

### iii) Accounting Standards and Interpretations not early adopted (continued)

AASB amendment/ standard	Affected Standard(s)	Possible impact on Group's financial report in period of initial adoption	Application date for the Group <sup>1</sup>
AASB 127	AASB 127 Consolidated and Separate Financial Statements (revised)	<p>The standard makes changes to certain aspects of accounting for non-controlling interests (currently referred to as a 'minority interests'). For example, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the controlling interests having a deficit balance.</p> <p>Requirements have been added to clarify that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control of a subsidiary are recognised directly in equity. When loss of control of a subsidiary occurs, any gain or loss arising from this event is recognised in profit or loss and the investment retained in the former subsidiary is measured at its fair value at the date control is lost.</p> <p>The amendments regarding minority interests are not expected to have a material impact on the Group's financial results or position as minority interests are not material to the Group.</p> <p>The amendments regarding accounting for changes in a parent's ownership interest in a subsidiary are not expected to have a material impact on the Company as these types of changes occur relatively infrequently for the Company and normally involve amounts which are not material to the Company.</p>	1 October 2009
AASB 2007-8	Makes amendments to a number of Australian Accounting Standards and Interpretations as a result of the revision of AASB 101 Presentation of Financial Statements (applicable to annual reporting periods beginning on or after 1 January 2009)	This standard makes technical amendments to a number of Australian Accounting Standards arising from revised AASB 101. No material impact on the Company or the Group is expected.	1 October 2009
AASB 2008-1	AASB 2 Share-based Payment	This standard clarifies that vesting conditions only include service and performance conditions. The application of this standard is not expected to have an impact of the financial results of the Company or the Group as the treatment of vesting conditions under the Group's existing share-based plans is clear.	1 October 2009
AASB 2008-2	AASB 7 Financial Instruments: Disclosures AASB 101 Presentation of Financial Statements AASB 132 Financial Instruments: Presentation AASB 139 Financial Instruments: Recognition and Measurement Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments	<p>This standard defines puttable instruments and requires puttable instruments with certain characteristics to be classified as equity.</p> <p>The application of this standard is not expected to have an impact of the financial position of the Company or the Group as the Group or Company has not issued, nor expects to issue, puttable instruments with characteristics covered by the standard.</p>	1 October 2009
AASB 2008-3	Makes amendments to a number of Australian Accounting Standards and Interpretations as a result of the revision of AASB 3 Business Combinations and of AASB 127 Consolidated and Separate Financial statements (both standards applicable to annual reporting periods beginning on or after 1 July 2009)	This standard makes technical amendments to a number of Australian Accounting Standards arising from revised AASB 3 and AASB 127. No material impact on ANZ is expected.	1 October 2009

# Notes to the Financial Statements

## 1: Significant Accounting Policies (continued)

### iii) Accounting Standards and Interpretations not early adopted (continued)

AASB amendment/ standard	Affected Standard(s)	Possible impact on Group's financial report in period of initial adoption	Application date for the Group <sup>1</sup>
AASB 2008-5	<p>AASB 5 Non-Current Assets Held for Sale and Discontinued Operations</p> <p>AASB 7 Financial Instruments: Disclosures</p> <p>AASB 101 Presentation of Financial Statements</p> <p>AASB 102 Inventories</p> <p>AASB 107 Cash Flow Statements</p> <p>AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors</p> <p>AASB 110 Events after the Balance Sheet Date</p> <p>AASB 116 Property, Plant and Equipment</p> <p>AASB 118 Revenue</p> <p>AASB 119 Employee Benefits</p> <p>AASB 120 Accounting for Government Grants and Disclosure of Government Assistance</p> <p>AASB 123 Borrowing Costs</p> <p>AASB 127 Consolidated and Separate Financial Statements</p> <p>AASB 128 Investments in Associates</p> <p>AASB 129 Financial Reporting in Hyperinflationary Economies</p> <p>AASB 131 Interests in Joint Ventures</p> <p>AASB 132 Financial Instruments: Presentation</p> <p>AASB 134 Interim Financial Reporting</p> <p>AASB 136 Impairment of Assets</p> <p>AASB 138 Intangible Assets</p> <p>AASB 139 Financial Instruments: Recognition and Measurement</p> <p>AASB 140 Investment Property</p> <p>AASB 141 Agriculture</p> <p>AASB 1023 General Insurance Contracts</p> <p>AASB 1038 Life Insurance Contracts</p>	<p>This standard makes amendments to 25 standards that result in terminology or editorial changes to standards as well as presentation, recognition and measurement changes to certain standards. Most of the amendments are of a technical or clarifying nature and are not expected to have a material impact on the Company or the Group.</p>	1 October 2009
AASB 2008-6	<p>AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards</p> <p>AASB 5 Non-current Assets Held for Sale and Discontinued Operations</p>	<p>This standard amends AASB 1 to require a first-time adopter to apply AASB 127 Consolidated and Separate Financial Statements (as amended in July 2008) prospectively from the date of transition to Australian equivalents to IFRSs.</p> <p>An amendment has also been made to AASB 5 to require an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liabilities of that subsidiary as held for sale when specified criteria are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.</p> <p>No material impact on the Company or the Group is expected as a result of these amendments.</p>	1 October 2009

# Notes to the Financial Statements

## 1: Significant Accounting Policies (continued)

### iii) Accounting Standards and Interpretations not early adopted (continued)

AASB amendment/ standard	Affected Standard(s)	Possible impact on Group's financial report in period of initial adoption	Application date for the Group <sup>1</sup>
AASB 2008-7	<p>AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards</p> <p>AASB 118 Revenue</p> <p>AASB 121 The Effects of Foreign Exchange Rates</p> <p>AASB 127 Consolidated and Separate Financial Statements</p> <p>AASB 136 Impairment of Assets</p>	<p>This standard amends AASB 1 to allow first-time adopters, in their separate financial statements, to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate.</p> <p>AASB 118 has been amended to remove the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate.</p> <p>AASB 127 has been amended to require, in certain circumstances, a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of the share of equity items shown in the separate financial statements of the original parent at the date of the reorganisation.</p> <p>AASB 136 has been amended to include, as an impairment indicator, recognising a dividend from a subsidiary, jointly controlled entity or associate, together with other evidence.</p> <p>Consequential amendments have also been made to AASB 121.</p> <p>The amendments are not expected to have a material impact on the Company or the Group.</p> <p>The Group monitors developments on the enablement of the formation of a non-operating holding company (NOHC).</p>	1 October 2009
AASB 2008-8	AASB 139 Financial Instruments: Recognition and Measurement	<p>This standard clarifies the effect of using options as hedging instruments and the circumstances in which inflation risks can be hedged.</p> <p>The above amendments are not expected to have a material impact as ANZ does not have hedges involving these types of items.</p>	1 October 2009
AASB 1039	AASB 1039 Concise Financial Reports	<p>AASB 1039 has been revised to achieve consistency with the terminology and descriptions of financial statements used in AASB 101 (effective for the Group on 1 October 2009) and to achieve consistency with the disclosure requirements for segments in AASB 8 (effective for the Group on 1 October 2009).</p> <p>The above amendments are not expected to have a material impact on ANZ as the Group no longer issues a concise financial report.</p>	1 October 2009

<sup>1</sup> Unless otherwise indicated, the initial application date for the Group is for annual reporting periods beginning on or after the date specified.