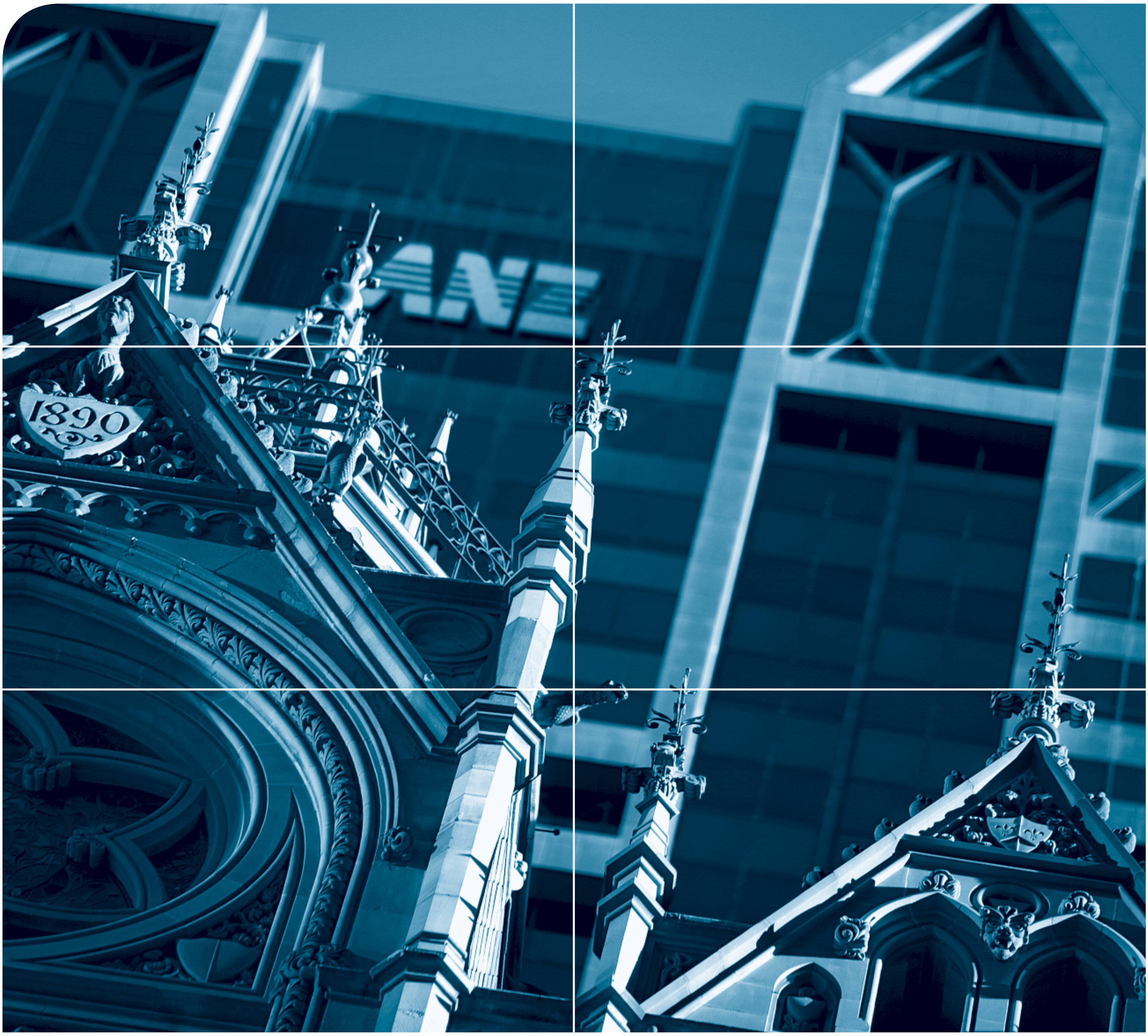


2008 Annual Report

Annual Report

Contents

Chairman's Report

A message from Charles Goode

ANZ has weathered a challenging year in 2008 and been able to maintain the dividend for shareholders. Our underlying business performance was solid, however dislocation in global financial markets and the change in the cycle in Australia and New Zealand impacted parts of our business. The Board and our new Chief Executive acted decisively to address the changing environment and a number of process and control issues in the Bank. While the economic outlook is softer, we have a clear strategy and the foundations on which to plan positively for the future.

OUR PERFORMANCE

ANZ's profit after tax for the year ended 30 September 2008 was $3,319 million, down 21% and cash profit* was $3,029 million, down 23%. Both reflect credit related losses.

Importantly, our business remains strong and we maintained the dividend at 136 cents per share fully franked.

The global economic environment softened and financial markets were in turmoil as a result of the US sub-prime crisis. In this environment ANZ experienced a significant increase in provisions for credit impairment following the cyclical lows in 2007. We kept shareholders informed as these issues emerged through trading updates during the year.

A number of deficiencies in our Institutional Division in risk management and operational controls were identified and remedial action is being taken. We are addressing a backlog of expenditure in our technology and systems.

Our results were a solid achievement in a time when many other banks in the world faced considerable difficulty. I thank management and staff for their contribution.

EXPANSION AND GROWTH

ANZ has an aspiration to become a super regional bank through expanding in Asia. Our underlying performance and progress across the Group in 2008 reinforces that ANZ has a good foundation on which to build and achieve this aspiration.

We have made a number of senior management appointments to strengthen and expand ANZ. Susie Babani joined from HSBC and was appointed Group Managing Director Human Resources. Christopher Page, also from HSBC, initially joined ANZ as Head of Risk for Asia Pacific and was subsequently appointed Chief Risk Officer. Margaret Payn was appointed to lead Strategy and Marketing and focus on strategic productivity improvements across the Bank.

We are in a strong liquidity position and well capitalised consistent with our AA credit rating. We took the opportunity with the Interim and Final Dividend to improve our capital position by offering a discount of 1.5% under our Dividend Reinvestment Plan and having it underwritten.

ANZ's Tier 1 capital ratio of 7.7% compares well globally and against domestic peers.

BOARD

Four new Directors will be appointed to the Board over the next twelve months to add further experience and expertise and to facilitate a transition with the planned retirements of some directors.

Margaret Jackson and Jerry Ellis will retire during 2009. Both have made a very considerable contribution to the Board. We appointed Peter Hay, a leading Australian corporate lawyer with experience in investment banking, and Alison Watkins, who has experience in small business, retailing and financial services, to our Board in November.

Sir Rod Eddington, one of Australia's most respected business leaders with extensive international business experience, has agreed to join the Board and succeed me as Chairman. He will join the Board in the third quarter of 2009 when he has relinquished some of his current commitments and will assume the Chair after a transition period at which time I will retire from the Board.

We aim to be a super regional bank and this involves further expansion into Asia. We are very pleased that Lee Hsien Yang, an experienced Asian business leader who lives in Singapore and has considerable knowledge of the region, has also agreed to join our Board from 1 February 2009.

OUTLOOK

Looking ahead, although coordinated action by governments and regulators has helped to provide stability to the global financial system, economic growth will be much softer in 2009.

The underlying performance of our business and our strategic focus on Asia however provide the foundation for us to manage through these uncertain times and deliver acceptable returns for shareholders over the longer term.

Charles Goode Chairman

* Adjusted for non-core items (i.e. significant items and non-core income arising from the use of derivatives in economic hedges and fair value through profit and loss).

Chief Executive Officer's Report

A message from Michael Smith

At ANZ we have taken the decision that it is time to change and set ourselves up to become a super regional bank focused on Australia, New Zealand and Asia Pacific. 2008 has been a difficult year in banking around the world but we have demonstrated a high level of resilience given the international turmoil. Our results show we have the right foundation with solid underlying momentum in our business. At the same time we need to take the necessary steps to ensure we are well managed during the challenging economic conditions ahead.

ANZ is positioned well in a difficult environment. Although ANZ's earnings fell 21% in 2008, underlying revenue* grew 12%. Lending growth for the year was 16% and growth in deposits and other borrowings was 21% highlighting an increased reliance on AA rated banks, the relative strength of the regional economy and the quality of ANZ's franchise.

The Personal Division and our rapidly growing Asia Pacific Division delivered very good performances. The Institutional Division improved on an underlying basis but provisions and valuation adjustments had a significant impact on the result for the Group as a whole. The performance in New Zealand was softer reflecting a weaker economy.

Our results demonstrated ANZ's ability to weather an extremely challenging year. We have maintained our dividend, provided security and confidence for our customers and worked hard to meet community expectations with responsible, sustainable banking services.

Since I joined ANZ in October 2007, we have done much to put the Bank on a new footing with a clear strategy focused on creating a super regional bank. We recognised the new reality in financial markets early and strengthened the balance sheet, increased capital and liquidity and systematically tackled some deficiencies in operating processes and controls.

We have identified four areas that we will focus on to deliver on our aspiration and we have made good progress in bringing them alive. These areas are:

CUSTOMER FOCUS. Our business should be designed around our customers' needs rather than product lines. This means removing silos and boundaries in our business and bringing us closer together as 'One ANZ'.

MARKETING AND SALES. We need to shift our thinking from selling commodity products to looking at differentiating the way we market ourselves, the way we segment our offering and the way we serve our customers.

TECHNOLOGY. We need a different philosophy to bring us up to the levels of technology used by banks globally, not just in Australia or New Zealand.

PERFORMANCE. We need out performance at every level – financial out performance, out performing in customer service and in our work ethic.

We have made good progress in 2008, however there is much that needs to be done over the next four years to deliver on our aspirations.

Although we expected credit costs to increase in 2008, provisions were high. In the wake of these losses, we have undertaken a review of our business to ensure that everything we do is core to our clients' needs and our risk appetite is managed well.

We undertook a review of our Securities Lending business. Action was taken against a number of employees and we committed to a 13-point remediation plan.

In September, we announced a new structure for our business to accelerate progress with our strategy and to improve financial performance.

We have also built a strong management team of bankers with over 250 years of banking experience on our management board. I believe there is no substitute for bankers with experience of good times and bad, and the experience to understand and see difficult times through.

These actions will ensure ANZ will be a stronger, more effective business in the future.

ANZ now has the right foundation to build upon and there are significant opportunities emerging. Continuing to manage in a steady decisive manner will set ANZ up to deliver on our aspiration to become a super regional bank. This is the key to creating greater value and out-performance for our shareholders over the longer term.

I believe we have a clear direction and the capacity to make ANZ a great regional company. We are in the right place in the Asia Pacific region, at the right time with the right people to deliver performance and value to our shareholders.

Mike Smith

Michael Smith Chief Executive Officer

* Adjusted for non-core items (i.e. significant items and non-core income arising from the use of derivatives in economic hedges and fair value through profit and loss), credit risk on derivatives and a structured trading transaction offset in tax expense.

Chief Financial Officer's Report

A message from Peter Marriott

ANZ reported a profit after tax of $3,319 million for the year ended 30 September 2008.

Income Statement ($m)	2008	2007	Movt
Net interest income	7,850	7,302	8%
Other operating income[1]	4,309	4,038	7%
Operating income	12,159	11,340	7%
Operating expenses	(5,696)	(4,953)	15%
Profit before credit impairment and income tax	6,463	6,387	1%
Provision for credit impairment	(1,948)	(522)	large
Profit before income tax	4,515	5,865	-23%
Income tax expense	(1,188)	(1,678)	-29%
Minority interest	(8)	(7)	14%
Profit attributable to shareholders of the Company	3,319	4,180	-21%

1 Includes share of joint venture and associates profit.

ANZ reported a profit attributable to shareholders of the Company of $3,319 million for the year ended 30 September 2008, down $861 million from $4,180 million for the year ended 30 September 2007. The results were impacted by a $1,426 million increase in credit impairment charges and a $721 million charge for credit risk on derivatives.

Key factors influencing the decrease in profit were:

- Net interest income increased $548 million (8%) from $7,302 million for the year ended 30 September 2007 to $7,850 million for the year ended 30 September 2008. Net interest income was driven by lending growth of 16% and deposits and other borrowings growth of 21%, partially offset by a decline in net interest margin of 18 basis points.
- Other operating income increased $271 million (7%) from $4,038 million for the year ended 30 September 2007 to $4,309 million for the year ended 30 September 2008. The increase included a $353 million gain on Visa shares, an increase over 2007 of $188 million arising from volatility from the use of derivatives in economic hedges and use of the fair value option, and reductions in other operating income relating to an increase in credit risk on derivatives of $676 million, which is treated as negative income, a decrease of $127 million relating to a structured trading transaction, which is offset by an equivalent credit in income tax expense and gains from the sale of Fleet Partners Pty Limited and Truck Leasing Limited in 2007 not repeated in 2008.
- Operating expenses increased $743 million (15%) from $4,953 million for the year ended 30 September 2007 to $5,696 million for the year ended 30 September 2008. The increase included costs associated with an organisational transformation of $218 million and $34 million for an impairment of an intangible asset.
- Provision for credit impairment increased $1,426 million from $522 million for the year ended 30 September 2007 to $1,948 million for the year ended 30 September 2008 as a result of the ongoing deterioration in the global credit market and a softening in the New Zealand and Australian economies.
- Income tax expense decreased $490 million (29%) from $1,678 million for the year ended 30 September 2007 to $1,188 million for the year ended 30 September 2008. The effective tax rate was 26.3%, a reduction of 2.3% from 30 September 2007. The decrease primarily reflects higher equity accounted earnings, increased concessionally taxed Offshore Banking Unit (OBU) income, mainly as a result of the structured transaction referred to above, the restatement of deferred tax balances in 2007 for the announced New Zealand tax rate change and non-assessable mark-to-market gains on fair valued assets related to our associate investments. These items were partially offset by the usage of capital losses, which offset the gain from the sale of Esanda Fleetpartners.

Analysis in greater detail of business performance in major income and expense categories follows.

NET INTEREST INCOME

Net interest income increased $548 million (8%) to $7,850 million for the year ended 30 September 2007. Net interest income was driven by an increase in average interest earning assets of 17% and growth in average deposits and other borrowings of 22%, partially offset by a decline in net interest margin of 18 basis points.

The increase in average interest earning assets included a 16% increase in net advances, primarily in Mortgages, from growth in retail housing and investment loans. Institutional grew 30% due to corporate re-intermediation following the tightening of global credit markets earlier in the year and New Zealand grew 8% with growth primarily across the Retail and Rural businesses.

Other interest earning assets increased 26% due to higher trading and investment securities and other liquid assets, primarily in Markets, following our decision to hold a higher liquidity portfolio during the current market turmoil.

Average deposits and other borrowings increased 22%, with customer deposits growing by 12%. Personal grew 14% as a result of ongoing marketing campaigns, branch expansion and higher deposit rates. Institutional grew 16% due to customer acquisition and a flight to cash investments reflecting share market volatility. Wholesale funding grew 58% to fund growth in the asset book with growth in Group Treasury, Institutional and New Zealand.

Net interest margin was down 18 basis points to 2.01% from September 2007, with the key drivers being:

- Credit market impacts (-7 basis points) due to higher wholesale funding costs and competitive pressures offset by out of cycle rate adjustments and the benefit in a rising rate environment on deposits and capital.
- Funding mix (-5 basis points). Margins were impacted by a lower proportion of funding through deposits and a higher proportion of wholesale funding.
- Asset mix (-2 basis points) resulting from a lower proportion of high margin lending assets in Personal and an increase in the proportion of low margin in business in Institutional.
- Other items (-4 basis points). Higher funding costs associated with unrealised trading gains, however this is directly offset by an equivalent increase in trading income.

OTHER OPERATING INCOME

Other operating income increased $271 million (7%) to $4,309 million for the year ended 30 September 2008. Excluding the gain on Visa shares of $353 million, the increase of $188 million arising from volatility from the use of derivatives in economic hedges and use of the fair value option and reductions relating to the increase in credit risk on derivatives of $676 million that is treated as negative income (refer page 6) and the decrease of $127 million relating to a structured trading transaction offset in tax expense and gains from the sale of Fleet Partners Pty Limited and Truck Leasing Limited of $195 million recognised in 2007, other operating income increased $728 million (18%).

Net fee and commission income increased $276 million, with an increase of $104 million in lending fees primarily in Personal (reflecting volume growth particularly in Banking Products, Mortgages and Consumer Finance) and Institutional (reflecting volume growth in Relationship Lending, Corporate Finance, Markets and Business Banking). Non lending fee income increased $172 million with the main areas of growth being Consumer Finance and Banking Products within Personal following pricing initiatives and account acquisitions, and Corporate Finance within Institutional following strong deal activity.

Foreign exchange earnings increased $250 million primarily in Markets, due to volatility in global currency markets and higher sales volumes, and Group Centre, which benefited from hedge gains due to the weaker NZD and USD.

Other income increased $89 million primarily in Asia Pacific from higher equity accounted income from our investments in AMMB Holdings Berhad (AMMB) and Shanghai Rural Commercial Bank (SRCB) and increased income from Panin Bank.

OPERATING EXPENSES

Operating expenses increased $743 million (15%) to $5,696 million for the year ended 30 September 2008. Excluding the impact of the costs associated with an organisational transformation of $218 million and $34 million for an impairment of an intangible asset, operating expenses increased $491 million (10%).

Personnel costs were up $269 million (9%) as a result of annual salary increases and a 7% increase in staff numbers from additional staff to support new initiatives and business growth. Premises costs increased $50 million (11%), driven mainly by higher rental expense reflecting additional space requirements, the impact of the sale and leaseback program and market rental growth. Computer costs increased $15 million (3%) due to an increase in computer contractors to enhance technology risk management and for architecture investment programs.

Other expenses increased $157 million (17%) with the major increases being professional fees, mainly from the review of the Securities Lending business, initiatives pursuant to the growth strategy in Asia Pacific, advertising spend in Personal to support growth campaigns, sponsorship in Group Centre, and an increase in non-lending losses.

PROVISION FOR CREDIT IMPAIRMENT

Provision for credit impairment increased $1,426 million to $1,948 million for the year ended 30 September 2008. The individual provision charge increased $691 million. Institutional increased $532 million reflecting the deterioration in global credit markets and a softening Australian economy with downgrades for a small number of customers in the broking, finance, mining, business services and manufacturing sectors, together with an impairment expense of $98 million relating to securities backed by US Alt-A mortgages and corporate debt instruments held in the liquidity portfolio accounted for on an available-for-sale basis. New Zealand increased $105 million driven by higher retail consumer and small to medium business provisioning charges as weak economic conditions impacted household income, consumer spending and small businesses. Personal increased $44 million driven by higher losses in Esanda, Personal Loans and Small Business Banking Products which have been mostly offset by an improved loss rate in Consumer Credit Cards.

The collective provision charge increased $735 million. This included an economic cycle adjustment charge of $225 million due to the deterioration in global credit markets and a slowing New Zealand economy, as well as an incremental risk charge of $300 million to reflect higher portfolio concentration risk within the Institutional portfolio. In addition, Institutional increased $181 million due to portfolio growth and risk movements. New Zealand increased an additional $30 million from an increase in unsecured consumer delinquencies and a weakening in the small to medium business risk profiles.

CREDIT RISK ON DERIVATIVES

ANZ recognised $721 million of credit risk on derivatives during the year as negative revenue in the Income Statement.

	Full year Sep 08 $m	Full year Sep 07 $m
Credit risk on derivatives		
Credit intermediation trade related	531	–
Counterparty defaults	156	–
Other counterparties	34	45
Credit risk on derivatives	721	45

This charge arose from:

- changes to the creditworthiness of counterparties to our structured credit intermediation trades,
- defaults on customer derivative exposures with two mining companies and a financial institution, and
- changes in counterparty credit ratings on the remainder of our derivatives portfolio.

ANZ entered into a series of structured credit intermediation trades from 2004 to 2007. The underlying structures involve credit default swaps (CDS) over synthetic collateralised debt obligations (CDOs) (80%), portfolios of external collateralised loan obligations (CLOs) (12%) or specific bonds/floating rate notes (FRNs) (8%).

ANZ sold protection using credit default swaps over these structures and then to mitigate risk purchased protection via credit default swaps over the same trades from eight US financial guarantors many of which are rated AAA.

As derivatives, both the sold protection and purchased protection are marked-to-market. Prior to the commencement of the global credit crisis, gains and losses were not significant and offset each other in income.

The value of the obligation under the sold protection has grown to USD1.4 billion, for which the purchased protection has provided only a partial offset as:

- one of the purchased protection counterparties has defaulted, and
- ANZ has made a credit valuation adjustment on the remaining counterparties. Although many of the US financial guarantors are AAA or AA, their credit spreads have increased significantly.

As a result of the above, the aggregate of credit risk expense for credit intermediation trades is USD425 million ($531 million) for the financial year 2008.

It is likely there will continue to be substantial volatility in this market value, however ANZ expects the mark-to-market adjustment for credit risk on these structured credit derivatives to substantially reverse as either credit spreads contract and/or the derivatives reach maturity.

IMPAIRED ASSETS

Gross non-performing loans at $1,750 million represent a $1,084 million increase over 30 September 2007. The increase is principally in Institutional and due to a number of downgrades spread across the finance sector (including broking and financial asset investors), health care and business services segments. The New Zealand Businesses increase was primarily driven by customer downgrades in the retail and small to medium business portfolios. The increase in Personal was driven by higher retail chattel default rates in Esanda (particularly in the commercial and used car sectors), margin lending and residential investment loan defaults relating to a very small number of private bank customers and an increase in defaults across commercial and agriculture customers in Regional and Rural Banking.

CAPITAL AND FUNDING

ANZ's Tier 1 capital ratio of 7.7% compares well globally and against domestic peers. The Group has been proactive throughout the year in its efforts to further strengthen capital, undertaking a series of initiatives including exchanging StEPS for ordinary equity, underwriting the 2007 final and 2008 interim dividend and raising $1.7 billion in hybrid Tier 1 capital. To further strengthen its capital ratios ANZ will also underwrite the final 2008 dividend.

Notwithstanding particularly challenging capital market conditions, ANZ has issued a record $39 billion of term wholesale debt during the year to further strengthen our funding and liquidity position. Additionally, since 30 September 2008 the liquid asset portfolio has been significantly increased to over $53 billion, which provides sufficient cover for 1 year of all offshore wholesale debt maturities.

BALANCE SHEET SUMMARY

	As at Sep 08 $m	As at Sep 07 $m	Movt Sep 08 v. Sep 07
Assets			
Liquid assets	25,030	16,987	47%
Due from other financial institutions	9,862	8,040	23%
Trading and available-for-sale assets	32,657	29,173	12%
Derivative financial instruments	36,941	22,204	66%
Net loans and advances including acceptances	350,484	303,415	16%
Other	16,050	12,954	24%
Total assets	**471,024**	392,773	20%
Liabilities			
Due to other financial institutions	20,092	19,116	5%
Deposits and other borrowings	283,966	233,743	21%
Derivative financial instruments	31,927	24,180	32%
Liability for acceptances	15,297	14,536	5%
Bonds and notes	67,323	54,075	24%
Other	25,867	25,075	3%
Total liabilities	**444,472**	370,725	20%
Total equity	**26,552**	22,048	20%

ANZ recorded solid balance sheet growth through the year ended 30 September 2008 with asset and liability growth of 20%.

Major movements in asset and liability categories include:

- Liquid assets increased $8.0 billion to $25.0 billion at 30 September 2008 mainly from an increase in bank certificates of deposit of $5.1 billion primarily in the United Kingdom, Singapore and the United States. Repurchase agreements increased $1.6 billion in Group Treasury and cash holdings increased $1.2 billion, primarily in New Zealand.
- Derivative assets increased $14.7 billion to $36.9 billion, and derivative liabilities increased $7.7 billion to $31.9 billion at 30 September 2008 driven by significant volatility in the foreign exchange, interest rate and credit derivative markets and gains on hedges of our foreign currency debt.
- Net loans and advances including acceptances increased $47.1 billion to $350.5 billion at 30 September 2008. Growth in Australia was $31.3 billion or 15%. Personal grew by $17.0 billion (12%) mainly due to growth in housing loans from Mortgages. Institutional grew by $14.3 billion (21%) largely driven by re-intermediation of corporate customers following the tightening of global credit markets. New Zealand Businesses grew by $6.6 billion (9%) mainly due to increases in Retail and Private Banking and Rural Banking. Overseas Markets increased $9.2 billion (76%) due primarily to growth in corporate lending in Asia and the United Kingdom.
- Deposits and other borrowings increased $50.2 billion to $284.0 billion at 30 September 2008. Australia increased $29.6 billion (19%) largely as a result of growth in Personal of $8.1 billion (12%) following branch expansion, ongoing marketing campaigns and improved attractiveness of bank deposits given higher interest rates and share market volatility; Institutional increased $7.2 billion (13%) due mainly to growth in term and other high interest deposit accounts and Treasury increased $14.3 billion largely due to an increase in certificates of deposit to fund lending growth. New Zealand increased $4.6 billion (8%) with increases largely in Treasury and Retail Banking. Overseas Markets increased $16.0 billion (82%) due to an increase in customer term deposits and higher certificates of deposit issued to fund lending growth.
- Bonds and notes increased $13.2 billion to $67.3 billion at 30 September 2008 in Australia and New Zealand. $5.6 billion of the growth was in response to increased term funding requirements and $7.6 billion was the result of exchange rate movements.

PERSONAL DIVISION

Income Statement ($m)	2008	2007	Movt %
Net interest income	3,424	3,112	10%
Other operating income	1,481	1,326	12%
Operating income	4,905	4,438	11%
Operating expenses	(2,349)	(2,150)	9%
Profit before credit impairment and income tax	2,556	2,288	12%
Provision for credit impairment	(437)	(386)	13%
Profit before income tax	2,119	1,902	11%
Income tax expense and minority interest	(634)	(572)	11%
Profit after tax	1,485	1,330	12%
Total assets	167,863	150,523	12%
Employee numbers	13,132	12,767	3%

Profit after tax increased $155 million (12%) to $1,485 million for the year ended 30 September 2008. This increase was driven by strong income from average lending and customer deposit growth (both at 12%), and the continued benefits from ongoing investment in the business.

Net interest income increased 10% with strong balance sheet growth, while margins reduced 3 basis points reflecting increased funding costs, competition and a shift to lower margin products. Other operating income increased 12% driven by new customer account acquisition and revenue initiatives. Operating expenses increased 9% or $199 million, with the main drivers including increased personnel costs mainly from increased customer facing and support roles. Premises costs and marketing costs increased to drive footprint expansion and revenue growth. The branch investment program concluded, meaning we incurred nearly a full year of costs relating to our expanded branch operations. Non-lending losses increased $13 million, while technology expenses to support initiatives and the branch network increased $13 million. Credit costs increased 13% with the major drivers being volume growth, acquisition growth and a decline in market conditions leading to higher delinquencies and bankruptcies.

INSTITUTIONAL DIVISION[1]

Income Statement ($m)	2008	2007	Movt %
Net interest income	2,259	1,984	14%
Other operating income	1,071	1,481	-28%
Operating income	3,330	3,465	-4%
Operating expenses	(1,492)	(1,335)	12%
Profit before credit impairment and income tax	1,838	2,130	-14%
Provision for credit impairment	(1,218)	(24)	large
Profit before income tax	620	2,106	-71%
Income tax expense and minority interest	(94)	(624)	-85%
Profit after tax	526	1,482	-65%
Total assets	208,040	157,661	32%
Employee numbers	6,051	5,373	13%

1 Institutional Asia Pacific is included in both Institutional and Asia Pacific business units consistent with how this business is internally managed.

Profit after tax decreased $956 million (65%) to $526 million for the year ended 30 September 2008. These results have been adversely impacted by the global credit crisis, including recognition of significant credit risk on derivatives of $721 million.

Net interest income increased 14% with growth in average net lending assets of 30% and average deposits of 27%. The main impacts on margins were higher funding costs, partially offset by repricing of the book which led to an improved margin performance. Other operating income (excluding credit risk on derivatives) increased by 17%. Non-lending fees increased by 14%, and foreign exchange earnings by 30%. Growth rates in New Zealand (50%) and Asia (58%) were particularly strong.

Operating expenses grew 12% driven by growth in staff numbers of 13%, with increases concentrated in our strategic growth areas of Asia and Markets and in frontline relationship staff.

Provisioning for credit impairment increased materially. The collective provision charge for the year of $672 million reflected balance sheet growth, a general deterioration in the overall quality of the lending portfolio and the charges taken to reflect increased concentration risk to financial institutions (including securities lending) and the property sector. Individual provision charges were dominated by two large securities firms' exposures, two mining exposures, the collapse of an offshore financial institution and the write-down and sales of certain corporate debt securities and certain bonds backed by US Alt-A mortgages held for liquidity purposes. Income tax expense decreased as a result of a structured transaction that had a positive outcome after tax. This transaction reduced income tax expense $127 million, with an offsetting reduction to revenue.

NEW ZEALAND BUSINESSES

Income Statement ($m)	2008	2007	Movt %
Net interest income	1,644	1,658	-1%
Other operating income	506	508	0%
Operating income	2,150	2,166	-1%
Operating expenses	(1,027)	(1,036)	-1%
Profit before credit impairment and income tax	1,123	1,130	-1%
Provision for credit impairment	(240)	(69)	large
Profit before income tax	883	1,061	-17%
Income tax expense and minority interest	(283)	(341)	-17%
Profit after tax	600	720	-17%
Total assets	76,256	70,550	8%
Employee numbers	9,178	9,087	1%

Profit after tax decreased $120 million (17%) to $600 million for the year ended 30 September 2008. The result was impacted by the devaluation of the average NZD exchange rate, with NZD profit declining NZD100 million or 12%. The combination of domestic recession and the impact of the global credit crunch has had a significant impact on business performance in 2008. The Retail businesses have been most affected by the economic slowdown which has been led by the household sector: they have experienced a marked slowdown in the volume of new business, increased levels of household sector stress (driven by higher interest rates, fuel and food costs) and a switch to intense competition for domestic deposits as global funding conditions have tightened.

Net interest income decreased 1%, however excluding the impact of exchange rates increased 4% with balance sheet growth (lending 9% and customer deposits 6%) partially offset by a 21 basis point contraction in margins. Deposit margins contracted as a result of increased competition and unfavourable mix in a high rate environment with migration of customers from low to high yielding products.

Operating expenses decreased 1%, however excluding the impact of exchange rates increased 4%. Cost growth was due to annual increases in salaries, an increase in the number of customer-facing staff and investment in businesses initiatives, partially offset by strong control of discretionary expenditure. The cost to income ratio was stable at 47.8%.

The individual provision charge increased $105 million, largely reflecting increasing mortgage, consumer and small-to-medium business arrears in response to the significant downturn in the economy and resultant stress in the household sector. The collective provision charge increase of $66 million mainly reflected the impact of the economic environment on mortgages, personal loans, credit cards and small-to-medium size business lending, and an economic cycle adjustment of $34 million to reflect the rapid deterioration in the economy during 2008.

ASIA PACIFIC DIVISION[1]

Income Statement ($m)	2008	2007	Movt %
Net interest income	480	347	38%
Other operating income	559	365	53%
Operating income	1,039	712	46%
Operating expenses	(470)	(322)	46%
Profit before credit impairment and income tax	569	390	46%
Provision for credit impairment	(64)	(42)	52%
Profit before income tax	505	348	45%
Income tax expense and minority interest	(92)	(77)	19%
Profit after tax	413	271	52%
Total assets	32,147	17,051	89%
Employee numbers	4,394	3,308	33%

1 Institutional Asia Pacific is included in both Institutional and Asia Pacific business units consistent with how this business is internally managed.

Profit after tax increased $142 million (52%) from $271 million for the year ended 30 September 2007 to $413 million for the year ended 30 September 2008. This growth was driven mainly by partnerships in Asia with full year earnings received for investments in AMMB Holdings Berhad (AMMB) and Shanghai Rural Commercial Bank (SRCB), which were acquired late in 2007, and mark-to-market gains on warrants in P.T. Bank Pan Indonesia (Panin). Institutional Asia Pacific profit grew 38% reflecting increased markets capability and income from our investment in Saigon Securities Inc (SSI). These gains were partly offset by increased investment in our organic business particularly in front office markets capability and investments in branches in key strategic markets such as Vietnam and Indonesia.

Net interest income increased 38% driven by growth of 56% in average lending assets and 29% in average deposits. The growth in the loan book was largely funded through increased customer deposits as we leveraged the corporate and retail network throughout the region.

Other operating income grew 53%, which was due mainly to increased equity accounted earnings from our various partnerships in Asia. Other factors contributing to the increase include higher income in Markets Asia Pacific on the back of volatility in the global markets, increased product offering and sales strength in Asia, increased trade flows in Papua New Guinea and the booking of mark-to-market gains on bonds convertible into shares in SSI and warrants in Panin. Operating expenses increased 46% as we extended the branch networks in Vietnam, Cambodia, Papua New Guinea, Indonesia and Solomon Islands. Client relationship and specialist resources were boosted in Asia in order to build the business notwithstanding underlying inflationary pressures brought about by strong economic growth in the Asian countries. Our regional hubs in Hong Kong and Singapore were also extended to house the increased leadership and support resources required to drive the growth agenda. Provision for credit impairment increased 52%, due primarily to asset growth and an increase in the collective provision to reflect global credit market turmoil during 2008.

ING AUSTRALIA JOINT VENTURE

Income Statement ($m)	2008	2007	Movt %
Funds management income	497	501	-1%
Risk income	328	284	15%
Operating income	825	785	5%
Expenses	(468)	(474)	-1%
Gross tax on operating profit	(86)	(68)	26%
Profit after tax, before capital investment earnings	271	243	12%
Capital investment earnings after tax	(18)	69	large
Profit after tax before minority interest	253	312	-19%
Minority interest	–	(1)	-100%
Profit after tax	253	311	-19%
ANZ share			
ANZ share @ 49%	124	152	-18%
Net Funding	2	3	-33%
Net return to ANZ	126	155	-19%

Despite the adverse market conditions, the joint venture achieved 12% year-on-year growth in operating profit after tax before capital investment earnings. Other highlights included strong growth in the aligned financial adviser force, Standard & Poor's Ratings Services raising its insurer financial strength rating on the core life company ING Life Ltd to AA- from A+ (outlook stable) and a significant organisational restructure.

Funds management income fell 1% despite the 9% reduction in funds under management, due mainly to the timing (and non-recurrence) of the exceptional inflows into superannuation products driven by tax incentives experienced during mid-2007. Risk income was 15% higher with the increase driven by growth in the in-force books of term life, group life and consumer credit and was assisted by reinsurance recoveries on income protection claims in 2008 and continued favourable mortality and morbidity experience.

Funds management expenses were well contained due to scale efficiencies and increased automation. Life risk expenses increased due to the increased cost base associated with supporting the growth in retail risk and consumer credit business. Tax on operating profit was significantly higher due to the non-recurrence of prior year one-off deductions. Capital investment earnings after tax were significantly lower than 2007 due to the cost of meeting capital-guaranteed obligations on a closed book of business causing the market value decline on the assets which back this liability, the non-recurrence in 2008 of a one-off realisation of capital gains of $12 million following a capital restructure in 2007, a more defensive investment asset mix, significantly lower realisable investment gains, and the impact of rising domestic interest rates on the value of the risk reserves and on the cost of servicing parent company loans.

OTHER[1]

Income Statement ($m)	2008	2007	Movt %
Net interest income	210	290	-28%
Other operating income	787	370	large
Operating income	997	660	51%
Operating expenses	(498)	(200)	large
Profit before credit impairment and income tax	499	460	8%
Provision for credit impairment	(9)	(2)	large
Profit before income tax	490	458	7%
Income tax expense and minority interest	(149)	(110)	35%
Profit after tax	341	348	-2%
Employee numbers	4,344	4,110	6%

1 Other includes Group Centre and significant items.

Profit after tax decreased by $7 million (2%) to $341 million for the year ended 30 September 2008.

Net interest income decreased 28% due primarily to reduced interest earned on surplus capital following investments in Asia and higher funding costs relating to less favourable tax timing differences and lower Treasury income. Other income increased materially with the inclusion of a gain on Visa shares of $353 million, an increase over 2007 of $188 million arising from volatility from the use of derivatives in economic hedges and use of the fair value option, partly offset by a gain of $195 million in 2007 from the sale of Esanda Fleetpartners.

In addition, other income increased following an improvement in earnings from matured revenue hedges and an increase in profits on sales of properties. Operating expenses increased $298 million largely from costs associated with an organisational transformation of $218 million and an impairment of an intangible asset of $34 million. The effective tax rate increased 6.4% to 30.4% for the year ended 30 September 2008, primarily from the usage of capital losses in 2007, which offset the gain from sale of Esanda Fleetpartners, partially offset by the restatement of deferred tax balances in 2007 for the announced New Zealand tax rate change.

Ten Year Summary

	2008 $m	2007 $m	2006 $m	2005 $m
Financial Performance[1]				
Net interest income	7,850	7,302	6,943	6,371
Other operating income	3,645	3,720	3,146	2,935
Operating expenses	(5,444)	(4,953)	(4,605)	(4,340)
Profit before income tax, credit impairment and non-core items[1]	6,051	6,069	5,484	4,966
Provision for credit impairment	(1,948)	(522)	(407)	(565)
Income tax expense	(1,066)	(1,616)	(1,486)	(1,247)
Minority interest	(8)	(7)	(4)	(3)
Cash profit[1]	3,029	3,924	3,587	3,151
Non-core items[1]	290	256	101	24
Profit attributable to shareholders of the Company	3,319	4,180	3,688	3,175
Financial Position				
Assets[2]	471,024	392,773	334,640	300,885
Net Assets	26,552	22,048	19,906	19,538
Tier 1 capital ratio[3]	7.7%	6.7%	6.8%	6.9%
Return on average ordinary equity[4,5]	14.5%	20.9%	20.7%	18.3%
Return on average assets[4]	0.8%	1.2%	1.1%	1.1%
Cost to income ratio[6]	47.4%	44.9%	45.6%	46.6%
Shareholder value – ordinary shares				
Total return to shareholders (share price movement plus dividends)	-33.5%	15.6%	17.1%	32.6%
Market capitalisation	38,263	55,382	49,331	43,834
Dividend	136c	136c	125c	110c
Franked portion – interim	100%	100%	100%	100%
– final	100%	100%	100%	100%
Share price[7] – high	$31.74	$31.50	$28.66	$24.45
– low	$15.07	$25.75	$22.70	$19.02
– 30 Sep	$18.75	$29.70	$26.86	$24.00
Share information				
(per fully paid ordinary share)				
Earnings per share[7] – basic	170.4c	224.1c	200.0c	169.5c
Dividend payout ratio[8]	82.6%	60.9%	62.6%	65.0%
Net tangible assets per ordinary share[9]	$10.72	$9.36	$8.53	$7.77
No. of fully paid ordinary shares issued (millions)	2,040.7	1,864.7	1,836.6	1,826.4
Dividend Reinvestment Plan (DRP) issue price				
– interim	$20.82	$29.29	$26.50	$21.85
– final	–	$27.33	$28.25	$23.85
Other information				
Points of representation[10]	1,346	1,327	1,265	1,223
No. of employees (full time equivalents)	36,925	34,353	32,256	30,976
No. of shareholders[11]	376,813	327,703	291,262	263,467

1 Cash profit excludes non-core items. Non-core items are disclosed separately in the income statement to remove volatility from the underlying business result, and include significant items, ANZ National Bank incremental integration costs and non-core income arising from the use of derivatives in economic hedges on fair value through profit and loss. Significant items are items that have a substantial impact on the profit after tax, or the earnings used in the earnings per share calculation. Significant items also do not arise in the normal course of business and are infrequent in nature. In addition, the 2005 result has been calculated on an IFRS basis that is comparable with 2006 with the net effect of these adjustments included in non-core items, allowing readers to see the impact on 2005 results of accounting standards that have only been applied from 1 October 2005.

2 From 1999 to 2001, consolidated assets include the statutory funds of ANZ Life as required by an accounting standard. For the year 2004, consolidated assets include the statutory funds of NBNZ Life Insurance Limited. ANZ Life was sold in May 2002 and NBNZ Life Insurance was sold on 30 September 2005.

3 Calculated in accordance with Australian Prudential Regulation Authority requirements effective at the relevant date. Basel II has been applied from 1 January 2008.

4 Excludes minority interest. The 2005 ratio has been calculated on an IFRS basis that is comparable with that of 2006.

Previous AGAAP

2004 $m	2003 $m	2002 $m	2001 $m	2000 $m	1999 $m
5,252	4,311	4,018	3,833	3,801	3,655
3,267	2,808	2,796	2,573	2,583	2,377
(4,005)	(3,228)	(3,153)	(3,092)	(3,314)	(3,300)
4,514	3,891	3,661	3,314	3,070	2,732
(632)	(614)	(610)	(531)	(502)	(510)
(1,147)	(926)	(880)	(911)	(863)	(736)
(4)	(3)	(3)	(2)	(2)	(6)
2,731	2,348	2,168	1,870	1,703	1,480
84	–	154	–	44	–
2,815	2,348	2,322	1,870	1,747	1,480
259,345	195,591	183,105	185,493	172,467	152,801
17,925	13,787	11,465	10,551	9,807	9,429
6.9%	7.7%	7.9%	7.5%	7.4%	7.9%
19.1%	20.6%	21.6%	20.2%	19.3%	17.6%
1.2%	1.2%	1.3%	1.1%	1.1%	1.0%
45.3%	45.1%	46.0%	48.0%	51.7%	54.5%
17.0%	6.7%	15.3%	26.2%	36.3%	19.6%
34,586	27,314	26,544	23,783	20,002	16,045
101c	95c	85c	73c	64c	56c
100%	100%	100%	100%	100%	75%
100%	100%	100%	100%	100%	80%
$19.44	$18.45	$19.70	$16.71	$12.87	$12.11
$15.94	$15.01	$15.23	$12.63	$9.18	$8.12
$19.02	$17.17	$16.88	$15.28	$12.70	$9.80
153.1c	142.4c	141.4c	112.7c	102.5c	86.9c
67.5%	64.2%	57.8%	62.0%	59.1%	62.1%
$7.51	$7.49	$6.58	$5.96	$5.49	$5.21
1,818.4	1,521.7	1,503.9	1,488.3	1,506.2	1,565.4
$17.84	$18.48	$19.24	$15.05	$11.62	$10.95
$19.95	$16.61	$18.32	$18.33	$14.45	$11.50
1,190	1,019	1,018	1,056	1,087	1,147
28,755	23,137	22,482	22,501	23,134	30,171
252,072	223,545	198,716	181,667	179,829	179,945

5 For the periods 1999 to 2002, the return on average ordinary equity calculation accrues the dividend over the year. From 2003, dividends may no longer be accrued and are not included in the calculation of return on average ordinary equity.
6 Excludes non-core items. Periods prior to 2005 also exclude goodwill amortisation. The 2005 ratio has been calculated on an IFRS basis that is comparable with that of 2006.
7 Periods prior to 2004 adjusted for the bonus elements of the November 2003 Rights Issue.
8 From 2003, the dividend payout ratio includes the final dividend proposed but not provided for in accordance with changes to accounting standards effective from the September 2003 financial year.
9 Equals shareholders' equity less preference share capital, goodwill, software and other intangible assets divided by the number of ordinary shares. For periods prior to 2005, this equals shareholders' equity less preference share capital and unamortised goodwill divided by the number of ordinary shares.
10 Includes branches, offices, representative offices and agencies.
11 From 2000 onwards, the number of shareholders does not include the number of employees whose only shares are held by ANZEST Pty Ltd as the trustee for shares issued under the terms of any ANZ employee incentive plan.

Directors' Report

The directors present their report together with the Financial Report of the consolidated entity (the Group), being Australia and New Zealand Banking Group Limited (the Company) and its controlled entities, for the year ended 30 September 2008 and the Independent Auditor's Report thereon. The information is provided in conformity with the Corporations Act 2001.

PRINCIPAL ACTIVITIES

The Group provides a broad range of banking and financial products and services to retail, small business, corporate and institutional clients.

The Group conducts its operations primarily in Australia and New Zealand (90% of total assets at 30 September 2008 are related to these operations). The remainder of the Group's operations are conducted across the Asia Pacific region and in a number of other countries including the United Kingdom and the United States.

At 30 September 2008, the Group had 1,346 branches and other points of representation worldwide excluding Automatic Teller Machines (ATMs).

RESULT

Consolidated profit after income tax attributable to shareholders of the Company was $3,319 million, a decrease of 21% over the prior year.

The decrease in profit is due to an increase in the provision for credit impairment charge of $1,426 million following the ongoing deterioration in the global credit market and softening economies in Australia and New Zealand. In addition, the result was impacted by an increase in credit risk on derivatives of $676 million mainly relating to structured credit intermediation trades, which is treated as negative income.

Balance sheet growth has been strong over the past 12 months with total assets increasing 20%. The major components of this increase include:

- Net advances, which increased by $46.3 billion or 16% to $335.2 billion primarily from growth in housing loans in Australia and New Zealand and corporate lending in Institutional particularly in Australia, Asia and the United Kingdom.
- Funding composition: the Group issued a record $39 billion of term wholesale debt during the year to further strengthen our funding and liquidity position. In addition, customer deposits increased 13%.

Further details are contained on pages 4 to 13 of this Annual Report.

STATE OF AFFAIRS

In the directors' opinion, there have been no significant changes in the state of affairs of the Group during the financial year, other than:

Impaired financial assets – an increase in gross non-performing loans of $1.1 billion over 30 September 2007 mainly reflected a number of downgrades in Institutional spread across the finance sector, including broking and financial asset investors, health care and business service segments.

Capital raisings – ANZ Convertible Preference Shares of $1.1 billion and ANZ Convertible Notes of $0.6 billion were raised, dividends were fully underwritten and ANZ StEPS were converted to ordinary shares.

Securities Lending – ANZ conducted a review of its Securities Lending business and publicly reported key findings. Remedial actions are in progress.

Asia expansion – ANZ has progressed its super regional growth strategy on a number of fronts including further branch expansion in Cambodia and Indonesia and receiving regulatory approvals to open branches in Gungzhou province in China and in Vietnam.

Further review of matters affecting the Group's state of affairs is also contained in the Chief Financial Officer's Report on pages 4 to 13 of this Annual Report.

DIVIDENDS

The directors propose that a final fully franked dividend of 74 cents per fully paid ordinary share shall be paid on 18 December 2008. The proposed payment amounts to approximately $1,511 million.

During the financial year, the following fully franked dividends were paid on fully paid ordinary shares:

Type	Cents per share	Amount before bonus option plan adjustment $m	Date of payment
Final 2007	74	1,381	21 December 2007
Interim 2008	62	1,192	1 July 2008

The proposed final dividend of 74 cents together with the interim dividend of 62 cents brings total dividends in relation to the year ended 30 September 2008 to 136 cents fully franked.

REVIEW OF OPERATIONS

Review of the Group during the financial year and the results of those operations, including an assessment of the financial position and business strategies of the Group, is contained in the Chairman's Report, the Chief Executive Officer's Report and the Chief Financial Officer's Report on pages 2 to 13 of this Annual Report.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

Since balance date, global financial and equity markets have exhibited significant volatility. The impact of this volatility on future earnings is not capable of reliable measurement.

The adjustment for credit risk on structured credit derivatives purchased has moved significantly since balance date, reflecting the depreciation of the AUD against the USD (these derivative trades are in USD) and the impact of extreme market turmoil impacting spreads and correlation, and there will continue to be substantial volatility in this adjustment. However, ANZ expects the adjustment for credit risk on these structured credit derivatives to substantially reverse as either credit spreads contract and/or the derivatives reach maturity.

FUTURE DEVELOPMENTS

Details of likely developments in the operations of the Group and its prospects in future financial years are contained in this Annual Report under the Chairman's Report. In the opinion of the directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

ANZ recognises our obligation to our stakeholders – customers, shareholders, staff and the community – to operate in a way that advances sustainability and mitigates our environmental impact. Our commitment to improve our environmental performance is integral to our "making a sustainable contribution to society".

We acknowledge that we have an impact on the environment:

- directly through the conduct of our business operations; and
- indirectly through the products and services we provide to our customers.

As such, ANZ has established an Environment Charter, strategy and internal responsibilities for reducing the impact of our operations and business activities on the environment.

The operations of the Group may become subject to environmental regulation when enforcing securities over land. ANZ has developed policies to manage such environmental risks.

Having made due enquiry, to the best of our knowledge, no member of the Group has incurred any material environmental liability during the year.

ANZ operations in Australia are categorised as a 'high energy user' under the Energy Efficiency Act 2006. ANZ has a mandatory obligation to identify energy efficiency opportunities and report to the Federal Government on progress with implementation of the opportunities identified. As is required, ANZ has submitted a five year energy efficiency assessment plan and will report to the Government and publicly by 31 December 2008 and each subsequent year until the end of the five year reporting cycle.

ANZ envisages no problems on complying with the legislation as the organisation is committed to energy efficiency and has publicly stated targets in support of electricity reduction.

The National Green House Reporting Act introduced in July 2008 has been designed to create a national framework for energy reporting including creating a baseline for the emissions trading. The Act makes registration and reporting mandatory for corporations whose energy production, energy use, or greenhouse gas emissions trigger the specified threshold.

ANZ is one of the 1,000 companies that meets the criteria and will have to make its first report by October 2009. ANZ has previously provided this information as part of the Greenhouse Challenge Plus and makes data available each year in the Corporate Responsibility Report. ANZ expects to be able to comply with this new legislation.

DIRECTORS' QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

At 1 October 2007, the Board comprised seven independent non-executive directors and one executive director, the Chief Executive Officer.

At the date of this report, the Board comprises seven non-executive directors who have a diversity of business and community experience and one executive director, the Chief Executive Officer, who has extensive banking experience. The names of directors and details of their skills, qualifications, experience and when they were appointed to the Board are contained on pages 43 to 45 of this Annual Report.

Details of the number of Board and Board Committee meetings held during the year, directors' attendance at those meetings, and details of directors' special responsibilities are shown on pages 50 to 53 of this Annual Report.

Details of directorships of other listed companies held by each current director in the three years prior to the end of the 2008 financial year are listed on pages 43 to 45.

COMPANY SECRETARIES' QUALIFICATIONS AND EXPERIENCE

Currently there are three people appointed as Company Secretaries of the Company. Details of their roles are contained on page 49. Their qualifications are as follows:

- Bob Santamaria, BCom, LLB (Hons),
  Group General Counsel and Company Secretary.

Mr Santamaria joined ANZ in 2007. He had previously been a Partner at the law firm Allens Arthur Robinson since 1987. He was Executive Partner Corporate, responsible for client liaison with some of Allens Arthur Robinson's largest corporate clients. Mr Santamaria brings to ANZ a strong background in leadership of a major law firm, together with significant experience in securities, mergers and acquisitions. He holds a Bachelor of Commerce and Bachelor of Laws (Honours) from the University of Melbourne. He is also an Affiliate of Chartered Secretaries Australia.

- Peter Marriott, BEc (Hons),
  Chief Financial Officer and Company Secretary.

Mr Marriott has been involved in the finance industry for more than 25 years. Mr Marriott joined ANZ in 1993. Prior to his career at ANZ, Mr Marriott was a Partner in the Melbourne office of the then KPMG Peat Marwick. He is a Fellow of a number of professional organisations including the Institute of Chartered Accountants in Australia and the Australian Institute of Banking and Finance. He is also a Member of the Australian Institute of Company Directors.

- John Priestley, BEc, LLB, FCIS,
  Company Secretary.

Mr Priestley, a qualified lawyer, joined ANZ in 2004. Prior to ANZ, he had a long career with Mayne Group and held positions which included responsibility for the legal, company secretarial, compliance and insurance functions. He is a Fellow of Chartered Secretaries Australia and also a member of Chartered Secretaries Australia's National Legislation Review Committee.

NON-AUDIT SERVICES

The Company's Relationship with External Auditor Policy (which incorporates requirements of the Corporations Act 2001) states that the external auditor may not provide services that are perceived to be in conflict with the role of the auditor. These include consulting advice and sub-contracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on their own work.

Specifically the policy:

- limits the non-audit services that may be provided;
- requires that audit and permitted non-audit services must be pre-approved by the Audit Committee, or pre-approved by the Chairman of the Audit Committee (or up to a specified amount by the Chief Financial Officer or the Group General Manager, Financial Reporting and Policy) and notified to the Audit Committee; and
- requires the external auditor to not commence an audit engagement (or permitted non-audit service) for the Group, until the Group has confirmed that the engagement has been pre-approved.

Further details about the policy can be found in the Corporate Governance Statement on page 53.

The Audit Committee has reviewed a summary of non-audit services provided by the external auditor for 2008, and has confirmed that the provision of non-audit services for 2008 is consistent with the Company's Relationship with External Auditor Policy and compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. This has been formally advised to the Board of Directors.

The external auditor has confirmed to the Audit Committee that they have complied with the Company's Relationship with External Auditor Policy on the provision of non-audit services by the external auditor for 2008.

The non-audit services supplied to the Group by the Group's external auditor, KPMG, and the amount paid or payable by the Group by type of non-audit service during the year ended 30 September 2008 are as follows:

Non-audit service	Amount paid/ payable $'000s 2008	2007
ANZ Nominees confirmation procedures	28	–
Due diligence agreed upon procedures	106	–
Trustee certification	6	–
Compliance testing for securitisation transaction	–	66
Training courses	70	44
Total	210	110

For the reasons set out above, the directors are satisfied that the provision of non-audit services by the external auditor during the year ended 30 September 2008 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration given under section 307C of the Corporations Act 2001 is set out on page 41 and forms part of this Directors' Report for the year ended 30 September 2008.

DIRECTORS AND OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITOR

The following persons were during the financial year and are currently directors or officers of the Group and were partners of KPMG at a time when KPMG was the auditor of Australia and New Zealand Banking Group Limited:

- Ms Margaret Jackson, Non-executive director (left KPMG in June 1992)
- Mr Peter Marriott, Chief Financial Officer (left KPMG in January 1993).

CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER DECLARATION

The Chief Executive Officer and the Chief Financial Officer have given the declarations to the Board concerning the Group's financial statements required under section 295A(2) of the Corporations Act 2001 and Recommendation 7.3 of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

DIRECTORS' AND OFFICERS' INDEMNITY

The Company's Constitution (Rule 11.1) permits the Company to indemnify each officer or employee of the Company against liabilities (so far as may be permitted under applicable law) incurred in the execution and discharge of the officer's or employee's duties. It is the Company's policy that its employees should not incur any liability for acting in the course of their employment legally, within the policies of the Company and provided they act in good faith.

Under the policy, the Company will indemnify employees against any liability they incur in carrying out their role. The indemnity protects employees and former employees who incur a liability when acting as an employee, trustee or officer of the Company, or a subsidiary of the Company at the request of the Company.

The indemnity is subject to applicable law and will not apply in respect of any liability arising from:

- a claim by the Company;
- a claim by a related body corporate;
- a lack of good faith;
- illegal or dishonest conduct; or
- non-compliance with the Company's policies or discretions.

The Company has entered into Indemnity Deeds with each of its directors, with certain secretaries of the Company, and with certain employees and other individuals who act as directors or officers of related body corporates or of another company. To the extent permitted by law, the Company indemnifies the individual for all liabilities, including costs, damages and expenses incurred in their capacity as an officer of the company to which they have been appointed.

The Company has indemnified the trustees and former trustees of certain of the Company's superannuation funds and directors, former directors, officers and former officers of trustees of various Company sponsored superannuation schemes in Australia. Under the relevant Deeds of Indemnity, the Company must indemnify each indemnified person if the assets of the relevant fund are insufficient to cover any loss, damage, liability or cost incurred by the indemnified person in connection with the fund, being loss, damage, liability or costs for which the indemnified person would have been entitled to be indemnified out of the assets of the fund in accordance with the trust deed and the Superannuation Industry (Supervision) Act 1993. This indemnity survives the termination of the fund. Some of the indemnified persons are or were directors or executive officers of the Company.

The Company has also indemnified certain employees of the Company, being trustees and administrators of a trust, from and against any loss, damage, liability, tax, penalty, expense or claim of any kind or nature arising out of or in connection with the creation, operation or dissolution of the trust or any act or omission performed or omitted by them in good faith and in a manner that they reasonably believed to be within the scope of the authority conferred by the trust.

Except for the above, neither the Company nor any related body corporate of the Company has indemnified or made an agreement to indemnify any person who is or has been an officer or auditor of the Company or of a related body corporate.

During the financial year, and again since the end of the financial year, the Company has paid a premium for an insurance policy for the benefit of the directors and employees of the Company and related bodies corporate of the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

ROUNDING OF AMOUNTS

The Company is a company of the kind referred to in Australian Securities and Investments Commission class order 98/100 (as amended) pursuant to section 341(1) of the Corporations Act 2001.

As a result, amounts in this Directors' Report and the accompanying financial statements have been rounded to the nearest million dollars except where otherwise indicated.

EXECUTIVE OFFICERS' AND EMPLOYEE SHARE OPTIONS

Details of share options issued over shares granted to the Chief Executive Officer and disclosed executives, and on issue as at the date of this report are detailed in the Remuneration Report.

Details of share options issued over shares granted to employees and on issue as at the date of this report are detailed in note 46 of the 2008 Financial Report.

No person entitled to exercise any option has or had, by virtue of an option, a right to participate in any share issue of any other body corporate. The names of all persons who currently hold options are entered in the register kept by the Company pursuant to section 170 of the Corporations Act 2001. This register may be inspected free of charge.

Introduction

This Remuneration Report discusses ANZ's remuneration policies which relate to key management personnel (KMP) as defined under the Corporations Act. In the report we identify the link between remuneration and ANZ's performance, along with individual outcomes for ANZ's directors and executives.

The report covers both the KMP of the Company and of the Group (which includes the directors of the parent) and the five highest paid executives in the Company and the Group. KMP are selected according to the following criteria:

- All directors of the ANZ Board: Based on responsibility for providing direction in relation to the management of ANZ. The Board Charter clearly sets out the Board's purpose, powers, and specific responsibilities.

Section A: Remuneration Tables

TABLE 1: DIRECTOR REMUNERATION
For the year ended 30 September 2008, remuneration details of the KMP identified as directors of the Company, are set out below:

		SHORT-TERM EMPLOYEE BENEFITS				
	Financial Year	Cash salary/fees $	Value of shares acquired in lieu of cash salary/fees[1] $	Committee fees (cash) $	Short term incentive[2] $	Other $
Current Non-Executive Directors						
C Goode (Appointed director July 1991; appointed Chairman August 1995)	**2008**	783,000	–	–	n/a	–
Independent Non Executive Director, Chairman	2007	93,314	689,566	–	n/a	–
G Clark (Appointed February 2004)	**2008**	142,900	57,084	40,000	n/a	–
Independent Non Executive Director	2007	144,000	47,962	36,400	n/a	–
J Ellis (Appointed October 1995)	**2008**	177,860	22,114	35,000	n/a	17,982[11]
Independent Non Executive Director	2007	157,368	34,624	42,000	n/a	–
M Jackson (Appointed March 1994)	**2008**	134,750	65,234	73,000	n/a	–
Independent Non Executive Director	2007	192,000	–	69,000	n/a	–
I Macfarlane (Appointed February 2007)	**2008**	152,000	47,974	65,000	n/a	–
Independent Non Executive Director	2007	89,556	29,852	27,062	n/a	–
D Meiklejohn (Appointed October 2004)	**2008**	200,000	–	87,000	n/a	–
Independent Non Executive Director	2007	192,000	–	77,400	n/a	–
J Morschel (Appointed October 2004)	**2008**	165,283	47,974	73,000	n/a	–
Independent Non Executive Director	2007	156,797	47,962	69,000	n/a	–
Former Non-Executive Directors						
D Gonski (Appointed February 2002; retired 30 June 2007)[7] Independent Non Executive Director	2007	135,581	8,399	36,750	n/a	1,140[12]
Total of all Non-Executive Directors	**2008**	1,755,793	240,380	373,000	n/a	17,982
	2007	1,160,616	858,365	357,612	n/a	1,140
Executive Director						
M Smith (Appointed October 2007)[8,9] Chief Executive Officer	**2008**	3,000,000	–	–	2,400,000	566,567[13]
Former Executive Director						
J McFarlane (Appointed October 1997; retired 30 September 2007)[8,10] Former Chief Executive Officer	2007	528,587	1,553,377	–	2,090,000	1,124,507[14]
Total of all Directors	**2008**	4,755,793	240,380	373,000	2,400,000	584,549
	2007	1,689,203	2,411,742	357,612	2,090,000	1,125,647

1 Shares acquired through participation in Directors' Share Plan. Value reflects the price at which the shares were purchased on-market on 29 October 2007 (amortisation not applicable).
2 100% of the cash incentive vested during the financial year that performance relates to. The possible range of short-term incentive (STI) payments is between 0 and 2 times target STI. The 2008 STI awarded to M Smith as a percentage of target was 80% and was approved by the Board on 21 October 2008. The below target STI payment reflects ANZ's performance in 2008 (John McFarlane received 95% of his target STI in 2007).
3 As M Smith is a holder of a long stay visa, his Fixed Remuneration does not include the 9% Superannuation Guarantee contribution, however he is able to elect voluntary superannuation contributions. For J McFarlane, the amount of $417,975 includes $300,000 additional employer contribution, agreed as part of his contract extension announced 26 October 2004. For J Morschel, superannuation guarantee contributions are paid to him as cash in lieu.
4 Comprises $550,000 for the 3 month unexpired portion of J McFarlane's employment contract and a $365,261 pro-rata long service leave entitlement.

COMMENTARY ON CHANGES BETWEEN 2007 & 2008

Non-Executive Directors

Despite the increase in NED fees for 2007/08 (refer to B1), there is only a slight increase in 2008 Total Remuneration for Non-executive Directors (NEDs) compared with 2007 ($6,766). The small difference can be primarily attributed to the retirement of D Gonski in June 2007. For all other NEDs (excluding I Macfarlane), the year-on-year change is small (i.e. less than $20,000). For I Macfarlane, the notable year-on-year difference is due to his commencement part way through the 2007 year. Refer to section B1 for fee structure details.

- Executives: Based on direct reports of the CEO with key responsibility for the strategic direction and management of a major revenue-generating division or who control material revenue and expenses.

The Board Human Resources (HR) Committee has responsibility for director and executive remuneration and executive succession, and for making recommendations to the Board on remuneration and succession matters related to the CEO (refer to pages 51 and 52 of the Corporate Governance Report for more details about the Committee's role, and anz.com › about ANZ › Corporate Governance › ANZ Human Resources Committee Charter, which details the terms of reference under which the Committee operates). On a number of occasions throughout the year, both the Board HR Committee and management received external advice on matters relating to remuneration. The following advisors were used: Ernst & Young, Hay Group, Freehills, and PricewaterhouseCoopers.

	POST-EMPLOYMENT	LONG TERM EMPLOYEE BENEFITS	TERMINATION BENEFITS[4]	SHARE-BASED PAYMENTS[5]			
Total $	Super contributions[3] $	Long service leave accrued during the year $		Total amortisation value of LTI options $	Total amortisation value of LTI Performance Rights $	Total amortisation value of Sign-on Award $	Total Remuneration[6] $
783,000	13,283	n/a	n/a	n/a	n/a	n/a	796,283
782,880	12,797	n/a	n/a	n/a	n/a	n/a	795,677
239,984	13,283	n/a	n/a	n/a	n/a	n/a	253,267
228,362	12,797	n/a	n/a	n/a	n/a	n/a	241,159
252,956	13,283	n/a	n/a	n/a	n/a	n/a	266,239
233,992	12,797	n/a	n/a	n/a	n/a	n/a	246,789
272,984	13,283	n/a	n/a	n/a	n/a	n/a	286,267
261,000	12,797	n/a	n/a	n/a	n/a	n/a	273,797
264,974	13,283	n/a	n/a	n/a	n/a	n/a	278,257
146,470	8,854	n/a	n/a	n/a	n/a	n/a	155,324
287,000	13,283	n/a	n/a	n/a	n/a	n/a	300,283
269,400	12,797	n/a	n/a	n/a	n/a	n/a	282,197
286,257	–	n/a	n/a	n/a	n/a	n/a	286,257
273,759	–	n/a	n/a	n/a	n/a	n/a	273,759
181,870	9,515	n/a	n/a	n/a	n/a	n/a	191,385
2,387,155	79,698	n/a	n/a	n/a	n/a	n/a	2,466,853
2,377,733	82,354	n/a	n/a	n/a	n/a	n/a	2,460,087
5,966,567	–	45,788	–	–	1,839,734	5,111,391	12,963,480
5,296,471	417,975	–	915,261	123,411	–	–	6,753,118[14]
8,353,722	79,698	45,788	–	–	1,839,734	5,111,391	15,430,333
7,674,204	500,329	–	915,261	123,411	–	–	9,213,205

5 In accordance with the requirements of AASB 2 Share-based Payment, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. It is assumed that the options/performance rights will vest at the commencement of their exercise period (i.e. the shortest possible vesting period is assumed). The fair value is determined at grant date and is allocated on a straight-line basis over the expected vesting period. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the options/performance rights become exercisable.

6 Amounts disclosed for remuneration of directors exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former KMP of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.

7 $340,676 was paid under the ANZ Directors' Retirement Scheme to D Gonski (retired 30 June 2007), based on the sale of shares relating to the Retirement Scheme.

8 Amortisation value of options/rights as a percentage of total remuneration (as shown in the Total column above) was 14% in 2008 for Mike Smith and 2% in 2007 for J McFarlane.

9 The amortisation value of LTI performance rights and the sign-on award for M Smith relates to the grant of ANZ equity that was approved by shareholders at the 2007 Annual General Meeting. Refer to section D1 for further details.

10 J McFarlane elected to use almost all of his cash salary to purchase shares under the Directors' Share Plan. The purchase dates were 30 October 2006, 29 January 2007 and 7 May 2007 for the 2007 year.

11 Other for J Ellis relates to car parking and office space.

12 Other for D Gonski relates to a non-monetary benefit received on retirement as a gift from the Board.

13 Other for M Smith relates to relocation benefits and professional service fees rendered in respect of taxation matters.

14 Other for J McFarlane relates to a $1 million payment for the relinquishment of his Performance Shares (refer to section D2.3 for further details), a $7,000 gift from the Board, $24,046 worth of professional service fees rendered in respect of taxation matters, and reimbursement to J McFarlane of $93,461 for the additional tax liability on his UK Pension Plan holdings arising as a result of Australian Foreign Investment Fund rules and J McFarlane's continuing Australian residency (in accordance with his contractual arrangements).

Section A: Remuneration Tables (continued)

TABLE 2: EXECUTIVE KEY MANAGEMENT PERSONNEL REMUNERATION AND TOP 5 REMUNERATED
For the year ended 30 September 2008, remuneration details of the KMP identified as executives of the Group, and the five most highly remunerated executives in the Company and the Group other than the Chief Executive Officer, are set out below:

		SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT
	Financial Year	Cash salary/fees $	Non monetary benefits[1] $	Total cash incentive[2,3] $	**Total** $	Super contributions $
Current Executives						
R Edgar Senior Managing Director	**2008**	958,878	9,786	450,000	1,418,664	36,122
	2007	795,275	9,620	1,060,000	1,864,895	49,725
B Hartzer Group Managing Director, Personal	**2008**	1,460,741	11,799	850,000	2,322,540	32,246
	2007	931,232	61,963	1,315,000	2,308,195	61,425
G Hodges Chief Executive, ANZ National Bank Limited (New Zealand)	**2008**	1,000,000	90,705	550,000	1,640,705	–
	2007	900,000	56,600	900,000	1,856,600	–
P Marriott Chief Financial Officer	**2008**	930,483	9,786	450,000	1,390,269	64,517
	2007	889,425	9,620	1,090,000	1,989,045	55,575
A Thursby[10] Group Managing Director, Asia Pacific and Acting Group Managing Director Institutional	**2008**	875,000	453,456	1,050,000	2,378,456	–
	2007	70,000	770	–	70,770	–
Former Key Management Personnel						
P Hodgson[11] Former Group Managing Director, Institutional	**2008**	852,120	8,905	–	861,025	53,330
	2007	808,456	9,620	850,000	1,668,076	50,544
S Targett[12] Former Group Managing Director, Institutional	2007	983,675	–	550,000	1,533,675	61,425
Total of all Executive KMPs	**2008**	6,077,222	584,437	3,350,000	10,011,659	186,215
	2007	5,378,063	148,193	5,765,000	11,291,256	278,694
Total of all Disclosed Executives	**2008**	6,077,222	584,437	3,350,000	10,011,659	186,215
	2007	5,378,063	148,193	5,765,000	11,291,256	278,694

COMMENTARY ON CHANGES BETWEEN 2007 & 2008

Overall, the year-on-year total remuneration (with and without Peter Hodgson's termination benefits) has decreased between 2007 and 2008. This can be attributed to the following:

- There was a reduction in overall STI allocation (as % of target STI) for executive KMP, to reflect ANZ's 2008 performance. 100% of the short-term incentive amounts disclosed in 2007, were delivered as 100% cash. As a large portion of STI is now deferred as shares which are not granted until post year end, only the cash component of the STI allocated has been expensed in 2008 (refer to section C4.1). The amortisation of deferred STI equity will commence from the 31 October grant date.
- The majority of amortised equity from historical STI/LTI programs vested in the early stages of the 2008 financial year, therefore a smaller proportion of equity was amortised in 2008 (relative to 2007).

Other year-on-year variations include:

- A Thursby 2007 amount relates only to the 1 month period he was a KMP (i.e. commenced 3 September 2007).
- $3.2 million total remuneration for S Targett included in 2007 remuneration aggregate (and not in 2008).
- Fixed remuneration changes reflect individual performance and outcomes from the annual market analysis.

NEW BUSINESS MODEL FOR 2009 FINANCIAL YEAR

From the beginning of the 2009 financial year (i.e. 1 October 2008), ANZ has organised around its three geographies (Australia, New Zealand and Asia Pacific) and its global Institutional client business. As a result, the position titles and roles for current Executive KMP from 1 October 2008 are as follows: B Hartzer – CEO Australia (and Global segment lead for Retail), G Hodges – CEO New Zealand, A Thursby – CEO Asia Pacific (and acting Group MD Institutional until a permanent appointment is made), B Edgar – Deputy CEO and P Marriott – CFO (no change).

LONG-TERM EMPLOYEE BENEFITS		SHARE-BASED PAYMENTS[5]							
Retirement benefit accrued during year[4] $	Long service leave accrued during the year $	Total amortisation value of STI shares $	Total amortisation value of LTI shares $	Total amortisation value of LTI options $	Total amortisation value of LTI performance rights $	Total amortisation of other equity allocations[6] $	Termination benefits[7] $	Total excluding termination benefits $	**Grand Total Remuneration**[8,9] $
19,298	59,677	–	21,516	4,155	506,025	–	–	2,065,457	2,065,457
3,297	13,278	31,928	273,389	79,418	419,586	–	–	2,735,516	2,735,516
–	74,902	–	6,039	5,817	780,312	–	–	3,221,856	3,221,856
–	21,938	30,613	93,063	91,008	513,944	–	–	3,120,186	3,120,186
3,035	44,415	–	4,977	4,795	701,280	–	–	2,399,207	2,399,207
610	29,940	23,569	79,066	77,386	466,213	–	–	2,533,384	2,533,384
–	20,871	–	5,607	5,402	709,626	–	–	2,196,292	2,196,292
–	25,533	39,638	97,621	95,807	474,537	–	–	2,777,756	2,777,756
–	14,377	–	–	–	174,414	365,291	–	2,932,538	2,932,538
–	–	–	–	–	–	24,763	–	95,533	95,533
–	–	–	16,732	1,259	200,327	–	1,334,282	1,132,673	2,466,955
–	52,121	38,553	100,838	17,809	199,778	–	–	2,127,719	2,127,719[13]
–	18,283	–	44,857	43,215	482,864	1,003,152	–	3,187,471	3,187,471
22,333	214,242	–	54,871	21,428	3,071,984	365,291	1,334,282	13,948,023	15,282,305
3,907	161,093	164,301	688,834	404,643	2,556,922	1,027,915	–	16,577,565	16,577,565
22,333	214,242	–	54,871	21,428	3,071,984	365,291	1,334,282	13,948,023	15,282,305
3,907	161,093	164,301	688,834	404,643	2,556,922	1,027,915	–	16,577,565	16,577,565

1 Non-monetary benefits generally consist of salary packaged items such as car parking and novated lease motor vehicles. For G Hodges, his non-monetary benefits relate to a housing allowance and education expenses. For A Thursby, non-monetary benefits relate to costs associated with his relocation to Melbourne and airfares.

2 For the 2007 year, total cash incentive relates to the full incentive amount, and for the 2008 year, the disclosed incentive relates to the cash component only, with the deferred equity component to be amortised from the 31 October grant date in the 2009 Remuneration Report (refer to section C4.1 for details). The cash incentive component was approved by the Board on 21 October 2008. 100% of the cash incentive awarded in both 2007 and 2008 vested to the person in the applicable financial year.

3 The possible range of short-term incentive (STI) payments is between 0 and 2 times target STI. The actual incentive received is dependant on ANZ Group, division and individual performance (refer to C4.1 for more details). The 2008 STI awarded (cash and equity component) as a percentage of target STI was: B Hartzer 83% (2007: 125%); R Edgar 58% (2007: 125%); G Hodges 75% (2007: 100%); P Marriott 58% (2007: 115%); A Thursby 181%; P Hodgson 0% (2007: 100%).

4 Accrual relates to Retirement Allowance. As a result of being employed with ANZ prior to November 1992, R Edgar and G Hodges are eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as follows: 3 months of preserved notional salary (which is 65% of Fixed Remuneration) plus an additional 3% of notional salary for each year of full-time service above 10 years, less the total accrual value of long service leave (including taken and untaken).

5 In accordance with the requirements of AASB 2, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. It is assumed that the options/performance rights will vest at the commencement of their exercise period (i.e. the shortest possible vesting period is assumed) and that deferred shares will vest after 3 years. The fair value is determined at grant date and is allocated on a straight-line basis over the 3-year vesting period. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the options/performance rights become exercisable. For deferred shares, the fair value is the volume weighted average price of the Company's shares traded on the ASX on the day the shares were granted.

6 Amortisation of other equity allocations for S Targett relates to the grant of deferred shares beginning on 11 May 2004 (four tranches to the value of $700,000 each issued at 6 month intervals in May and November in 2004 and 2005) and hurdled A options (refer to section F10.1 for performance hurdle details) to compensate S Targett for the loss of access to equity as a result of his resignation from his previous employer. Amortisation of other equity allocations for A Thursby relates to the allocation of 3 year deferred shares (one tranche in 2007 and 2008 to the value of $1m each year) to compensate for equity foregone from his previous employer.

7 Termination benefits for P Hodgson include 12 months pay in-lieu of notice, as per employment agreement (refer to section E), and annual and long service leave entitlements.

8 Remuneration amounts disclosed exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former KMP of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.

9 Amortisation value of options and rights as a percentage of total remuneration was: B Hartzer 24% (2007: 19%); R Edgar 25% (2007: 18%); G Hodges 30% (2007: 21%); P Marriott 33% (2007: 21%); A Thursby 6%; P Hodgson 8% (2007: 17%); S Targett (2007: 21%).

10 A Thursby commenced employment with ANZ in the position of Group Managing Director, Asia Pacific on 3 September 2007, and took on the additional role of Acting Group Managing Director Institutional on 22 August 2008. As A Thursby is a holder of a long stay visa, his Fixed Remuneration does not include the 9% Superannuation Guarantee contribution, however he is able to elect voluntary superannuation contributions.

11 P Hodgson ceased as the Group Managing Director Institutional on 22 August 2008, and his employment with ANZ was terminated on 29 August 2008. P Hodgson was the Chief Risk Officer for the period 1 December 2004 to 7 June 2007, and commenced in the position of Group Managing Director Institutional on 8 June 2007.

12 S Targett ceased as the Group Managing Director, Institutional on 7 June 2007, and his employment with ANZ ended on 7 June 2008.

13 P Hodgson's 2007 Total Remuneration is $186,510 (i.e. amortised amount) less than what was disclosed in 2007 due to the forfeiture of his Performance Rights on cessation of his employment.

Section B. Non-executive Directors' Remuneration

B1. NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

Non-executive Directors' (NEDs) fees are reviewed annually by the Board HR Committee and are determined based on advice from external advisors and with reference to fees paid to other NEDs of comparable companies.

NEDs receive a fee for being a director of the Board, and additional fees for either chairing or being a member of a committee. Work on special committees may attract additional fees of an amount considered appropriate in the circumstances. An additional fee is also paid if a NED serves as a director on a subsidiary board. NEDs do not receive any performance/incentive payments and are not eligible to participate in any of the Group's incentive arrangements.

Effective 1 October 2007, NED fees and Committee membership fees (excluding HR Committee) were increased based on an independent assessment of the competitiveness of ANZ's NED remuneration in comparison to other major companies and forecast market movements. The Chairman's fee remained unchanged for 2008. The fees reflect the increased accountability and time commitment of NEDs, largely driven by the increased corporate governance, regulatory requirements and complexities of operating a global business.

The fee structure is disclosed in Table 3 below:

TABLE 3

Role	2007/08 Fees $	2006/07 Fees $
Chairman	783,000	783,000
Non-Executive Director	200,000	192,000
Committee Chair (Risk & Audit)	52,000	48,000
Committee Chair (HR)	48,000	48,000
Committee Chair (Governance & Technology)	30,000	28,000
Committee Member (Risk & Audit)	25,000	21,000
Committee Member (HR)	21,000	21,000
Committee Member (Governance & Technology)	10,000	8,400

For details of remuneration paid to directors for the year ended 30 September 2008, refer to Table 1 in section A of this Remuneration Report.

INCREASE TO NED FEE CAP

The current total of NED fees (including superannuation contributions) is within the maximum annual aggregate limit agreed to by shareholders at the 2005 Annual General Meeting ($3 million, excluding superannuation benefit payouts and retirement benefits). The 2005 increase to the NEDs' fee cap was primarily to accommodate for the fee adjustment to compensate for removal of the Directors' Retirement Scheme. It is proposed that the NED fee cap be increased by $500,000, taking the maximum annual aggregate amount to $3,500,000. The fee increase is considered necessary in order to allow for the appointment of additional directors to the Board to:

- enable appropriate succession at the Board; and
- ensure that the Board (and its Committees) continue to have available Directors with the appropriate mix of skills, expertise and experience, taking account of the nature and location of the Company's business and operations.

The increase to the NED fee pool will be subject to shareholder approval which will be sought at the 2008 Annual General Meeting. It is important to note that there will not be an increase to the current NED fees paid to directors in 2008/09. The proposed increase to the NED fee cap will however provide the Company the flexibility to ensure that a high calibre Board of appropriate size continues to serve the Company and its members effectively, as well as enabling appropriate succession management.

NED SHAREHOLDING GUIDELINES

NEDs have agreed to accumulate ANZ shares, over a five-year period, to the value of 100% (200% for Chairman) of the base annual NED Fee (i.e. $200,000 for 2007/2008) and to maintain this shareholding while a director of ANZ. NEDs have agreed to apply up to 25% of their base fee annually through the Directors' Share Plan or other means, towards the purchase of ANZ shares in order to achieve/maintain the desired holding level. This guideline was approved by the Board in September 2005.

B2. NON-EXECUTIVE DIRECTORS' RETIREMENT POLICY

The NED retirement scheme was closed effective 30 September 2005. Accrued entitlements relating to the ANZ Directors' Retirement Scheme were fixed at 30 September 2005 and NEDs had the option to convert these entitlements into ANZ shares. Such entitlements, either in ANZ shares or cash, will be carried forward and transferred to the NED when they retire (including interest accrued at the 30 day bank bill rate for cash entitlements).

The accrued entitlements fixed under the ANZ Directors' Retirement Scheme as at 30 September 2005 are as follows:

C Goode – $1,312,539; G Clark – $83,197; J Ellis – $523,039; M Jackson – $487,022; D Meiklejohn – $64,781; J Morschel – $60,459.

B3. DIRECTORS' SHARE PLAN

The Directors' Share Plan (the plan) is available to both non-executive and executive directors. Directors may elect to forego remuneration to which they may have otherwise become entitled and receive shares to the value of the remuneration foregone, and therefore the shares acquired are not subject to performance conditions. Participation in the plan is voluntary. Shares acquired under the plan are purchased on market and are subject to a minimum 1 year restriction, during which the shares cannot be traded. In the event of serious misconduct, all shares held in trust will be forfeited. All costs associated with the plan are met by the Company.

Section C. Executive Remuneration Structure

C1. REMUNERATION GUIDING PRINCIPLES

ANZ's reward policy, approved by the Board, shapes the Group's remuneration strategies and initiatives.

The following principles underpin ANZ's reward policy for executive KMP, defined on pages 22 and 23 (including company secretaries and senior managers):

1. Focus on creating and enhancing value for all ANZ stakeholders;
2. Differentiation of individual rewards in line with ANZ's culture of rewarding for out performance;
3. Significant emphasis on "at risk" components of total rewards; and
4. The provision of a competitive reward proposition to successfully attract, motivate and retain the highest quality individuals required to deliver ANZ's business and growth strategies.

SHAREHOLDING GUIDELINES

Direct reports to the CEO are expected to accumulate ANZ shares over a five year period, to the value of 200% of their Fixed Remuneration and to maintain this shareholding while an executive of ANZ. The next most senior executives are expected to accumulate ANZ shares to the value of 100% of their Fixed Remuneration and to maintain this shareholding while an executive of ANZ. This guideline was introduced in June 2005.

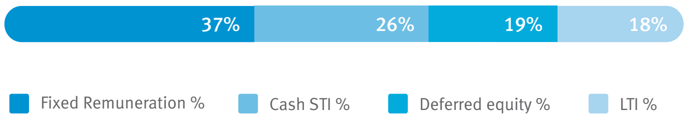
C2. REMUNERATION STRUCTURE OVERVIEW

The executive remuneration program and structure detailed in Section C reflects the remuneration of KMP (excluding the CEO and NEDs). The program aims to differentiate remuneration on the basis of achievement against group, business unit and individual performance targets which are aligned to sustained growth in shareholder value using a balanced scorecard approach. The executive remuneration program also complies with the ASX Corporate Governance Principles. The program comprises the following components which are benchmarked against the finance market median:

- Fixed Remuneration component: salary, non-monetary benefits and superannuation contributions (Refer to C3).
- Variable or "at risk" component (Refer to C4):
  – Short-Term Incentive (STI); and
  – Long-Term Incentive (LTI).

Figure 1 below shows the relative mix of Fixed, STI and LTI at target payment levels for executive KMP. The remuneration structure provides for upper quartile variable reward for significant out performance, and significantly reduced payment for underperformance. In this way the remuneration structure is heavily weighted towards "reward for performance".

Figure 1: 2008 Target Reward Mix[1]



1 2008 target reward mix for current executive KMP pertains to R Edgar, B Hartzer, G Hodges, P Marriott and A Thursby.

C3. FIXED REMUNERATION

Fixed Remuneration generally comprises cash salary, a superannuation contribution, and the remainder as nominated benefits (e.g. novated car leases, additional superannuation contributions, car parking, child care and contributions towards the Employee Share Save Scheme). Fixed Remuneration is reviewed annually based on individual performance and market data.

Fixed Remuneration at ANZ operates with a midpoint targeted to the local market median being paid in the finance industry in the relevant global markets in which ANZ operates, and a range around this midpoint.

C4. VARIABLE REMUNERATION

Variable remuneration forms a significant part of executives' potential remuneration (around 63% for 2007 and 2008), providing an at-risk component that is designed to drive performance in both the short-term (annually) and in the medium and long-term (3 years plus).

As a result of our ongoing review of the executive remuneration program, a portion of STI will now be delivered in the form of deferred shares and deferred options. Therefore, while the overall proportion of variable target remuneration remains unchanged, the proportion of the variable component paid as cash reduces and the proportion delivered as ANZ equity has increased.

The rationale for the revised variable remuneration strategy is to place an increased emphasis on having a variable structure that is flexible, continues to be performance linked, has significant retention elements and motivates executives to drive continued performance over the longer term. These changes achieve this, whilst balancing the needs of ANZ, the executive and shareholders as follows:

ANZ

- Provides a significantly greater retention element
- Places significant focus on annual performance as well as directing the executives to focus on sustained share price growth over the longer term
- Maintains a focus on both absolute and relative share price performance

Executive

- Provides greater ability to influence STI outcome (line-of sight)
- Introduces options as a means to provide a leveraged reward element
- Provides a cash component which is still meaningful

Shareholder

- Places heavier weighting on ANZ equity, thereby increasing shareholder alignment
- Provides performance linkages both in determining overall quantum and delivery of variable pay
- Ensures LTI performance measure remains focused on relative Total Shareholder Return against peers

As specified in the ANZ Global Employee Securities Trading and Conflict of Interest Policy, equity allocated under ANZ incentive schemes must remain at risk until fully vested (in the case of Deferred Shares) or exercisable (in the case of Options or Performance Rights). As such, it is a condition of grant that no schemes are entered into that specifically protect the unvested value of Shares, Options and Performance Rights allocated. Doing so would constitute a breach of the grant conditions and would result in the forfeiture of the relevant Shares or Options.

To monitor adherence to this policy, ANZ's executive KMP (including CEO) are required to sign an annual declaration stating that they have not entered into (and are not currently involved in) any schemes to protect the value of their interests in any unvested ANZ securities. Based on the 2008 declarations, we can advise that executive KMP (incuding CEO) are fully compliant with this policy.

C4.1 Short-Term Incentives

ANZ's Short-term incentive (STI) approach supports ANZ's strategic objectives by providing rewards that are significantly differentiated on the basis of achievement against performance targets. ANZ's main STI plans are reviewed and approved by the Board HR Committee.

Determination of STI Levels

The size of the overall pool available is based on an assessment of the financial performance of the Group, with this pool then spread between the Divisions based on their relative performance against a balanced scorecard of financial and qualitative measures. The Board HR Committee is required to approve the STI Group and Division outcomes and the distribution of the STI pool amongst the Divisions. Each executive has a target STI which is determined according to market relativities. The size of the actual STI payment made at the end of each financial year to individuals may be at, above or below the target and this will be determined according to ANZ Group, Division and Individual Performance aligned with ANZ's overall strategy.

Individual performance objectives include a number of qualitative and quantitative measures which may include:

- Financial Measures including: Revenue Growth, Net Profit After Tax Growth and Operating Costs
- Customer Measures including: Customer Satisfaction, Share of Wallet and Market Share
- Process Measures including Process Improvements and Cost Benefits
- People Measures including Staff Turnover, Diversity Targets and Performance Management
- Behaviour, Risk, Compliance Measures/Standards.

The specific targets and features relating to these qualitative and quantitative measures have not been provided in detail due to their commercial sensitivity.

The performance of relevant executives against these objectives is assessed at the end of the year by the Board HR Committee, as per the Board HR Committee Charter (refer to anz.com › about ANZ › Corporate Governance › ANZ Human Resources Committee Charter, which details the terms of reference under which the Committee operates).

Mandatory STI Deferral

For the 2008 remuneration review and beyond, the following tiered STI deferral approach will apply:

- STI up to AUD 200,000 paid in cash[1]
- 25% of STI amounts above AUD 200,000 to be deferred for 1 year (half allocated in the form of shares[2] and the other half as options[3])
- 25% of STI amounts above AUD 200,000 to be deferred for 2 years (half allocated in the form of shares[2] and the other half as options[3])
- The balance (i.e. 50%) of STI amounts above AUD 200,000 to be paid as cash[1]

The mix of options and shares for the mandatory STI deferral provides a strong retention element in both flat and growth economic cycles. Options contain an in-built price hurdle given that they are designed to reward for share price growth. That is, options can provide benefits to the extent the ANZ share price increases above the option exercise price. Options deliver no value where the ANZ share price is equal to or below the option exercise price during the exercise period.

As the incentive amount has already been earned, there are no performance measures attached to the shares and options; rather, the delivery of STI in the form of equity provides a balance between retention based equity and LTI performance based equity. The target STI award level for current executive KMP is 120% of Fixed Remuneration in 2008 with a maximum STI award of 2 times target STI. As shown in Figure 3 (page 28), 2008 STI payments for disclosed executive KMP (incl. CEO) are aligned with the performance of ANZ, with average STI payments equating to 76% of target STI (on average).

1 Executives are able to elect to take any cash bonus amounts they may be awarded as cash, super, equity (shares and/or options) or a mix of these.
2 G Hodges will receive share rights rather than shares due to taxation implications in New Zealand. A share right effectively provides a right in the future to acquire a share in ANZ at nil cost to the employee. The right value at grant is discounted (relative to the value of an ANZ share at grant), due to the fact that dividends will not be received during the deferral period.
3 B Hartzer will receive shares in the place of options due to taxation implications in the United States of America, as a result of his US citizenship.

C4.2 Long-Term Incentives

The long-term incentives (LTIs) are designed to link a significant portion of executives' remuneration to the attainment of sustained growth in shareholder value. Consistent with the CEO, LTI is delivered to executive KMP as 100% Performance Rights, with a single long-term performance measure (refer to section F10 for details of legacy LTI programs). A Performance Right is a right to acquire a share at nil cost, subject to meeting time and performance hurdles. Performance Rights are designed to reward executives for share price growth dependent upon the Company's Total Shareholder Return (TSR) outperforming peers. TSR represents the change in the value of a share plus the value of reinvested dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance. The conditions under which Performance Rights are granted are approved by the Board in accordance with the rules of the ANZ Share Option Plan. In the event of a takeover or a scheme of arrangement, the ANZ Share Option Plan specifies that the Board has absolute discretion to permit the exercise of options or rights. If a company obtains control of ANZ and both the acquiring company and ANZ agree, ANZ may on the exercise of options, provide shares of the acquiring company (or its parent) to the same value as the ANZ shares that would have been issued.

Each Performance Right has the following features:

- Performance Rights held by eligible executives will be tested once only against the performance hurdle at the end of three years;
- Subject to the performance hurdle being met, the executive has a two-year exercise period that commences three years after the grant date;
- Upon exercise, each Performance Right entitles the executive to one ordinary share;
- In case of dismissal for serious misconduct, Performance Rights are forfeited;
- In case of resignation or termination on notice, unless the Board determines otherwise, only Performance Rights that become exercisable by the end of the notice period may be exercised; and
- In case of death or total & permanent disablement, the performance hurdle is waived and a grace period is provided in which to exercise all Performance Rights.

The proportion of Performance Rights that become exercisable will depend upon a single point testing of the TSR achieved by ANZ relative to the companies in the comparator group (shown below) at the end of a three-year period. Performance equal to the median TSR of the comparator group will result in half the Performance Rights becoming exercisable. Performance above median will result in further Performance Rights becoming exercisable, increasing on a straight-line basis until all of the Performance Rights become exercisable where ANZ's TSR is at or above the 75th percentile of TSRs in the comparator group. An averaging calculation will be used for TSR over a 90 day period for start and end values in order to reduce the impact of share price volatility.

Where median performance is achieved, executives' total remuneration will typically be below market median for the financial services industry. 75th percentile performance is required for full vesting which enables executives to receive the full value of their LTI. To ensure an independent TSR measurement, ANZ engages the services of an external organisation (Macquarie Financial Services) to calculate ANZ's performance against the TSR hurdle.

Comparator Group

The peer group of companies against which ANZ's TSR performance is measured, comprises the following companies:

AMP Limited
AXA Asia Pacific Holdings Limited
Commonwealth Bank of Australia
Insurance Australia Group Limited
Macquarie Bank Limited
National Australia Bank Limited
QBE Insurance Group Limited
St George Bank Limited
Suncorp-Metway Limited
Westpac Banking Corporation

The companies in this comparator group were chosen because they represent ANZ's key competitors in the financial services industry, are an appropriate reference group for investors and are of sufficient size by market capitalisation and weight in ASX Top 50.

Size of LTI Grants

The size of individual LTI grants for executive KMP is determined by an individual's level of responsibility, performance and the assessed potential of the executive. The target LTI for disclosed executives is around 18% of the individual's target reward mix and around 50% of Fixed Remuneration. Executives are advised of their LTI dollar value, which is then converted into a number of Performance Rights based on a valuation. ANZ engages external experts (PricewaterhouseCoopers and Mercer) to independently value the Performance Right, taking into account factors including the performance conditions, share price volatility, life of instrument, dividend yield and share price at grant date. The higher acceptable value is then approved by the Board HR Committee as the allocation value. LTI allocations are made annually around the end of October. The following example uses the October 2007 allocation value.

Example

- Executive KMP granted LTI value of $500,000
- Approved Allocation Valuation is $12.96 per Performance Right
- $500,000 / $12.96 = 38,580 Performance Rights allocated to executive KMP

C5. PERFORMANCE OF ANZ

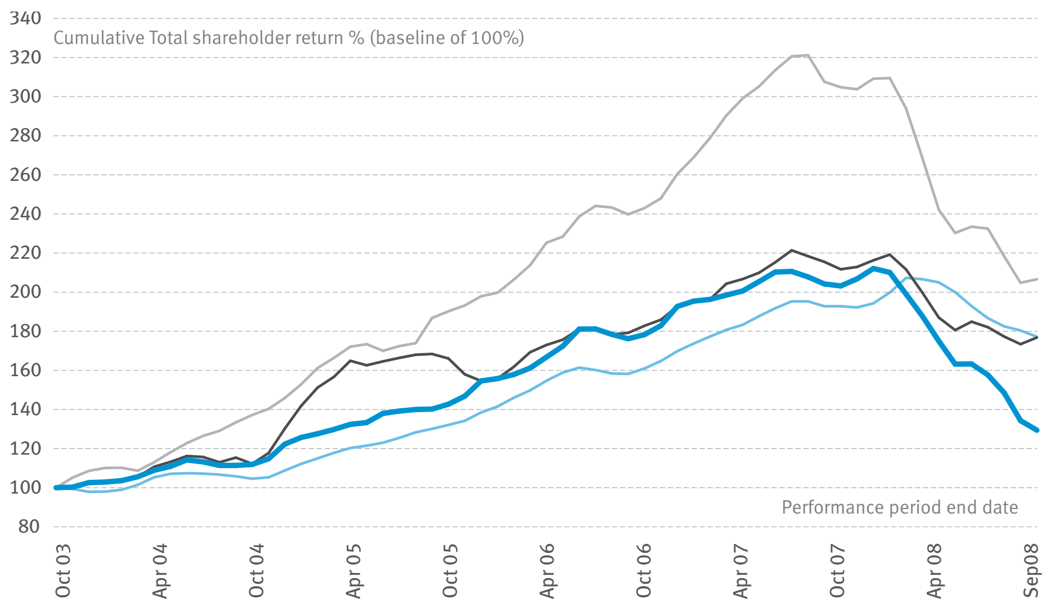
Table 4 shows ANZ's annual performance over the five-year period spanning 1 October 2003 to 30 September 2008. The table illustrates the impact of ANZ's performance on shareholder wealth, taking into account dividend payments, share price changes and other capital adjustments during the financial year.

TABLE 4	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004*
Basic Earnings Per Share (EPS)	170.4	224.1	200.0	169.5	153.1
NPAT ($m)	3,319	4,180	3,688	3,175	2,815
Total Dividend (cps)	136	136	125	110	101
Share price at 30 September ($)	18.75	29.70	26.86	24.00	19.02
Total Shareholder Return (%)	-33.5	15.6	17.1	32.6	17.0

* Figures based on previous AGAAP.

In Table 4, ANZ's TSR (which includes share price growth, dividends and other capital adjustments) has been shown for each individual financial year between 2004 and 2008. Figure 2 compares ANZ's TSR performance against the median TSR of the LTI comparator group and the S&P/ASX 200 Banks Accumulation Index over the 2004 to 2008 measurement period. Cumulative TSR has been baselined at 100%.

Figure 2: ANZ 5-Year Cumulative Total Shareholder Return Performance



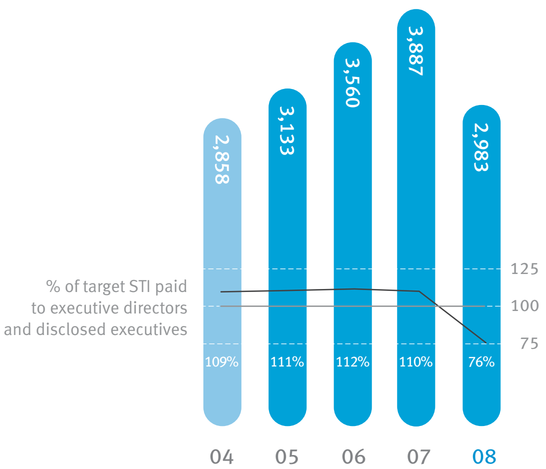


Figure 3: ANZ – Cash Profit & Average STI payments ($m)

- Cash profit (AGAAP)[1]
- Cash profit (IFRS)[2]
- Average STI payments against target
- Target STI

Figure 3 illustrates the relationship between the average actual STI payments against target and the Group's performance measured using cash earnings over the last 5 years. The average STI payments for each year are based on those executives (including the CEO) disclosed in each relevant reporting period. As illustrated in the chart, the average STI payments are generally in alignment with the cash earnings trend, with the 2008 STI payments (as a percentage of target STI) trending down with the decrease in cash earnings.

1 Profit excluding goodwill, significant items and NBNZ incremental integration costs.
2 Profit adjusted for non-core items, IFRS adjustments and preference share dividends.

Section D. Chief Executive Officers' Remuneration

This section details the remuneration arrangements for M Smith, who commenced as CEO on 1 October 2007 and J McFarlane who ceased as CEO of ANZ on 30 September 2007. The CEO is the only executive director at ANZ.

D1.REMUNERATION OVERVIEW FOR M SMITH

M Smith commenced as CEO and Executive Director of ANZ on 1 October 2007 on a rolling twelve month contract with a minimum term of three years. The key terms of his employment arrangement are summarised below. They are in line with industry practice (based on external advice on Australian and international peer company benchmarks) and ASX Corporate Governance Principles.

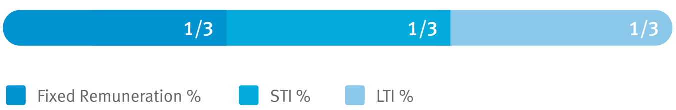
Fixed Remuneration: A fixed component of $3 million per annum which consists of salary, benefits and voluntary superannuation contributions. M Smith's Fixed Remuneration will be constant for three years, and will be reviewed annually thereafter.

Short-Term Incentive: M Smith's target variable STI is $3 million per annum (i.e. 100% of Fixed Remuneration). The Board approved M Smith's 2008 balanced scorecard and then assessed his performance against these objectives at the end of the 2008 year to determine the appropriate incentive (relative to target). As per the Board HR Committee Charter, robust performance measures and targets for the CEO that encourage superior performance and ethical behaviour are recommended by the Board HR Committee to the full Board. The key objectives for 2008 included a number of quantitative and qualitative measures, aligned with ANZ's strategy, which included (but were not limited to) financial goals, risk management, strategy development, strengthening the management bench, and people/culture measures.

Long-Term Incentive: M Smith's LTI (as approved by shareholders at the 2007 Annual General Meeting), consists of 3 tranches of Performance Rights, each to a maximum value of $3 million. The performance periods for each tranche begin on the date of grant of 19 December 2007 and end on the 3rd, 4th and 5th anniversaries respectively (i.e. only one performance measurement for each tranche). The level of vesting for each tranche will be based on ANZ Total Shareholder Return (TSR) performance against a comparator group of companies consistent with the senior executive LTI program (refer to C4.2). Refer to section C4.2 for change of control provisions in relation to these Rights.

The remuneration for M Smith for the 2008 year is set out in Table 1 in section A and the mix of remuneration for M Smith is illustrated in Figure 4.

Figure 4: Target Reward Mix for Chief Executive Officer, M Smith[1]



1 The target reward mix for M Smith does not include the $9m sign-on award (refer to D1.1) given that it relates to remuneration forgone from his previous employer on joining ANZ.

D1.1 Sign On Award

The Board agreed to provide M Smith $9 million compensation in consideration for remuneration foregone from his previous employer on joining ANZ. As per the terms of M Smith's contract, he elected at the commencement of his employment to receive 100% of this compensation in the form of ANZ Deferred Shares. Shareholders approved at the 2007 Annual General Meeting for M Smith's sign-on award, to be held in trust until the end of the relevant vesting period.

The grant date for the sign on award was 19 December 2007, with one third of the sign on award vesting at each of the 1st, 2nd and 3rd anniversaries from the commencement of his employment as CEO. Given the purpose of the sign-on award for M Smith is to compensate him for remuneration foregone, the ANZ Deferred Shares are not subject to any performance hurdles. The allocation of ANZ Deferred Shares and the time vesting component, will however strengthen the alignment of M Smith's interests with shareholders.

D1.2 Termination Benefits

M Smith or ANZ may terminate the employment agreement by 12 months' written notice. If ANZ terminates M Smith's employment within the first 3 years, ANZ will give M Smith the greater of 12 months' written notice or notice equal to the unexpired term of three years from commencement as CEO. ANZ may elect to pay in lieu all or part of the notice period based on M Smith's Fixed Remuneration. In circumstances of serious misconduct, M Smith is only entitled to payment of Fixed Remuneration up to the date of termination.

In relation to M Smith's LTI (Performance Rights) and sign-on award the following will apply:

- Resignation by M Smith: All unexercised Performance Rights and unvested sign-on award will be forfeited;
- Termination on notice by ANZ: All Performance Rights which have vested or vest during the notice period will be retained and become exercisable; all Performance Rights which have not yet vested will be retained and will vest and become exercisable subject to the relevant time and performance hurdles being satisfied. Sign-on award will vest in full;
- Termination without notice by ANZ in the event of serious misconduct: All Performance Rights and sign-on award will be forfeited; and
- Death or total and permanent disablement: All Performance Rights and sign-on award will vest.

D1.3 Relocation

Costs associated with M Smith's relocation to Melbourne were paid consistent with ANZ's international relocation policies. Certain relocation expenses will also be paid in the event of termination of his employment.

D1.4 Grant of options to M Smith

The Board recently reviewed the contract and retention arrangements of M Smith to ensure that they continue to be market competitive. This is particularly important in the current global financial markets, as the attraction of talented and globally experienced banking executives is in strong demand. Following this review, the Board considers it reasonable and appropriate to grant M Smith 700,000 Options on 18 December 2008, subject to shareholder approval at the 2008 AGM. The rationale for the grant of Options to M Smith is as follows:

- The grant of Options recognises M Smith's performance in establishing a solid foundation to enable ANZ to achieve its longer term vision. M Smith has demonstrated very strong internal and external leadership during the significant challenges the Company has faced over the last year, and many of the reasons for ANZ's financial results are attributable to decisions made prior to M Smith's appointment.
- Options will help to drive a longer term focus on sustained share price growth, thereby strengthening the alignment of M Smith's interests with shareholders.
- Using Performance Rights as part of the long-term incentive program and this special grant of Options for retention purposes, provides a strong motivation and retention element.

As Options are designed to reward for share price growth, the greater the increase in ANZ's share price, the greater the leverage opportunity for M Smith and the greater the benefit to shareholders. Options deliver no value where the ANZ share price is equal to or below the Option exercise price during the exercise period.

Options will be available for exercise after the three year time based hurdle has been met, with the Option exercise price being equal to the market value of ANZ shares at the date the Options are granted. Upon exercise, each Option entitles the holder to one ordinary ANZ share. Once an Option has been exercised, it will no longer be subject to forfeiture.

M Smith must remain employed with ANZ during the 3 year time based hurdle to exercise vested Options at the end of the 3 year period. Subject to the terms set out below M Smith must also be an employee of ANZ at the time of exercise of the Options. If this employment condition is not satisfied all Options which have not vested or been exercised at the date of cessation of employment will be forfeited. The only exception to this employment condition is in the case of death or total and permanent disability where all Options will vest and may be exercised. In the case of resignation after the 3 year period, M Smith will forfeit any vested unexercised Options at the point notice of resignation is given by M Smith. In the case of termination on notice after the 3 year period, M Smith will be provided a 12 month grace period to exercise any vested unexercised Options.

D1.5 Shareholding Guideline

The CEO of ANZ is expected to accumulate ANZ shares, over a five year period, to the value of 200% of his Fixed Remuneration and to maintain this shareholding while CEO of ANZ.

M Smith currently has around 100% of his Fixed Remuneration in vested or beneficially held shares. We anticipate that M Smith will achieve the 200% guideline by 1 October 2009, when further shares (related to his sign on award) vest.

D2.REMUNERATION OVERVIEW FOR FORMER CEO, J MCFARLANE

D2.1 Contract Terms

On 5 December 2006, the Company announced an extension to the terms of J McFarlane's 26 October 2004 contract (which was also an extension of his contract dated 23 October 2001). The contract was extended by 3 months to 31 December 2007 (from 30 September 2007) to provide flexibility for orderly succession at ANZ.

The remuneration of J McFarlane for the year ended 30 September 2007 is set out in Table 1 in section A. The structure of J McFarlane's remuneration for the purposes of the 2007 financial year disclosures was in accordance with his employment agreement and was as follows:

Fixed Remuneration: Consisted of salary, benefits and superannuation contributions. Since October 2003, J McFarlane elected to receive almost all of his Fixed Remuneration in the form of shares purchased under the Directors' Share Plan.

Short-Term Incentive: The Board assessed J McFarlane's performance against his balanced scorecard at the end of the year to determine the appropriate incentive relative to target.

Long-Term Incentive: J McFarlane's Long-Term Incentive was made up of Hurdled Options and Performance Shares as approved by shareholders at the 2001 and 2004 Annual General Meetings respectively. No long-term incentive equity was issued to J McFarlane in the 2007 financial year.

D2.2 Participation in Equity Programs

Hurdled Options:

At the 2001 Annual General Meeting, four tranches of options were approved for granting by the Board: 500,000 in 2001; 1,000,000 in 2002; 1,000,000 in 2003 and 500,000 in 2004. Hurdles specific to these option grants are indicated in section F10.1 (Hurdled A).

Performance Shares:

175,000 Performance Shares were issued to J McFarlane on 31 December 2004 as part of his 26 October 2004 contract, as approved by shareholders at the 2004 Annual General Meeting. No dividends were payable on the shares until vesting. Vesting was subject to time (i.e. 2 year deferral) and performance hurdles being satisfied as detailed in section F10.3.

Directors' Share Plan:

J McFarlane participated in the Directors' Share Plan, which is explained in section B3.

Please refer to section F for details of equity grants and holdings.

D2.3 Termination Benefits

On J McFarlane's departure on 30 September 2007, he received the following:

Contractual and Statutory Payments

J McFarlane received a payment of $550,000 (equal to 3 months of his Total Employment Cost) for the unexpired portion of his employment contract (being the 3 months from 1 October 2007 to 31 December 2007). J McFarlane was also paid all statutory leave entitlements, including a payment for pro rata long service leave totalling $365,261.

Short-Term Incentive

The Board considered and determined the extent to which J McFarlane satisfied the applicable performance criteria under the short-term incentive program for the 2007 financial year. As a result of that determination, Mr McFarlane received an STI payment in relation to the 2007 financial year of $2,090,000.

Long-Term Incentive

Of the 3,000,000 Hurdled Options granted to J McFarlane from December 2001 to December 2004, 250,000 Hurdled Options have not yet vested as at 31 October 2008.

In accordance with the rules of the ANZ Employee Option Plan, under which the Hurdled Options were granted, the unvested options may be held by J McFarlane until their expiry date (of 31 December 2008) set out in the terms of grant and his employment contract. The Hurdled Options will continue to be subject to the performance condition and will be tested in accordance with their terms of grant until their expiry date, at which point they will lapse if the performance hurdle is not met.

In relation to J McFarlane's 175,000 Performance Shares (which had not met their performance hurdle before his cessation), the Board agreed to acquire J McFarlane's interest in them for a payment of $1,000,000 on 1 October 2007. The value of the Performance Shares at the point of payment was nil (due to the fact that the performance hurdle had not been passed at this date), however assuming achievement of the performance hurdle at this date the Performance Shares would have been valued at $5.2 million (i.e. 1 day VWAP of $29.71 x 175,000).

In accordance with the terms of grant, J McFarlane was able to hold these Performance Shares (subject to the performance conditions) until the expiry date of 31 December 2009. The decision to acquire these Shares was due to the fact that J McFarlane would have been taxed at the time of retirement on the Performance Shares as if they had passed the performance hurdles, and would not have received a refund of tax paid if the performance hurdles were not subsequently met. This was in ANZ's opinion inequitable, particularly given tax can be reclaimed on Performance Rights and Options if performance hurdles are not met. The Shares were reclassified and made available for allocation to other employees under ANZ's employee share plan.

Shares held under the ANZ Directors' Share Plan

J McFarlane elected to receive almost all of his remuneration (including annual bonuses) in the form of ANZ shares purchased under the ANZ Directors' Share Plan. On his cessation from ANZ, J McFarlane was entitled to all shares held on trust on his behalf under the ANZ Directors' Share Plan.

Section E. Disclosed executives' contract terms

Contractual terms are similar, but do, on occasion, vary to suit different needs. Section E1 details the contractual terms for executive KMP.

E1. CONTRACTS: R EDGAR, B HARTZER, G HODGES, P HODGSON, P MARRIOTT, S TARGETT AND A THURSBY

Length of Contract	Open-ended.
Fixed Remuneration	Remuneration consists of salary, 9% Superannuation Guarantee (SG) contributions (except for G Hodges and A Thursby) and nominated benefits.
Short-Term Incentive	Eligible to participate (refer to section C4.1 for details of short-term incentive arrangements).
Long-Term Incentive	Eligible to participate at the Board's discretion (refer to section C4.2 for long-term incentive arrangements).
Resignation	Employment may be terminated by giving 6 months' written notice. On resignation any options and unvested deferred shares will be forfeited.
Termination on Notice by ANZ	ANZ may terminate the executive's employment by providing 12 months' written notice or payment in lieu of the notice period based on Fixed Remuneration. On termination on notice by ANZ any Options or LTI Deferred Shares that have vested, or will vest during the notice period will be released, in accordance with the ANZ Share Option Plan Rules. LTI shares that have not yet vested will generally be forfeited, although for some executives (B Hartzer and P Marriott) these shares will be released in full. Under the new STI program (effective from 2008), vested shares will be released in full and Executive KMP will be provided with a 12 month grace period to exercise any vested unexercised Options. All unvested equity as at the date termination of notice is given, will be forfeited. There is discretion to pay short-term incentives on a pro-rata basis (depending on termination date and subject to business performance).
Redundancy	If ANZ terminates employment for reasons of bona fide redundancy, a severance payment will be made that is equal to 12 months' Fixed Remuneration. All STI Deferred Shares are released. Options and LTI Deferred Shares are either released in full or on a pro-rata basis. There is discretion to pay short-term incentives on a pro-rata basis (depending on termination date and subject to business performance).
Death or Total and Permanent Disablement	All Options and Shares are released; pro-rata short-term incentive.
Termination for serious misconduct	ANZ may immediately terminate the executive's employment at any time in the case of serious misconduct, and the employee will only be entitled to payment of Fixed Remuneration up to the date of termination. Payment of statutory entitlements of long service leave and annual leave applies in all events of separation. On termination for serious misconduct any Options and any Deferred Shares still held in trust will be forfeited.
Other Aspects	As part of A Thursby's employment arrangement and to compensate for equity foregone from his previous employer, A Thursby has been offered 3 separate tranches of Deferred Shares to the value of $1,000,000 per annum, subject to Board approval. The first tranche was approved by the Board on 3 September 2007, and the second on 28 August 2008, with the third tranche to be approved around the second anniversary of A Thursby's employment with ANZ. The Shares will be restricted and held in trust for three years from the date of allocation for the beneficial interest of A Thursby, during which period they will be forfeited if employment ceases for any reason other than retrenchment, death or total and permanent disablement, and that for the whole period that the Shares remain in trust (including any further period) they will be forfeited for any serious misconduct.

E2. PARTICIPATION IN EQUITY PROGRAMS

A number of Shares and Options are granted to executives under the remuneration programs detailed in Section C. For disclosed executives, details of all grants made during the year and legacy LTI programs are listed in Section F. Aggregate holdings of Shares and Options are also shown.

Section F. Equity instruments relating to disclosed directors and executives

F1. SHAREHOLDINGS OF NON-EXECUTIVE DIRECTORS (INCLUDING MOVEMENTS DURING THE 2007 & 2008 YEARS)

2008 Financial Year Name	Balance of shares as at 1 Oct 2007[1]	Shares acquired during the year in lieu of salary[2]	Shares resulting from any other change during the year[3]	Balance of shares held as at 30 Sept 2008[1,4]	Balance of shares held as at report sign-off date[1]
C Goode	669,496	–	68,783	738,279	738,279
G Clark	8,574	1,905	2,000	12,479	12,479
J Ellis	116,021	738	23,622	140,381	151,182
M Jackson	93,496	2,177	555	96,228	96,228
I Macfarlane	2,973	1,601	4,000	8,574	9,574
D Meiklejohn	7,156	–	8,000	15,156	15,156
J Morschel	9,076	1,601	–	10,677	11,860

2007 Financial Year Name	Balance of shares as at 1 Oct 2006[1]	Shares acquired during the year in lieu of salary[2]	Shares resulting from any other change during the year[3]	Balance of shares held as at 30 Sept 2007[1,5]	Balance of shares held as at report sign-off date[1]
C Goode	627,028	23,799	18,669	669,496	669,496
G Clark	6,920	1,654	–	8,574	10,479
J Ellis	114,810	1,194	17	116,021	125,159
D Gonski	68,948	365	(16,308)	53,005	53,005
M Jackson	93,297	–	199	93,496	95,673
I Macfarlane	–	973	2,000	2,973	4,574
D Meiklejohn	7,156	–	–	7,156	7,156
J Morschel	7,422	1,654	–	9,076	10,677

1 Balance of shares held at 1 October 2006/2007, 30 September 2007/2008, 7 November 2007 and 7 November 2008, includes directly and indirectly held shares, and shares held by related parties.
2 All shares acquired in lieu of salary were done so under the Directors' Share Plan (refer to section B3 of this Remuneration Report for an overview of the Directors' Share Plan).
3 Other shares resulting from any other changes during the year include the net result of any shares purchased/sold or acquired under the Dividend Reinvestment Plan.
4 The following shares were held on behalf of NEDs (i.e. indirect beneficially held shares) as at 30 September 2008: C Goode – 395,821; G Clark – 12,479; J Ellis – 73,430; M Jackson – 13,563; I Macfarlane – 2,574; D Meiklejohn – 12,656; J Morschel – 6,677.
5 The following shares were held on behalf of NEDs (i.e. indirect beneficially held shares) as at 30 September 2007: C Goode – 354,910; G Clark – 8,574; J Ellis – 49,092; D Gonski – 66,076; M Jackson – 10,831; I Macfarlane – 2,973; D Meiklejohn – 4,656; J Morschel – 5,076.

F2.1 2008 SHAREHOLDINGS OF CEO, M SMITH (INCLUDING MOVEMENTS DURING THE 2008 YEAR)

	Balance of shares as at 1 Oct 2007[1]	Shares acquired during the year due to sign-on award[2]	Shares resulting from any other change during the year[3]	Balance of shares held as at 30 Sept 2008[1,4]	Balance of shares held as at report sign-off date[1]
2008	–	330,033	43,950	373,983	373,983

1 Balance of shares held at 1 October 2007, 30 September 2008, and 7 November 2008 includes directly and indirectly held shares, and shares held by related parties.
2 330,033 Deferred Shares were granted to M Smith (and approved by shareholders at the 2007 AGM) to compensate him for remuneration foregone from his previous employer on joining ANZ. Refer to section D1.1 for details.
3 Other shares resulting from any other changes during the 2008 year include the net result of any shares purchased, sold, or acquired under the Dividend Reinvestment Plan. No shares were acquired during the year through the exercise of Options/Rights.
4 330,033 shares were held on behalf of M Smith (i.e. indirect beneficially held shares) as at 30 September 2008.

F2.2 2007 SHAREHOLDINGS OF FORMER CEO, J McFARLANE (INCLUDING MOVEMENTS DURING THE 2007 YEAR)

	Balance of shares as at 1 Oct 2006[1]	Shares acquired during the year due to sign-on award[2]	Shares acquired during the year through the exercise of options[3]	Shares resulting from any other change during the year[4]	Balance of shares held as at 30 Sept 2007[1,5]	Balance of shares held as at 2007 report sign-off date[1,6]
2007	1,973,422	52,581	750,000	(2,091,569)	684,434	509,434[7]

1 Balance of shares held at 1 October 2006, 30 September 2007, and 7 November 2007 includes directly and indirectly held shares, and shares held by related parties.
2 All ANZ ordinary shares acquired in lieu of salary were done so under the Directors' Share Plan (refer to section B3 of this Remuneration Report for an overview of the Directors' Share Plan).
3 All options held/exercised by J McFarlane were approved by shareholders (December 1999 and December 2001).
4 Other shares resulting from any other changes during the 2007 year include the net result of any shares purchased, sold, or acquired under the Dividend Reinvestment Plan.
5 311,294 shares were held on behalf of J MacFarlane (i.e. indirect beneficially held shares) as at 30 September 2007.
6 The relinquishment of the CEO's Performance Shares (175,000) were factored into this balance. Refer to section D2.3 for further details.
7 In accordance with requirements in NZ, the NZ exchange were notified of the sale (in February 2008) of 409,434 of J McFarlane's ANZ shares.

F3.1 PERFORMANCE RIGHTS GRANTED TO CEO, M SMITH[1]

Grant date[2]	First date exercisable[3]	Date of expiry	Number granted
19-Dec-07	19-Dec-10	19-Dec-11	258,620
19-Dec-07	19-Dec-11	19-Dec-12	259,740
19-Dec-07	19-Dec-12	19-Dec-13	260,642
Total			779,002

1 All Performance Rights granted to M Smith were approved by shareholders at the 2007 AGM. Balance of Performance Rights at 1 October 2007 equals zero and as at 30 September 2008 equals 779,002.
2 Refer to section F9 for details of the valuation methodology, inputs and fair value for the Performance Rights granted to M Smith on 19 December 2007. The maximum amortisation balance is $7,160,245 for subsequent financial years and the value will be nil if the performance hurdles are not achieved.
3 The exercise price for Performance Rights is nil, with M Smith entitled to one ANZ ordinary share upon the exercise of each Performance Right. First tranche of Performance Rights is not able to be exercised until 19 December 2010 (subject to meeting performance hurdles).

F3.2 OPTIONS GRANTED TO FORMER CEO, J MCFARLANE[1]

Financial Year	2007	2008

Grant date	First date exercisable	Date of expiry	Exercise price[2] $	Number granted[3,4]	Number vested during the 2007 FY	Percentage that vested during 2007 FY %	Vested and exercisable as at 30 Sept 2007	Unexercisable as at 30 Sept[6] 2007
31-Dec-02[5]	31-Dec-04	31-Dec-07	16.69	1,000,000	–	–	–	–
31-Dec-04[6]	31-Dec-06	31-Dec-08	20.49	500,000	500,000	100	–	250,000
Total				1,500,000	500,000		–	250,000

1 All options granted to J McFarlane were approved by shareholders (December 1999 and December 2001).
2 The exercise price is equal to the weighted average share price during the 5 trading days immediately after the Company's Annual General Meeting for the financial year that ended before the grant date.
3 Nil options forfeited or expired during the 2007 period.
4 The amortisation balance is nil and the value will be nil if the performance hurdle on the 250,000 unexercisable options is not achieved by 31 December 2008.
5 500,000 of the 1,000,000 options granted were exercised in the 2006 year, and the 500,000 balance exercised in the 2007 year on 20 Dec 06 and 31 Aug 07 (refer to F4). Therefore, nil vested and exercisable and nil unexercisable as at 30 Sep 2007.
6 250,000 of the 500,000 options granted were exercised in the 2007 year on 31 Aug 07 (refer to F4). The remaining 250,000 have not yet passed their performance hurdle (as at the 2008 report sign-off), and will expire on 31 Dec 08. As such, 250,000 remained unexercisable as at 30 Sep 2007.

F4. 2007 OPTION HOLDINGS OF FORMER CEO, J McFARLANE (INCLUDING MOVEMENTS DURING THE 2007 YEAR)[1]

Balance as at 1 Oct 2006	Exercised during the year	Date of exercise of options	Number of ordinary shares issued on exercise of options	Value of options exercised during the year[2] $	Share price on date of exercise of options $	Amount paid per share $	Balance as at 30 Sept 2007
1,000,000	300,000	20-Dec-06	300,000	3,513,000	28.40	16.69	250,000
	200,000	31-Aug-07	200,000	2,398,000	28.68	16.69	
	250,000	31-Aug-07	250,000	2,047,500	28.68	20.49	

1 All options granted to J McFarlane were approved by shareholders (December 1999 and December 2001), with J McFarlane entitled to one ANZ ordinary share upon the exercise of each option.
2 The value per option used in this calculation is based on the difference between the volume weighted average price of the Company's shares traded on the ASX on the day the options were exercised, and the exercise price. This is then multiplied by the number granted.

F5. DEFERRED SHARES GRANTED TO DISCLOSED EXECUTIVES

Financial Year	2007	2008

LTI Deferred Shares[1]

Name	Grant date	Vesting date	Number granted[2]	Number that vested during the 2007 or 2008 year	Percentage that vested during the 2007 or 2008 year %
R Edgar	05-Nov-03	05-Nov-06	8,889	8,889	100
	05-Nov-03	05-Nov-06	25,000	25,000	100
	11-May-04	11-May-07	8,452	8,452	100
	05-Nov-04	05-Nov-07	6,519	6,519	100
	05-Nov-04	05-Nov-07	26,000	26,000	100
Total			74,860	74,860	100
B Hartzer	05-Nov-03	05-Nov-06	7,408	7,408	100
	11-May-04	11-May-07	7,135	7,135	100
	05-Nov-04	05-Nov-07	9,127	9,127	100
Total			23,670	23,670	100
G Hodges	05-Nov-03	05-Nov-06	5,699	5,699	100
	11-May-04	11-May-07	6,586	6,586	100
	05-Nov-04	05-Nov-07	7,522	7,522	100
Total			19,807	19,807	100
P Marriott	05-Nov-03	05-Nov-06	9,573	9,573	100
	11-May-04	11-May-07	9,275	9,275	100
	05-Nov-04	05-Nov-07	8,475	8,475	100
Total			27,323	27,323	100
P Hodgson	05-Nov-03	05-Nov-06	1,097	1,097	100
	11-May-04	11-May-07	1,111	1,111	100
	05-Nov-04	05-Nov-07	1,974	1,974	100
	08-Dec-04	08-Dec-07	12,481	12,481	100
Total			16,663	16,663	100
S Targett	05-Nov-04	05-Nov-07	6,519	6,519	100

1 LTI deferred shares were last granted to KMP (for nil consideration) under the ANZ Long-Term Incentive Program in the 2005 year, and therefore were not granted in the 2007 or 2008 years. LTI is currently delivered to executive KMP in the form of Performance Rights (refer to section C4.2). The LTI deferred shares (i.e. ANZ ordinary shares) are restricted for 3 years and may be held in trust beyond this time. Refer to section F10.2 for more details.

2 Nil shares forfeited during the 2007 and 2008 years, and as at 30 September 2008, 100% of LTI Defered Shares had vested.

STI Deferred Shares[1,3]

Name	Grant date	Vesting date	Number granted[2]	Number that vested during the 2007 or 2008 year	Percentage that vested during the 2007 or 2008 year %
R Edgar	05-Nov-03	05-Nov-06	6,781	6,781	100
	11-May-04	11-May-07	7,683	7,683	100
Total			14,464	14,464	100
B Hartzer	05-Nov-03	05-Nov-06	7,322	7,322	100
	11-May-04	11-May-07	7,244	7,244	100
Total			14,566	14,566	100
G Hodges	05-Nov-03	05-Nov-06	5,129	5,129	100
	11-May-04	11-May-07	5,653	5,653	100
Total			10,782	10,782	100
P Hodgson	05-Nov-03	05-Nov-06	7,835	7,835	100
	11-May-04	11-May-07	9,330	9,330	100
Total			17,165	17,165	100
P Marriott	05-Nov-03	05-Nov-06	7,978	7,978	100
	11-May-04	11-May-07	9,604	9,604	100
Total			17,582	17,582	100

1 These STI deferred shares were granted under a historical ANZ Short-Term Incentive Program (for nil consideration). No STI deferred shares were granted to executive KMP during the 2007 and 2008 years. These STI deferred shares (i.e. ANZ ordinary shares) were restricted for 3 years, however they may be held in trust beyond this time.

2 Nil shares forfeited during the 2007 & 2008 years, and as at 30 September 2008, 100% of STI Deferred Shares had vested.

3 For the 2008 report, STI Deferred Shares were granted on 31 October 2008 (before the report sign-off date). The allocation price was $17.18 (based on the 1 week weighted average price of ANZ shares traded on the ASX in the week prior to and including the date of grant). The number of STI Deferred Shares (or Deferred Share Rights for G Hodges), granted to each disclosed executive is as follows: R Edgar 7,275; B Hartzer 37,834; G Hodges 11,004; P Marriott 7,275; A Thursby 24,738.

F5. DEFERRED SHARES GRANTED TO DISCLOSED EXECUTIVES (CONTINUED)

Financial Year	2007	2008

Other Deferred Shares

Name	Grant date	Vesting date	Number granted[3,4]	Value of deferred shares granted during the 2007 or 2008 year[5] $	Number that vested during the year	Percentage that vested during the year %
A Thursby[1]	03-Sep-07	03-Sep-10	34,602	1,005,188	–	–
	28-Aug-08	28-Aug-11	62,735	1,013,170	–	–
Total			97,337	2,018,358	–	–
S Targett[2]	11-May-04	11-May-07	38,419	–	38,419	100
	05-Nov-04	05-Nov-07	35,105	–	35,105	100
	13-May-05	13-May-08	32,080	–	32,080	100
	07-Nov-05	07-Nov-08	29,838	–	29,838	100
Total			135,442	–	135,442	100

1 Other ANZ ordinary shares issued to A Thursby relate to the issue of deferred shares (for nil consideration) to compensate A Thursby for the loss of access to equity as a result of his resignation from his previous employer upon commencement with ANZ.
2 Other ANZ ordinary shares issued to S Targett (for nil consideration) relate to the issue of deferred shares (four tranches to the value of $700,000 each issued at 6 month intervals in May and November in 2004 and 2005) to compensate S Targett for equity foregone as a result of his resignation from his previous employer upon commencement with ANZ.
3 Nil shares forfeited during the 2007 and 2008 years.
4 The maximum amortisation balance for subsequent financial years for A Thursby is $1,627,387 and nil for S Targett.
5 The value of shares granted is based on the volume weighted average price of the Company's shares traded on the ASX on the day the shares were granted, multiplied by the number granted.

F6. SHAREHOLDINGS OF DISCLOSED EXECUTIVES (INCLUDING MOVEMENTS DURING THE 2007 & 2008 YEARS)

2008 Financial Year

Name	Balance of shares as at 1 Oct 2007[1]	Shares granted during the year as remuneration	Number of shares acquired during the year through exercise of options	Shares resulting from any other change during the year[2]	Balance of shares held as at 30 Sept 2008[1,3]
R Edgar	388,399	–	31,577	(38,000)	381,976
B Hartzer	332,092	–	–	–	332,092
G Hodges	282,054	–	–	–	282,054
P Marriott	572,629	–	241,794	(240,196)	574,227
A Thursby	34,602	62,735	–	–	97,337
P Hodgson	53,759	–	9,000	(29,000)	33,759

2007 Financial Year

Name	Balance of shares as at 1 Oct 2006[1]	Shares granted during the year as remuneration	Number of shares acquired during the year through exercise of options	Shares resulting from any other change during the year[2]	Balance of shares held as at 30 Sept 2007[1,4]
R Edgar	421,733	–	66,666	(100,000)	388,399
B Hartzer	96,083	–	269,194	(33,185)	332,092
G Hodges	239,319	–	42,735	–	282,054
P Marriott	660,513	–	11,000	(98,884)	572,629
A Thursby	–	34,602	–	–	34,602
P Hodgson	53,759	–	–	–	53,759
S Targett	142,961	–	153,688	(152,667)	143,982

1 Balance of shares held at 1 October 2006/2007 and 30 September 2007/2008, include directly and indirectly held shares, and shares held by related parties.
2 Other shares resulting from any other changes during the year include the net result of any shares purchased, or sold or any acquired under the Dividend Reinvestment Plan.
3 The following shares were held on behalf of executive KMP (i.e. indirect beneficially held shares) as at 30 September 2008: R Edgar – 200,645; B Hartzer – 0; G Hodges – 146,747; P Hodgson – 0; P Marriott – 177,930; A Thursby – 97,337.
4 The following shares were held on behalf of executive KMP (i.e. indirect beneficially held shares) as at 30 September 2007: R Edgar – 213,510; B Hartzer – 78,607; G Hodges – 146,747; P Hodgson – 53,759; P Marriott – 177,930; S Targett – 141,961; A Thursby – 34,602.

F7. OPTIONS GRANTED TO DISCLOSED EXECUTIVES[1]

Financial Year	2007	2008

Name	Type of options[2]	Grant date	First date exercisable	Date of expiry[3]	Exercise price[4,5] $	Number granted[6,7]	Number vested during the 2007 or 2008 year	Percentage that vested during the 2007 or 2008 year %	Vested and exercisable as at 30 Sept 2007 or 2008	Unexercisable as at 30 Sept 2007 or 2008[8]
R Edgar	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	125,000	–	–	–	125,000
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	147,000	–	–	–	147,000
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	66,666	66,666	100	–	–
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	63,115	63,115	100	31,557	31,558
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	52,000	52,000	100	–	52,000
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	60,346	–	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	45,872	–	–	–	–
	Performance Rights	30-Oct-07	31-Oct-10	30-Oct-12	0.00	19,290	–	–	–	–
Total						579,289	181,781	31%	31,557	355,558
B Hartzer	Hurdled A[11]	24-Apr-01	24-Apr-04	24-Apr-08	12.98	42,000	–	–	–	–
	Hurdled A[11]	24-Oct-01	24-Oct-04	24-Oct-08	16.33	36,000	–	–	–	–
	Hurdled A[11]	24-Apr-02	24-Apr-05	24-Apr-09	18.03	59,000	–	–	–	–
	Hurdled A[11]	24-Apr-02	24-Apr-05	24-Apr-09	18.03	50,000	–	–	–	–
	Index Linked	23-Apr-02	23-Apr-05	22-Oct-09	17.34	109,000	–	–	–	109,000
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	113,000	–	–	–	113,000
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	55,555	55,555	100	–	–
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	53,279	53,279	100	–	26,640
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	72,800	72,800	100	–	72,800
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	64,656	–	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	64,985	–	–	–	–
	Performance Rights	30-Oct-07	31-Oct-10	30-Oct-12	0.00	65,686	–	–	–	–
Total						785,961	181,634	30%	–	321,440
G Hodges	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	63,000	–	–	–	63,000
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	113,000	–	–	–	113,000
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	42,735	42,735	100	–	–
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	49,181	49,181	100	24,590	24,591
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	60,000	60,000	100	–	60,000
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	60,346	–	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	57,340	–	–	–	–
	Performance Rights	30-Oct-07	31-Oct-10	30-Oct-12	0.00	57,870	–	–	–	–
Total						503,472	151,916	30%	24,590	260,591
P Marriott	Hurdled A	21-Nov-00	21-Nov-03	21-Nov-07	13.62	170,000	–	–	170,000	–
	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	153,000	–	–	–	153,000
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	158,000	–	–	–	158,000
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	71,794	71,794	100	71,794	–
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	69,263	69,263	100	34,631	34,632
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	67,600	67,600	100	–	67,600
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	62,501	–	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	57,340	–	–	–	–
	Performance Rights	30-Oct-07	31-Oct-10	30-Oct-12	0.00	57,870	–	–	–	–
Total						867,368	208,657	24%	276,425	413,232
A Thursby	Performance Rights	30-Oct-07	31-Oct-10	31-Oct-12	0.00	46,296	–	–	–	–
P Hodgson	Hurdled A	24-Oct-01	24-Oct-04	24-Oct-08	16.33	9,000	–	–	9,000	–
	Hurdled A	24-Apr-02	24-Apr-05	24-Apr-09	18.03	9,600	–	–	9,600	–
	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	14,700	–	–	–	14,700
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	17,200	–	–	–	17,200
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	8,221	8,221	100	8,221	–
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	8,300	8,300	100	4,150	4,150
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	15,750	15,750	100	–	15,750
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	51,725	–	–	–	–
	Performance Rights[9]	24-Oct-06	25-Oct-09	24-Oct-11	0.00	45,872	–	–	–	–
	Performance Rights[9]	30-Oct-07	31-Oct-10	30-Oct-12	0.00	57,870	–	–	–	–
Total						238,238	32,271	14%	30,971	51,800
S Targett[10]	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	307,377	307,377	100	–	153,689
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	52,000	52,000	100	–	–
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	64,657	–	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	57,340	–	–	–	–
Total						481,374	359,377	75%	–	153,689

1 Options granted pertains to those options granted, vested or exercised during the year, options yet to vest and any unexercised options. The exercise of each option (including Performance Rights), entitles the holder to one ANZ ordinary share.
2 Refer to section F10.1 for more details pertaining to hurdled A, hurdled B and index linked options.
3 Treatment of options on termination of employment is explained in section E of the Remuneration Report.
4 The exercise price for hurdled A & B options and index linked options is equal to the weighted average share price over the 5 trading days up to and including the grant date. The exercise price for performance rights is nil. Note, the original exercise price of options issued prior to the Renouncable Rights issue in November 2003 was reduced by 72 cents, because of the dilution of share capital associated with the Renouncable Rights issue. Given index-linked options have a dynamic exercise price, the original exercise price is shown in F7 (refer to F10.1 for more details).
5 Refer to section F9 for details of the valuation methodology and inputs for performance rights granted in the 2007 and 2008 years.
6 For the 2008 report, Performance Rights and Deferred Options were granted on 31 October 2008 (before the report sign-off date). The Performance Rights allocation price was $9.99 and the Deferred Options allocation price, $2.58. The number of Performance Rights and Deferred Options granted respectively to each disclosed executive is as follows: R Edgar 25,025 and 48,385; B Hartzer 75,075 and 0; G Hodges 50,050 and 67,739; P Hodgson 0 and 0; P Marriott 50,050 and 48,385; A Thursby 55,055 and 164,509. These amounts relate to the 2009 financial year.
7 The maximum amortisation balance for each executive for subsequent financial years is as follows: R Edgar $631,465; B Hartzer $1,199,309; G Hodges $1,064,749; P Hodgson $5,305; P Marriott $1,064,840; A Thursby $395,027.
8 Unexercisable as options have not met performance hurdle. Only 50% of Hurdled A options granted on 11 May 2004 are available for exercise. The remaining 50% will become available for exercise once ANZ achieves the S&P/ASX 100 Accumulation Index performance hurdle. For Hurdled B options granted on 5 November 2004, 100% are unexercisable as at 30 September 2008, as ANZ's relative TSR performance is below the median of the comparator group (i.e. minimum level required for vesting). Refer to section F10.1 for details of Hurdled A and Hurdled B performance hurdles.
9 P Hodgson's Performance Rights in relation to 2006 and 2007 have been 100% forfeited as a result of his termination (as per the conditions of grant). Therefore, nil are vested and exercisable/unexercisable as at 30 Sep 2008.
10 S Targett was granted Hurdled Options to compensate for the loss of equity from his previous employer.
11 Options exercised 16 May 2007.

F8. OPTION HOLDINGS OF DISCLOSED EXECUTIVES (INCLUDING MOVEMENTS DURING THE 2007 & 2008 YEARS)

2008 Financial Year

Name	Type of options	Balance as at 1 Oct 2007	Granted during the year as remuneration	Resulting from any other change during year	Value of options granted during the year[1] $	Exercised during the year
R Edgar	Hurdled	115,115	–	–	–	31,557
	Index-Linked	272,000	–	–	–	–
	Performance Rights	106,218	19,290	–	237,267	–
B Hartzer	Hurdled	99,440	–	–	–	–
	Index-Linked	222,000	–	–	–	–
	Performance Rights	129,641	65,586	–	806,708	–
G Hodges	Hurdled	109,181	–	–	–	–
	Index-Linked	176,000	–	–	–	–
	Performance Rights	117,686	57,870	–	711,801	–
P Marriott	Hurdled	378,657	–	–	–	170,000 71,794
	Index-Linked	311,000	–	–	–	–
	Performance Rights	119,841	57,870	–	711,801	–
	Other[3]	442	–	–	–	–
P Hodgson	Hurdled	50,871	–	–	–	9,000
	Index-Linked	31,900	–	–	–	–
	Performance Rights	97,597	57,870	(103,742)	711,801	–

2007 Financial Year

Name	Type of options	Balance as at 1 Oct 2006	Granted during the year as remuneration	Resulting from any other change during year	Value of options granted during the year[1] $	Exercised during the year
R Edgar	Hurdled	181,781	–	–	–	66,666
	Index-Linked	272,000	–	–	–	–
	Performance Rights	60,346	45,872	–	600,006	–
B Hartzer	Hurdled	368,634	–	–	–	42,000 36,000 59,000 50,000 55,555 26,639
	Index-Linked	222,000	–	–	–	–
	Performance Rights	64,656	64,985	–	850,004	–
G Hodges	Hurdled	151,916	–	–	–	42,735
	Index-Linked	176,000	–	–	–	–
	Performance Rights	60,346	57,340	–	750,007	–
P Marriott	Hurdled	378,657	–	–	–	–
	Index-Linked	311,000	–	–	–	–
	Performance Rights	62,501	57,340	–	750,007	–
	Other[3]	11,442	–	–	–	5,000 5,000 1,000
P Hodgson	Hurdled	50,871	–	–	–	–
	Index-Linked	31,900	–	–	–	–
	Performance Rights	51,725	45,872	–	600,006	–
S Targett	Hurdled	359,377	–	–	–	153,688
	Performance Rights	64,657	57,340	–	750,007	–

1 The value of options granted during the year is based on the fair value of the option multiplied by the number granted. Refer to section F9 for details of the valuation methodology and inputs.
2 The value per option used in this calculation is based on the difference between the volume weighted average price of the Company's shares traded on the ASX on the day the options were exercised, and the exercise price. This is then multiplied by the number granted.
3 Other refers to share options granted to a related party. 442 of these options were vested and exercisable as at 30 September 2007 and at 30 September 2008.

Date of exercise of options	Number of ordinary shares issued on exercise of options	Value of options exercised during the year[2] $	Share price on date of exercise of options $	Amount paid per share $	Balance as at 30 Sept 2008
14-Nov-07	31,557	332,295	28.75	18.22	83,558
–	–	–	–	–	272,000
–	–	–	–	–	125,508
–	–	–	–	–	99,440
–	–	–	–	–	222,000
–	–	–	–	–	195,227
–	–	–	–	–	109,181
–	–	–	–	–	176,000
–	–	–	–	–	175,556
07-Nov-07	170,000	2,781,200	29.98	13.62	136,863
08-Nov-07	71,794	776,093	28.36	17.55	
–	–	–	–	–	311,000
–	–	–	–	–	177,711
–	–	–	–	–	442
16-Jul-08	9,000	12,240	17.69	16.33	41,871
–	–	–	–	–	31,900
–	–	–	–	–	51,725

Date of exercise of options	Number of ordinary shares issued on exercise of options	Value of options exercised during the year[2] $	Share price on date of exercise of options $	Amount paid per share $	Balance as at 30 Sept 2007
15-Nov-06	66,666	765,326	29.03	17.55	115,115
–	–	–	–	–	272,000
–	–	–	–	–	106,218
16-May-07	42,000	693,000	29.48	12.98	99,440
16-May-07	36,000	473,400	29.48	16.33	
16-May-07	59,000	675,550	29.48	18.03	
16-May-07	50,000	572,500	29.48	18.03	
16-May-07	55,555	662,771	29.48	17.55	
16-May-07	26,639	299,955	29.48	18.22	
–	–	–	–	–	222,000
–	–	–	–	–	129,641
14-Nov-06	42,735	488,461	28.98	17.55	109,181
					176,000
					117,686
–	–	–	–	–	378,657
–	–	–	–	–	311,000
–	–	–	–	–	119,841
17-May-07	5,000	93,000	29.69	11.09	442
17-May-07	5,000	77,450	29.69	14.20	
17-May-07	1,000	16,710	29.69	12.98	
–	–	–	–	–	50,871
–	–	–	–	–	31,900
–	–	–	–	–	97,597
11-May-07	153,688	1,887,289	30.50	18.22	205,689
–	–	–	–	–	121,997

F9. PERFORMANCE RIGHT VALUATIONS

Recipients	Grant date	Option value[1]	Share price at grant	ANZ expected volatility[2]	Option term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield[3]	Risk free interest rate[4] %
Executive KMP	24-Oct-06	13.08	28.15	15	5	3	3	4.80	6.00
Executive KMP	30-Oct-07	12.30	29.69	15	5	3	3	4.50	6.63
CEO, M Smith	19-Dec-07	11.60	26.85	17	4	3	3	4.50	6.82
CEO, M Smith	19-Dec-07	11.55	26.85	17	5	4	4	4.50	6.73
CEO, M Smith	19-Dec-07	11.51	26.85	17	6	5	5	4.50	6.66

1 PricewaterhouseCoopers and Mercer independently valued these options. In accordance with AASB 2 the valuation model takes into account a range of factors to determine the value of a Performance Right such as the life of the Rights, the probability of vesting, the price of the underlying shares at grant, expected volatility of the share price and the dividends expected on the shares.
2 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the options. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the options.
3 In estimating the fair value of the ANZ option grant, expected dividends were included in the application of the model. The expected dividend yield applied to the model was based on an analysis of ANZ's historical dividend payments and yields.
4 The risk-free interest rate is based on the implied yield currently available on zero-coupon bonds issued by the Australian government, with a remaining term equal to the expected life of ANZ's options.

F10. LEGACY LONG TERM INCENTIVE (LTI) PROGRAMS

F10.1 Options (Granted prior to October 2005)

Each option has the following features:

- An exercise price (or for index-linked options, the original exercise price) that is set equal to the weighted average sale price of all fully paid ordinary shares in the Company sold on the Australian Securities Exchange during the 1 week prior to and including the date of grant;
- A maximum life of 7 years and an exercise period that commences 3 years after the date of grant, subject to performance hurdles being met. Options are re-tested monthly (if required) after the commencement of the exercise period;
- Upon exercise, each option entitles the option-holder to one ordinary share;
- In case of resignation or termination on notice or dismissal for misconduct: options are forfeited;
- In case of redundancy: options are pro-rated and a grace period is provided in which to exercise the remaining options (with hurdles waived, if applicable);
- In case of retirement, death or total & permanent disablement: a grace period is provided in which to exercise all options (with hurdles waived, if applicable); and
- Performance hurdles, which are explained below for each type of option.

Hurdled Options (Hurdled B) (Granted November 2004)

In November 2004 hurdled options were granted with a relative TSR performance hurdle attached.

The proportion of options that become exercisable will depend upon the TSR achieved by ANZ relative to the companies in the comparator group shown below. Performance equal to the median TSR of the comparator group will result in half the options becoming exercisable. Performance above median will result in further options becoming exercisable, increasing on a straight-line basis until all of the options become exercisable where ANZ's TSR is at or above the 75th percentile in the comparator group.

Comparator Group

AMP Limited
AXA Asia Pacific Holdings Limited
Commonwealth Bank of Australia
Insurance Australia Group Limited
Macquarie Bank Limited
National Australia Bank Limited
QBE Insurance Group Limited
St George Bank Limited
Suncorp-Metway Limited
Westpac Banking Corporation

Hurdled Options (Hurdled A) (Granted to Executives from February 2000 until July 2002, and from November 2003 until May 2004. Granted to J McFarlane from December 2001 until December 2004)

Until May 2004, hurdled options were granted to executives with the following performance hurdles attached. The following performance hurdles also pertain to the options granted to J McFarlane:

1. Half the options may only be exercised once ANZ's TSR exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index, measured over the same period (since issue) and calculated as at the last trading day of any month (once the exercise period has commenced); and
2. The other half of hurdled options may only be exercised once the ANZ TSR exceeds the percentage change in the S&P/ASX 100 Accumulation Index, measured over the same period (since issue) and calculated as at the last trading day of any month (once the exercise period has commenced).

Index-linked options (Granted from October 2002 to May 2003)

Index-linked options have a dynamic exercise price that acts as a built-in performance hurdle, i.e. the exercise price is adjusted in line with the movement in the S&P/ASX 200 Banks (Industry Group) Accumulation Index (excluding ANZ). As an additional constraint, the adjusted exercise price can only be set at or above the original exercise price. They are exercisable between the 3rd and 7th year after grant date, subject to the adjusted exercise price being above the prevailing share price.

F10.2 Deferred Shares (Granted from February 2000)

Deferred Shares granted under the LTI arrangements were designed to reward executives for superior growth whilst also encouraging executive retention and an increase in the Company's share price.

- Shares are subject to a time-based vesting hurdle of 3 years, during which time they are held in trust;
- During the deferral period, the employee is entitled to any dividends paid on the shares;
- Shares issued under this plan may be held in trust for up to 10 years;
- The value used to determine the number of LTI deferred shares to be allocated has been based on the volume weighted average price of the shares traded on the ASX in the week leading up to and including the date of issue;
- In case of resignation or termination on notice or dismissal for misconduct: LTI shares are forfeited;
- In case of redundancy: the number of LTI shares that are released is pro-rated according to the time held as a proportion of the vesting period; and
- In case of retirement, death or total & permanent disablement: LTI shares are released to executives.

Deferred Shares no longer form part of the executive remuneration program detailed in section C, however there may be circumstances (such as retention) where this type of equity (including Deferred Share Rights) will be issued.

F10.3 Performance Shares (Granted December 2004 to CEO)

In December 2004 Performance Shares were granted to the former CEO J McFarlane with a relative TSR performance hurdle attached. While a decision was made upon J McFarlane's cessation to acquire his interest in these shares (refer to section D2.3), the hurdle attached to these performance shares at grant was as follows: The proportion of shares that vest will depend upon the TSR achieved by ANZ relative to the companies in the comparator group (as per Hurdled B options). Performance equal to the median TSR of the comparator group will result in half the Performance Shares becoming exercisable. Performance above median will result in further Performance Shares becoming exercisable, increasing on a straight-line basis until all of the Performance Shares become exercisable where ANZ's TSR is at or above the 75th percentile in the comparator group.

Signed in accordance with a resolution of the directors

Charles Goode
Chairman

Michael R P Smith
Director

7 November 2008

COPY OF THE AUDITOR'S INDEPENDENCE DECLARATION

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Australia and New Zealand Banking Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 September 2008 there have been:

i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Michelle Hinchliffe
Partner
Melbourne

7 November 2008

Corporate Governance

A solid foundation at ANZ

"The following statement sets out the governance framework the Board has adopted at ANZ to assist it in discharging its responsibilities and details the substantive work undertaken by the Board and its Committees during the financial year."

Charles Goode, Chairman

APPROACH TO GOVERNANCE

In relation to corporate governance, the Board seeks to:

- embrace principles and practices it considers to be best practice internationally;
- be an 'early adopter', where possible, by complying before a published law or recommendation takes effect; and
- take an active role in discussions regarding the development of corporate governance best practice and associated regulation in Australia and overseas.

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

ANZ has equity securities listed on the Australian (ASX) and New Zealand (NZX) Securities Exchanges and has debt securities listed on these and some other overseas Securities Exchanges. As such, ANZ must comply with a range of listing and corporate governance requirements from both Australia and overseas.

AUSTRALIA

As a company listed on the ASX, ANZ is required to disclose how it has applied the Recommendations contained within the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Governance Principles) during the financial year, explaining any departures from them. As announced last year, the revised version of the ASX Governance Principles released in August 2007 will strictly only apply to ANZ in respect of its 2009 reporting period.

In line with its stated approach to governance, ANZ has chosen to be an early adopter of the revised ASX Governance Principles and has complied with each of the Recommendations throughout the financial year.

Full details of the location of the references in this statement (and elsewhere in this Annual Report) which specifically set out how ANZ applies each Recommendation of the revised ASX Governance Principles are contained on www.anz.com › About ANZ › Our Company › Corporate Governance.

NEW ZEALAND

As an overseas listed issuer on the NZX, ANZ is deemed to comply with the NZX Listing Rules provided that it remains listed on the ASX, complies with the ASX Listing Rules and provides the NZX with all the information and notices that it provides to the ASX.

The ASX Governance Principles differ from the NZX's corporate governance rules and the principles of the NZX's Corporate Governance Best Practice Code. More information about the corporate governance rules and principles of the ASX can be found at www.asx.com.au and, in respect of the NZX, at www.nzx.com.

Irrespective of any differences, ANZ has complied with all applicable governance principles both in Australia and New Zealand throughout the financial year.

OTHER JURISDICTIONS

ANZ also monitors best practice developments in corporate governance across other relevant jurisdictions including the US.

ANZ deregistered from the US Securities and Exchange Commission with effect from October 2007. Despite no longer being required to comply with US corporate governance rules, ANZ has decided to continue with certain governance practices required under US regulations as being best practice, including practices in relation to the independence of Directors, the independence of the external auditor and the financial expertise of certain members of the Audit Committee, as described in this statement.

RECOGNITION

In 2008, ANZ received the Special Award for Governance Reporting (Private Sector) at the 2008 Australasian Reporting Awards. ANZ also received a rating of 95/100 for Corporate Governance in 2008 from the Dow Jones Sustainability Index, the highest rating for a bank globally, as well as an 8/10 global rating from Governance Metrics International.

WEBSITE

Full details of the location of the references in this statement (and elsewhere in the Annual Report) which specifically set out how ANZ applies each Recommendation of the revised ASX Governance Principles are contained on www.anz.com › About ANZ › Our Company › Corporate Governance.

This section of ANZ's website also contains copies of all the charters and summaries of many of the documents and policies mentioned in this statement, as well as summaries of other ANZ policies of interest to shareholders and stakeholders. The website is regularly updated to ensure it reflects ANZ's most recent corporate governance information.

DIRECTORS

Mr C B Goode, AC Chairman, Independent Non-Executive Director

BCom (Hons), MBA, Hon LLD (Melb), Hon LLD (Monash)

Non-executive director since July 1991. Mr Goode was appointed Chairman in August 1995 and is an ex-officio member of all Board Committees.

Skills, experience and expertise
Mr Goode has a background in the finance industry and has been a professional non-executive director since 1989. Mr Goode brings a wide range of skills and significant experience of the finance industry to his role as Chairman of the Board.

Current Directorships
Chairman: Australian United Investment Company Limited (Director from 1990), Diversified United Investment Limited (Director from 1991), Grosvenor Australia Properties Pty Ltd (Director from 2008) and The Ian Potter Foundation Ltd (Director from 1987).

Member: International Council of the Asia Society (from 2000), Asia Society Australasia Centre (from 2003), AsiaLink Council (from 2002) and The Global Foundation (from 1999).

Former Directorships include
Former Chairman: Woodside Petroleum Limited (Director 1988–2007, Chairman 1999-2007). Former President: Howard Florey Institute of Experimental Physiology and Medicine (Director 1987–2006, President 1997–2004). Former Director: Singapore Airlines Limited (1999–2006).

Age 70. Residence Melbourne.

Mr M R P Smith, OBE Chief Executive Officer, Executive Director

BSc (Hons)

Chief Executive Officer, since October 2007.

Skills, experience and expertise
Mr Smith is an international banker with 30 years experience in banking operations in Asia, Australia and internationally. Until June 2007, he was President and Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited, Chairman, Hang Seng Bank Limited, Global Head of Commercial Banking for the HSBC Group and Chairman, HSBC Bank Malaysia Berhad. Previously, Mr Smith was Chief Executive Officer of HSBC Argentina Holdings SA.

Mr Smith joined the HSBC Group in 1978 and during his international career he has held a wide variety of roles in Commercial, Institutional and Investment Banking, Planning and Strategy, Operations and General Management.

Current Directorships
Director: ANZ National Bank Limited (from 2007) and The Financial Markets Foundation for Children (from 2008). Member: Chongqing Mayor's International Economic Advisory Council (from 2006), Australian Bankers' Association Incorporated (from 2007) and Asia Business Council (from 2008). Fellow: The Hong Kong Management Association (from 2005).

Former Directorships include
Former Chairman: HSBC Bank Malaysia Berhad (2004–2007) and Hang Seng Bank Limited (2005–2007). Former CEO and Director: The Hongkong and Shanghai Banking Corporation Limited (2004–2007). Former Director: HSBC Australia Limited (2004–2007), HSBC Finance Corporation (2006–2007) and HSBC Bank (China) Company Limited (2007). Former Board Member: Visa International (Asia Pacific) Limited (2005–2007).

Age 52. Residence Melbourne.

Dr G J Clark Independent Non-Executive Director, Chairman of the Technology Committee

BSc (Hons), PhD, FAPS, FTSE

Non-executive director since February 2004. Dr Clark is a member of the Governance Committee.

Skills, experience and expertise
Dr Clark is Principal of Clark Capital Partners, a US based firm that advises internationally on technology and the technology market place. Previously he held senior executive positions in IBM, News Corporation, and Loral Space and Communications. He brings to the Board international business experience and a distinguished career in micro-electronics, computing and communications.

Current Directorships
Chairman: GPM Classified Directories (from 2007). Director: Babcock & Brown Capital Limited (from 2006) and KaComm Communications Pty Ltd (from 2006).

Former Directorships include
Former Director: James Hardie Industries NV (2002–2006) and Acton Semiconductor Pty Limited (2001–2005).

Age 65. Residence Based in New York, United States of America but also resides in Sydney.

Mr J K Ellis Independent Non-Executive Director

MA, FAICD, Hon FIE AUST, FAus IMM, FTSE, Hon DR ENG (CQU)

Non-executive director since October 1995. Mr Ellis is a member of the Audit Committee and the Technology Committee.

Skills, experience and expertise
Mr Ellis brings to the Board his analytical skills together with his practical understanding of operational issues, investments and acquisitions arising from his involvement across a range of sectors including natural resources, manufacturing, biotechnology and education.

Current Directorships
Chairman: Landcare Australia Limited (from 2004), Future Eye Pty Ltd Advisory Board (from 2008), Pacific Road Corporate Finance Pty Limited Advisory Board (Director from 2002) and the Earth Resources Development Council (from 2006). Director: Future Directions International Pty Ltd (from 2003). Member: The Sentient Group Advisory Council (from 2001) and Anglo American plc's Australian Advisory Board (from 2006).

Former Directorships include
Former Chairman: The Broken Hill Proprietary Company Limited (Director 1991–1999, Chairman 1997–1999), Pacifica Group Limited (Chairman and Director 1999–2007), Australia-Japan Foundation (1999–2005), Golf Australia (2005–2008) and National Occupational Health & Safety Commission (2003–2005). Former Chancellor: Monash University (1999–2007). Former Director: GroPep Limited (2000–2005).

Age 71. Residence Melbourne.

Ms M A Jackson, AC Independent Non-Executive Director, Chairman of the Human Resources Committee

BEc, MBA, Hon LLD (Monash), FAICD, FCA

Non-executive director since March 1994. Ms Jackson is a member of the Audit Committee.

Skills, experience and expertise
A Chartered Accountant, with significant financial expertise, Ms Jackson has broad industrial and commercial experience including her involvement in transportation, mining, the media, manufacturing and insurance. This expertise coupled with her work in health and education contribute to her role on the Board.

Current Directorships
Chairman: FlexiGroup Limited (from 2006), Asia Pacific Business Coalition on HIV/AIDS (from 2006) and the Ponting Foundation (from 2008). Director: Billabong International Limited (from 2000) and Australian Tissue Engineering Centre (from 2007). President: Australian Volunteers International (from 2006).

Former Directorships include
Former Chairman: Qantas Airways Limited (Director 1992–2007, Chairman 2000–2007). Former Co-Chairman: Australia NZ Leadership Forum (2003–2006). Former Director: Howard Florey Institute of Experimental Physiology and Medicine (1998-2006) and Florey Neuroscience Institute (2007–2008). Former Partner: Consulting Division of KPMG Peat Marwick (1991–1992).

Age 55. Residence Melbourne.

Mr I J Macfarlane, AC Independent Non-Executive Director, Chairman of the Governance Committee

BEc (Hons), MEc, Hon DSc (Syd), Hon DSc (UNSW), Hon DCom (Melb), Hon DLitt (Macq), Hon LLD (Monash)

Non-executive director since February 2007. Mr Macfarlane is a member of the Risk Committee and the Technology Committee.

Skills, experience and expertise
During his 28 year career at the Reserve Bank of Australia including a 10 year term as Governor, Mr Macfarlane made a significant contribution to economic policy in Australia and internationally. He has a deep understanding of financial markets as well as a long involvement with Asia.

Current Directorships
Director: Woolworths Limited (from 2007), Leighton Holdings Limited (from 2007), and the Lowy Institute for International Policy (from 2004). Member: International Advisory Board of Goldman Sachs JB Were (from 2007) and International Advisory Board of CHAMP Private Equity (from 2007).

Former Directorships include
Former Chairman: Payments System Board (1998–2006), Australian Council of Financial Regulators (1998–2006), Financial Markets Foundation for Children (1996–2006) and Reserve Bank of Australia (Board Member 1992–2006, Chairman 1996–2006).

Age 62. Residence Sydney.

Mr D E Meiklejohn Independent Non-Executive Director, Chairman of the Audit Committee

BCom, Dip Ed, FCPA, FAICD, FAIM

Non-executive director since October 2004. Mr Meiklejohn is a member of the Governance Committee and the Risk Committee.

Skills, experience and expertise
Mr Meiklejohn has a strong background in finance and accounting. He also brings to the Board his experience across a number of directorships of major Australian companies spanning a range of industries.

Current Directorships
Chairman: PaperlinX Limited (Director from 1999). Director: Coca Cola Amatil Limited (from 2005) and Mirrabooka Investments Limited (from 2006). President: Melbourne Cricket Club (Committee member from 1987).
Former Directorships include
Former Chairman: SPC Ardmona Limited (Chairman and Director 2002–2005). Former Director: WMC Resources Limited (2002–2005) and OneSteel Limited (2000–2005). Director and Chief Financial Officer Amcor Limited (1985–2000).

Age 66. Residence Melbourne.

Mr J P Morschel Independent Non-Executive Director, Chairman of the Risk Committee

DipQS, FAIM

Non-executive director since October 2004. Mr Morschel is a member of the Human Resources Committee.

Skills, experience and expertise
Mr Morschel has a strong background in banking, financial services and property and brings the experience of being a Chairman and Director of major Australian and international companies.

Current Directorships
Director: Singapore Telecommunications Limited (from 2001), Tenix Pty Limited (from 1998) and Gifford Communications Pty Limited (from 2000).

Former Directorships include
Former Chairman: Rinker Group Limited (Chairman and Director 2003–2007). Former Director: Rio Tinto Plc (1998–2005), Rio Tinto Limited (1998–2005), Westpac Banking Corporation (1993–2001) and Lend Lease Corporation Limited (1983–1995).

Age 65. Residence Sydney.

BOARD RESPONSIBILITY AND DELEGATION OF AUTHORITY

The Board is chaired by an independent non-executive Director. The roles of the Chairman and Chief Executive Officer are separate, and the Chief Executive Officer is the only executive Director on the Board.

ROLE OF THE CHAIRMAN

The Chairman plays an important leadership role and is involved in:

- chairing meetings of the Board and providing effective leadership to it;
- monitoring the performance of the Board and the mix of skills and effectiveness of individual contributions;
- being a member of all principal Board Committees;
- maintaining ongoing dialogue with the Chief Executive Officer and providing appropriate mentoring and guidance; and
- being a respected ambassador for ANZ, including chairing meetings of shareholders and dealing with key customer, political and regulatory parties.

BOARD CHARTER

The Board Charter clearly sets out the Board's purpose, powers, and specific responsibilities.

The Board is responsible for:

- charting the direction, strategies and financial objectives for ANZ and monitoring the progress in relation to such matters;
- monitoring compliance with regulatory requirements, ethical standards and external commitments; and
- appointing and reviewing the performance of the Chief Executive Officer.

In addition to the above and any matters expressly required by law to be approved by the Board, powers specifically reserved for the Board include:

- approval of appointment of Senior Executives to roles leading ANZ businesses or functions and reporting to the Chief Executive Officer;
- any matters in excess of any discretions delegated to the Chief Executive Officer and senior management;
- annual approval of the budget and strategic plan;

- annual approval of the remuneration and conditions of service for any executive Directors, direct reports to the Chief Executive Officer and other key executives;
- significant changes to organisational structure;
- the acquisition, establishment, disposal or cessation of any significant business;
- the issue of ANZ shares or other ANZ equity securities;
- any public statements which reflect significant issues of ANZ policy or strategy; and
- any changes to the discretions delegated from the Board.

Under ANZ's Constitution, the Board may delegate any of its powers and responsibilities to Committees of the Board. The roles of the principal Board Committees are set out on pages 50 to 53.

Substantive areas of focus in the 2008 financial year included oversight of:

- ANZ's responses to the deterioration in global financial markets, including ANZ's capital and funding requirements;
- progress in relation to the Securities Lending Review and the ongoing progress of remediation issues;
- the "One ANZ" restructure of the ANZ business; and
- approval of ANZ's strategies in relation to its three year super regional aspirations.

BOARD MEETINGS

The Board normally meets at least 8 times each year, including an offsite meeting to review in detail the Group's strategy.

Typically at Board meetings the agenda will include:

- minutes of the previous meeting, and outstanding issues raised by Directors at previous meetings;
- the Chief Executive Officer's report;
- the Chief Financial Officer's report;
- Divisional Executive reports;
- specific business proposals;
- reports from Chairs of Committees which have met since the last Board meeting on matters considered at those meetings; and
- for review, the minutes of Committee meetings which have occurred since the last Board meeting.

There are two private sessions held at the end of each Board meeting which are each chaired by the Chairman of the Board.

The first involves all Directors including the CEO, and the second involves only the non-executive Directors.

On a revolving basis, a Director is appointed at each Board meeting to formally critique the meeting and this critique is presented at the end of the meeting and is minuted.

The Chief Financial Officer and the Group General Counsel and Company Secretary are also present at all Board meetings. Members of senior management attend Board meetings when an issue under their areas of responsibility is being considered or as otherwise requested by the Board.

CEO AND DELEGATION TO MANAGEMENT

The Board has delegated to the Chief Executive Officer, and through the Chief Executive Officer to other senior management, the authority and responsibility for managing the everyday affairs of ANZ. The Board monitors management and performance on behalf of shareholders.

The Group Discretions Policy details the comprehensive discretions framework that applies within ANZ and to employees appointed to operational roles or directorships of related entities.

The Group Discretions Policy is maintained by the Chief Financial Officer and reviewed annually by the Audit Committee with the outcome of this review reported to the Board.

At a senior Group level, ANZ has a Management Board which comprises the Chief Executive Officer and ANZ's most senior executives.

As at 1 October 2008, the following senior executives, in addition to the Chief Executive Officer, were members of Management Board: Bob Edgar – Deputy Chief Executive Officer; Peter Marriott – Chief Financial Officer; Brian Hartzer – Chief Executive Officer, Australia; Graham Hodges – Chief Executive Officer, New Zealand; Alex Thursby – Chief Executive Officer, Asia Pacific and Acting Group Managing Director, Institutional; David Cartwright– Group Managing Director, Operations, Technology and Shared Services; Susie Babani – Group Managing Director, Human Resources; Chris Page – Chief Risk Officer; David Hisco – Group Managing Director, Commercial Banking; and Margaret Payn – Group Managing Director, Strategy & Marketing.

Typically, the Management Board meets every week and has a full day meeting each month to discuss performance, review shared initiatives and build collaboration and synergy across the Group.

"ONE ANZ"

On 9 September 2008, ANZ announced a new business model and organisation structure to accelerate progress with its strategy to become a super regional bank, lift customer focus and drive performance improvement.

ANZ is now organised around its three geographies – Australia, New Zealand and Asia Pacific – and its global Institutional client business. Each geography focuses on two customer segments – Retail and Commercial, which are co-ordinated globally.

The new structure became effective on 1 October 2008 with the new business model being established progressively.

INTERNAL REVIEW

On 22 August 2008, ANZ released the findings of the Review Committee which examined ANZ's involvement in Securities Lending and its relationship with Broker clients including the Opes Prime group.

The report followed an announcement in April 2008 that the Chief Executive Officer would conduct a thorough review of the issues surrounding ANZ's Securities Lending business and publicly release its findings.

The Review Committee examined business practice, governance and management accountability related to the Securities Lending business within ANZ and developed a comprehensive remediation plan to address its findings.

The Review Committee's report was presented to the Board which accepted the findings and gave its full support to the remediation program. The report provided to the Board was also provided to the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC).

BOARD COMPOSITION, SELECTION AND APPOINTMENT

The Board strives to achieve a balance of skills, knowledge, experience, tenure and perspective among its Directors. Details regarding the skills, experience and expertise of each Director in office at the date of this Annual Report can be found on pages 43 to 45.

The Governance Committee (see page 51) has been delegated responsibility for the director nomination process. The Committee regularly reviews the size and composition of the Board and assesses whether there is a need for any new non-executive Director appointments.

Nominations may be provided from time to time to the Chairman of the Governance Committee. The Committee also reviews and recommends the process for the election of the Chairman of the Board and reviews succession planning for the Chairman of the Board, making recommendations to the Board as appropriate.

The Committee assesses potential new Director candidates against Board approved selection criteria including integrity, fitness and propriety, skills, qualifications, experience, communication capabilities and community standing. If found suitable, and where there is a need for any new appointments, candidates are recommended to the Board. Otherwise, the Chairman of the Committee maintains names of suitable candidates for succession purposes. The Chairman of the Board is responsible for approaching potential candidates. This process is formalised in the Board Renewal and Performance Evaluation Policy.

The composition of the principal Board Committees is reviewed annually by the Board.

APPOINTMENT DOCUMENTATION

Each new non-executive Director receives an appointment letter accompanied by a:

- Directors' Handbook – The Handbook includes information on a broad range of matters relating to the role of a Director, including details of all applicable policies; and
- Directors' Deed – Each Director signs a Deed in the form approved by shareholders at the 2005 Annual General Meeting which covers a number of issues including indemnity, directors' and officers' liability insurance, the right to obtain independent advice and requirements concerning confidential information.

UNDERTAKING INDUCTION TRAINING

Every new Director takes part in a formal induction program which involves the provision of information regarding ANZ's values and culture, the Group's governance framework, the Directors' Code of Conduct and Ethics, Director related policies, Board and Committee policies, processes and key issues, financial management and business operations. A briefing is also provided by senior management about matters concerning their areas of responsibility.

MEETING SHARE QUALIFICATION

Non-executive Directors are required to accumulate within 5 years of appointment, and thereafter maintain, a holding in ANZ shares that is equivalent to at least 100% of a non-executive Director's base fee (and 200% of this fee in the case of the Chairman).

ELECTION AT NEXT ANNUAL GENERAL MEETING

Subject to the provisions of ANZ's Constitution and the Corporations Act 2001, the Board may appoint a person as a non-executive Director of ANZ at any time but that person must retire and, if they wish to continue in that role, must seek election by shareholders, at the next Annual General Meeting.

FIT AND PROPER

ANZ has a robust framework in place to ensure that individuals appointed to relevant senior positions within the Group have the appropriate fitness and propriety to properly discharge their prudential responsibilities both on appointment and throughout the course of their appointment.

The framework, set out in ANZ's Fit and Proper Policy, addresses the requirements of APRA's Fit and Proper Prudential Standard. It involves assessments being carried out for each Director, relevant senior executives and the external auditor prior to a new appointment being made. These assessments are carried out against a benchmark of documented competencies which have been prepared for each role, and also involve attestations being completed by each individual, as well as the obtaining of evidence of material qualifications and the carrying out of checks such as criminal record, bankruptcy and regulatory disqualification checks.

These assessments are reviewed thereafter on an annual basis. The Governance Committee and the Board have responsibility for assessing the fitness and propriety of non-executive Directors.

The Human Resources Committee is responsible for assessing the fitness and propriety of the Chief Executive Officer and key senior executives. The Audit Committee is responsible for assessing the fitness and propriety of the external auditor.

Fit and Proper assessments were carried out in respect of each non-executive Director, the Chief Executive Officer, key senior executives and the external auditor during the 2008 financial year.

INDEPENDENCE AND MATERIALITY

Under ANZ's Board Charter, the Board must contain a majority of non-executive Directors who satisfy ANZ's criteria for independence. The Board Charter sets out independence criteria in order to establish whether a non-executive Director has a relationship with ANZ which could (or could be perceived to) impede their decision-making.

All non-executive Directors are required to notify the Chairman of a potential change in their outside Board appointments. The Chairman reviews the proposed appointments and will consult with other Directors as the Chairman deems appropriate.

In the 2008 financial year, the Board conducted its annual review of criteria for independence against the ASX Governance Principles and APRA Prudential Standards, as well as the requirements of the NYSE Corporate Governance Standards, and the US Sarbanes-Oxley Act of 2002 in relation to Audit Committe member independence.

ANZ's criteria are more comprehensive than those set in many jurisdictions including in particular criteria stipulated specifically for Audit Committee members. The criteria and review process are both set out in the Corporate Governance section of ANZ's website.

In summary, a relationship with ANZ is regarded as material if a reasonable person would expect there to be a real and sensible possibility that it would influence a Director's mind in:

- making decisions on matters likely to come regularly before the Board or its Committees;
- objectively assessing information and advice given by management;
- setting policy for general application across ANZ; and
- generally, carrying out the performance of his or her role as a Director.

During 2008, the Board considered each non-executive Director's independence and concluded that the independence criteria were met by each non-executive Director.

Directors' biographies on pages 43 to 45 and on anz.com highlight their major associations outside of ANZ.

CONFLICTS OF INTEREST

Over and above the issue of independence, each Director has a continuing responsibility to determine whether he or she has a potential or actual conflict of interest in relation to any material matter which comes before the Board. Such a situation may arise from external associations, interests or personal relationships.

Under the Directors Disclosure of Interest Policy and Policy for Handling Conflicts of Interest, which was reviewed by the Governance Committee during the year, a Director may not exercise any influence over the Board if a potential conflict of interest exists. In such circumstances, the Director may not receive relevant Board papers and, unless the other Directors have resolved to the contrary, may not be present for Board deliberations on the subject, and may not vote on any related Board resolutions. These matters, should they occur, are recorded in the Board minutes.

INDEPENDENT ADVICE

In order to assist Directors in fulfilling their responsibilities, each Director has the right (with the prior approval of the Chairman) to seek independent professional advice regarding his/her responsibilities at the expense of ANZ. In addition, the Board and each Committee, at the expense of ANZ, may obtain whatever professional advice it requires to assist in its work.

TENURE AND RETIREMENT

ANZ's Constitution, consistent with the ASX Listing Rules, provides that a non-executive Director must seek re-election by shareholders every 3 years if they wish to continue in their role as a non-executive Director.

It is ANZ's view that the length of service of a non-executive Director is not an automatic disabling criterion affecting that Director's independence, and this is consistent with the revised ASX Governance Principles. However, the Governance Committee has recently approved a revision to the Board Renewal and Performance Evaluation Policy so that non-executive Directors will retire once they have served a maximum of three 3-year terms after first being elected by shareholders unless invited by the Board to extend their tenure due to special circumstances. This revised policy applies to current non-executive Directors except where there is an agreed retirement plan that has been made public and it also applies to future non-executive Directors.

CONTINUING EDUCATION

ANZ Directors take part in a range of training and continuing education programs. In addition to a formal induction program (see page 47), Directors also receive a quarterly advice designed to keep them abreast of matters relating to their duties and responsibilities as Directors.

Each Committee also conducts its own continuing education sessions from time to time as appropriate. Internal and/or external experts are engaged to conduct all education sessions. Directors also receive regular business briefings at Board meetings. These briefings are intended to provide Directors with information on each area of ANZ's business, in particular regarding performance, key issues, risks and strategies for growth. In addition, Directors have the opportunity to participate in site visits from time to time.

ACCESS TO DIRECTORS

Management is able to consult Directors as required on a regular basis. Employees have access to the Directors directly or through the Company Secretary.

Shareholders who wish to communicate with the Directors may direct correspondence to a particular Director, or to the non-executive Directors as a whole.

ROLE OF COMPANY SECRETARY

The Board is responsible for the appointment of ANZ's Company Secretaries. The Board has appointed three Company Secretaries.

The Group General Counsel and Company Secretary is normally in attendance at all Board meetings, and provides legal advice to the Board as and when required. He works closely with the Chairman of the Governance Committee to develop and maintain ANZ's corporate governance principles, and is responsible to the Board for the Company Secretary's Office function.

The Company Secretary is responsible for the day-to-day operations of the Company Secretary's Office including lodgements with relevant Securities Exchanges and other regulators, the administration of Board and Board Committee meetings (including preparation of meeting minutes), the management of dividend payments and associated share plans, the administration of the Group's Australian subsidiaries and oversight of the relationship with ANZ's Share Registrar.

The Chief Financial Officer is also appointed as a Company Secretary. Profiles of ANZ's Company Secretaries can be found in the Directors' Report on page 17.

PERFORMANCE EVALUATIONS

OVERVIEW

The framework used to assess the performance of Directors is based on the expectation they are performing their duties in a manner which should create and continue to build sustainable value for shareholders, and in accordance with the duties and obligations imposed upon them by ANZ's Constitution and the law. This is captured in ANZ's Board Renewal and Performance Evaluation Policy, which was reviewed by the Governance Committee and substantially revised during the year following a best practice benchmarking review.

The performance criteria take into account each Director's contribution to:

- the charting of direction, strategy and financial objectives for ANZ;
- the monitoring of compliance with regulatory requirements and ethical standards;
- the monitoring and assessing of management performance in achieving strategies and budgets approved by the Board;
- the setting of criteria for, and evaluation of, the Chief Executive Officer's performance; and
- the regular and continuing review of executive succession planning and executive development activities.

NON-EXECUTIVE DIRECTORS

Non-executive Director performance evaluations are conducted in two ways:

Annual review – On an annual basis, or more frequently if appropriate, the Chairman has a one-on-one meeting with each non-executive Director specifically addressing the performance criteria including compliance with the Directors' Code of Conduct and Ethics. To assist the effectiveness of these meetings, the Chairman is provided with objective information about each Director (e.g. number of meetings attended, Committee memberships, other current directorships etc) and a guide for discussion to ensure consistency. A report on the outcome of these meetings is provided to the Governance Committee and to the Board.

Re-election statement – Non-executive Directors when nominating for re-election are given the opportunity to submit a written or oral statement to the Board setting out the reasons why they seek re-election. In the non-executive Director's absence, the Board evaluates this statement (having regard to the performance criteria) when it considers whether to endorse the relevant Director's re-election.

CHAIRMAN OF THE BOARD

An annual review of the performance of the Chairman of the Board is facilitated by the Chairman of the Governance Committee who seeks input from each Director individually on the performance of the Chairman of the Board against the competencies for the Chairman's role approved by the Board.

The Chairman of the Governance Committee collates the input in order to provide an overview report to the Governance Committee and to the Board, as well as feedback to the Chairman of the Board.

THE BOARD

For the year ended 30 September 2008, the performance of the Board was assessed using an independent external facilitator, who sought input from each Director and certain members of senior management when carrying out the assessment.

The assessment was conducted in accordance with broad terms of reference agreed by the Governance Committee. The results of the assessment were discussed with the Chairman of the Governance Committee who presented the results of the assessment and recommendations to the Governance Committee and to the Board.

It is expected that externally facilitated reviews will occur approximately every three years. The review process in the intervening years will consider progress against any recommendations implemented arising from the most recent externally facilitated review, together with any new issues that may have arisen, and will be conducted internally.

BOARD COMMITTEES

Each of the principal Board Committees conducts an annual Committee performance self-assessment to review performance using Guidelines approved by the Governance Committee. The Guidelines set out that at a minimum, the self-assessments should cover:

- review of the scope of the Committee's responsibilities and duties as enshrined in its Charter;
- review of the Committee's performance against its Charter and annual calendar of business;
- review of the Committee's performance against any goals or objectives it set itself for the year under review;
- review of major issues that faced the Committee during the year; and
- identification of future topics for training/education of the Committee.

The outcomes of the performance self-assessments, along with plans and objectives for the new financial year, are submitted to the Governance Committee (and, in the case of the Governance Committee, to the Board) for discussion and noting.

SENIOR MANAGEMENT

Details of how the performance evaluation process is undertaken in respect of the Chief Executive Officer (by the Board) and other key senior executives (by the Human Resources Committee), including how financial, operational and qualitative measures are assessed, are set out in the Remuneration Report on pages 25 to 27.

Board and relevant senior management evaluations in accordance with the above processes have been undertaken in respect of the 2007/8 reporting period, including an independently facilitated review of the Board's performance.

BOARD COMMITTEES

As set out on page 46 of this statement, the Board has the ability under its Constitution to delegate its powers and responsibilities to Committees of the Board. This allows the Board to spend additional and more focused time on specific issues. ANZ's Board has five principal Board Committees: Audit Committee, Governance Committee, Human Resources Committee, Risk Committee and Technology Committee.

MEMBERSHIP AND ATTENDANCE

Each of the principal Board Committees is comprised solely of independent non-executive Directors, has its own Charter and has the power to initiate any special investigations it deems necessary.

Membership criteria are based on each Director's skills and experience, as well as his/her ability to add value and commit time to the Committee. Composition is reviewed annually by the Board.

The Chairman is an ex-officio member of each principal Board Committee. The Chief Executive Officer is invited to attend Board Committee meetings as appropriate. His presence is not automatic, however, and he does not attend any meeting where his remuneration is considered or discussed, nor does he attend private sessions of Committees where they meet in the absence of management. Non-executive Directors may attend any meeting of any Committee.

Each Board Committee may, within the scope of its responsibilities, have unrestricted access to management, employees and information it considers relevant and necessary to carrying out its responsibilities under its Charter.

Each Board Committee may require the attendance of any ANZ officer or employee, or request the attendance of any external party, at meetings as appropriate.

MEETINGS

The principal Board Committees plan their annual agenda following a process approved by the Board. The executives who are appointed to assist the Chairman of each Board Committee liaise as a group in order to review the calendars of business prepared by each Committee and identify any potential gaps and unnecessary overlaps between the Committees. Any issues arising from this are reported to, and resolved by, the relevant Committee Chairmen. The results of this process are then reported to the Governance Committee to assist the Board in fulfilling its oversight responsibilities in respect of the delegations it has made to the various Board Committees.

Committees report at the next Board meeting through the Committee Chairmen. When there is a cross-Committee item, the Committees will communicate with each other through their Chairmen.

Throughout the year, Committee Chairmen also conduct agenda planning meetings involving relevant stakeholders to take account of emerging issues.

ANZ BOARD COMMITTEE MEMBERSHIPS – from 1 October 2007 – 30 September 2008

Audit	Governance	Human Resources	Risk	Technology
Mr D E Meiklejohn C, FE	Mr I J Macfarlane C	Ms M A Jackson C	Mr J P Morschel C	Dr G J Clark C
Ms M A Jackson FE	Dr G J Clark	Mr J P Morschel	Mr I J Macfarlane	Mr J K Ellis
Mr J K Ellis	Mr D E Meiklejohn	Mr C B Goode (ex-officio)	Mr D E Meiklejohn	Mr I J Macfarlane
Mr C B Goode (ex-officio)	Mr C B Goode (ex-officio)		Mr C B Goode (ex-officio)	Mr C B Goode (ex-officio)

C – Chairman, FE – Financial Expert

AUDIT COMMITTEE

The Audit Committee is responsible for oversight and monitoring of:

- ANZ's financial reporting principles and policies, controls and procedures;
- the work of Internal Audit which reports directly to the Chairman of the Audit Committee (refer to Internal Audit on page 53 for more information);
- the Audit Committees of significant subsidiary companies;
- prudential supervision procedures required by regulatory bodies relating to financial reporting; and
- the integrity of ANZ's financial statements, compliance with related regulatory requirements and the independent audit thereof.

The Audit Committee is also responsible for:

- the appointment, evaluation and oversight of the external auditor, including reviewing their independence and fitness and propriety;
- compensation of the external auditor; and
- where appropriate, replacement of the external auditor.

Under the Committee Charter, all members of the Audit Committee must be financially literate.

Mr Meiklejohn (Chair) and Ms Jackson (member) were determined to be 'financial experts' for the 2008 financial year under the definition set out in the US Sarbanes-Oxley Act of 2002. Refer to pages 44 and 45 for their qualifications. While the Board has determined that Mr Meiklejohn and Ms Jackson have the necessary attributes to be 'financial experts' within the meaning of US laws, it is important to note that they have no responsibilities additional to those of other members of the Audit Committee because of this.

The Audit Committee meets with the external auditor without management being present. The Chairman of the Audit Committee meets separately and regularly with the Group General Manager, Internal Audit, the external auditor and management.

The Group General Manager, Financial Reporting and Policy has been appointed as the executive responsible for assisting the Chairman of the Committee.

Substantive areas of focus in the 2008 financial year included:

- Internal Audit – The Committee approved the annual plan for internal audit and kept progress against this plan under regular review. Adjustments to the plan were made during the year to accommodate high priority items.
- Regulatory developments – Domestic and international accounting and financial reporting developments were reported to the Committee outlining relevant changes and implications for ANZ.
- Financial Reporting Governance Program – Notwithstanding that ANZ has ceased to be registered with the SEC in the US, the Committee requested management ensure that ANZ's financial governance framework retained the beneficial aspects of US regulation. The 2008 Program involved increased management testing with Internal Audit providing an oversight role and the Committee received regular Financial Reporting Governance updates providing comment on key themes, areas of focus and status.
- Whistleblowing – The Committee oversaw developments in respect of amendments to the Group's Whistleblower Protection Policy.

GOVERNANCE COMMITTEE

The Governance Committee is responsible for:

- identifying and recommending prospective Board members and succession planning for the position of Chairman (see page 47);
- reviewing and approving procedures for the oversight and evaluation of the performance of the Board, Board Committees and non-executive Directors (see page 49);
- ensuring an appropriate Board and Board Committee structure is in place;
- reviewing and approving the Charters for each Board Committee except its own, which is reviewed and approved by the Board; and
- reviewing the development of and approving corporate governance policies and principles applicable to ANZ.

The Committee previously had responsibility for reviewing and approving management's proposed corporate responsibility objectives and strategies for ANZ. In future, this area will be the direct responsibility of the Board.

The Group General Counsel and Company Secretary has been appointed as the executive responsible for assisting the Chairman of the Committee.

Substantive areas of focus in the 2008 financial year included:

- Governance framework –The Committee reviewed the Board's governance framework and principles including in relation to Board composition, size, Director tenure, outside commitments, nomination and appointment procedures, and Director independence criteria.
- Ethics Framework – The Committee received a report on work in relation to the development of a new Ethics Framework to be supported by an updated Code of Conduct and Ethics, related policies, training and more frequent acknowledgement and acceptance by employees.
- Asia Pacific – The Committee received a report on the review by the Asia Pacific business of its governance practices generally, including details of various governance initiatives that are to be progressively implemented.
- Board and Committee Performance Evaluations – The Board Renewal and Performance Evaluation Policy was comprehensively reviewed and revamped. External governance consultants were commissioned to conduct a review of the Board's performance with the results presented to the Committee.
- Review and approval of Group policies – The Committee approved amendments to existing Group policies including the Continuous Disclosure Policy and Securities Trading Policy.

HUMAN RESOURCES COMMITTEE

The Human Resources Committee is responsible for reviewing and approving the Group's compensation programs including any equity-based programs, compensation levels and policy guidelines (details in the Remuneration Report on pages 20 to 41).

The Committee also evaluates the performance of and approves the compensation for Board Appointees and makes recommendations to the Board on matters relating to the Chief Executive Officer (details in the Remuneration Report on pages 20 to 41).

In addition, the Committee considers and approves key executive appointments, and senior executive succession plans as well as policies with respect to health and safety issues and diversity.

The Group Managing Director, Human Resources has been appointed as the executive responsible for assisting the Chairman of the Committee.

Substantive areas of focus in the 2008 financial year included:

- Management roles and performance – The Committee reviewed the performance of the CEO and CEO's direct reports, and set targets for 2009. The Committee held a succession planning session on Management Board roles and Business Critical roles.
- Fitness and Propriety – The Committee completed initial (where applicable) and annual Fit and Proper assessments of Board Appointees.
- Remuneration – The Committee approved the grant of ESAP \$1000 shares to employees, reviewed and approved a new bonus framework for Institutional, reviewed and approved changes to the ANZERS Bonus Plan, and reviewed and approved changes to the reward structure for Management Board.
- HR matters – The Committee received annual updates on Superannuation, Health & Safety and Diversity.

For more details on the activities of the Human Resources Committee, please refer to the Remuneration Report on pages 20 to 41.

RISK COMMITTEE

The Risk Committee is responsible for overseeing, monitoring and reviewing the Group's risk management principles and policies, strategies, processes and controls including credit, market, liquidity, balance sheet, operational risk and compliance frameworks.

It is also authorised to approve credit transactions and other related matters beyond the approval discretion of executive management.

The Chief Risk Officer is the executive responsible for assisting the Chairman of the Committee.

Substantive areas of focus in the 2008 financial year included:

- Risk Appetite Framework – The Committee approved enhancements to and further development of the Risk Appetite Framework.
- Basel II – The Committee oversaw ANZ's Basel II accreditation from APRA and the Reserve Bank of New Zealand. The Committee also focused on the delivery of Pillar 3 Market Disclosures required for 2008 financial year reporting.
- Securities Lending Review – The Committee received the results of the Review and will continue to focus attention on the remediation of issues raised in the Review.
- Provisioning – The Committee regularly reviewed provisioning in light of the global financial crisis.
- Liquidity – The Committee performed an ongoing and detailed review of the Group's liquidity and funding positions and risks.

TECHNOLOGY COMMITTEE

The Technology Committee assists the Board in the effective discharge of its responsibilities in relation to technology and operations related matters. The Committee is responsible for the oversight and evaluation of new projects in technology above \$50 million and security issues relevant to ANZ's technology processes and systems. It is also responsible for the review and approval of management's recommendations for long-term technology and operations planning and the overall framework for the management of technology risk.

The Group Managing Director, Operations, Technology and Shared Services has been appointed as the executive responsible for assisting the Chairman of the Committee.

Substantive areas of focus in the 2008 financial year included:

- Technology Architecture – The Committee monitored the definition and execution of the Bank's technology architecture strategy.
- Future needs – The Committee received reports on the future technology investment requirements for the Group and on the Group's future IT operating model.
- Projects – The Committee received regular reports monitoring the progress of ANZ's major technology and property projects from both a project management and a cost perspective. The Committee also received a report on ANZ's change and project management capability.
- 833 Collins Street – The Committee received specific reports on the progress of the building of the Group's new Melbourne headquarters and reviewed the technology strategy for the new building.

	Board		Audit Committee		Governance Committee		Human Resources Committee		Risk Committee		Technology Committee		Executive Committee		Shares Committee		Committee of the Board	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
G J Clark	13	13	–	–	4	4	–	–	–	–	3	3	–	–	–	–	–	–
J K Ellis	13	13	8	8	–	–	–	–	–	–	3	3	–	–	–	–	2	2
C B Goode	13	13	8	8	4	4	6	5	6	6	3	3	1	1	7	7	5	5
M A Jackson	13	13	8	8	–	–	6	6	–	–	–	–	1	1	5	5	–	–
I J Macfarlane	13	12	–	–	4	4	–	–	6	6	3	2	1	1	–	–	–	–
D E Meiklejohn	13	13	8	8	4	4	–	–	6	6	–	–	1	1	1	1	3	3
J P Morschel	13	13	–	–	–	–	6	6	6	6	–	–	1	1	1	1	–	–
M R P Smith	13	13	–	–	–	–	–	–	–	–	–	–	1	1	4	4	4	4

Column A – Indicates the number of meetings the Director was eligible to attend.
Column B – Indicates the number of meetings attended. The Chairman is an ex-officio member of the Audit, Governance, Human Resources, Risk and Technology Committees.

ADDITIONAL COMMITTEES

In addition to the five principal Board Committees, the Board has constituted a Shares Committee and an Executive Committee, each consisting solely of Directors, to assist in carrying out specific tasks.

The Executive Committee has the full power of the Board and is convened as necessary between regularly scheduled Board meetings to deal with urgent matters. The Shares Committee has the power to administer ANZ's Employee Share Plan and Employee Share Option Plan. The Board also forms and delegates authority to ad-hoc Committees of the Board as and when needed to carry out specific tasks.

RISK MANAGEMENT AND COMPLIANCE

The Board is principally responsible for establishing risk tolerance, approving related strategies and policies, and for the oversight of policy compliance and the effectiveness of the risk and compliance management framework that is in place.

The Risk Committee oversees the Group's risk management policies and controls, and may approve credit transactions and other related matters beyond the approval discretion of executive management. On a day-to-day basis, the various risks inherent in ANZ's operations are managed by both Group Risk and each business.

For further information on how ANZ manages its material business risks, please see the disclosures in relation to AASB 7 "Financial Instruments: Disclosure" in the notes to the financial statements and the Corporate Governance section of anz.com.

During the year, management has reported to the Risk Committee as to the effectiveness of ANZ's risk and compliance management framework and the management of ANZ's material business risks.

AUDIT AND FINANCIAL GOVERNANCE

INTERNAL AUDIT

Internal Audit reviews various areas of ANZ's business and operations each year pursuant to an annual plan that is approved by the Audit Committee. Through these reviews, Internal Audit seeks to assess the effectiveness of the design and operation of the Group's risk and control framework. It operates under a Charter from the Audit Committee that gives it unrestricted access to review all activities of the Group. The Group General Manager, Internal Audit reports to the Chairman of the Audit Committee. The Audit Committee reviews the performance of the Group General Manager, Internal Audit.

A risk-based audit approach is used which aims to focus on the higher risk activities in each business. All audits are conducted in a manner that conforms to international auditing standards. Audit results also influence incentive compensation of business heads. The Audit Committee receives formal reports on significant issues.

Internal Audit plays an active role in connection with the compliance requirements of supervisory regulatory authorities. Internal Audit also works collaboratively with the external auditor to enhance the audit scope. The Risk Committee also receives a quarterly report from Internal Audit.

EXTERNAL AUDIT

The external auditor's role is to provide an independent opinion that ANZ's financial reports are true and fair and comply with applicable regulations. The external auditor performs an independent audit in accordance with Australian Auditing Standards. The Audit Committee oversees ANZ's Policy on Relationship with the External Auditor. Under the Policy, the Audit Committee is responsible for the appointment (subject to ratification by shareholders), compensation, retention and oversight of the external auditor. The Policy also stipulates that the Audit Committee:

- pre-approves all audit and non-audit services;
- regularly reviews the independence of the external auditor; and
- evaluates the effectiveness of the external auditor.

The Policy also requires that all services provided by the external auditor, including the non-audit services that may be provided by the external auditor, must be in accordance with the following principles:

- the external auditor should not have a mutual or conflicting interest with ANZ;
- the external auditor should not audit its own work;
- the external auditor should not function as part of management or as an employee; and
- the external auditor should not act as an advocate of ANZ.

The Policy, which sets out in detail the types of services the external auditor may and may not provide, can be found on the Corporate Governance section of anz.com.

Details of the non-audit services provided by the external auditor, KPMG, during the 2008 financial year, including their dollar value, together with the statement from the Board as to their satisfaction with KPMG's compliance with the related independence requirements of the Corporations Act 2001, are set out in the Directors' Report on page 18.

In addition, ANZ requires a two year period before any former partner or employee of the external auditor is appointed as a Director or Senior Executive of ANZ. The lead partner of the external auditor is required to rotate off the ANZ audit after 5 years and cannot return for a further five years. Certain other senior audit staff are required to rotate off after a maximum of seven years. Any potential appointments of ex-partners or ex-employees of the external auditor as ANZ finance staff, at senior management level or higher, must be pre-approved by the Chairman of the Audit Committee.

As disclosed in previous Annual Reports, the US Securities and Exchange Commission (SEC) commenced an inquiry into non-audit services provided by ANZ's auditor, KPMG. ANZ has provided the information requested by the SEC. This inquiry has not concluded. Should the SEC determine that services provided by KPMG did not comply with the US auditor independence rules, the SEC may seek sanctions, the nature and amount of which are not known.

Whilst ANZ cannot predict the outcome of the inquiry, based on information currently available, ANZ does not believe it will have a material adverse effect on the Company.

FINANCIAL CONTROLS

As previously noted, the Audit Committee of the Board oversees ANZ's financial reporting policies and controls, the integrity of ANZ's financial statements, the relationship with the external auditor, the work of Internal Audit, and the Audit Committees of various significant subsidiary companies.

ANZ has in place a Financial Reporting Governance (FRG) Program which evaluates the design and tests the operation of key financial reporting controls, including Company-level controls, period-end controls, process-level controls, and IT general controls. In addition, Preparers' Statements in the form of half-yearly certifications are completed by senior management, including senior finance executives.

These Statements comprise representations and questions about financial results, disclosures, processes and controls and are aligned with ANZ's external obligations. The process is independently evaluated by Internal Audit and tested under the FRG Program. Any issues arising from the evaluation and testing are reported to the Audit Committee. This process assists the Chief Executive Officer and Chief Financial Officer in making the certifications to the Board under the Corporations Act and ASX Governance Principles as set out in the Directors' Report on page 18.

ETHICAL AND RESPONSIBLE DECISION-MAKING

CODES OF CONDUCT AND ETHICS

ANZ has two main Codes of Conduct and Ethics, the Employee Code and the non-executive Director Code. These Codes provide employees and Directors with a practical set of guiding principles to help them make decisions in their day to day work. Having two Codes recognises the different responsibilities that Directors have under law but enshrines the same values and principles.

The Codes embody honesty, integrity, quality and trust, and employees and Directors are required to demonstrate these behaviours and comply with the Codes whenever they are identified as representatives of ANZ.

The principles underlying ANZ's Codes of Conduct and Ethics are:

- We act in ANZ's best interests and value ANZ's reputation;
- We act with honesty and integrity;
- We treat others with respect, value difference and maintain a safe workplace;
- We identify conflicts of interest and manage them responsibly;
- We respect and maintain privacy and confidentiality;
- We do not make or receive improper payments, benefits or gains;
- We comply with the Codes, the law and ANZ's policies and procedures; and
- We immediately report any breaches of the Codes, the law or ANZ policies and procedures.

The Codes are supported by the following detailed policies that together form ANZ's Conduct and Ethics Policy Framework:

- ANZ Anti-Money Laundering and Counter-Terrorism Financing Program;
- ANZ Use of Systems, Equipment and Information Policy;
- ANZ Global Fraud and Expense Policy;
- ANZ Group Expense Policy;
- ANZ Equal Employment Opportunity, Bullying and Harassment Policy;
- ANZ Health and Safety Policy;
- ANZ Global Employee Securities Trading and Conflicts of Interest Policy;
- ANZ Global Anti-Bribery Policy; and
- ANZ Global Whistleblower Protection Policy.

These policies and the Codes have recently been redrafted to clearly specify all obligations that are common to each staff member working at ANZ. The revised ANZ Conduct and Ethics Policy Framework was launched on 31 October 2008.

Within two months of commencing employment with ANZ, and thereafter on an annual basis, all employees will be required to sign up to the principles of the Employee Code, including key relevant extracts of the policies set out above, to show that they have understood and agree to comply with their obligations. Directors' compliance with the non-executive Directors' Code continues to form part of their annual performance review.

SECURITIES TRADING

ANZ's Global Employee Securities Trading and Conflicts of Interest Policy prohibits trading in ANZ securities or the securities of other companies by all employees, Directors, contractors and consultants engaged by ANZ who are aware of unpublished price-sensitive information.

The Policy specifically prohibits restricted employees trading in ANZ securities during 'blackout periods' leading up to the day following the half-yearly and annual results announcements.

Non-executive Directors are required to seek approval from the Chairman in advance of any trading in ANZ securities. The Chairman of the Board is required to seek approval from the Chairman of the Governance Committee. Senior Executives and other restricted employees are also required to seek approval before they, or their associates, trade in ANZ securities.

It is a condition of the Policy and of the grant of employee share options (including Performance Rights) and deferred shares that no schemes are entered into by any employee that specifically protect the value of such shares, options and Performance Rights before the shares have vested or the options or Performance Rights have entered their exercisable period. Any breach of this prohibition would constitute a breach of the grant conditions and would result in the forfeiture of the relevant shares, options or Performance Rights.

Directors are also prohibited from providing ANZ securities as security in connection with any financing arrangement, including but not limited to margin loans or similar arrangements.

WHISTLEBLOWER PROTECTION

The ANZ Global Whistleblower Policy provides a mechanism by which ANZ employees may voice serious concerns or escalate serious matters on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

ANZ employees can make complaints under the Policy to designated Whistleblower Protection Officers, or via an independently managed hotline that was introduced as part of the new Conduct and Ethics Policy Framework that was launched recently.

COMMITMENT TO SHAREHOLDERS

Shareholders are the owners of ANZ and our approaches described below are enshrined in ANZ's Shareholder Charter, which was reviewed by the Governance Committee during the year. A copy of the Shareholder Charter can be found on the Corporate Governance section of anz.com.

COMMUNICATION

In order to make informed decisions about ANZ, and to communicate views to ANZ, shareholders should have an understanding of ANZ's business operations and performance.

ANZ encourages shareholders to take an active interest in ANZ, and seeks to provide shareholders with quality information in a timely fashion generally through ANZ's reporting of results, ANZ's Annual Report and Shareholder Review, briefings, half yearly newsletters and via its dedicated shareholder site on anz.com. ANZ strives for transparency in all its business practices, and recognises the impact of quality and transparent disclosure on the trust and confidence of the shareholder, the wider market and the community. To this end, ANZ, outside of its scheduled result announcements, issued three Trading Updates to the market during the financial year.

Should shareholders require any information, contact details for ANZ and its Share Registrar are set out in the Shareholder Review, the half yearly shareholder newsletters and the shareholders section of anz.com.

MEETINGS

To allow as many shareholders as possible to have an opportunity to attend shareholder meetings, ANZ rotates meetings around capital cities and makes them available to be viewed online using webcast technology.

Further details on meetings and presentations held throughout this financial year are available on anz.com › About ANZ › Shareholders › Presentations. Prior to the Annual General Meeting, shareholders are provided the opportunity to submit any questions they have for the Chairman or Chief Executive Officer to enable key common themes to be considered.

The external auditor is present at ANZ Annual General Meetings and available to answer shareholder questions on any matter that concerns them in their capacity as auditor, including in relation to the conduct of the audit and the preparation and content of the auditor's report.

The letter of appointment, which has been agreed to and signed by all non-executive Directors, states that Directors are also expected to attend and be available to meet shareholders at the Annual General Meeting each year.

Shareholders have the right to vote on various resolutions put to a meeting. If shareholders are unable to attend a meeting they can submit their proxies via post or electronically through www.investorvote.com.au. Where votes are taken on a poll, which is usual ANZ practice, ANZ appoints an independent party to verify the results, normally KPMG, which are reported as soon as possible to the ASX and posted on anz.com.

CONTINUOUS DISCLOSURE

ANZ's practice is to release all price-sensitive information in a timely manner and as required under the ASX Listing Rules and then to all relevant Securities Exchanges on which ANZ's securities are listed, and to the market and community generally through ANZ's media releases, website and other appropriate channels.

Through ANZ's Continuous Disclosure Policy, ANZ demonstrates its commitment to continuous disclosure. The Policy reflects relevant obligations under applicable securities exchange listing rules and legislation. For disclosure purposes, price-sensitive information is information that a reasonable person would expect to have a material effect on the price or value of ANZ's securities.

Designated Disclosure Officers have responsibility for reviewing proposed disclosures and making decisions in relation to what information can be or should be disclosed to the market. Each ANZ employee is required to inform a Disclosure Officer regarding any potentially price-sensitive information concerning ANZ as soon as they become aware of it.

The Continuous Disclosure Oversight Sub-Committee also meets on a regular basis each quarter to overview the effectiveness of ANZ's systems and procedures for achieving compliance with applicable regulatory requirements in relation to the disclosure of price-sensitive information. This Sub-Committee reports to the Governance Committee of the Board on an annual basis.

In carrying out their role, the Disclosure Officers recognise ANZ's commitment to achieving best practice in terms of disclosure by acting in accordance with the spirit, intention and purposes of the applicable regulatory requirements and by looking beyond form to substance.

DONATIONS

During the year ended 30 September 2008, ANZ contributed over $10 million to charitable organisations. This included a contribution in excess of $3 million to key Financial Literacy and Inclusion partners together with whom ANZ has developed the successful MoneyMinded, Saver Plus and Progress Loans programs. The community partners deliver these programs in over 20 communities nationally, reaching over 45,000 people in the year ended 30 September 2008. For more information on this, go to www.anz.com/community. Financial Literacy and Inclusion is the key strategic focus for ANZ's community investment work, targeting especially the most vulnerable Australians who may be at risk of financial exclusion.

In addition, for the year to 30 September 2008, ANZ donated $50,000 to the Liberal Party and $50,000 to the Australian Labor Party.

Shareholder Information

Ordinary shares

At 7 October 2008, the twenty largest holders of ordinary shares held 1,082,202,140 ordinary shares, equal to 53.03% of the total issued ordinary capital.

Name	Number of shares	%
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	284,041,518	13.92
2. J P MORGAN NOMINEES AUSTRALIA LIMITED	250,281,276	12.26
3. NATIONAL NOMINEES LIMITED	235,282,402	11.53
4. ANZ NOMINEES LIMITED (CASH INCOME A/C)	62,287,665	3.05
5. CITICORP NOMINEES PTY LIMITED	57,246,270	2.81
6. COGENT NOMINEES PTY LIMITED	32,602,490	1.60
7. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (PIPOOLED A/C)	26,293,267	1.29
8. AMP LIFE LIMITED	21,785,483	1.07
9. QUEENSLAND INVESTMENT CORPORATION	19,246,821	0.94
10. UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	14,487,974	0.71
11. CITICORP NOMINEES PTY LIMITED (CFS WSLE GEARED SHR FND A/C)	12,982,106	0.64
12. CITICORP NOMINEES PTY LIMITED (CFS WSLE IMPUTATION FND A/C)	10,741,688	0.53
13. AUSTRALIAN REWARD INVESTMENT ALLIANCE	10,229,429	0.50
14. COGENT NOMINEES PTY LIMITED (SMP ACCOUNTS)	7,334,234	0.36
15. CITICORP NOMINEES PTY LIMITED (CFS IMPUTATION FND A/C)	7,317,762	0.36
16. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (BKCUST A/C)	6,626,836	0.32
17. UBS NOMINEES PTY LTD	6,359,986	0.31
18. ANZEST PTY LTD (DEFERRED SHARE PLAN A/C)	5,881,296	0.29
19. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3	5,610,952	0.27
20. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	5,562,685	0.27
Total	1,082,202,140	53.03

Distribution of shareholdings

At 7 October 2008 Range of shares	Number of holders	% of holders	Number of shares	% of shares
1 to 1,000	219,032	58.18	93,841,793	4.60
1,001 to 5,000	127,009	33.74	281,938,153	13.82
5,001 to 10,000	18,750	4.98	131,293,749	6.43
10,001 to 100,000	11,192	2.97	234,522,550	11.49
Over 100,000	463	0.13	1,299,080,218	63.66
Total	376,446	100.00	2,040,676,463	100.00

At 7 October 2008:

- there were no entries in the register of Substantial Shareholdings;
- the average size of holdings of ordinary shares was 5,421 (2007: 5,706) shares; and
- there were 10,095 holdings (2007: 5,322 holdings) of less than a marketable parcel (less than $500 in value or 28 shares based on the market price of $18.15), which is less than 2.69% of the total holdings of ordinary shares.

Voting rights of ordinary shares

The Constitution provides for votes to be cast:

i) on show of hands, 1 vote for each shareholder; and

ii) on a poll, 1 vote for each fully paid ordinary share.

ANZ Convertible Preference Shares (ANZ CPS)

At 7 October 2008, the twenty largest holders of ANZ CPS held 3,134,894 securities, equal to 28.99% of the total issued securities.

Name	Number of securities	%
1. UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	974,560	9.01
2. UBS NOMINEES PTY LTD	259,000	2.40
3. J P MORGAN NOMINEES AUSTRALIA LIMITED	257,309	2.38
4. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (MLCI A/C)	243,880	2.26
5. HARMAN NOMINEES PTY LTD (HARMAN FAMILY A/C)	200,000	1.85
6. UCA CASH MANAGEMENT FUND LTD	162,790	1.51
7. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	139,029	1.29
8. ANZ NOMINEES LIMITED (CASH INCOME A/C)	99,792	0.92
9. CITICORP NOMINEES PTY LIMITED	93,115	0.86
10. GILLMAN PTY LIMITED	89,000	0.82
11. NATIONAL NOMINEES LIMITED	85,658	0.79
12. NETWEALTH INVESTMENTS LIMITED (WRAP SERVICES A/C)	82,490	0.76
13. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	77,000	0.71
14. CITICORP NOMINEES PTY LIMITED (CFSIL CFS WS ENH YIELD A/C)	62,000	0.57
15. COGENT NOMINEES PTY LIMITED	60,650	0.56
16. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (NMSMT A/C)	56,211	0.52
17. BALLARD BAY PTY LTD (BALLARD BAY DISCRETIONARY AC)	50,000	0.46
18. SPINETTA PTY LTD	50,000	0.46
19. GOWING BROS LIMITED	48,000	0.45
20. WROXBY PTY LTD	44,410	0.41
Total	3,134,894	28.99

Distribution of ANZ CPS holdings

At 7 October 2008 Range of securities	Number of holders	% of holders	Number of securities	% of securities
1 to 1,000	11,364	91.73	3,452,255	31.93
1,001 to 5,000	840	6.78	2,034,425	18.82
5,001 to 10,000	104	0.84	881,480	8.15
10,001 to 100,000	74	0.60	2,207,396	20.42
Over 100,000	7	0.05	2,236,568	20.68
Total	12,389	100.00	10,812,124	100.00

At 7 October 2008: There were no holdings of less than a marketable parcel (less than $500 in value or 6 securities based on the market price of $98.00).

Voting rights of ANZ CPS

An ANZ CPS does not entitle its holder to vote at any general meeting of ANZ except in the following circumstances:

i) on any proposal to reduce ANZ's share capital, other than a resolution to approve a Redemption of the ANZ CPS;

ii) on a proposal that affects the rights attached to the ANZ CPS;

iii) on any resolution to approve the terms of a buy-back agreement, other than a resolution to approve a Redemption of ANZ CPS;

iv) on a proposal to wind up ANZ;

v) on a proposal for the disposal of the whole of ANZ's property, business and undertaking;

vi) on any matter during a winding up of ANZ; and

vii) on any matter during a period in which a Divided remains unpaid.

On a resolution or proposal on which an ANZ CPS holder is entitled to vote, the ANZ CPS holder has:

i) on a show of hands, one vote; and

ii) on a poll, one vote for each ANZ CPS held.

Employee shareholder information

At the Annual General Meeting in January 1994, shareholders approved an aggregate limit of 7% of all classes of shares and options, which remain subject to the rules of a relevant incentive plan, being held by employees and directors. At 30 September 2008 participants held 1.52% (2007: 1.81%) of the issued shares and options of ANZ under the following incentive plans:

ANZ Employee Share Acquisition Plan;

ANZ Employee Share Save Scheme;

ANZ Share Option Plan;

ANZ Directors' Share Plan; and

ANZ Directors' Retirement Benefit Plan.

Stock exchange listings

Australia and New Zealand Banking Group Limited's ordinary shares are listed on the Australian Securities Exchange and the New Zealand Stock Exchange.

The Group's other stock exchange listings include:

- Australian Securities Exchange – ANZ Convertible Preference Shares (ANZ CPS) [*Australia and New Zealand Banking Group Limited*]; senior and subordinated debt [*Australia and New Zealand Banking Group Limited*];
- Channel Islands Stock Exchange – Senior debt [*ANZ Jackson Funding 2 Limited, ANZ Jackson Funding 3 Limited and ANZ Jackson Funding 4 Limited*] and subordinated debt [*ANZ Jackson Funding PLC*]
- London Stock Exchange – Non-cumulative mandatory convertible stapled securities (UK Stapled Securities) [*Australia and New Zealand Banking Group Limited*]; and senior and subordinated debt [*Australia and New Zealand Banking Group Limited*];
- Luxembourg Stock Exchange – Subordinated debt [*Australia and New Zealand Banking Group Limited*]; and non-cumulative Trust Securities (Euro Trust Securities) [*ANZ Capital Trust III*];
- New Zealand Stock Exchange – Senior and subordinated debt and perpetual callable subordinated notes [*ANZ National Bank Limited*]; and
- Swiss Stock Exchange – Senior debt [*Australia and New Zealand Banking Group Limited and ANZ National (Int'l) Limited*].

American Depositary Receipts

Australia and New Zealand Banking Group Limited (ANZ) has American Depositary Receipts (ADRs) representing American Depositary Shares (ADSs) that are traded on the over-the counter ("OTC") securities market on the Pink Sheets electronic platform operated by Pink Sheets LLC in the United States under the ticker symbol: ANZBY and the CUSIP number: 05258304.

With effect from 23 July 2008, the ADR ratio changed from one ADS representing five ANZ ordinary shares to one ADS representing one ANZ ordinary share.

The Bank of New York Mellon Corporation ("BNY Mellon") is the Depositary for the Company's ADR program in the United States. Holders of the Company's ADRs should deal directly with BNY Mellon on all matters relating to their ADR holdings, by telephone on 1-888-269-2377 (for callers within the US), 1-212-815-3700 (for callers outside the US) or by email to shareowners@bankofny.com.

ANZ StEPS

ANZ Stapled Exchangeable Preferred Securities ("ANZ StEPS") were stapled securities with each security comprising a preference share in ANZ and an unsecured senior note issued by ANZ Holdings (New Zealand) Limited and were listed on the Australian Securities Exchange (ASX). All ANZ StEPS were converted into ANZ ordinary shares on 15 September 2008.

US Trust Securities

In November 2003, ANZ issued 1.1 million Fixed Rate Non-cumulative Trust Securities ("US Trust Securities") at an issue price of USD1,000 each in two tranches through ANZ Capital Trust I or ANZ Capital Trust II (formed in the State of Delaware). Each US Trust Security is a stapled security comprising a preference share in ANZ and an unsecured note issued by Samson Funding Limited. Prior to a conversion event, the preference share and note components of a US Trust Security cannot be separately traded. After 15 January 2010 and 15 December 2013, ANZ may redeem the USD350 million US Trust Securities issued through ANZ Capital Trust I and the USD750 million US Trust Securities issued through ANZ Capital Trust II respectively. If ANZ fails to redeem, the US Trust Securities may convert into ANZ ordinary shares at the discretion of the holder.

Euro Trust Securities

In December 2004, ANZ issued 500,000 Floating Rate Non-cumulative Trust Securities ("Euro Trust Securities") at an issue price of €1,000 each through ANZ Capital Trust III (formed in the State of Delaware). Each Euro Trust Security is a stapled security comprising a preference share in ANZ and an unsecured subordinated note issued by ANZ Jackson Funding PLC. The Euro Trust Securities are listed on the Luxembourg Stock Exchange. The unsecured subordinated notes are listed on the Channel Islands Stock Exchange. Prior to a conversion event, the preference share and subordinated note components of a Euro Trust Security cannot be separately traded.

UK Stapled Securities

In June 2007, ANZ issued 9,000 non-cumulative stapled securities ("UK Stapled Securities") at an issue price of £50,000 each. Each UK Stapled Security is a stapled security comprising a preference share in ANZ and an unsecured subordinated note issued by ANZ through its New York branch. The UK Trust Securities are listed on the London Stock Exchange. Prior to a conversion event, the preference share and subordinated note components of the UK Stapled Securities cannot be traded separately. The UK Stapled Securities will mandatorily convert into ANZ ordinary shares on 15 June 2012. However, the mandatory conversion is deferred for five years if the conversion conditions are not satisfied.

Convertible Notes

On 26 September 2008, ANZ through its New York branch issued 1,200 Convertible Notes at an issue price of $500,000 each. The Convertible Notes are perpetual, subordinated and non-cumulative, pay floating rate interest payments and will convert into ANZ ordinary shares on 28 September 2009 or each following quarterly interest payment date, at the holders option, or earlier following the occurrence of certain events. Subject to APRA approval, ANZ may redeem the Convertible Notes on any monthly interest payment date on or after 29 December 2008 or following the occurrence of certain events.

ANZ CPS

On 30 September 2008, ANZ issued 10,812,124 Convertible Preference Shares ("ANZ CPS") at an issue price of $100 each. ANZ CPS are floating-rate and non-cumulative and will mandatorily convert into ANZ ordinary shares on the Mandatory Conversion Date. However, ANZ may elect for a third party to purchase the ANZ CPS rather than delivering the ANZ ordinary shares issued on conversion to the holder. The ANZ CPS are listed on the Australian Securities Exchange. The Mandatory Conversion Date is 16 June 2014 or each following quarterly dividend payment date provided that all of the mandatory conversion conditions are satisfied.

Financial Report

Income statements for the year ended 30 September

Income statements for the year ended 30 September

	Note	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Interest income	3	32,604	26,210	23,634	17,809
Interest expense	4	(24,754)	(18,908)	(18,238)	(13,148)
Net interest income		7,850	7,302	5,396	4,661
Other operating income	3	3,948	3,779	4,437	3,735
Share of joint venture profit from ING Australia and ING New Zealand	3	143	172	–	–
Share of associates' profit	3	218	87	–	–
Operating income		12,159	11,340	9,833	8,396
Operating expenses	4	(5,696)	(4,953)	(4,300)	(3,623)
Profit before credit impairment and income tax		6,463	6,387	5,533	4,773
Provision for credit impairment	16	(1,948)	(522)	(1,573)	(344)
Profit before income tax		4,515	5,865	3,960	4,429
Income tax expense	6	(1,188)	(1,678)	(624)	(878)
Profit for the year		3,327	4,187	3,336	3,551
Comprising:					
Profit attributable to minority interests		8	7	–	–
Profit attributable to shareholders of the Company		3,319	4,180	3,336	3,551
Earnings per ordinary share (cents)					
Basic	8	170.4	224.1	n/a	n/a
Diluted	8	162.2	218.3	n/a	n/a
Dividend per ordinary share (cents)	7	136	136	136	136

The notes appearing on pages 64 to 175 form an integral part of these financial statements.

The results of 2008 include the following items:

- Gain arising from the allocation of shares in Visa Inc. measured at fair value ($248 million after tax, tax expense: $105 million), Company ($174 million after tax, tax expense: $105 million).
- Transformation costs associated with an organisational transformation ($152 million after tax, tax expense: $66 million), Company ($127 million after tax, tax expense: $54 million).
- An expense associated with a write-down of an intangible asset relating to Origin Australia, reflecting the winding back of the mortgage manager business model ($24 million loss after tax, tax expense $10 million), Group and Company.
- Additional adjustment relating to restatement of deferred tax assets following the change in New Zealand company tax rate ($1 million after tax) Company (nil).

The results of 2007 include the following items:

- Gain on sale of Fleet Partners Pty Limited and Truck Leasing Limited, including previously unrecognised capital losses on the buyback of TrUEPrs being applied against the gain following Australian Tax Office clearance ($195 million profit after tax, tax expense nil), Company (nil).
- Restatement of deferred tax assets following the announced change in New Zealand company tax rate which takes effect from 1 October 2008 ($24 million loss after tax), Company (nil).

Balance sheets as at 30 September

	Note	Consolidated 2008 $m	Consolidated 2007[3] $m	The Company 2008 $m	The Company 2007[3] $m
Assets					
Liquid assets	9	25,030	16,987	18,081	10,618
Due from other financial institutions	10	9,862	8,040	8,573	6,134
Trading securities[1]	11	15,177	15,167	12,846	13,359
Derivative financial instruments	12	36,941	22,204	33,298	21,370
Available-for-sale assets	13	17,480	14,006	15,103	11,383
Net loans and advances	14	335,187	288,879	236,757	198,643
Customers' liability for acceptances		15,297	14,536	15,262	14,523
Due from controlled entities		–	–	26,661	15,481
Shares in controlled entities	17	–	–	9,144	8,405
Shares in associates and joint venture entities	17	4,375	3,430	869	582
Current tax assets	18	809	160	680	–
Deferred tax assets	18	455	113	337	87
Goodwill and other intangible assets[2]	19	3,741	3,677	623	511
Other assets	20	5,078	4,081	3,352	2,284
Premises and equipment	21	1,592	1,493	1,005	739
Total assets		471,024	392,773	382,591	304,119
Liabilities					
Due to other financial institutions		20,092	19,116	18,001	17,240
Deposits and other borrowings	22	283,966	233,743	203,328	158,065
Derivative financial instruments	12	31,927	24,180	31,455	25,001
Liability for acceptances		15,297	14,536	15,262	14,523
Due to controlled entities		–	–	17,469	5,371
Current tax liabilities	23	61	628	2	587
Deferred tax liabilities	23	247	135	243	103
Payables and other liabilities	24	10,076	10,507	7,484	8,387
Provisions	25	1,217	1,021	908	710
Bonds and notes	26	67,323	54,075	52,071	43,157
Loan capital	27	14,266	12,784	12,776	11,886
Total liabilities		444,472	370,725	358,999	285,030
Net assets		26,552	22,048	23,592	19,089
Shareholders' equity					
Ordinary share capital	28	12,589	8,946	12,589	8,946
Preference share capital	28	871	871	871	871
Reserves	29	(742)	(889)	(75)	(164)
Retained earnings	29	13,772	13,082	10,207	9,436
Share capital and reserves attributable to shareholders of the Company		26,490	22,010	23,592	19,089
Minority interests	30	62	38	–	–
Total equity		26,552	22,048	23,592	19,089

Commitments (note 43)
Contingent liabilities, contingent assets and credit related commitments (note 44)

The notes appearing on pages 64 to 175 form an integral part of these financial statements.

1 Includes bills held in portfolio $3,736 million (September 2007: $2,305 million).
2 Excludes notional goodwill in equity accounted entities.
3 Prior period balances are reclassified in certain instances to aid comparability with current disclosures. The main reclassification is a transfer of $1.5 billion from Deposits and other borrowings to Due to other financial institutions for the Group and for the Company.

Statements of recognised income and expense for the year ended 30 September

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Items recognised directly in equity[1]				
Currency translation adjustments				
Exchange differences on translation of foreign operations taken to equity	393	(563)	254	(291)
Available-for-sale assets				
Valuation gain/(loss) taken to equity	(305)	109	(272)	100
Cumulative (gain)/loss transferred to the income statement	60	(14)	63	(4)
Transfer on step acquisition of associate	60	–	60	–
Cash flow hedges				
Valuation gain/(loss) taken to equity	(39)	74	(34)	40
Transferred to income statement for the year	(35)	(7)	5	–
Actuarial gain/(loss) on defined benefit plans	(79)	77	(60)	75
Adjustment on step acquisition of associate	1	–	–	–
Net (loss)/income recognised directly in equity	56	(324)	16	(80)
Profit for the year	3,327	4,187	3,336	3,551
Total recognised income and expense for the year	3,383	3,863	3,352	3,471
Total recognised income and expense for the year attributable to minority interests	8	7	–	–
Total recognised income and expense for the year attributable to shareholders of the Company	3,375	3,856	3,352	3,471

The notes appearing on pages 64 to 175 form an integral part of these financial statements.

1 These items are disclosed net of tax (refer note 6).

Cash flow statements for the year ended 30 September

	Note	Consolidated 2008 $m	Consolidated 2007[1] $m	The Company 2008 $m	The Company 2007[1] $m
Cash flows from operating activities					
Interest received		32,189	26,088	23,341	17,807
Dividends received		84	99	304	1,134
Fee income received		2,696	2,327	1,953	1,616
Other income received		692	136	70	671
Interest paid		(24,186)	(18,444)	(17,852)	(12,941)
Personnel expenses paid		(3,156)	(2,980)	(2,256)	(2,105)
Premises expenses paid		(465)	(418)	(324)	(284)
Other operating expenses paid		(1,284)	(1,174)	(1,101)	(915)
Net cash paid from settlement of derivatives		(1,628)	(2,154)	(796)	(963)
Income taxes paid					
Australia		(2,006)	(1,381)	(2,002)	(1,384)
Overseas		(464)	(500)	(38)	(58)
Goods and services tax paid		(10)	(11)	18	(1)
(Increase)/decrease in operating assets					
Liquid assets – greater than three months		(4,692)	(1,642)	(3,620)	(1,865)
Due from other financial institutions – greater than 3 months		(739)	(410)	(674)	(195)
Trading securities		31	(5,913)	501	(5,846)
Regulatory deposits		(232)	(54)	(134)	(31)
Loans and advances		(46,855)	(36,943)	(38,446)	(27,606)
Net intra-group loans and advances		–	–	2,222	(10,305)
Increase/(decrease) in operating liabilities					
Deposits and other borrowings		49,796	33,964	43,503	34,585
Due to other financial institutions		976	4,326	761	3,050
Payables and other liabilities		(1,189)	23	(2,513)	(11)
Net cash (used in)/provided by operating activities	37(a)	(442)	(5,061)	2,917	(5,647)
Cash flows from investing activities					
Net (increase)/decrease					
Available-for-sale assets					
Purchases		(30,228)	(13,215)	(28,555)	(10,652)
Proceeds from sale or maturity		26,914	9,701	25,189	7,770
Controlled entities and associates					
Purchased (net of cash acquired)		(450)	(1,450)	(291)	(549)
Proceeds from sale (net of cash disposed)		128	444	113	67
Premises and equipment					
Purchases		(559)	(409)	(396)	(356)
Proceeds from sale		98	79	10	7
Other assets		(1,101)	41	(1,000)	(20)
Net cash (used in)/provided by investing activities		(5,198)	(4,809)	(4,930)	(3,733)
Cash flows from financing activities					
Net increase/(decrease)					
Bonds and notes					
Issue proceeds		29,200	16,443	22,545	15,149
Redemptions		(21,091)	(7,622)	(17,319)	(7,499)
Loan capital					
Issue proceeds		3,823	3,013	2,851	2,691
Redemptions		(1,975)	(980)	(1,455)	(500)
Dividends paid		(46)	(1,958)	–	(1,921)
Share capital issues		67	132	67	132
Net cash provided by/(used in) financing activities		9,978	9,028	6,689	8,052
Net cash (used in)/provided by operating activities		(442)	(5,061)	2,917	(5,647)
Net cash (used in)/provided by investing activities		(5,198)	(4,809)	(4,930)	(3,733)
Net cash provided by/(used in) financing activities		9,978	9,028	6,689	8,052
Net increase/(decrease) in cash and cash equivalents		4,338	(842)	4,676	(1,328)
Cash and cash equivalents at beginning of year		19,074	20,344	12,040	13,570
Foreign currency translation on opening balances		75	(428)	440	(202)
Cash and cash equivalents at end of year	37(b)	23,487	19,074	17,156	12,040

The notes appearing on pages 64 to 175 form an integral part of these financial statements.

1 Comparative information has been restated to conform with current year's presentation.

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).

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.

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 portfoilo.

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.

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)).

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.

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[1]
AASB 3	AASB 3 Business Combinations (revised)	This standard makes changes to certain aspects of accounting for business combinations including: ▪ Transaction costs associated with a business combination are immediately expensed, unless the cost relates to issuing debt or equity securities; and ▪ 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. The potential impact of this revised Standard on the Company or the Group has not yet been determined.	1 October 2009
AASB 8	AASB 8 Operating Segments	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. 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.	1 October 2009
AASB 101	AASB 101 Presentation of Financial Statements (revised)	The main change made by this standard is the specification of a new structure for financial statements under which: ▪ 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"; ▪ 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 ▪ 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. 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.	1 October 2009

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[1]
AASB 127	AASB 127 Consolidated and Separate Financial Statements (revised)	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. 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. 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. 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.	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	This standard defines puttable instruments and requires puttable instruments with certain characteristics to be classified as equity. 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.	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

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[1]
AASB 2008-5	AASB 5	Non-Current Assets Held for Sale and Discontinued Operations	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.	1 October 2009
	AASB 7	Financial Instruments: Disclosures		
	AASB 101	Presentation of Financial Statements		
	AASB 102	Inventories		
	AASB 107	Cash Flow Statements		
	AASB 108	Accounting Policies, Changes in Accounting Estimates and Errors		
	AASB 110	Events after the Balance Sheet Date		
	AASB 116	Property, Plant and Equipment		
	AASB 118	Revenue		
	AASB 119	Employee Benefits		
	AASB 120	Accounting for Government Grants and Disclosure of Government Assistance		
	AASB 123	Borrowing Costs		
	AASB 127	Consolidated and Separate Financial Statements		
	AASB 128	Investments in Associates		
	AASB 129	Financial Reporting in Hyperinflationary Economies		
	AASB 131	Interests in Joint Ventures		
	AASB 132	Financial Instruments: Presentation		
	AASB 134	Interim Financial Reporting		
	AASB 136	Impairment of Assets		
	AASB 138	Intangible Assets		
	AASB 139	Financial Instruments: Recognition and Measurement		
	AASB 140	Investment Property		
	AASB 141	Agriculture		
	AASB 1023	General Insurance Contracts		
	AASB 1038	Life Insurance Contracts		
AASB 2008-6	AASB 1	First-time Adoption of Australian Equivalents to International Financial Reporting Standards	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. 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. No material impact on the Company or the Group is expected as a result of these amendments.	1 October 2009
	AASB 5	Non-current Assets Held for Sale and Discontinued Operations		

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[1]
AASB 2008-7	AASB 1 AASB 118 AASB 121 AASB 127 AASB 136	First-time Adoption of Australian Equivalents to International Financial Reporting Standards Revenue The Effects of Foreign Exchange Rates Consolidated and Separate Financial Statements Impairment of Assets	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. 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. 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. 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. Consequential amendments have also been made to AASB 121. The amendments are not expected to have a material impact on the Company or the Group. The Group monitors developments on the enablement of the formation of a non-operating holding company (NOHC).	1 October 2009
AASB 2008-8	AASB 139	Financial Instruments: Recognition and Measurement	This standard clarifies the effect of using options as hedging instruments and the circumstances in which inflation risks can be hedged. The above amendments are not expected to have a material impact as ANZ does not have hedges involving these types of items.	1 October 2009
AASB 1039	AASB 1039	Concise Financial Reports	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). The above amendments are not expected to have a material impact on ANZ as the Group no longer issues a concise financial report.	1 October 2009

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

2: Critical Estimates and Judgements Used in Applying Accounting Policies

The Group prepares its consolidated financial statements in accordance with policies which are based on Australian Accounting Standards (AAS), other authoritative accounting pronouncements of the Australian Accounting Standards Board (AASB), AASB Interpretations and the Corporations Act 2001. This involves the Group making estimates and assumptions that affect the reported amounts within the financial statements. Estimates and judgements are continually evaluated and are based on historical factors, including expectations of future events that are believed to be reasonable under the circumstances. All material changes to accounting policies and estimates and the application of these policies and judgements are approved by the Audit Committee of the Board.

A brief explanation of critical estimates and judgements, and their impact on the Group, follows:

Critical Accounting Estimates and Assumptions

Provisions for credit impairment

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

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

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

Individual provisioning is applied when the full collectibility of one of the Group's loans is identified as being doubtful.

Individual and collective provisioning is calculated using discounted expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are revised regularly to reduce any differences between loss estimates and actual loss experience.

Critical judgements in applying the entity's accounting policies

i) Special purpose and off-balance sheet entities

The 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, structured finance entities, and entities used to sell credit protection.

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

The Group does not consolidate SPEs that it does not control in accordance with the Group's policy outlined in note 1(A)(vii). As it can sometimes be difficult to determine whether the 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 Group is involved, the reason for their establishment, and the control factors associated with ANZ's interest in them. Although there may be some indicators of control, ANZ does not bear the majority of residual risks and rewards of the SPEs which are not consolidated.

Type of SPE	Reason for establishment	Control factors
Securitisation vehicles	Securitisation is a financing technique whereby assets are transferred to an SPE which funds the purchase by issuing securities. This enables ANZ (in the case where transferred assets originate within ANZ) or customers to increase diversity of funding sources.	ANZ may manage these securitisation vehicles, service assets in the vehicle or provide liquidity or other support. ANZ 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 ANZ except to the limited extent that ANZ provides arm's length services and facilities.
Structured finance entities	These entities are set up to assist the Group's Corporate Finance function with the structuring of client financing. The resulting lending arrangements are at arms length and ANZ typically has limited ongoing involvement with the entity.	ANZ may manage these vehicles, hold minor amounts of capital, provide financing or derivatives.
Credit protection	There is one special purpose entity in this category which was created to allow ANZ to purchase credit protection. The entity is not consolidated but has issued credit linked notes to the external market. This SPE is a collateralised debt obligation.	ANZ manages this vehicle and holds a small proportion of the most senior notes.

Refer to additional information in relation to special purpose and off-balance sheet entities in section 4 of the Financial Information (unaudited), page 185.

2: Critical Estimates and Judgements Used in Applying Accounting Policies (continued)

ii) Valuation of investment in ING Australia Limited (INGA)

The Group adopts the equity accounting method for its 49% interest in INGA. As at 30 September 2008, the Group's carrying value was $1,589 million (September 2007: $1,519 million).

An independent valuation of the investment was performed during the period, based on a stand alone market based assessment of economic value excluding the Group's specific synergies.

Management further reviewed the recoverable amount of the investment as at 30 September 2008, taking into account the annual independent valuation and the potential for reduction in business performance as a result of recent declines in global equity and property markets. This review concluded that the estimated recoverable amount of the investment exceeded its carrying amount, thus no impairment write-down was considered necessary.

Changes in the assumptions used in this review could materially impact the assessment of the estimated recoverable amount.

(iii) Valuation of investment in ING (NZ) Holdings Limited (ING NZ)

The Group adopts the equity accounting method of accounting for its 49% interest in ING NZ. As at 30 September 2008, the Group's carrying value was $178 million (September 2007: $162 million).

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

The Group obtained an independent valuation of ING NZ as at 30 September 2008. The valuation was based on a value-in-use methodology using a discounted cash flow approach. 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 carrying value of the Group's investment is considered recoverable and no impairment write-down is required.

iv) Significant Associates

The carrying values of all investments in associates (as disclosed in note 39) are subject to an annual recoverable amount test. This assessment involves ensuring that the investment's fair value less costs to sell or its value in use is greater than its carrying amount. Judgement is applied when determining the assumptions supporting these calculations.

Furthermore, at each reporting period, all investments are assessed against potential impairment indicators.

As at 30 September 2008, the Group reviewed all investments in associates against the following impairment indicators:

- actual financial performance against budgeted financial performance;
- any material unfavourable operational factors and regulatory factors;
- any material unfavourable economic outlook and market competitive factors;
- carrying value against market value (supported by third-party broker valuation); and
- carrying value against market capitalisation (for listed investments).

Where appropriate, additional potential impairment indicators are reviewed which are more specific to the respective investment.

Whilst the review of impairment indicators listed above revealed indicators of potential impairment primarily based on unfavourable economic and market conditions, no impairment write-downs were considered necessary for such investments on the basis that the recoverable amount exceeded the carrying amount.

v) Available-for-sale financial assets

The accounting policy for impairment of available-for-sale financial assets, as explained in note 1(E)(iii) requires the Group to assess whether there is objective evidence of impairment. This requires judgement when considering whether such evidence exists and if so, in reliably determining the impact of such events on the estimated cash flows of the asset.

vi) Financial Instruments at Fair Value

A significant portion of financial instruments are carried on the balance sheet at fair value. For some of these financial instruments, external references, such as a quoted price in an active market, are not available. In such instances, the reported amounts are based on measurements established using relevant valuation techniques. The extent of the usage of valuation techniques for financial instruments carried at fair value is disclosed in note 34(ii). Sensitivities of values to inputs, including management estimates, are disclosed in note 34(iii).

vii) Goodwill

The carrying value of goodwill is reviewed at each balance date and is written down, to the extent that it is no longer supported by probable future benefits.

Goodwill is allocated to cash-generating units (CGU) for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management reporting purposes.

Impairment testing of purchased goodwill is performed annually, or more frequently when there is an indication that the goodwill may be impaired, by comparing the recoverable amount of the CGU with the current carrying amount of its net assets, including goodwill. Where the current carrying value is greater than recoverable amount, a charge for impairment of goodwill will be recorded in the income statement.

As at 30 September 2008, the balance of goodwill recorded as an asset in ANZ National Bank Limited was $2,713 million (30 September 2007: $2,781 million). This represents the most significant component of the Group's goodwill balance.

In determining the recoverable amount of the CGU for testing of the goodwill in ANZ National Bank Limited, an independent valuation was obtained based on a capitalisation of earnings approach and a discounted cash flow approach. Under the capitalisation of earnings methodology, valuation multiples (such as the price to earnings (PE) ratio) observed from previous transactions in the banking sector and current price/cash earnings multiples from similar businesses are used to determine an appropriate price/earnings multiple for the CGU.

In determining an appropriate price multiple for the valuation, judgement is applied when assessing comparable companies and transactions, particularly with respect to the mix of business, geographic location, growth prospects, riskiness of future earnings and size of the overall business.

The results of the independent valuation carried out as at 30 September 2008 showed a fair value (less costs to sell) in excess of the then current carrying value for the CGU and hence the carrying value of the goodwill was not considered impaired.

3: Income

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Interest income				
Other financial institutions	535	488	435	373
Trading securities	1,125	955	940	749
Available-for-sale assets	1,008	629	863	498
Loans and advances	27,417	22,049	18,269	14,192
Acceptances	1,370	1,072	1,370	1,072
Other	1,149	1,017	709	586
	32,604	26,210	22,586	17,470
Controlled entities	–	–	1,048	339
Total interest income	32,604	26,210	23,634	17,809
Interest income is analysed by types of financial assets as follows:				
Financial assets not at fair value through profit or loss	31,446	25,255	22,668	17,060
Trading securities	1,125	955	940	749
Financial assets designated at fair value through profit or loss	33	–	26	–
	32,604	26,210	23,634	17,809
Other operating income				
Lending fees[1]	595	491	455	374
Non-lending fees and commissions arising from financial assets and liabilities not at fair value through profit or loss	166	150	153	139
Fee income on trust and other fiduciary activities	21	20	–	–
Other fees and commissions	2,130	1,956	1,472	1,340
	2,912	2,617	2,080	1,853
Controlled entities	–	–	248	178
Total fee and commission income	2,912	2,617	2,328	2,031
Fee and commission expense[2]	(256)	(237)	(186)	(168)
Net fee and commission income	2,656	2,380	2,142	1,863
Other income				
Net foreign exchange earnings	708	518	340	531
Net (losses)/gains from trading securities[3]	–	(47)	(26)	(21)
Net gains/(losses) from trading derivatives	344	405	164	126
Credit risk on derivatives	(721)	(45)	(718)	(45)
Movements on financial instruments measured at fair value through profit or loss[4]	348	100	342	80
Gain on Visa shares[5]	281	–	281	–
Gain on sale of Esanda Fleetpartners	–	195	–	–
Profit on sale of premises[6]	57	38	4	–
Stadium Australia income	19	38	–	–
Dividends received from controlled entities	–	–	1,805	1,134
Brokerage income	78	55	–	–
Other	178	142	103	67
Total other income	1,292	1,399	2,295	1,872
Total other operating income	3,948	3,779	4,437	3,735
Share of joint venture profit from ING Australia and ING (NZ) (refer note 40)	143	172	–	–
Share of associates' profit (refer note 39)[7]	218	87	–	–
Total share of joint venture and associates' profit	361	259		–
Total income[8]	36,913	30,248	28,071	21,544

1 Lending fees exclude fees treated as part of the effective yield calculation and included in interest income (refer note 1B(ii)).
2 Comprises interchange fees paid.
3 Does not include interest income.
4 Includes any fair value movements (excluding realised and accrued interest) on derivatives entered into to manage interest rate and foreign exchange risk on funding instruments, and not designated as accounting hedges, ineffective portions of cashflow hedges, and fair value movements in financial assets and liabilities designated at fair value.
The net gain on financial assets and liabilities designated at fair value was $251 million (2007: $127 million) for the Group and $235 million (2007: $125 million) for the Company.
5 Comprises gain arising from the allocation of shares in Visa Inc. measured at fair value. In addition, the Group has recognised a $72 million gain through its associate, Cards NZ Limited, on that associate's allocation of Visa Inc. shares (refer footnote 7 below).
6 Gross proceeds on sale of premises is $109 million (2007: $63 million).
7 September 2008 includes a $72 equity accounted gain arising from the allocation of shares in Visa Inc. through the Group's associate, Cards NZ Limited, on Visa shares in New Zealand.
8 Total income includes external dividend income of $44 million (2007: $99 million) for the Group and $20 million (2007: $1 million) for the Company.

4: Expenses

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Interest expense				
Financial institutions	965	962	854	854
Deposits	13,805	10,033	10,155	6,786
Borrowing corporations' debt	741	671	–	–
Commercial paper	1,653	1,210	603	394
Acceptances	1,183	915	1,183	915
Loan capital, bonds and notes	6,000	4,628	4,469	3,509
Other	407	489	302	386
	24,754	18,908	17,566	12,844
Controlled entities	–	–	672	304
Total interest expense	24,754	18,908	18,238	13,148
Interest expense is analysed by type of financial liabilities as follows:				
Financial liabilities not at fair value through profit or loss	23,626	18,036	17,929	12,801
Financial liabilities designated at fair value through profit or loss	1,128	872	309	347
	24,754	18,908	18,238	13,148
Operating expenses				
i) Personnel				
Employee entitlements and taxes	256	236	177	163
Salaries and wages	2,067	1,892	1,459	1,314
Superannuation costs – defined benefit plans (refer note 45)	5	11	–	6
Superannuation costs – defined contribution plans	208	180	166	139
Equity-settled share-based payments (refer note 46)	84	62	72	50
Temporary staff	148	131	112	94
Other	493	455	382	331
Total personnel expenses	3,261	2,967	2,368	2,097
ii) Premises				
Amortisation of leasehold improvements (refer note 21)	27	22	21	16
Depreciation of buildings and integrals (refer note 21)	22	22	4	4
Rent	305	254	213	169
Utilities and other outgoings	136	138	92	96
Other	24	26	19	19
Total premises expenses	514	462	349	304
iii) Computer				
Computer contractors	73	50	61	38
Data communication	69	71	46	44
Depreciation and amortisation[1]	208	208	175	174
Rentals and repairs	81	73	58	54
Software purchased	131	134	97	100
Software written-off	2	16	2	14
Other	45	41	18	13
Total computer expenses	609	593	457	437
iv) Other				
Advertising and public relations	182	157	125	97
Amortisation of other intangible assets (refer note 19)	7	6	5	4
Audit and other fees (refer note 5)	12	12	7	8
Depreciation of furniture and equipment (refer note 21)	66	57	54	44
Impairment of Intangible – Origin Australia	34	–	34	–
Freight and cartage	54	53	46	46
Loss on sale and write-off of equipment	22	3	21	2
Non-lending losses, frauds and forgeries	72	43	47	48
Postage and stationery	122	115	84	74
Professional fees	182	130	153	89
Telephone	58	55	30	27
Travel	169	152	118	102
Other	151	125	254	222
Total other expenses	1,131	908	978	763
v) Restructuring	181	23	148	22
Total operating expenses	5,696	4,953	4,300	3,623
Total expenses	30,450	23,861	22,538	16,771

1 Comprises software amortisation of $127 million (2007: $122 million), refer note 19, and computer depreciation of $81 million (2007: $86 million), refer note 21. The Company comprises software amortisation of $115 million (2007: $109 million), refer note 19, and computer depreciation of $60 million (2007: $65 million), refer note 21.

5: Compensation of Auditors

	Consolidated		The Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
KPMG Australia				
Audit or review of financial reports of the Company or Group entities	5,648	6,696	4,285	5,624
Other audit-related services[1]	2,415	2,210	1,637	1,575
Other assurance services[2]	198	110	198	110
Total	8,261	9,016	6,120	7,309
Overseas related practices of KPMG Australia				
Audit or review of financial reports of Group entities	3,131	2,678	752	584
Other audit-related services[1]	872	760	316	374
Other assurance services[2]	12	–	–	–
	4,015	3,438	1,068	958
Total compensation of auditors	**12,276**	**12,454**	**7,188**	**8,267**

Group policy allows KPMG Australia or any of its related practices to provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. These include regulatory and prudential reviews requested by the Company's regulators such as the Australian Prudential Regulation Authority (APRA). KPMG Australia or any of its related practices may not provide services that are perceived to be materially in conflict with the role of auditor. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work. However, non-audit services that are not perceived to be materially in conflict with the role of auditor may be provided by KPMG Australia or any of its related practices subject to the approval of the Audit Committee.

1 Includes prudential supervision reviews for central banks and work required for local statutory purposes.
2 Other assurance services comprises:

Consolidated	2008 $'000	2007 $'000
ANZ Nominees confirmation procedures	28	–
Due diligence agreed upon procedures	106	–
Trustee certification	6	–
Compliance testing for securitisation transaction	–	66
Training courses	70	44
Total	**210**	**110**

6: Current Income Tax Expense

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
(a) Income tax recognised in the Income Statement				
Tax expense/(income) comprises:				
Current tax expense/(income)	1,202	1,847	534	1,185
Adjustments recognised in the current year in relation to the current tax of prior years	1	(2)	–	(4)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(5)	(101)	97	(238)
Benefits arising from previously unrecognised tax losses, tax credits, or temporary differences of a prior period that is used to reduce:				
– current tax expense	(10)	(66)	(7)	(65)
Total income tax expense charged in the Income Statement	1,188	1,678	624	878
Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense charged in the Income Statement.				
Operating profit before income tax	4,515	5,865	3,960	4,429
Prima facie income tax expense at 30%	1,355	1,760	1,188	1,329
Change in income tax expense due to:				
Overseas tax rate differential	23	30	(2)	(2)
Rebateable and non-assessable dividends	(9)	(10)	(541)	(340)
Other non-assessable income	–	(3)	–	–
Profit from associated and joint venture entities	(112)	(75)	–	–
Recognition of previously unrecognised capital losses	–	(54)	–	(54)
Restatement of deferred tax balances for New Zealand tax rate change	(1)	24	–	–
Structured transaction	(90)	–	(90)	–
Foreign exchange translation of US Hybrid loan capital	–	–	38	(67)
Other	21	8	31	16
	1,187	1,680	624	882
Income tax (over) provided in previous years	1	(2)	–	(4)
Total income tax expense charged in the Income Statement	1,188	1,678	624	878
Effective Tax Rate	26.3%	28.6%	15.8%	19.8%
Australia	733	1,073	552	797
Overseas	455	605	72	81
(b) Income tax recognised directly in equity				
The following income tax amounts were charged directly to equity during the period	182	135	122	99

Tax consolidation

The Company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The Company is the head entity in the tax-consolidated group. Tax expense/income and deferred tax liabilities/assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group on a 'group allocation' basis. Current tax liabilities and assets of the tax consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the Company and the other members of the tax-consolidated group in accordance with the arrangement.

Members of the tax-consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its income tax payment obligations.

7: Dividends

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Ordinary dividends[1]				
Interim dividend	1,192	1,144	1,192	1,144
Final dividend[2]	1,381	1,267	1,381	1,267
Bonus option plan adjustment	(67)	(48)	(67)	(48)
Dividends on ordinary shares	2,506	2,363	2,506	2,363

1 Dividends are not accrued and are recorded when paid.
2 Proposed final dividend of $1,511 million for 2008, based on the forecast number of ordinary shares on issue at the dividend record date, is not included in the table above.

A final dividend of 74 cents, fully franked, is proposed to be paid on each fully paid ordinary share on 18 December 2008 (2007: final dividend of 74 cents, paid 21 December 2007, fully franked). The 2008 interim dividend of 62 cents, paid 1 July 2008, was fully franked (2007: interim dividend of 62 cents, paid 2 July 2007, fully franked).

The tax rate applicable to the franking credits attached to the 2008 interim dividend and to be attached to the proposed 2008 final dividend is 30% (2007: 30%).

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 September 2008 and 2007 were as follows:

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Paid in cash[1]	–	1,921	–	1,921
Satisfied by issue of shares[2]	2,506	442	2,506	442
	2,506	2,363	2,506	2,363

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Preference dividends				
Euro Trust Securities	46	37	–	–
Dividends on preference shares	46	37	–	–

1 During the year ended 30 September 2008, cash of $1,487 million was paid to shareholders who did not elect to participate in the dividend reinvestment plan or the bonus option plan. Cash of the same amount was received from the issue of shares pursuant to dividend reinvestment plan underwriting agreements. There was no net cash outflow to ANZ.
2 Includes shares issued to participating shareholders under the dividend reinvestment plan and shares issued in accordance with dividend reinvestment plan underwriting agreements.

Euro Trust Securities

On 13 December 2004, the Group issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ("Euro Trust Securities") at €1,0 00 each into the European market, raising €500 million ($871 million at the spot rate at the date of issue, net of issue costs). The Euro Trust Securities comprise 2 fully paid securities – an interest paying unsecured note issued by a United Kingdom subsidiary (ANZ Jackson Funding PLC) and a fully paid €1,000 preference share issued by the Company, which are stapled together and issued as a Euro Trust Security by ANZ Capital Trust III.

Distributions on Euro Trust Securities are non-cumulative and are payable quarterly in arrears (on 15 March, 15 June, 15 September, 15 December of each year) based upon a floating distribution rate equal to 3 month EURIBOR rate plus a 66 basis point margin. At each payment date the 3 month EURIBOR rate is reset for the next quarter. Dividends are not payable on a preference share while it is stapled to a note. If distributions are not paid on Euro Trust Securities, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or below the preference share component. (Refer to note 28 for further details.)

Dividend Franking Account

The amount of franking credits available to the Company for the subsequent financial year is $35 million (2007: $580 million) after adjusting for franking credits that will arise from the payment of tax on Australian profits for the 2008 financial year, $648 million of franking credits which will be utilised in franking the proposed 2008 final dividend and franking credits that may not be accessible by the Company at present.

Restrictions which Limit the Payment of Dividends

There are presently no significant restrictions on the payment of dividends from controlled entities to the Company. Various capital adequacy, liquidity, statutory reserve and other prudential requirements must be observed by certain controlled entities and the impact on these requirements caused by the payment of cash dividends is monitored.

There are presently no restrictions on payment of dividends by the Company. Reductions of shareholders' equity through payment of cash dividends is monitored having regard to the regulatory requirements to maintain a specified capital adequacy ratio.

7: Dividends (continued)

In particular, the Australian Prudential Regulation Authority (APRA) has advised that a bank under its supervision must consult with it before declaring a coupon payment on a Tier 1 instrument, including a dividend, if the bank has incurred a loss, or proposes to pay coupon payments on Tier 1 instruments (including dividends) which exceed the level of current year profits.

If any dividend, interest or redemption payments are not made, or other distributions are not paid, on the scheduled payment date or shares or other qualifying Tier 1 securities are not issued on the applicable conversion or redemption dates on the Group's Euro Trust Securities, US Trust Securities, UK Stapled Securities, ANZ Convertible Preference Shares and Convertible Notes in accordance with their terms, the Group may be restricted from declaring or paying any dividends or other distributions on ANZ ordinary shares and the Euro Trust Securities for up to 12 months from the date of non-payment or failure to issue. This restriction is subject to a number of exceptions.

Dividend Reinvestment Plan

During the year, 20,500,208 ordinary shares were issued at $27.33 per share and 22,046,238 ordinary shares at $20.82 to participating shareholders under the dividend reinvestment plan (2007: 3,613,226 ordinary shares at $28.25 per share, and 11,621,468 ordinary shares at $29.29 per share). All eligible shareholders can elect to participate in the dividend reinvestment plan. In addition, 28,270,906 ordinary shares were issued at $27.71 and 33,263,186 ordinary shares at $21.14 (2007: nil) to UBS Nominees Pty Ltd and a nominee of J P Morgan Australia Limited respectively in accordance with dividend reinvestment plan underwriting agreements.

A discount of 1.5% will be applied when calculating the "Acquisition Price" used in determining the number of ordinary shares to be provided under the dividend reinvestment plan and bonus option plan terms and conditions. This discount will apply in respect of the 2008 final dividend and will continue to apply to future dividends until such time as the Company announces otherwise.

For the 2008 final dividend, the "Pricing Period" under the dividend reinvestment plan and bonus option plan terms and conditions will be fifteen trading days commencing on and including 14 November 2008. For the 2008 final dividend, it is intended that a specified number of ordinary shares in respect of the balance of the dividend not reinvested by shareholders in the dividend reinvestment plan or foregone by shareholders under the bonus option plan, will be underwritten pursuant to an agreement with UBS AG, Australia Branch.

Bonus Option Plan

The amount of dividends paid during the year has been reduced as a result of certain eligible shareholders participating in the bonus option plan and foregoing all or part of their right to dividends. These shareholders were issued bonus shares.

During the year, 2,838,335 ordinary shares were issued under the bonus option plan (2007: 1,729,427 ordinary shares). Details of changes to the bonus option plan are described above in respect of the dividend reinvestment plan.

8: Earnings per Ordinary Share

	Consolidated 2008	Consolidated 2007
Basic earnings per share (cents)	170.4	224.1
Earnings reconciliation ($millions)		
Profit for the year	3,327	4,187
Less: profit attributable to minority interests	8	7
Less: preference share dividend paid	46	37
Earnings used in calculating basic earnings per share	3,273	4,143
Weighted average number of ordinary shares (millions)	1,921.1	1,848.5
Diluted earnings per share (cents)	162.2	218.3
Earnings reconciliation ($millions)		
Earnings used in calculating basic earnings per share	3,273	4,143
Add: US Trust Securities interest expense	41	44
Add: ANZ StEPS interest expense	55	50
Add: UK Hybrid interest expense	63	21
Add: Convertible Preference Shares interest expense	–	–
Add: Convertible Perpetual Notes interest expense	1	–
Earnings used in calculating diluted earnings per share	3,433	4,258
Weighted average number of ordinary shares (millions)		
Used in calculating basic earnings per share	1,921.1	1,848.5
Add: potential conversion of options to ordinary shares	6.7	15.2
weighted average number of convertible US Trust Securities at current market price	73.4	42.0
weighted average number of convertible ANZ StEPS securities	57.9	34.5
weighted average number of convertible UK Hybrid Securities	56.9	10.7
weighted average number of Convertible Preference Shares	0.2	–
weighted average number of Convertible Perpetual Notes	0.4	–
Used in calculating diluted earnings per share	2,116.6	1,950.9

The weighted average number of converted and lapsed options, weighted with reference to the date of conversion or lapse, and included in the calculation of diluted earnings per share is approximately 1 million.

9: Liquid Assets

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Coins, notes and cash at bankers	4,849	3,667	1,260	822
Money at call, bills receivable and remittances in transit	4,752	4,540	3,682	2,813
Other banks' certificates of deposit	9,740	4,679	7,450	3,159
Securities purchased under agreement to resell in less than three months	5,689	4,101	5,689	3,824
Total liquid assets	25,030	16,987	18,081	10,618
Maturity analysis based on original term to maturity				
Less than three months	15,645	12,307	10,133	6,701
More than three months	9,385	4,680	7,948	3,917
Total liquid assets	25,030	16,987	18,081	10,618

10: Due from Other Financial Institutions

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Maturity analysis based on original term to maturity				
Less than three months	7,842	6,767	7,023	5,339
More than three months	2,020	1,273	1,550	795
Total due from other financial institutions	9,862	8,040	8,573	6,134

11: Trading Securities

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Listed				
Other securities and equity securities	10	58	10	58
	10	58	10	58
Unlisted				
Commonwealth securities	71	556	71	556
Local, semi-government and other government securities	2,373	4,034	2,162	3,899
ANZ accepted bills	3,736	2,305	3,736	2,305
Other securities and equity securities	8,987	8,214	6,867	6,541
	15,167	15,109	12,836	13,301
Total trading securities	15,177	15,167	12,846	13,359

12: 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 Group's trading activities. Derivatives are also used to manage the 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 Group manages these risks in a consistent manner.

Types of derivative instruments

The principal foreign exchange rate contracts used by the 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 commodity contracts used by the Group are forward commodity contracts, commodity swaps and commodity options. Forward commodity contracts are agreements for the payment of the difference between a specified commodity price and a fixed rate on a notional volume of the commodity at a future date. 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. Commodity options provide the buyer with the right, but not the obligation, to exchange the difference between a specified commodity price and a fixed rate on a notional volume of the commodity at a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period. In certain circumstances the option premium is paid at the end of the option period.

The principal interest rate contracts used by the 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 credit contracts used by the Group are default swaps. Default swaps are contracts that provide for a specified payment to be made to the purchaser of the swap following a defined credit event.

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 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 income' in the period in which they occur.

Balance sheet risk management

The 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 income' in the period in which it occurs.

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

The tables on the following pages provide an overview of the Group's and the Company's foreign exchange rate, commodity, credit and interest rate derivatives. They include all trading and balance sheet risk management contracts. Notional principal amounts measure the amount of the underlying physical or financial commodity and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative. The 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.

12: Derivative Financial Instruments (continued)

		Fair value									
		Trading		Hedging						Total fair value of derivatives	
				Fair value		Cash flow		Net investment in foreign operations			
Consolidated at 30 September 2008	Notional principal amount $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	222,003	7,698	(7,956)	–	–	–	–	42	–	7,740	(7,956)
Swap agreements	205,894	15,940	(8,328)	727	(307)	–	–	–	–	16,667	(8,635)
Futures contracts	134	72	(17)	–	–	–	–	–	–	72	(17)
Options purchased	8,929	899	–	–	–	–	–	–	–	899	–
Options sold	17,761	–	(942)	–	–	–	–	–	–	–	(942)
Collateral	–	(4,400)	2,607	–	–	–	–	–	–	(4,400)	2,607
	454,721	20,209	(14,636)	727	(307)	–	–	42	–	20,978	(14,943)
Commodity contracts											
Derivative contracts	27,349	1,609	(1,692)	–	–	–	–	–	–	1,609	(1,692)
Interest rate contracts											
Forward rate agreements	150,302	31	(32)	–	–	2	–	–	–	33	(32)
Swap agreements	1,087,769	9,990	(10,253)	524	(812)	323	(343)	–	–	10,837	(11,408)
Futures contracts	92,841	1,712	(1,658)	–	–	86	(47)	–	–	1,798	(1,705)
Options purchased	23,156	225	–	–	–	–	–	–	–	225	–
Options sold	22,743	–	(115)	–	–	–	–	–	–	–	(115)
	1,376,811	11,958	(12,058)	524	(812)	411	(390)	–	–	12,893	(13,260)
Credit default swaps											
Structured credit derivatives purchased	12,455	1,212	–	–	–	–	–	–	–	1,212	–
Other credit derivatives purchased	14,414	201	(32)	–	–	–	–	–	–	201	(32)
Total credit derivatives purchased	26,869	1,413	(32)	–	–	–	–	–	–	1,413	(32)
Structured credit derivatives sold	14,060	–	(1,704)	–	–	–	–	–	–	–	(1,704)
Other credit derivatives sold	11,256	48	(296)	–	–	–	–	–	–	48	(296)
Total credit derivatives sold	25,316	48	(2,000)	–	–	–	–	–	–	48	(2,000)
	52,185	1,461	(2,032)	–	–	–	–	–	–	1,461	(2,032)
Total	1,911,066	35,237	(30,418)	1,251	(1,119)	411	(390)	42	–	36,941	(31,927)

12: Derivative Financial Instruments (continued)

Consolidated at 30 September 2007	Notional principal amount $m	Fair value – Trading – Assets $m	Fair value – Trading – Liabilities $m	Fair value – Hedging – Fair value – Assets $m	Fair value – Hedging – Fair value – Liabilities $m	Fair value – Hedging – Cash flow – Assets $m	Fair value – Hedging – Cash flow – Liabilities $m	Fair value – Hedging – Net investment in foreign operations – Assets $m	Fair value – Hedging – Net investment in foreign operations – Liabilities $m	Total fair value of derivatives – Assets $m	Total fair value of derivatives – Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	278,479	4,605	(6,570)	–	–	1	–	31	–	4,637	(6,570)
Swap agreements	141,881	6,259	(6,320)	440	(587)	–	–	–	–	6,699	(6,907)
Futures contracts	144	7	(6)	–	–	–	–	–	–	7	(6)
Options purchased	6,476	1,047	–	–	–	–	–	–	–	1,047	–
Options sold	9,718	–	(1,001)	–	–	–	–	–	–	–	(1,001)
Collateral	–	(1,875)	1,612	–	–	–	–	–	–	(1,875)	1,612
	436,698	10,043	(12,285)	440	(587)	1	–	31	–	10,515	(12,872)
Commodity contracts											
Derivative contracts	15,429	1,664	(1,600)	–	–	–	–	–	–	1,664	(1,600)
Interest rate contracts											
Forward rate agreements	137,039	13	(15)	–	–	2	–	–	–	15	(15)
Swap agreements	944,079	7,733	(7,902)	538	(284)	311	(114)	–	–	8,582	(8,300)
Futures contracts	96,815	961	(987)	–	–	18	(9)	–	–	979	(996)
Options purchased	26,621	142	–	–	–	–	–	–	–	142	–
Options sold	22,711	–	(115)	–	–	–	–	–	–	–	(115)
	1,227,265	8,849	(9,019)	538	(284)	331	(123)	–	–	9,718	(9,426)
Credit default swaps											
Structured credit derivatives purchased	10,976	152	–	–	–	–	–	–	–	152	–
Other credit derivatives purchased	10,970	71	(84)	–	–	–	–	–	–	71	(84)
Total credit derivatives purchased	21,946	223	(84)	–	–	–	–	–	–	223	(84)
Structured credit derivatives sold	10,976	–	(119)	–	–	–	–	–	–	–	(119)
Other credit derivatives sold	7,689	84	(79)	–	–	–	–	–	–	84	(79)
Total credit derivatives sold	18,665	84	(198)	–	–	–	–	–	–	84	(198)
	40,611	307	(282)	–	–	–	–	–	–	307	(282)
Total	1,720,003	20,863	(23,186)	978	(871)	332	(123)	31	–	22,204	(24,180)

12: Derivative Financial Instruments (continued)

		Fair value							
		Trading		Hedging				Total fair value of derivatives	
				Fair value		Cash flow			
The Company at 30 September 2008	Notional principal amount $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange contracts									
Spot and forward contracts	199,708	7,148	(7,759)	–	–	–	–	7,148	(7,759)
Swap agreements	213,523	14,973	(10,615)	523	(307)	–	–	15,496	(10,922)
Futures contracts	134	72	(17)	–	–	–	–	72	(17)
Options purchased	8,726	888	–	–	–	–	–	888	–
Options sold	17,574	–	(930)	–	–	–	–	–	(930)
Collateral	–	(3,909)	2,380	–	–	–	–	(3,909)	2,380
	439,665	19,172	(16,941)	523	(307)	–	–	19,695	(17,248)
Commodity contracts									
Derivative contracts	27,334	1,610	(1,697)	–	–	–	–	1,610	(1,697)
Interest rate contracts									
Forward rate agreements	57,827	19	(25)	–	–	2	–	21	(25)
Swap agreements	860,676	7,913	(8,123)	457	(292)	188	(224)	8,558	(8,639)
Futures contracts	75,807	1,699	(1,653)	–	–	86	(47)	1,785	(1,700)
Options purchased	22,922	168	–	–	–	–	–	168	–
Options sold	22,630	–	(114)	–	–	–	–`	–	(114)
	1,039,862	9,799	(9,915)	457	(292)	276	(271)	10,532	(10,478)
Credit default swaps									
Structured credit derivatives purchased	12,455	1,212	–	–	–	–	–	1,212	–
Other credit derivatives purchased	14,408	201	(32)	–	–	–	–	201	(32)
Total credit derivatives purchased	26,863	1,413	(32)	–	–	–	–	1,413	(32)
Structured credit derivatives sold	14,060	–	(1,704)	–	–	–	–	–	(1,704)
Other credit derivatives sold	11,256	48	(296)	–	–	–	–	48	(296)
Total credit derivatives sold	25,316	48	(2,000)	–	–	–	–	48	(2,000)
	52,179	1,461	(2,032)	–	–	–	–	1,461	(2,032)
Total	1,559,040	32,042	(30,585)	980	(599)	276	(271)	33,298	(31,455)

12: Derivative Financial Instruments (continued)

The Company at 30 September 2007	Notional principal amount $m	Fair value – Trading – Assets $m	Fair value – Trading – Liabilities $m	Fair value – Hedging – Fair value – Assets $m	Fair value – Hedging – Fair value – Liabilities $m	Fair value – Hedging – Cash flow – Assets $m	Fair value – Hedging – Cash flow – Liabilities $m	Total fair value of derivatives – Assets $m	Total fair value of derivatives – Liabilities $m
Foreign exchange contracts									
Spot and forward contracts	263,920	4,332	(6,115)	–	–	–	–	4,332	(6,115)
Swap agreements	164,933	7,078	(9,051)	356	(581)	–	–	7,434	(9,632)
Futures contracts	144	7	(6)	–	–	–	–	7	(6)
Options purchased	6,047	1,033	–	–	–	–	–	1,033	–
Options sold	9,481	–	(995)	–	–	–	–	–	(995)
Collateral	–	(1,419)	1,513	–	–	–	–	(1,419)	1,513
	444,525	11,031	(14,654)	356	(581)	–	–	11,387	(15,235)
Commodity contracts									
Derivative contracts	15,429	1,664	(1,600)	–	–	–	–	1,664	(1,600)
Interest rate contracts									
Forward rate agreements	85,748	11	(13)	–	–	2	–	13	(13)
Swap agreements	730,968	6,460	(6,542)	222	(176)	218	(72)	6,900	(6,790)
Futures contracts	81,560	957	(957)	–	–	18	(9)	975	(966)
Options purchased	26,568	124	–	–	–	–	–	124	–
Options sold	22,700	–	(115)	–	–	–	–	–	(115)
	947,544	7,552	(7,627)	222	(176)	238	(81)	8,012	(7,884)
Credit default swaps									
Structured credit derivatives purchased	10,976	152	–	–	–	–	–	152	–
Other credit derivatives purchased	10,948	71	(84)	–	–	–	–	71	(84)
Total credit derivatives purchased	21,924	223	(84)	–	–	–	–	223	(84)
Structured credit derivatives sold	10,976	–	(119)	–	–	–	–	–	(119)
Other credit derivatives sold	7,689	84	(79)	–	–	–	–	84	(79)
Total credit derivatives sold	18,665	84	(198)	–	–	–	–	84	(198)
	40,589	307	(282)	–	–	–	–	307	(282)
Total	1,448,087	20,554	(24,163)	578	(757)	238	(81)	21,370	(25,001)

12: Derivative Financial Instruments (continued)

Hedging Relationships

There are three types of allowable hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. Each type of hedging has specific requirements when accounting for the fair value changes in the hedging relationship. For details on the accounting treatment of each type of hedging relationship refer to note 1.

Fair value hedges

The risk being hedged in a fair value hedge is a change in the fair value of an asset or liability or unrecognised firm commitment that may affect the income statement. Changes in fair value might arise through changes in interest rates or foreign exchange rates. The 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. Where the hedged item is derecognised from the Group's balance sheet, the fair value adjustment is included in the income statement as 'other income' as a part of the gain or loss on disposal.

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Gain (loss) arising from fair value hedges				
Hedged item (attributable to the hedged risk only)	(566)	39	(1,176)	349
Hedging instrument	587	(35)	1,132	(353)

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 Group's cash flow hedges consist principally of interest rate swaps, forward rate agreements and foreign currency 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 Group primarily applies cash flow hedge accounting 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 hedging reserve which forms part of shareholders' equity. Amounts deferred in equity are recognised in the income statement in the period during which the hedged forecast transactions take place and is fully amortised when the hedging relationship matures. The schedule below shows the movements in the hedging reserve:

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Balance at start of year	153	227	80	40
Adjustment on adoption of AASB 2005-1[1]	–	(141)	–	–
Restated balance at start of year	153	86	80	40
Items recorded in net interest income	(53)	(10)	7	–
Tax effect of items recorded in the income statement	18	3	(2)	–
Valuation gain taken to equity	(56)	106	(49)	57
Tax effect of net gain on cash flow hedges	17	(32)	15	(17)
Closing Balance	79	153	51	80

1 All NZD revenue related cash flow hedging was de-designated at 30 September 2006. The amount deferred in the hedging reserve was transferred to retained earnings at 1 October 2006 on adoption of AASB 2005-1.

12: Derivative Financial Instruments (continued)

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

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Variable rate loan assets	289	(64)	221	(53)
Variable rate liabilities	(96)	135	(95)	79
Re-issuances of short term fixed rate liabilities	(114)	82	(75)	54
Total hedging reserve	79	153	51	80

The mechanics of hedge accounting results in the gain (or loss) in the 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.

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur which is anticipated to take place over the next 0–10 years (2007: 0–10 years).

All gains and losses associated with the ineffective portion of the hedging derivatives are recognised immediately as ‘other income’ in the income statement. Ineffectiveness recognised in the income statement in respect of cash flow hedges amounted to a $12 million gain for the Group (2007: $7 million gain) and a $9 million gain for the Company (2007: $4 million loss).

Hedges of net investment in foreign operations

In a hedge of a net investment in a foreign operation, the risk being hedged is the exposure to exchange differences arising on consolidation of foreign operations with a functional currency other than the Australian Dollar. Hedging is undertaken using forward foreign exchange contracts or by financing with borrowings in the same currency as the foreign functional currency involved.

Ineffectiveness arising from hedges of net investments in foreign operations and recognised as ‘other income’ in the income statement amounted to $4 million loss (2007: $1 million loss).

13: Available-for-sale Assets

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Listed				
Other government securities	165	208	165	208
Other securities and equity investments	2,686	2,992	1,748	2,601
Total listed	2,851	3,200	1,913	2,809
Unlisted				
Local and semi-government securities	2,602	1,791	2,602	1,791
Other government securities	957	652	39	73
Other securities and equity investments	10,352	7,659	9,831	6,006
Loans and advances	718	704	718	704
Total unlisted	14,629	10,806	13,190	8,574
Total available-for-sale assets	**17,480**	**14,006**	**15,103**	**11,383**

An impairment loss of $98 million was recognised in the Income Statement (2007: nil), refer note 16.

Available-for-sale assets by maturities

Based on remaining term to maturity at 30 September 2008

	Less than 3 months $m	Between 3 months and 12 months $m	Between 1 year and 5 years $m	Between 5 years and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Local and semi-government securities	2,431	171	–	–	–	–	2,602
Other government securities	1,086	27	9	–	–	–	1,122
Other securities and equity investments	5,689	4,369	1,886	101	524	469	13,038
Loans and advances	117	517	84	–	–	–	718
Total available-for-sale assets	9,323	5,084	1,979	101	524	469	17,480

13: Available-for-sale Assets (continued)

Based on remaining term to maturity at 30 September 2007

	Less than 3 months $m	Between 3 months and 12 months $m	Between 1 year and 5 years $m	Between 5 years and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Local and semi-government securities	1,791	–	–	–	–	–	1,791
Other government securities	617	186	20	–	–	37	860
Other securities and equity investments	5,882	577	3,096	72	574	450	10,651
Loans and advances	263	22	419	–	–	–	704
Total available-for-sale assets	8,553	785	3,535	72	574	487	14,006

14: Net Loans and Advances

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Overdrafts	8,915	9,724	7,017	7,835
Credit card outstandings	8,892	7,991	7,421	6,649
Term loans – housing	175,826	157,384	129,856	113,950
Term loans – non-housing	130,755	103,631	90,619	68,642
Hire purchase	11,174	10,255	1,262	1,196
Lease receivables (refer below)	2,234	2,214	1,015	973
Commercial bills	295	349	287	349
Other	2,592	1,300	2,226	828
Total gross loans and advances	340,683	292,848	239,703	200,422
Less: Provision for credit impairment (refer note 16)	(3,496)	(2,262)	(2,632)	(1,598)
Less: Unearned income	(2,600)	(2,277)	(508)	(348)
Add: Capitalised brokerage/mortgage origination fees	600	570	194	167
	(5,496)	(3,969)	(2,946)	(1,779)
Total net loans and advances	335,187	288,879	236,757	198,643
Lease receivables				
a) Finance lease receivables				
Gross finance lease receivables				
Less than 1 year	563	571	179	176
1 to 5 years	1,169	1,131	491	617
Later than 5 years	309	208	238	179
Less: unearned future finance income on finance leases	(273)	(238)	(158)	(121)
Net investment in finance lease receivables	1,768	1,672	750	851
b) Operating lease receivables				
Gross operating lease receivables				
Less than 1 year	48	179	17	–
1 to 5 years	107	124	65	1
Later than 5 years	38	1	25	–
	193	304	107	1
Total lease receivables	1,961	1,976	857	852
Present value of gross investment in finance lease receivables				
Less than 1 year	519	567	150	167
1 to 5 years	1,009	1,075	468	553
Later than 5 years	273	185	215	157
	1,801	1,827	833	877
Hire purchase receivables				
Less than 1 year	3,694	3,406	432	392
1 to 5 years	7,406	6,773	814	778
Later than 5 years	74	76	16	26
	11,174	10,255	1,262	1,196

15: Impaired Financial Assets

Presented below is a summary of impaired financial instruments that are measured on the balance sheet at amortised cost. For these items, impairment losses are recorded through the impairment allowance account. This contrasts to financial assets carried on the balance sheet at fair value, for which any impairment loss is recognised as a component of the overall fair value, and no impairment allowance account is used.

Detailed information on impaired financial assets is provided in Note 33 Financial Risk Management.

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Summary of impaired financial assets				
Non-performing loans	1,750	666	1,348	491
Restructured items[1]	846	–	846	–
Non-performing commitments and contingencies	77	36	72	31
Gross impaired financial assets	2,673	702	2,266	522
Individual provisions				
Non-performing loans	(646)	(261)	(459)	(172)
Non-performing commitments and contingencies	(29)	(9)	(29)	(9)
Net impaired financial assets	1,998	432	1,778	341
Accruing loans past due 90 days or more[2]				
These amounts 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 on an accrual basis for up to 180 days past due	1,060	561	758	429

1 Represents customer facilities which for reasons of financial difficulty have been re-negotiated on terms which the Bank considers as uncommercial but necessary in the circumstances, and are not considered non-performing. Includes both on and off balance sheet exposures.

2 Includes unsecured credit card and personal loans 90 day past due accounts which are allowed by APRA to be retained on a performing basis for up to 180 days past due amounting to $115 million (2007: $87 million) for the Group and $82 million (2007: $66 million) for the Company. The remainder of 90 day past due accounts are predominately held on an accrual basis having been assessed as well secured.

16: Provision for Credit Impairment

	Consolidated		The Company	
Provision movement analysis	2008 $m	2007 $m	2008 $m	2007 $m
New and increased provisions				
Australia	880	587	758	486
New Zealand	187	81	–	–
Asia	23	31	–	1
Other overseas markets	147	12	140	8
	1,237	711	898	495
Provision releases	(105)	(121)	(72)	(88)
	1,132	590	826	407
Recoveries of amounts previously written off	(100)	(151)	(63)	(115)
Individual provision charge	1,032	439	763	292
Impairment on available-for-sale assets	98	–	98	–
Collective provision charge	818	83	712	52
Charge to income statement	1,948	522	1,573	344

16: Provision for Credit Impairment (continued)

Movement in provision for credit impairment by financial asset class

Consolidated	Liquid assets and due from other financial institutions 2008 $m	2007 $m	Net loans and advances and acceptances 2008 $m	2007 $m	Other financial assets 2008 $m	2007 $m	Credit related commitments[1] 2008 $m	2007 $m	Total provision 2008 $m	2007 $m
Collective provision										
Balance at start of year	–	–	1,483	1,426	–	–	509	514	1,992	1,940
Provisions disposed	–	–	–	(4)	–	–	–	–	–	(4)
Adjustment for exchange rate fluctuations	–	–	4	(32)	–	–	7	5	11	(27)
Charge to income statement	–	–	575	93	–	–	243	(10)	818	83
Total collective provision	–	–	2,062	1,483	–		759	509	2,821	1,992
Individual provision										
Balance at start of year	–	–	261	280	–	–	9	6	270	286
Charge to income statement	–	–	1,012	434	–	–	20	5	1,032	439
Adjustment for exchange rate fluctuations	–	–	–	(15)	–	–	–	1	–	(14)
Discount unwind	–	–	(28)	(20)	–	–	–	–	(28)	(20)
Bad debts written off	–	–	(699)	(569)	–	–	–	(3)	(699)	(572)
Recoveries of amounts previously written off	–	–	100	151	–	–	–	–	100	151
Total individual provision	–	–	646	261	–	–	29	9	675	270
Total provision for credit impairment	–	–	2,708	1,744	–	–	788	518	3,496	2,262

The table below contains a detailed analysis of the movements in individual provision for Net loans and advances and acceptances.

Consolidated	Personal 2008 $m	2007 $m	Institutional 2008 $m	2007 $m	New Zealand Businesses 2008 $m	2007 $m	Asia Pacific 2008 $m	2007 $m	Other business units[2] 2008 $m	2007 $m	Less Institutional Asia Pacific 2008 $m	2007 $m	Net loans and advances and acceptances 2008 $m	2007 $m
Individual provision														
Balance at start of year	102	70	108	141	37	47	13	21	2	1	(1)	–	261	280
Charge to income statement	384	340	427	10	157	52	32	31	9	1	3	–	1,012	434
Adjustment for exchange rate fluctuations	(1)	1	6	(3)	(1)	(1)	(2)	(12)	(1)	–	(1)	–	–	(15)
Discount unwind	–	–	(23)	(17)	(5)	(3)	–	–	–	–	–	–	(28)	(20)
Bad debts written off	(404)	(380)	(162)	(84)	(95)	(75)	(28)	(30)	(9)	–	(1)	–	(699)	(569)
Recoveries of amounts previously written off	71	71	10	61	14	17	4	3	1	–	–	(1)	100	151
Total individual provision	152	102	366	108	107	37	19	13	2	2	–	(1)	646	261

1 Comprises undrawn facilities and customer contingent liabilities.
2 Other business units comprise ING Australia and Group Centre.

	Consolidated 2008 %	2007 %
Ratios		
Provision for credit impairment as a % of total advances		
Individual	0.2	0.1
Collective	0.8	0.7
Bad debts written off as a % of total advances	0.2	0.2

16: Provision for Credit Impairment (continued)

Movement in provision for credit impairment by financial asset class (continued)

The Company	Liquid assets and due from other financial institutions 2008 $m	Liquid assets and due from other financial institutions 2007 $m	Net loans and advances and acceptances 2008 $m	Net loans and advances and acceptances 2007 $m	Other financial assets 2008 $m	Other financial assets 2007 $m	Credit related commitments[1] 2008 $m	Credit related commitments[1] 2007 $m	Total provision 2008 $m	Total provision 2007 $m
Collective provision										
Balance at start of year	–	–	1,028	993	–	–	389	388	1,417	1,381
Provisions disposed	–	–	–	–	–	–	–	–	–	–
Adjustment for exchange rate fluctuations	–	–	7	(27)	–	–	8	11	15	(16)
Charge to income statement	–	–	484	62	–	–	228	(10)	712	52
Total collective provision	–	–	1,519	1,028	–	–	625	389	2,144	1,417
Individual provision										
Balance at start of year	–	–	172	178	–	–	9	7	181	185
Charge to income statement	–	–	743	287	–	–	20	5	763	292
Adjustment for exchange rate fluctuations	–	–	4	(4)	–	–	–	–	4	(4)
Discount unwind	–	–	(23)	(17)	–	–	–	–	(23)	(17)
Bad debts written off	–	–	(500)	(387)	–	–	–	(3)	(500)	(390)
Recoveries of amounts previously written off	–	–	63	115	–	–	–	–	63	115
Total individual provision	–	–	459	172	–	–	29	9	488	181
Total individual provision for credit impairment	–	–	1,978	1,200	–	–	654	398	2,632	1,598

The table below contains a detailed analysis of the movements in individual provision for Net loans and advances and acceptances.

The Company	Personal 2008 $m	Personal 2007 $m	Institutional 2008 $m	Institutional 2007 $m	Asia Pacific 2008 $m	Asia Pacific 2007 $m	Other business units[2] 2008 $m	Other business units[2] 2007 $m	Less Institutional Asia Pacific 2008 $m	Less Institutional Asia Pacific 2007 $m	Net loans and advances and acceptances 2008 $m	Net loans and advances and acceptances 2007 $m
Individual provision												
Balance at start of year	62	40	107	136	2	1	2	1	(1)	–	172	178
Charge to income statement	300	269	425	14	6	3	9	1	3	–	743	287
Adjustment for exchange rate fluctuations	(1)	1	5	(3)	2	(2)	(1)	–	(1)	–	4	(4)
Discount unwind	–	–	(23)	(17)	–	–	–	–	–	–	(23)	(17)
Bad debts written off	(323)	(303)	(162)	(83)	(5)	(1)	(9)	–	(1)	–	(500)	(387)
Recoveries of amounts previously written off	51	55	10	60	1	1	1	–	–	(1)	63	115
Total individual provision	89	62	362	107	6	2	2	2	–	(1)	459	172

1 Comprises undrawn facilities and customer contingent liabilities.
2 Other business units comprise ING Australia and Group Centre.

	The Company 2008 %	The Company 2007 %
Ratios		
Provision for credit impairment as a % of total advances		
Individual	0.2	0.1
Collective	0.8	0.7
Bad debts written off as a % of total advances	0.2	0.2

17: Shares in Controlled Entities, Associates and Joint Venture Entities

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Total shares in controlled entities	–	–	9,144	8,405
Total shares in associates[1] (refer note 39)	2,608	1,749	869	582
Total shares in joint venture entities[2] (refer note 40)	1,767	1,681	–	–
Total shares in controlled entities, associates and joint venture entities	4,375	3,430	10,013	8,987

1 Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.
2 Investments in joint venture entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

ACQUISITIONS OF CONTROLLED ENTITIES

There were no material controlled entities acquired during the year ended 30 September 2008.

On 23 February 2007, the Group obtained control of Stadium Australia Group, which owns the long-term leasehold of the Telstra Stadium in Sydney. The acquisition was executed through the Diversified Infrastructure Trust. Prior to this, the Group was the sole senior lender to, and a holder of convertible notes and stapled securities issued by Stadium Australia Group.

Stadium Australia Group contributed revenues of $35 million and net profit of $6 million to the Group for the period from 1 March 2007 to 30 September 2007. If the acquisition had occurred on 1 October 2006, consolidated revenue and consolidated profit for the year ended 30 September 2007 would have been $53 million and $9 million respectively.

In 2008, ANZ sold down its interest in the trust, and deconsolidated it from 1 March 2008 (refer page 98).

On 24 April 2007, the Group obtained a controlling interest in ETRADE Australia Limited (ETrade Australia), an online stockbroker. The Group has since obtained 100% ownership of the shares in ETrade Australia. Prior to this, the Group held a stake in the entity and accounted for it as an associate, applying the equity method of accounting.

ETrade Australia contributed revenues of $37 million and net profit of $9 million to the Group for the period from 1 May 2007 to 30 September 2007. If the acquisition had occurred on 1 October 2006, consolidated revenue and consolidated profit for the year ended 30 September 2007 would have been $95 million and $19 million respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the impact as if the fair value adjustments had applied from 1 October 2006 less the amount of the share of the associate's earnings actually recognised by the Group, together with the consequential tax effects.

In addition, the Group and the Company obtained controlling stakes in the following entities in 2007:

- Citizens Security Bank (CSB) – CSB is a community bank operating in Guam. In July 2007, the Group acquired 100% of CSB for $28 million.
- ANZ Vientiane Commercial Bank (VCB) – VCB is a commercial bank operating in Laos. In September 2007, the Group acquired 60% of VCB for $12 million.
- Rabinov Property Management Limited (Rabinov) – Rabinov is the manager and responsible entity of a listed diversified property trust.

The Company's investments in ETrade Australia, CSB, VCB and Rabinov are carried at cost. The Company, therefore, does not recognise goodwill separately.

17: Shares in Controlled Entities, Associates and Joint Venture Entities (continued)

Details of aggregate assets and liabilities of controlled entities acquired by the Group (Stadium Australia Group, ETrade Australia, CSB, VCB and Rabinov) and cost of acquisitions, for the purposes of measuring goodwill on acquisitions of controlled entities are as follows:

Consolidated at 30 September 2007	Acquiree's carrying amount $m	Fair value $m
Liquid assets and due from other financial institutions	131	131
Financial assets – trading and available-for-sale	335	335
Net loans and advances	106	106
Premises and equipment	162	217
Deferred tax assets	–	6
Intangible assets[1]	56	57
Other assets	41	41
Due to other financial institutions	(2)	(4)
Deposits and other borrowings[2]	(456)	(240)
Payables and other liabilities	(331)	(348)
Provisions and contingent liabilities	(2)	(2)
Deferred tax liabilities	(7)	(17)
Net assets	33	282

Goodwill calculation	$m
Net assets of acquired entities	282
Interest previously held	(23)
Minority interests	(5)
Net identifiable assets acquired	254
Cost of acquisition	
Cash paid	252
Equity instruments issued as purchase consideration	99
Loan receivable or other instruments existing on date of acquisition	179
Direct costs relating to acquisitions	6
Total cost of acquisitions	536
Goodwill	282

1 Fair value excludes $31 million of previously recognised goodwill of the acquiree, now included in total goodwill.
2 Included in deposits and other borrowings of acquiree were loans payable and other debt instruments held by the Group prior to acquisition. On acquisition these instruments are no longer financial assets of the Group. They have been treated as a cost of acquisition.

17: Shares in Controlled Entities, Associates and Joint Venture Entities (continued)

The fair value of assets and liabilities acquired are based on discounted cash flow models. No restructuring provisions were created. The acquired entities did not have significant contingent liabilities.

Of the total amount of goodwill on acquisition of $282 million recognised by the Group, $264 million relates to ETrade Australia.

Net cash consideration paid in acquisitions was as follows:

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Cash consideration paid and direct costs relating to acquisitions	10	258	6	229
Less: Balances acquired of cash and equivalents	–	(55)	–	(52)
Outflow of cash to acquire subsidiaries, net of cash acquired	10	203	6	177

DISPOSAL OF CONTROLLED ENTITIES

During January – March 2008, the Group progressively disposed of 46% of its investment in Diversified Infrastructure Trust (DIT). A principal investment held by DIT was in Stadium Australia Group, which owns the long-term leasehold of the ANZ Stadium in Sydney. Due to the distribution of voting power to non-ANZ unit holders, ANZ no longer holds a controlling interest and de-consolidated DIT from 1 March 2008. Subsequent to de-consolidation, and as of September 2008, ANZ treats the remaining holding as an investment in associate (refer to note 39 for further details).

On 31 October 2006, the controlled entities Fleet Partners Pty Limited and Truck Leasing Limited were sold.

Details of aggregate assets and liabilities of controlled entities disposed by the Group are as follows:

	Consolidated Carrying amount		The Company Carrying amount	
	2008 $m	2007 $m	2008 $m	2007 $m
Net loans and advances	–	1,420	n/a	n/a
Premises and equipment	200	2	n/a	n/a
Shares in controlled entities	–	–	174	–
Other assets, including allocated goodwill	150	25	n/a	n/a
Deposits and other borrowings	(123)	(1,239)	n/a	n/a
Payables and other liabilities	(50)	(63)	n/a	n/a
Provision for long-term employee benefits	–	(1)	n/a	n/a
	177	144	174	–
Less: Interest retained	(98)	–	(97)	–
Net assets disposed	79	144	77	–
Cash consideration received	81	377	81	–
Provisions for warranties and indemnities	–	(38)	–	–
Gain on disposal	2	195	4	–

Net proceeds received resulting in cash inflow for the Group was as follows:

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Cash consideration received and direct costs relating to disposals	81	377	81	–
Less: Balances of disposed cash and equivalents	–	–	–	–
Inflow of cash from disposals, net of cash disposed	81	377	81	–

18: Tax Assets

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Australia				
Current tax asset	680	–	680	–
Deferred tax assets	–	2	14	9
	680	2	694	9
New Zealand				
Current tax asset	129	160	–	–
Deferred tax assets	98	6	–	–
	227	166	–	–
Overseas Markets				
Current tax asset	–	–	–	–
Deferred tax assets	357	105	323	78
	357	105	323	78
Total current and deferred tax assets	1,264	273	1,017	87
Total current tax assets	809	160	680	–
Deferred tax assets recognised in profit and loss				
Collective provision for impaired loans and advances	850	600	650	429
Individual provision for impaired loans and advances	218	95	165	71
Deferred fee revenue	87	73	65	55
Provision for employee entitlements	130	119	99	86
Other provisions	288	182	187	127
Other	268	126	208	9
	1,841	1,195	1,374	777
Deferred tax assets recognised directly in equity				
Defined benefit obligations	47	19	40	21
Available-for-sale revaluation reserve	58	–	50	–
Foreign currency translation reserve	–	–	–	–
	105	19	90	21
Set-off of deferred tax assets pursuant to set-off provisions[1]	(1,491)	(1,101)	(1,127)	(711)
Net deferred tax assets	455	113	337	87

Unrecognised deferred tax assets

The following deferred tax assets will only be recognised if:

- assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised
- the conditions for deductibility imposed by tax legislation are complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

Unused realised tax losses (on revenue account)	7	17	–	7
Total unrecognised deferred tax assets	7	17	–	7

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.

19: Goodwill and Other Intangible Assets

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Goodwill				
Gross carrying amount				
Balance at start of year	3,126	2,900	–	–
Additions through business combinations	5	282	–	–
Writedown	(4)	–	–	–
Derecognised on disposal	–	(6)	–	–
Foreign currency exchange differences	(63)	(50)	–	–
Balance at end of year[1]	3,064	3,126	–	–
Software and other intangible assets				
Gross carrying amount				
Balance at start of year	1,222	987	1,087	888
Additions	–	2	–	2
Additions from internal developments	286	202	256	188
Additions through business combinations	–	55	–	33
Foreign currency exchange differences	(2)	(1)	(1)	(1)
Impairment	(59)	(23)	(59)	(23)
Balance at end of year	1,447	1,222	1,283	1,087
Accumulated amortisation and impairment				
Balance at start of year	671	550	576	469
Amortisation expense[2] (refer note 4)	134	128	120	113
Foreign currency exchange differences	1	(1)	–	–
Impairment	(36)	(6)	(36)	(6)
Balance at end of year	770	671	660	576
Net book value				
Balance at start of year	551	437	511	419
Balance at end of year	677	551	623	511
Goodwill, software and other intangible assets				
Net book value				
Balance at start of the year	3,677	3,337	511	419
Balance at end of the year[1]	3,741	3,677	623	511

1 Excludes notional goodwill in equity accounted entities.
2 Comprises software amortisation expense of $127 million (September 2007: $122 million) and amortisation of other intangible assets $7 million (September 2007: $6 million). The Company comprises software amortisation expense of $115 million (September 2007: $109 million) and amortisation of other intangible assets $5 million (September 2007: $4 million).

Goodwill allocated to cash-generating units

The goodwill balance above largely comprises the goodwill purchased on acquisition of NBNZ Holdings Limited in December 2003. Discussion of the goodwill and impairment testing for the cash generating unit containing this goodwill is included in note 2(vii).

20: Other Assets

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Accrued interest/prepaid discounts	1,819	1,626	1,329	1,052
Accrued commission	129	124	89	111
Defined benefit superannuation plan surplus (see note 45)	–	7	–	–
Prepaid expenses	111	97	55	41
Issued securities settlements	433	671	351	550
Operating leases residual value	185	201	5	–
Capitalised expenses	42	31	42	31
Other	2,359	1,324	1,481	499
Total other assets	5,078	4,081	3,352	2,284

21: Premises and Equipment

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Freehold and leasehold land and buildings				
At cost	640	838	97	95
Depreciation	(208)	(204)	(42)	(37)
	432	634	55	58
Leasehold improvements				
At cost	356	318	236	195
Amortisation	(202)	(193)	(127)	(106)
	154	125	109	89
Furniture and equipment				
At cost	938	843	725	641
Depreciation	(568)	(503)	(418)	(361)
	370	340	307	280
Computer equipment				
At cost	937	949	682	711
Depreciation	(722)	(720)	(527)	(540)
	215	229	155	171
Capital works in progress				
At cost	421	165	379	141
Total premises and equipment	1,592	1,493	1,005	739

21: Premises and Equipment (continued)

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

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Freehold and leasehold land and buildings[1]				
Carrying amount at beginning of year	634	437	58	44
Additions	82	45	2	21
Acquisitions	–	208	–	–
Disposals	(261)	(29)	(1)	(1)
Depreciation	(22)	(22)	(4)	(4)
Foreign currency exchange difference	(1)	(5)	–	(2)
Carrying amount at end of year	432	634	55	58
Leasehold improvements				
Carrying amount at beginning of year	125	95	89	66
Additions	55	57	41	40
Acquisitions	–	1	–	–
Disposals	(1)	(4)	(1)	(1)
Amortisation	(27)	(22)	(21)	(16)
Foreign currency exchange difference	2	(2)	1	–
Carrying amount at end of year	154	125	109	89
Furniture and equipment				
Carrying amount at beginning of year	340	267	280	206
Additions	100	138	85	121
Acquisitions	–	4	–	4
Disposals	(4)	(10)	(4)	(7)
Depreciation	(66)	(57)	(54)	(44)
Foreign currency exchange difference	–	(2)	-	–
Carrying amount at end of year	370	340	307	280
Computer equipment				
Carrying amount at beginning of year	229	218	171	169
Additions	66	100	43	66
Acquisitions	–	4	–	4
Disposals	(1)	(4)	–	(3)
Depreciation	(81)	(86)	(60)	(65)
Foreign currency exchange difference	2	(3)	1	–
Carrying amount at end of year	215	229	155	171
Capital works in progress				
Carrying amount at beginning of year	165	92	141	42
Net additions	256	73	238	99
Carrying amount at end of year	421	165	379	141
Total premises and equipment	1,592	1,493	1,005	739

1 Includes integrals.

22: Deposits and Other Borrowings

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Certificates of deposit	52,346	31,903	47,656	27,949
Term deposits	89,225	69,600	62,225	44,436
Other deposits bearing interest and other borrowings	100,575	95,074	79,098	74,471
Deposits not bearing interest	9,367	10,143	5,322	5,562
Commercial paper	22,422	16,914	9,027	5,647
Borrowing corporations' debt[1]	10,031	10,109	–	–
Total deposits and other borrowings	283,966	233,743	203,328	158,065

1 Included in this balance is debenture stock of controlled entities. $8.3 billion of debenture stock of the consolidated subsidiary company Esanda Finance Corporation Limited (Esanda), together with accrued interest thereon, is secured by a trust deed and collateral debentures, giving floating charges upon the undertaking and all the assets of the entity other than land and buildings ($13.9 billion). All controlled entities of Esanda (except for some controlled entities which have been placed or are expected to be placed in voluntary de-registration and have minimal book value) have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by Esanda. The only loans pledged as collateral are those in Esanda and its subsidiaries.

In addition, this balance also includes NZD1.7 billion of secured debenture stock of the consolidated subsidiary UDC Finance Limited (UDC) and the accrued interest thereon which are secured by a floating charge over all assets of UDC (NZD2.0 billion).

23: Income Tax Liabilities

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Australia				
Current tax payable	–	615	–	610
Deferred tax liabilities	–	20	–	–
	–	635	–	610
Overseas Markets				
Current tax payable	61	13	2	(23)
Deferred tax liabilities	247	115	243	103
	308	128	245	80
Total current and deferred income tax liability	308	763	245	690
Total current tax payable	61	628	2	587
Deferred tax liabilities recognised in profit and loss				
Lease Finance	234	217	114	80
Treasury instruments	637	148	658	157
Capitalised expenses	147	130	53	46
Other	674	609	524	452
	1,692	1,104	1,349	735
Deferred tax liabilities recognised directly in equity				
Cash flow hedges	31	66	21	34
Foreign currency translation reserve	15	21	–	–
Available-for-sale revaluation reserve	–	45	–	45
	46	132	21	79
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	(1,491)	(1,101)	(1,127)	(711)
Net deferred tax liability	247	135	243	103
Unrecognised deferred tax liabilities				
The following deferred tax liabilities have not been brought to account as liabilities:				
Other unrealised taxable temporary differences[2]	46	46	11	4
Total unrecognised deferred tax liabilities	46	46	11	4

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.
2 Represents additional potential foreign tax costs should all retained earnings in offshore branches and subsidiaries be repatriated.

24: Payables and Other Liabilities

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Creditors	3,441	5,021	3,025	4,431
Accrued interest and unearned discounts	3,563	2,809	2,561	2,001
Defined benefit plan obligations (see note 45)	154	75	132	75
Accrued charges	734	619	499	413
Security settlements	379	590	318	588
Other liabilities	1,805	1,393	949	879
Total payables and other liabilities	10,076	10,507	7,484	8,387

25: Provisions

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Employee entitlements[1]	444	400	340	299
Restructuring costs and surplus leased space[2]	183	37	155	32
Non-lending losses, frauds and forgeries[3]	169	186	140	138
Other[4]	421	398	273	241
Total provisions	1,217	1,021	908	710

Reconciliations of the carrying amounts of each class of provision, except for employee entitlements, are set out below:

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Restructuring costs and surplus leased space[2]				
Carrying amount at beginning of the year	37	74	32	61
Provision made during the year	185	43	153	40
Payments made during the year	(15)	(44)	(9)	(34)
Transfer/release of provision	(24)	(36)	(21)	(35)
Carrying amount at the end of the year	183	37	155	32
Non-lending losses, frauds and forgeries[3]				
Carrying amount at beginning of the year	186	187	138	125
Provision made during the year	37	79	15	69
Payments made during the year	(38)	(14)	(5)	(10)
Transfer/release of provision	(16)	(66)	(8)	(46)
Carrying amount at the end of the year	169	186	140	138
Other provisions[4]				
Carrying amount at beginning of the year	398	330	241	235
Provision made during the year	281	335	263	253
Payments made during the year	(186)	(204)	(183)	(197)
Transfer/release of provision	(72)	(63)	(48)	(50)
Carrying amount at the end of the year	421	398	273	241

1 The aggregate liability for employee benefits largely comprises employee entitlements provisions for annual leave and long service leave.
2 Restructuring costs and surplus leased space provisions arise from exit activities related to material changes in the scope of business undertaken by the Group or the manner in which that business is undertaken and includes termination benefits. Costs related to on-going activities are not provided for. Provision is made when the 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.
3 Non-lending losses, frauds and forgeries provisions arise from inadequate or failed internal processes and systems, or from external events.
4 Other provisions comprise various other provisions including loyalty programs, workers' compensation and make-good provisions on leased premises.

26: Bonds and Notes

		Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Bonds and notes by currency					
USD	United States dollars	24,783	20,306	15,940	14,570
GBP	Great British pounds	7,263	7,963	5,608	6,264
AUD	Australian dollars	2,984	1,300	2,934	1,300
NZD	New Zealand dollars	1,414	1,546	131	379
JPY	Japanese yen	5,644	1,395	4,853	1,307
EUR	Euro	17,365	13,664	15,479	11,816
HKD	Hong Kong dollars	3,230	3,301	2,975	2,921
CHF	Swiss francs	2,560	2,562	2,246	2,562
CAD	Canadian dollars	1,692	1,911	1,692	1,911
NOK	Norwegian krone	53	–	53	–
SGD	Singapore dollars	240	51	65	51
CZK	Czech koruna	95	76	95	76
Total bonds and notes		67,323	54,075	52,071	43,157

27: Loan Capital

				Interest rate %	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Hybrid loan capital (subordinated)								
ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS)[1]				BBSW + 1.00	–	1,000	–	1,000
US Trust Securities								
USD 350m non-cumulative trust securities due 2053				4.48	438	397	438	397
USD 750m non-cumulative trust securities due 2053				5.36	938	851	938	851
UK Stapled Securities				6.54	1,014	1,033	1,014	1,033
ANZ Convertible Preference Shares (ANZ CPS)				BBSW + 2.50	1,081	–	1,081	–
Convertible Notes (ANZ CN)				BBSW + 2.00	600	–	600	–
					4,071	3,281	4,071	3,281
Perpetual subordinated notes								
USD	300m	floating rate notes		LIBOR + 0.15	375	340	375	340
AUD	350m	floating rate notes		BBSW + floating margin	–	350	–	350
NZD	835m	fixed rate notes[5]		9.66	700	–	–	–
					1,075	690	375	690
Subordinated notes[4]								
USD	1.8m	floating rate notes due 2007		LIBOR + 0.50	–	2	–	2
JPY	192.8m	floating rate notes due 2007		LIBOR + 0.50	–	2	–	2
USD	4.1m	floating rate notes due 2008		LIBOR + 0.50	–	5	–	5
JPY	236.2m	floating rate notes due 2008		LIBOR + 0.55	–	2	–	2
USD	79m	floating rate notes due 2008		LIBOR + 0.53	12	90	12	90
AUD	400m	floating rate notes due 2010		BBSW + 0.29	400	400	400	400
USD	550m	floating rate notes due 2013[2]		LIBOR + 0.55	–	624	–	624
NZD	100m	fixed notes due 2013[2]		6.46	–	86	–	–
EUR	300m	floating rate notes due 2013[2]		EURIBOR + 0.375	–	482	–	482
AUD	380m	floating rate notes due 2014[2]		BBSW + 0.41	380	380	380	380
AUD	350m	fixed notes due 2014[3]		6.50	350	350	350	350
USD	400m	floating rate notes due 2015[2]		LIBOR + 0.20	500	454	500	454
AUD	300m	fixed notes due 2015[3]		6.00	297	289	297	289
GBP	200m	fixed notes due 2015[2]		5.625	446	452	446	452
EUR	500m	fixed notes due 2015[3]		4.45	892	798	892	798
USD	250m	floating rate notes due 2016		LIBOR + 0.21	313	283	313	283
AUD	300m	fixed notes due 2016[3]		6.25	298	298	298	298
AUD	300m	floating rate notes due 2016[2]		BBSW + 0.22	300	300	300	300
GBP	250m	fixed notes due 2016[3]		4.75	555	552	555	552
NZD	350m	fixed notes due 2016[3]		7.16	293	299	–	–
AUD	350m	fixed notes due 2017		6.50	349	349	349	349
AUD	350m	floating rate notes due 2017		BBSW + 0.24	350	350	350	350
AUD	100m	fixed notes due 2017		7.30	100	100	100	100
AUD	100m	floating rate notes due 2017		BBSW + 0.4	100	100	100	100
GBP	175m	fixed notes due 2017		6.38	403	400	403	400
NZD	250m	fixed notes due 2017		7.60	204	214	–	–
NZD	350m	fixed notes due 2017		8.23	293	299	–	–
GBP	400m	fixed notes due 2018[3]		4.75	821	853	821	853
AUD	290m	fixed rate notes due 2017[3]		7.75	289	–	289	–
AUD	210m	floating rate notes due 2017[2]		BBSW + 0.75	210	–	210	–
AUD	100m	floating rate notes due 2017[2]		BBSW + 0.70	100	–	100	–
AUD	365m	floating rate notes due 2018[2]		BBSW + 1.20	365	–	365	–
AUD	500m	floating rate notes due 2018[2]		BBSW + 2.05	500	–	500	–
					9,120	8,813	8,330	7,915
Total loan capital					14,266	12,784	12,776	11,886
Loan capital by currency								
AUD	Australian dollars				6,069	4,266	6,069	4,266
NZD	New Zealand dollars				1,490	898	–	–
USD	United States dollars				2,576	3,046	2,576	3,046
GBP	Great British pounds				3,239	3,290	3,239	3,290
EUR	Euro				892	1,280	892	1,280
JPY	Japanese yen				–	4	–	4
					14,266	12,784	12,776	11,886

1 On 15 September 2008 the security was converted to ordinary shares in accordance with the terms of the security.
2 Callable five years prior to maturity.
3 Callable five years prior to maturity and reverts to floating rate if not called.
4 Included within the carrying amount are, where appropriate, revaluations associated with fair value hedge accounting or an election to fair value the note through the income statement.
5 Fixed until the first call date, 18 April 2013, whereupon the rate resets to the Five Year Swap Rate +2.00, if not called and remains fixed until the next call date, 18 April 2018 whereupon reverts to floating at the Three month FRA rate +3.00 and is calculable quarterly thereafter.

Loan capital is subordinated in right of payment to the claims of depositors and all other creditors of the Company and its controlled entities which have issued the notes. The loan capital, except for the ANZ StEPS, US Trust Securities, UK Stapled Securities, ANZ CPS and ANZ CN constitutes Tier 2 capital as defined by APRA for capital adequacy purposes. ANZ StEPS, US Trust Securities and ANZ CN constitute non-innovative Tier 1 capital, as defined by APRA, for capital adequacy purposes. UK Stapled Securities and ANZ CPS constitute non-innovative Tier 1 capital, as defined by APRA, for capital adequacy purposes.

27: Loan Capital (continued)

ANZ STAPLED EXCHANGEABLE PREFERRED SECURITIES (ANZ STEPS)

On 23 September 2003, the Company issued 10 million ANZ StEPS at $100 each pursuant to a prospectus dated 14 August 2003 raising $1 billion (excluding issue costs of $13 million: net raising $987 million). ANZ StEPS comprised two fully paid securities – an interest paying unsecured note (issued by ANZ Holdings (New Zealand) Limited, a New Zealand subsidiary of the Company) stapled to a fully paid $100 preference share (issued by the Company).

All ANZ StEPS were converted to ordinary shares on 15 September 2008.

US TRUST SECURITIES

On 27 November 2003, the Company issued 1.1 million USD non-cumulative Trust Securities ("US Trust Securities") at USD1000 each pursuant to an offering memorandum dated 19 November 2003 raising USD1.1 billion. US Trust Securities comprise two fully paid securities – an interest paying unsecured note (issued by Samson Funding Limited, a wholly owned NZ subsidiary of the Company) and a fully paid USD1,000 preference share (issued by the Company), which are stapled together and issued as a US Trust Security by ANZ Capital Trust I or ANZ Capital Trust II (the "Trusts"). Investors have the option to redeem the US Trust Security from the Trusts and hold the underlying stapled security.

The issue was made in two tranches:

- USD350 million tranche with a coupon of 4.48% and was issued through ANZ Capital Trust I. After 15 January 2010 and at any coupon date thereafter, ANZ has the discretion to redeem the US Trust Security for cash. If it does not exercise this discretion, the investor is entitled to require ANZ to exchange the US Trust Security into a number of ordinary shares based on the formula in the offering memorandum.
- USD750 million tranche with a coupon of 5.36% and was issued through ANZ Capital Trust II. It has the same conversion features as the USD350 million tranche but from 15 December 2013.

Distributions on US Trust Securities are non-cumulative and are payable half yearly in arrears and are funded by payments received by the respective Trusts on the underlying note. Distributions are subject to certain payment tests (i.e. APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 June and 15 December of each year. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on the US Trust Securities, the Group may not pay dividends or distributions, or return capital on ANZ ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time in the Company's discretion or upon the occurrence of certain other "conversion events", such as the failure of the respective Trust to pay in full a distribution within seven business days of the relevant distribution payment date, the notes that are represented by the relevant US Trust Securities will be automatically assigned to a subsidiary of the Company and the preference shares that are represented by the relevant US Trust Securities will be distributed to investors in redemption of such US Trust Securities. The distributed preference shares will immediately become dividend paying and holders will receive non-cumulative dividends equivalent to the scheduled payments in respect of the US Trust Securities for which the preference shares were distributed. If the US Trust Securities are not redeemed or bought back prior to the 15 December 2053, they will be converted into preference shares, which in turn will be mandatorily converted into a variable number of ordinary shares based upon the formula in the offering memorandum.

The preference shares forming part of the US Trust Securities rank equal to the preference shares issued in connection with the UK Stapled Securities, ANZ CPS, ANZ CN and Euro Trust Securities in all respects. Except in limited circumstances, holders of US Trust Securities do not have any right to vote in general meetings of the Company.

On winding up of the Company, the rights of US Trust Security holders will be determined by the preference share component of US Trust Security. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

The US Trust Securities qualify as Innovative Tier 1 capital as defined by APRA.

UK STAPLED SECURITIES

On 15 June 2007, the Company issued 9,000 non-cumulative, mandatory convertible stapled securities ("UK Stapled Securities") at £50,000 each pursuant to a prospectus dated 12 June 2007 raising £450 million. UK Stapled Securities comprise two fully paid securities – an interest paying unsecured subordinated £50,000 note issued by the Company through its New York Branch and a £50,000 preference share issued by the Company, which are stapled together.

Distributions on UK Stapled Securities are non-cumulative and are payable half yearly in arrears at a fixed rate of 6.54% (until converted into ordinary shares or the rate is reset as provided in the prospectus). Distributions are subject to certain payment tests (including APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 June and 15 December of each year. Dividends are not payable on a preference share while it is stapled to a note. If distributions are not paid on UK Stapled Securities, the Group may not pay dividends or distributions, or return capital, on ANZ ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time in the Company's discretion or upon the occurrence of certain other events, such as the commencement of proceedings for the winding up of the Company, the note component of the UK Stapled Security will be assigned to the Company and the holder will retain only the preference share component of the UK Stapled Security.

On 15 June 2012 ("conversion date"), or an earlier date under certain circumstances, UK Stapled Securities will mandatorily convert into a variable number of ordinary shares in the Company determined in accordance with the formula in the prospectus. The mandatory conversion to ordinary shares is however deferred for five years if the conversion tests set out in the prospectus are not met.

The preference shares forming part of the UK Stapled Securities rank equally with the preference shares issued in connection with US Trust Securities, ANZ CPS, ANZ CN and Euro Trust Securities. Except in limited circumstances, holders of UK Stapled Securities do not have any right to vote in general meetings of the Company.

As noted above, in a winding up of the Company, the note component of the UK Stapled Security will be assigned to the Company and the holder will retain only the preference share component of the UK Stapled Security. Accordingly, the rights of investors in UK Stapled Securities in a winding up of the Company are the rights conferred by the preference share component of UK Stapled Securities. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

The UK Stapled Securities qualify as Non-innovative Tier 1 capital as defined by APRA.

27: Loan Capital (continued)

ANZ CONVERTIBLE PREFERENCE SHARES (ANZ CPS)

On 30 September 2008, the Company issued 10.8 million ANZ CPS at $100 each pursuant to a prospectus dated 4 September 2008 raising $1,081 million (excluding issue costs of $13 million: net raising of $1,068 million). ANZ CPS are fully-paid, preferred, non-cumulative mandatorily convertible preference shares. ANZ CPS are listed on the Australian Stock Exchange.

Distributions on ANZ CPS are non-cumulative and are payable quarterly in arrears on each 15 December, 15 March, 15 June, 15 September and will be franked in line with the franking applied to the ordinary shares. The distribution will be based on a floating distribution rate equal to the aggregate of the 90 day bank bill rate plus a 250 basis point margin, multiplied by one minus the Australian tax rate. At each quarter, the 90 day bank bill rate is reset for the next quarter. Should the distribution not be fully franked, the terms of the security provide for a cash gross up for the amount of the franking benefit not provided. Distributions are subject to the absolute discretion of the Board of Directors of the Company and certain payment tests (including APRA requirements and distributable profits being available). If distributions are not paid on ANZ CPS, the Group may not pay dividends or distributions, or return capital on ANZ ordinary shares or any other share capital or security ranking equal or junior to the ANZ CPS.

On 16 June 2014 (the 'conversion date'), or an earlier date under certain circumstances, ANZ CPS will mandatorily convert into a variable number of ordinary shares in the Company determined in accordance with the formula in the prospectus based on $100 divided by the average market price of ordinary shares over a 20 day trading period ending at the conversion date less a 2.5% discount. The mandatory conversion to ordinary shares is however deferred for a quarter if the conversion tests set out in the prospectus are not met.

The ANZ CPS rank equally with the ANZ CNs and the preference shares issued in connection with US Trust Securities, UK Stapled Securities and Euro Trust Securities. Except in limited circumstances, holders of ANZ CPS do not have any right to vote in general meeting of the Company.

In a winding up of the Company, the ANZ CPS rank behind all depositors and creditors, but ahead of ordinary shareholders.

ANZ CPS qualify as Non-innovative Residual Tier 1 capital as defined by APRA.

CONVERTIBLE NOTES (ANZ CN)

On 26 September 2008, the Company issued 1,200 ANZ CN at $500,000 each ('face value') raising $600 million. ANZ CN are perpetual, subordinated, unsecured, interest bearing convertible notes issued by the Company through its New York Branch.

Distributions on ANZ CN are non-cumulative and are payable monthly in arrears. The distribution will be based on a floating distribution rate equal to the 30 day bank bill rate plus a 200 basis point margin. Distributions are subject to certain payment tests (including APRA requirements and distributable profits being available). If distributions are not paid on ANZ CN, the Group may not pay dividends or distributions, or return capital on ANZ ordinary shares or any other share capital or security ranking equal or junior to the ANZ CN.

On 26 September 2009, and on each 3rd interest payment date thereafter (the 'conversion dates'), or an earlier date under certain circumstances, ANZ CN holders have the option to request conversion into a variable number of ordinary shares in the Company determined in accordance with the formula in the notes terms based on $500,000 divided by the average market price of ordinary shares over a 15 day trading period ending at the conversion date less a 1% discount.

ANZ has call rights for face value on various dates including interest payment dates or if the holders request conversion to ordinary shares. Call rights require APRA's prior written approval.

The ANZ CN rank equally with the preference shares issued in connection with US Trust Securities, UK Stapled Securities, ANZ CPS and Euro Trust Securities. Except in limited circumstances, holders of ANZ CN do not have any right to vote in general meeting of the Company.

In a winding up of the Company, the ANZ CN rank behind all depositors and creditors, but ahead of ordinary shareholders.

ANZ CN qualify as Innovative Tier 1 capital as defined by APRA.

28: Share Capital

Number of issued shares	The Company 2008	2007
Ordinary shares each fully paid	2,040,656,484	1,864,678,820
Preference shares each fully paid	500,000	500,000
Total number of issued shares	2,041,156,484	1,865,178,820

ORDINARY SHARES

Ordinary shares have no par value and entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of the shares held.

On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

Number of issued shares	The Company 2008	2007
Balance at start of year	1,864,678,820	1,836,572,115
Bonus option plan[1]	2,838,335	1,729,427
Dividend reinvestment plan[1]	42,546,446	15,234,694
DRP underwriting	61,534,092	–
ANZ employee share acquisition plan	2,975,312	–
ANZ share option plan[2]	4,115,132	7,840,564
Conversion of StEPS	61,968,347	–
Consideration for purchase of ETrade Australia	–	3,302,020
Balance at end of year	2,040,656,484	1,864,678,820

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Ordinary share capital				
Balance at start of year	8,946	8,271	8,946	8,271
Dividend reinvestment plan[1]	1,019	442	1,019	442
DRP underwriting	1,487	–	1,487	–
ANZ employee share acquisition plan[2]	80	57	80	57
Treasury shares[3,4]	(10)	(55)	(10)	(55)
ANZ share option plan[2]	67	132	67	132
Conversion of StEPS	1,000	–	1,000	–
Consideration for purchase of ETrade Australia	–	99	–	99
Balance at end of year	12,589	8,946	12,589	8,946

1 Refer to note 7 for details of plan.
2 Refer to note 46 for details of plan.
3 On-market purchase of shares for settlement of amounts due under share-based compensation plans. In addition, 2,356,857 shares were issued during the September 2008 year to the Group's Employee Share Trust for settlement of amounts due under share-based compensation plans.
4 As at 30 September 2008, there were 4,374,248 Treasury shares outstanding (2007: 2,592,893).

28: Share Capital (continued)

PREFERENCE SHARES

Euro Trust Securities

On 13 December 2004, the Company issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ("Euro Trust Securities") at €1000 each pursuant to the offering circular dated 9 December 2004, raising $871 million (at the spot rate at the date of issue, net of issue costs). Euro Trust Securities comprise two fully paid securities – an interest paying unsecured note (issued by ANZ Jackson Funding PLC, a United Kingdom subsidiary of the Company) and a fully paid, €1000 preference share (issued by the Company), which are stapled together and issued as a Euro Trust Security by ANZ Capital Trust III (the Trust). Investors have the option to redeem the Euro Trust Security from the Trust and hold the underlying stapled security.

Distributions on Euro Trust Securities are non-cumulative and are payable quarterly in arrears and are funded by payments received by the Trust on the underlying note and/or preference share. The distribution is based upon a floating distribution rate equal to the 3 month EURIBOR rate plus a 66 basis point margin up until 15 December 2014, after which date the distribution rate is the 3 month EURIBOR rate plus a 166 basis point margin. At each payment date the 3 month EURIBOR rate is reset for the next quarter. Distributions are subject to certain payment tests (i.e. APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 March, 15 June, 15 September and 15 December of each year. Dividends are not payable on the preference shares while they are stapled to the note, except for the period after 15 December 2014 when the preference share will pay 100 basis points to fund the increase in the margin. If distributions are not paid on Euro Trust Securities, the Group may not pay dividends or distributions, or return capital on ANZ ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time at ANZ's discretion or upon the occurrence of certain other "conversion events", such as the failure of the Trust to pay in full a distribution within seven business days of the relevant distribution payment date or the business day prior to 15 December 2053, the notes that are represented by the relevant Euro Trust Securities will be automatically assigned to a Branch of the Company and the fixed number of preference shares that are represented by the relevant Euro Trust Securities will be distributed to investors in redemption of such Euro Trust Securities. The distributed preference shares will immediately become dividend paying and holders will receive non-cumulative dividends equivalent to the scheduled payments in respect of the Euro Trust Securities for which the preference shares were distributed.

The preference shares forming part of each Euro Trust Security rank equal to the Convertible Notes (ANZ CN), ANZ Convertible Preference Shares (ANZ CPS) and the preference shares issued in connection with the US Trust Securities and UK Stapled Securities in all respects. Except in limited circumstances, holders of Euro Trust Securities do not have any right to vote in general meetings of the Company.

On winding up of the Company, the rights of Euro Trust Security holders will be determined by the preference share component of the Euro Trust Security. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

The transaction costs arising on the issue of these instruments were recognised directly in equity as a reduction to the proceeds of the equity instruments to which the costs relate.

Euro Trust Securities qualify as Innovative Tier 1 Capital as defined by APRA.

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Preference share balance at start of year – Euro Trust Securities	871	871	871	871
Preference share balance at end of year – Euro Trust Securities	871	871	871	871

29: Reserves and Retained Earnings

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
a) Foreign currency translation reserve				
Balance at beginning of year	(1,209)	(646)	(407)	(116)
Currency translation adjustments, net of hedges after tax	393	(563)	254	(291)
Total foreign currency translation reserve	(816)	(1,209)	(153)	(407)
b) Share option reserve[1]				
Balance at beginning of year	70	63	70	63
Share-based payments	14	7	14	7
Transfer of options lapsed to retained earnings[3]	(1)	–	(1)	–
Total share option reserve	83	70	83	70
c) Available-for-sale revaluation reserve				
Balance at start of year	97	2	93	(3)
Valuation gain/(loss) recognised after tax	(305)	109	(272)	100
Cumulative (gain)/loss transferred to the income statement	60	(14)	63	(4)
Transfer on step acquisition of associate	60	–	60	–
Total available-for-sale revaluation reserve	(88)	97	(56)	93
d) Hedging reserve				
Balance at start of year	153	227	80	40
Adjustment on adoption of AASB 2005-1[2]	–	(141)	–	–
Restated balance at beginning of year	153	86	80	40
Gain/(loss) recognised after tax	(39)	74	(34)	40
Transfer (to)/from income statement	(35)	(7)	5	–
Total hedging reserve	79	153	51	80
Total reserves	**(742)**	**(889)**	**(75)**	**(164)**

1 Further information about share based payments to employees is disclosed in note 46 to the financial statements.
2 Under the provisions of AASB 2005-1, hedge accounting is not available for the NZ revenue hedges, effective 1 October 2006 (refer note 1 E (ii)).
3 The transfer of balances from the share option and capital reserves to retained earnings represent items of a distributable nature.

29: Reserves and Retained Earnings (continued)

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Retained earnings				
Restated balance at start of year	13,082	11,084	9,436	8,173
Adjustment on adoption of AASB 2005-1[2]	–	141	–	–
Restated balance at beginning of year	13,082	11,225	9,436	8,173
Profit attributable to shareholders of the Company	3,319	4,180	3,336	3,551
Adjustment on step acquisition of associate	1	–	–	–
Transfer of options lapsed from share option reserve[1,3]	1	–	1	–
Actuarial gain/(loss) on defined benefit plans after tax[4]	(79)	77	(60)	75
Ordinary share dividends paid	(2,506)	(2,363)	(2,506)	(2,363)
Preference share dividends paid	(46)	(37)	–	–
Retained earnings at end of year	13,772	13,082	10,207	9,436
Total reserves and retained earnings	13,030	12,193	10,132	9,272

1 Further information about share based payments to employees is disclosed in note 46 to the financial statements.
2 Under the provisions of AASB 2005-1, hedge accounting is not available for the NZ revenue hedges, effective 1 October 2006 (refer note 1E(ii)).
3 The transfer of balances from the share option, general and capital reserves to retained earnings represent items of a distributable nature.
4 ANZ has taken the option available under AASB 119 to recognise actuarial gains/losses on defined benefit superannuation plans directly in retained profits (refer note 1F(vi) and note 45).

a) Foreign currency translation reserve

The translation reserve comprises exchange differences, net of hedges, arising on translation of the financial statements of foreign operations, as described in note 1A(viii). When a foreign operation is sold, attributable exchange differences are recognised in the Income Statement.

b) Share option reserve

The share option reserve arises on the grant of share options to selected employees under the ANZ share option plan. Amounts are transferred out of the reserve and into share capital when the options are exercised. Refer to note 1C(iii).

c) Available-for-sale revaluation reserve

Changes in the fair value and exchange differences on the revaluation of available-for-sale financial assets are taken to the available-for-sale revaluation reserve. Where a revalued available-for-sale financial asset is sold, that portion of the reserve which relates to that financial asset, is realised and recognised in the Income Statement. Where the available-for-sale financial asset is impaired, that portion of the reserve which relates to that asset is recognised in the Income Statement. Refer to note 1E(iii).

d) Hedging reserve

The hedging reserve represents hedging gains and losses recognised on the effective portion of cashflow hedges. The cumulative deferred gain or loss on the hedge is recognised in the Income Statement when the hedged transaction impacts the Income Statement. Refer to note 1E(ii).

30: Minority Interests

	Consolidated 2008 $m	Consolidated 2007 $m
Share capital	29	16
Retained profits	33	22
Total minority interests	62	38

31: Capital Management

ANZ pursues an active approach to capital management. This involves on going review of the level and composition of the Group's capital base, assessed against the following key objectives and policies:

- Regulatory compliance such that capital levels exceed the Australian Prudential Regulation Authority's (APRA), ANZ's primary prudential supervisor, minimum prudential capital ratios (PCRs) both at a Group and the Extended Licensed Entity (the Company and specified subsidiaries) level, and those set by the US Federal Reserve given the Group's Foreign Holding Company licence;
- Available capital (i.e. shareholders' equity including preference shares and Tier 1 loan capital) exceeds the level of Economic Capital required to support the Ratings Agency 'default frequency' confidence level for a "AA" rated bank. (Economic Capital is an internal estimate of capital levels required to support risk and unexpected losses above a desired target solvency level);
- Capital levels are commensurate with ANZ maintaining its preferred "AA" credit rating category for senior long term unsecured debt given its risk appetite outlined in its strategic plan; and
- Capital levels are sufficient to remain above both Economic Capital and PCR requirements under stressed economic scenarios.

The Group achieves these objectives through an Internal Capital Adequacy Assessment Process (ICAAP) whereby the Group conducts a detailed strategic plan over a medium term time horizon. This process involves:

- Reviewing capital ratios, targets and levels against the Group's risk profile and appetite outlined in the strategic plan;
- Performing ICAAP related stress-tests of those outcomes under different economic conditions and reassessing the Group's capital position both before and after mitigating actions; and
- Determining current and future capital requirements for the Group and the Extended Licensed Entity and identifying strategies to maintain capital flexibility to fund unplanned events.

From this process, a capital plan is developed which defines the framework of capital levels and the mix of components of capital. The capital plan is maintained and updated through a monthly review of forecasted financial performance, economic conditions and development of business initiatives and strategies.

The Group has adopted the Tier 1 capital ratio as its principal capital management target. Since March 2008 ANZ has set a minimum management target of 7.0%, however management seeks to operate well above this minimum given current economic and financial markets conditions.

For regulatory purposes, ANZ adheres to standards set by APRA. APRA uses a risk-based capital assessment framework for Australian banks based on internationally accepted capital measurement standards. This risk-based approach requires eligible capital to be divided by total risk weighted assets, with the resultant ratio being used as a measure of a bank's capital adequacy. For regulatory purposes capital comprises two components, Tier 1 and Total Qualifying Capital. From 1 January 2008, Basel II Accord principles took effect in Australia and New Zealand, changing the way in which ANZ measures capital and capital adequacy.

The following changes have impacted the capital ratios:

- Adoption of Basel II methodologies for calculating risk weighted assets (RWA) and expected loan losses;
- Inclusion of a capital charge for operating risk and interest rate risk in the banking book;
- Replacement of collective provision for loan losses (which was included in Upper Tier 2 capital) with expected losses. A deduction is now taken 50% from Tier 1 and 50% from Tier 2 for the excess of expected losses over eligible provisions (net of tax);
- Deductions from Total Capital under Basel I now deducted 50% from Tier 1 and 50% from Tier 2;
- Loss of AIFRS transitional relief received in July 2006;
- Hybrid limits are now 25% of net Tier 1, split between 'innovative' (15%) and 'non-innovative' (10%). ANZ has transitional relief until January 2010 in respect of the 'innovative' limit; and
- Introduction of a capital floor based upon 90% of capital required under Basel I methodology. At 30 September 2008, the floor had no impact on ANZ's reported capital ratios.

Under Basel II Accord principles, Tier 1 capital comprises shareholders' equity adjusted to include hybrid Tier 1 instruments treated as debt for financial reporting purposes and excludes reserves that APRA does not allow as Tier 1 Capital. Specific deductions such as goodwill and intangibles are deducted from Tier 1 capital and others are deducted 50% from Tier 1 and 50% from Tier 2 capital.

Total Qualifying Capital is Tier 1 capital plus Tier 2 capital (less specific and 50% deductions). Tier 2 is capped at the volume of Tier 1 capital, and is split into Upper and Lower Tier 2 capital, with Lower Tier 2 capital capped at 50% of Tier 1. Upper Tier 2 capital includes asset revaluation type reserves, hybrid Tier 1 instruments excluded from Tier 1, and undated subordinated notes. Lower Tier 2 capital comprises dated subordinated notes.

APRA determines PCRs for Tier 1 and Total Capital ratio at both a Group and the Extended Licensed Entity level under its prudential capital standards "APS110 – Capital Adequacy" and "APS 111 – Capital Adequacy: Measurement of Capital", with RWA calculations predominantly contained in "APS 113 – Capital Adequacy: Internal Ratings-based Approach to Credit Risk", "APS115 – Capital Adequacy: Advanced Measurement Approach to Operational Risk", "APS116 Capital Adequacy: Market Risk" and "APS 117 – Capital Adequacy: Interest Rate Risk in the Banking Book". ANZ is not a Level 3 reporter under APRA's prudential standards.

In addition to the prudential capital oversight that APRA conducts over the Company and the Group, the Company's branch operations and major banking subsidiary operations are overseen by local regulators such as the Reserve Bank of New Zealand, the US Federal Reserve and the UK Financial Services Authority who may impose minimum capitalisation rates on those operations.

Throughout the financial year, the Company and the Group maintained compliance with the minimum Tier 1 and Total Capital ratios set by APRA and the US Federal Reserve, as well as applicable capitalisation rates set by local regulators in countries where the Company operates branches and subsidiaries.

31: Capital Management (continued)

The table below provides the composition of capital used for regulatory purposes and capital adequacy ratios.

	Basel II as at September 08 $m	Basel I as at September 07 $m
Regulatory Capital – Qualifying Capital		
Tier 1		
Shareholders' equity and minority interests	26,552	22,048
Prudential adjustments to shareholders' equity	(2,409)	(2,318)
Fundamental Tier 1 capital	24,143	19,730
Non-innovative Tier 1 capital instruments	2,095	1,033
Innovative Tier 1 capital instruments	2,847	3,119
Gross Tier 1 capital	29,085	23,882
Deductions[1]	(7,856)	(6,170)
Transitional Tier 1 capital relief	–	716
Tier 1 capital	21,229	18,428
Tier 2		
Upper Tier 2 capital	1,374	2,296
Subordinated notes[2]	9,170	8,826
Deductions	(1,206)	–
Tier 2 capital	9,338	11,122
Total capital deductions[3]	n/a	(1,837)
Total qualifying capital	30,567	27,713
Capital adequacy ratios		
Tier 1	7.7%	6.7%
Tier 2	3.4%	4.1%
	11.1%	10.8%
Deductions	n/a	(0.7%)
Total	11.1%	10.1%

1 Includes goodwill (excluding associates) of $3,064 million (2007: $3,126 million).
2 For capital adequacy calculation, subordinated note issues are reduced by 20% of the original amount over the last four years to maturity and are limited to 50% of Tier 1 capital.
3 Not applicable under Basel II.

32: Assets Charged as Security for Liabilities and Collateral Accepted as Security for Assets

Assets charged as security for liabilities

The following assets are pledged as collateral:

- Mandatory reserve deposits with local central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations.
- Securities provided as collateral for liabilities in standard lending and stock borrowing and lending activities, and securitised loans where de-recognition criteria have not been met (refer to note 41 Securitisations). These transactions are conducted under terms that are customary to standard lending, and stock borrowing and lending activities.
- Debenture undertakings covering the assets of Esanda Finance Corporation Limited (Esanda) and its subsidiaries and UDC Finance Limited (UDC). The debenture stock of Esanda and its subsidiaries and UDC is secured by a trust deed and collateral debentures, giving floating charges upon the undertaking of all the tangible assets of the entity, other than land and buildings. All controlled entities of Esanda and UDC have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by Esanda and UDC respectively. The only loans pledged are those in Esanda and UDC and their subsidiaries.
- Cash placed on deposit with a third party that is provided as collateral for a liability in a structured funding transaction. The funding was raised through a subsidiary, and to achieve more favourable pricing terms, ANZ provided cash collateral, given by the Company.

The carrying amounts of assets pledged as security are as follows:

	Consolidated				The Company			
	Carrying Amount		Related Liability		Carrying Amount		Related Liability	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Regulatory deposits	469	235	n/a	n/a	298	148	n/a	n/a
Securities sold under arrangements to repurchase	1,696	2,330	1,654	2,324	1,615	2,072	1,573	2,066
Assets pledged as collateral under debenture undertakings	15,566	15,347	9,902	9,539	–	–	–	–
Cash deposited in structured funding transaction	918	1,680	2,000	2,000	918	1,680	–	–

Collateral accepted as security for assets

ANZ has accepted cash as collateral on securities loaned to other parties.

ANZ has received securities that it is permitted to sell or re-pledge without the event of default by a counterparty. Where the received securities are sold or re-pledged to third parties, ANZ is obliged to return equivalent securities.

These transactions are conducted under terms that are customary to standard stock borrowing and lending activities.

The fair value of collateral received and provided is as follows:

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Securities lending activities[1]				
Cash collateral received on securities loaned	2,096	3,464	2,096	3,464
Fair value of lent securities	2,093	3,298	2,093	3,298
Equity financing activities[1]				
Cash collateral given on securities borrowed	94	1,287	94	1,287
Fair value of received securities	98	2,752	98	2,752

1 Additionally, ANZ has entered transactions involving the exchange of securities (scrip-for-scrip). The Group and the Company accepted stock to the value of $105 million (2007: $2,250 million) against stock provided to counterparties to the value of $86 million (2007: $2,346 million).

33: Financial Risk Management

STRATEGY IN USING FINANCIAL INSTRUMENTS

Financial instruments are fundamental to the 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 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 Group's balance sheet. These risks and the Group's policies and objectives for managing such risks are outlined below. The 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 Group.

CREDIT RISK

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The Group assumes credit risk in a wide range of lending and other activities in diverse markets and in 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 Group has an overall lending objective of sound growth for appropriate returns. The credit risk objectives of the Group are set by the Board and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including asset writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations.

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

CREDIT RISK MANAGEMENT

The credit risk management framework ensures a consistent approach is applied across the Group in managing, maintaining and monitoring the credit risk appetite set by the Board. In discharging its duty to oversee credit risk, the Board is assisted and advised by the Board Risk Committee, which oversees the effectiveness of the operational credit controls and processes.

The Board Risk Committee sets or recommends high level changes to credit risk appetite, credit strategies, credit principles and credit controls, as well as approving credit transactions beyond the discretion of executive management.

Responsibility for the day-to-day operational execution and management of the credit risk framework resides with the Credit and Trading Risk Committee (CTC), which is an executive management committee comprising senior risk, business and group executives, chaired by the Chief Risk Officer. CTC receives a delegated discretion from the Board Risk Committee to set credit policies, review divisional credit risk appetite and make credit decisions within set limits. CTC also further delegates credit responsibility to the broader organization, based on a combination of factors, including size of risk, level of risk, nature of counter party, collateral support, risk concentration limits, location of risk and expertise of specific credit points.

Experienced and specialised risk professionals manage the credit risk framework. Skills vary greatly depending on the nature of the credit risk being managed and range widely from statistical modeling expertise required to build, validate and monitor retail decision tools; to making single judgmental credit decisions in specialist Institutional segments that require expert knowledge of not only the specific industry, but also an understanding of the risks inherent in complex financial instruments and structures in a time of volatile and uncertain financial markets.

The central risk function is broadly charged with the responsibility of monitoring and assessing both counterparty and portfolio risks. Credit risk operates in close partnership with credit originators, but reports independently to the risk management function, which in turn reports directly to the CEO. Although credit risk is an independent function, responsibility for risk is firmly a shared responsibility of both the risk and relationship functions.

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 ANZ incurs country risk and have a direct bearing on ANZ'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 ANZ's capital pricing model for cross border flows.

The recording of country limits provides the 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 for the Group, 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 in 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.

ANZ has a dedicated stress testing team within Risk Management that models and reports periodically to management and the Board Risk Committee on a range of scenarios and stress tests.

33: Financial Risk Management (continued)

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.

All 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 Group Risk function. This ensures an efficient and independent conduit exists to quickly identify and communicate emerging credit issues to Group executives and the Board.

COLLATERAL MANAGEMENT

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

- cash;
- mortgages over property;
- charges over business assets, e.g. premises, stock and debtors;
- charges over financial instruments, e.g. debt securities and equities in support of trading facilities; and
- financial guarantees.

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

ANZ uses International Swaps and Derivatives Association (ISDA) Master Agreements to document derivatives activities. Under the ISDA Master Agreement, if a default of counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default.

In addition to the terms noted above, ANZ's preferred practice is to use a CSA (Credit Support Annex to the ISDA Master Agreement). Under a CSA, open derivative positions with the counter party are aggregated and cash collateral is exchanged daily. The collateral is provided by the counter party that is out of the money. Upon termination of the trade, payment is required only for the final daily mark-to-market movement rather than the mark-to-market movement since inception.

CONCENTRATIONS OF CREDIT RISK

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

The Group monitors its portfolios, to identify and assess risk concentrations. The Group's strategy is to maintain well-diversified low risk credit portfolios focused on achieving the best risk-return balance. Credit risk portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations. Concentration analysis will typically include, geography, industry, credit product and risk grade. Risk management also applies single customer counterparty limits (SCCLs) to protect against unacceptably large exposures to single name risk. These limits are established based on a combination of factors including nature of counter party, probability of default and collateral provided. Analysis and reporting of concentration risk is a core focus of Divisional & Group risk functions and where appropriate the Group applies 'concentration' controls.

33: Financial Risk Management (continued)

Concentrations of credit risk analysis

Composition of financial instruments that give rise to credit risk by industry:

Consolidated	Liquid assets and due from other financial institutions 2008 $m	2007 $m	Trading and AFS[1] assets 2008 $m	2007 $m	Derivatives 2008 $m	2007 $m	Loans and advances and acceptances 2008 $m	2007 $m	Other financial assets[2] 2008 $m	2007 $m	Credit related commitments[3] 2008 $m	2007 $m	Total 2008 $m	2007 $m
Australia														
Agriculture, forestry, fishing & mining	23	16	57	–	411	535	10,507	8,850	210	126	6,357	4,888	17,565	14,415
Business Services	17	2	–	–	31	23	5,941	4,529	131	64	2,333	1,887	8,453	6,505
Construction	2	-	–	–	20	48	4,597	4,434	102	63	3,446	1,893	8,167	6,438
Entertainment, Leisure and Tourism	–	–	2	19	202	360	6,487	5,388	144	76	1,827	1,897	8,662	7,740
Financial, Investment and Insurance	4,305	3,214	16,204	18,550	26,256	15,632	12,615	11,036	170	156	9,610	12,379	69,160	60,967
Government and Official Institutions	3,508	3,809	5,341	2,862	69	63	96	72	2	1	492	1,032	9,508	7,839
Manufacturing	139	43	144	65	316	670	9,357	8,796	206	124	8,021	9,371	18,183	19,069
Personal Lending	–	–	–	42	–	1	147,066	133,001	1,054	1,073	28,046	24,495	176,166	158,612
Property Services	3	1	25	–	391	104	25,165	20,270	540	286	6,678	6,074	32,802	26,735
Retail trade	38	49	129	–	51	197	9,558	6,856	212	97	2,697	2,589	12,685	9,788
Transport and Storage	9	5	18	–	160	184	6,366	5,359	102	76	2,419	2,625	9,074	8,249
Wholesale trade	537	84	20	85	237	356	6,647	6,445	143	91	5,565	6,390	13,149	13,451
Other	597	115	1,595	760	735	607	7,143	4,019	188	82	7,589	5,706	17,847	11,289
	9,178	**7,338**	**23,535**	**22,383**	**28,879**	**18,780**	**251,545**	**219,055**	**3,204**	**2,315**	**85,080**	**81,226**	**401,421**	**351,097**
New Zealand														
Agriculture, forestry, fishing & mining	86	19	–	–	62	11	15,087	12,401	118	241	3,710	3,246	19,063	15,918
Business Services	–	3	–	–	8	6	1,020	1,008	8	20	249	258	1,285	1,295
Construction	–	–	–	–	1	–	774	656	6	13	191	184	972	853
Entertainment, Leisure and Tourism	–	–	23	17	6	38	892	780	7	15	218	278	1,146	1,128
Financial, Investment and Insurance	2,959	4,108	1,984	1,355	4,290	2,407	1,561	2,309	12	45	376	579	11,182	10,803
Government and Official Institutions	155	37	209	131	232	29	549	468	4	9	133	120	1,282	794
Manufacturing	156	53	7	3	174	83	2,680	2,539	21	49	648	636	3,686	3,363
Personal Lending	–	–	–	–	–	–	45,552	42,927	358	271	11,285	11,724	57,195	54,922
Property Services	–	–	–	–	17	–	7,832	6,383	61	124	1,919	1,681	9,829	8,188
Retail trade	299	59	–	–	11	31	1,755	1,199	13	23	427	352	2,505	1,664
Transport and Storage	26	6	3	24	17	16	1,186	828	9	16	288	279	1,529	1,169
Wholesale trade	19	103	–	–	9	5	1,583	1,118	12	22	383	276	2,006	1,524
Other	34	140	12	124	70	88	2,315	3,376	13	66	426	406	2,870	4,200
	3,734	**4,528**	**2,238**	**1,654**	**4,897**	**2,714**	**82,786**	**75,992**	**642**	**914**	**20,253**	**20,019**	**114,550**	**105,821**

1 Available-for-sale assets.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer related contingents.

33: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

Consolidated	Liquid assets and due from other financial institutions 2008 $m	Liquid assets and due from other financial institutions 2007 $m	Trading and AFS[1] assets 2008 $m	Trading and AFS[1] assets 2007 $m	Derivatives 2008 $m	Derivatives 2007 $m	Loans and advances and acceptances 2008 $m	Loans and advances and acceptances 2007 $m	Other financial assets[2] 2008 $m	Other financial assets[2] 2007 $m	Credit related commitments[3] 2008 $m	Credit related commitments[3] 2007 $m	Total 2008 $m	Total 2007 $m
Overseas Markets														
Agriculture, forestry, fishing & mining	–	42	–	9	90	20	2,946	881	55	13	2,869	1,351	5,960	2,316
Business Services	–	7	–	–	4	1	1,544	442	29	7	691	343	2,268	800
Construction	–	1	56	27	8	2	141	67	3	1	760	200	968	298
Entertainment, Leisure and Tourism	–	–	–	2	58	13	696	550	13	8	488	–	1,255	573
Financial, Investment and Insurance	16,927	8,500	4,546	4,102	2,634	592	1,222	913	23	14	7,311	10,862	32,663	24,983
Government and Official Institutions	4	146	1,610	1	15	3	297	398	6	6	1,396	–	3,328	554
Manufacturing	4	116	38	407	113	25	4,793	3,644	90	55	11,222	9,471	16,260	13,718
Personal Lending	–	–	–	2	–	–	2,379	1,671	65	121	387	46	2,831	1,840
Property Services	–	–	23	12	18	4	302	422	6	6	35	590	384	1,034
Retail trade	–	131	–	–	33	7	444	640	8	10	278	848	763	1,636
Transport and Storage	–	14	82	2	31	7	1,553	230	29	3	393	326	2,088	582
Wholesale trade	28	227	–	105	60	13	3,052	931	57	14	7,298	3,457	10,495	4,747
Other	168	310	63	40	101	23	2,280	1,548	43	23	2,810	2,346	5,465	4,290
	17,131	**9,494**	**6,418**	**4,709**	**3,165**	**710**	**21,649**	**12,337**	**427**	**281**	**35,938**	**29,840**	**84,728**	**57,371**
Consolidated – aggregate														
Agriculture, forestry, fishing & mining	109	77	57	9	563	566	28,540	22,132	383	380	12,936	9,485	42,588	32,649
Business Services	17	12	–	–	43	30	8,505	5,979	168	91	3,273	2,488	12,006	8,600
Construction	2	1	56	27	29	50	5,512	5,157	111	77	4,397	2,277	10,107	7,589
Entertainment, Leisure and Tourism	–	–	25	38	266	411	8,075	6,718	164	99	2,533	2,175	11,063	9,441
Financial, Investment and Insurance	24,191	15,822	22,734	24,007	33,180	18,631	15,398	14,258	205	215	17,297	23,820	113,005	96,753
Government and Official Institutions	3,667	3,992	7,160	2,994	316	95	942	938	12	16	2,021	1,152	14,118	9,187
Manufacturing	299	212	189	475	603	778	16,830	14,979	317	228	19,891	19,478	38,129	36,150
Personal Lending	–	–	–	44	–	1	194,997	177,599	1,477	1,465	39,718	36,265	236,192	215,374
Property Services	3	1	48	12	426	108	33,299	27,075	607	416	8,632	8,345	43,015	35,957
Retail trade	337	239	129	–	95	235	11,757	8,695	233	130	3,402	3,789	15,953	13,088
Transport and Storage	35	25	103	26	208	207	9,105	6,417	140	95	3,100	3,230	12,691	10,000
Wholesale trade	584	414	20	190	306	374	11,282	8,494	212	127	13,246	10,123	25,650	19,722
Other	799	565	1,670	924	906	718	11,738	8,943	244	171	10,825	8,458	26,182	19,779
Gross total	**30,043**	**21,360**	**32,191**	**28,746**	**36,941**	**22,204**	**355,980**	**307,384**	**4,273**	**3,510**	**141,271**	**131,085**	**600,699**	**514,289**

1 Available-for-sale assets.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

33: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

Consolidated	Liquid assets and due from other financial institutions 2008 $m	Liquid assets and due from other financial institutions 2007 $m	Trading and AFS[1] assets 2008 $m	Trading and AFS[1] assets 2007 $m	Derivatives 2008 $m	Derivatives 2007 $m	Loans and advances and acceptances 2008 $m	Loans and advances and acceptances 2007 $m	Other financial assets[2] 2008 $m	Other financial assets[2] 2007 $m	Credit related commitments[3] 2008 $m	Credit related commitments[3] 2007 $m	Total 2008 $m	Total 2007 $m
Individual provision for credit impairment	–	–	–	–	–	–	(646)	(261)	–	–	(29)	(9)	(675)	(270)
Collective provision for credit impairment	–	–	–	–	–	–	(2,062)	(1,483)	–	–	(759)	(509)	(2,821)	(1,992)
	30,043	**21,360**	**32,191**	**28,746**	**36,941**	**22,204**	**353,272**	**305,640**	**4,273**	**3,510**	**140,483**	**130,567**	**597,203**	**512,027**
Income yet to mature	–	–	–	–	–	–	(2,600)	(2,277)	–	–	–	–	(2,600)	(2,277)
Capitalised brokerage/ mortgage origination fees	–	–	–	–	–	–	600	570	–	–	–	–	600	570
	30,043	**21,360**	**32,191**	**28,746**	**36,941**	**22,204**	**351,272**	**303,933**	**4,273**	**3,510**	**140,483**	**130,567**	**595,203**	**510,320**
Excluded from analysis above[4]	4,849	3,667	466	427	–	–	–	–	–	–	–	–	5,315	4,094
Net Total	**34,892**	**25,027**	**32,657**	**29,173**	**36,941**	**22,204**	**351,272**	**303,933**	**4,273**	**3,510**	**140,483**	**130,567**	**600,518**	**514,414**

1 Available-for-sale assets.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities.
4 Equity instruments and cash are excluded from maximum exposure amount.

33: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry:

The Company	Liquid assets and due from other financial institutions 2008 $m	Liquid assets and due from other financial institutions 2007 $m	Trading and AFS[1] assets 2008 $m	Trading and AFS[1] assets 2007 $m	Derivatives 2008 $m	Derivatives 2007 $m	Loans and advances and acceptances 2008 $m	Loans and advances and acceptances 2007 $m	Other financial assets[2] 2008 $m	Other financial assets[2] 2007 $m	Credit related commitments[3] 2008 $m	Credit related commitments[3] 2007 $m	Total 2008 $m	Total 2007 $m
Australia														
Agriculture, forestry, fishing & mining	23	16	56	–	411	535	9,698	8,126	172	88	6,357	4,846	16,717	13,611
Business Services	17	2	–	–	31	23	5,022	3,838	99	45	2,333	1,871	7,502	5,779
Construction	2	–	–	–	20	48	3,090	3,424	61	44	3,446	1,876	6,619	5,392
Entertainment, Leisure and Tourism	–	–	2	18	202	360	6,249	5,165	124	53	1,827	1,881	8,404	7,477
Financial, Investment and Insurance	4,261	3,160	15,662	17,426	27,636	17,365	13,645	11,387	176	109	10,269	12,275	71,649	61,722
Government and Official Institutions	3,433	3,700	5,215	2,687	69	63	94	72	2	1	492	1,023	9,305	7,546
Manufacturing	136	42	140	61	316	670	9,056	8,386	178	87	8,021	9,290	17,847	18,536
Personal Lending	–	–	–	40	–	1	139,854	125,065	868	1,001	28,047	24,281	168,769	150,388
Property Services	3	1	24	–	391	104	24,722	19,164	474	201	6,678	6,022	32,292	25,492
Retail trade	37	47	126	–	51	197	7,331	5,567	146	68	2,471	2,566	10,162	8,445
Transport and Storage	9	5	18	–	160	184	4,534	4,614	73	53	2,417	2,602	7,211	7,458
Wholesale trade	526	82	20	79	237	356	6,407	6,005	123	64	5,565	6,335	12,878	12,921
Other	583	111	1,552	714	635	607	7,131	3,728	131	58	6,370	5,656	16,402	10,874
	9,030	**7,166**	**22,815**	**21,025**	**30,159**	**20,513**	**236,833**	**204,541**	**2,627**	**1,872**	**84,293**	**80,524**	**385,757**	**335,641**
Overseas Markets														
Agriculture, forestry, fishing & mining	–	39	–	6	80	20	2,686	743	42	7	2,500	1,247	5,308	2,062
Business Services	–	–	–	–	4	1	1,349	373	22	4	669	320	2,044	698
Construction	–	–	51	19	8	2	87	56	2	1	739	188	887	266
Entertainment, Leisure and Tourism	–	–	–	2	56	13	515	464	10	5	445	–	1,026	484
Financial, Investment and Insurance	16,207	8,015	3,021	2,866	2,638	741	998	770	17	8	6,995	10,059	29,876	22,459
Government and Official Institutions	4	138	1,461	1	15	3	261	336	4	3	1,371	–	3,116	481
Manufacturing	4	109	34	285	109	25	4,174	3,073	69	30	10,772	8,833	15,162	12,355
Personal Lending	–	–	–	1	–	–	1,795	1,409	50	102	103	42	1,948	1,554
Property Services	–	–	21	8	18	4	277	356	4	4	34	540	354	912
Retail trade	–	123	–	–	33	7	401	540	6	5	246	823	686	1,498
Transport and Storage	–	13	75	2	31	7	1,181	194	22	2	385	298	1,694	516
Wholesale trade	27	176	–	74	50	13	2,645	785	44	8	7,121	3,251	9,887	4,307
Other	122	151	58	28	97	21	1,763	1,305	33	13	2,390	2,173	4,463	3,691
	16,364	**8,764**	**4,721**	**3,292**	**3,139**	**857**	**18,132**	**10,404**	**325**	**192**	**33,770**	**27,774**	**76,451**	**51,283**
The Company – aggregate														
Agriculture, forestry, fishing & mining	23	55	56	6	491	555	12,384	8,869	214	95	8,857	6,093	22,025	15,673
Business Services	17	2	–	–	35	24	6,371	4,211	121	49	3,002	2,191	9,546	6,477
Construction	2	–	51	19	28	50	3,177	3,480	63	45	4,185	2,064	7,506	5,658
Entertainment, Leisure and Tourism	–	–	2	20	258	373	6,764	5,629	134	58	2,272	1,881	9,430	7,961
Financial, Investment and Insurance	20,468	11,175	18,683	20,292	30,274	18,106	14,643	12,157	193	117	17,264	22,334	101,525	84,181
Government and Official Institutions	3,437	3,838	6,676	2,688	84	66	355	408	6	4	1,863	1,023	12,421	8,027
Manufacturing	140	151	174	346	425	695	13,230	11,459	247	117	18,793	18,123	33,009	30,891
Personal Lending	–	–	–	41	–	1	141,649	126,474	918	1,103	28,150	24,323	170,717	151,942
Property Services	3	1	45	8	409	108	24,999	19,520	478	205	6,712	6,562	32,646	26,404
Retail trade	37	170	126	–	84	204	7,732	6,107	152	73	2,717	3,389	10,848	9,943
Transport and Storage	9	18	93	2	191	191	5,715	4,808	95	55	2,802	2,900	8,905	7,974
Wholesale trade	553	258	20	153	287	369	9,052	6,790	167	72	12,686	9,586	22,765	17,228
Other	705	262	1,610	742	732	628	8,894	5,033	164	71	8,760	7,829	20,865	14,565
Gross total	**25,394**	**15,930**	**27,536**	**24,317**	**33,298**	**21,370**	**254,965**	**214,945**	**2,952**	**2,064**	**118,063**	**108,298**	**462,208**	**386,924**

1 Available-for-sale assets.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

33: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry:

The Company	Liquid assets and due from other financial institutions[1] 2008 $m	2007 $m	Trading and AFS[1] assets 2008 $m	2007 $m	Derivatives 2008 $m	2007 $m	Loans and advances and acceptances 2008 $m	2007 $m	Other financial assets[2] 2008 $m	2007 $m	Credit related commitments[3] 2008 $m	2007 $m	Total 2008 $m	2007 $m
Individual provision for credit impairment	–	–	–	–	–	–	(459)	(172)	–	–	(29)	(9)	(488)	(181)
Collective provision for credit impairment	–	–	–	–	–	–	(1,519)	(1,028)	–	–	(625)	(389)	(2,144)	(1,417)
	25,394	**15,930**	**27,536**	**24,317**	**33,298**	**21,370**	**252,987**	**213,745**	**2,952**	**2,064**	**117,409**	**107,900**	**459,576**	**385,326**
Unearned income	–	–	–	–	–	–	(508)	(348)	–	–	–	–	(508)	(348)
Capitalised brokerage/ mortgage origination fees	–	–	–	–	–	–	194	167	–	–	–	–	194	167
	25,394	**15,930**	**27,536**	**24,317**	**33,298**	**21,370**	**252,673**	**213,564**	**2,952**	**2,064**	**117,409**	**107,900**	**459,262**	**385,145**
Excluded from analysis above[4]	1,260	822	413	425	–	–	–	–	–	–	–	–	1,673	1,247
Net Total	**26,654**	**16,752**	**27,949**	**24,742**	**33,298**	**21,370**	**252,673**	**213,564**	**2,952**	**2,064**	**117,409**	**107,900**	**460,935**	**386,392**

1 Available-for-sale assets.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities.
4 Equity instruments and cash are excluded from maximum exposure amount.

CREDIT QUALITY

Maximum exposure to credit risk

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances, there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the table below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity investments which are primarily subject to market risk, or bank notes and coins. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the instrument 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-balance sheet and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements.

Consolidated	Reported 2008 $m	2007 $m	Excluded[1] 2008 $m	2007 $m	Maximum exposure to credit risk 2008 $m	2007 $m
Liquid assets	25,030	16,987	4,849	3,667	20,181	13,320
Due from other financial institutions	9,862	8,040	–	–	9,862	8,040
Trading securities	15,177	15,167	20	47	15,157	15,120
Derivative financial instruments	36,941	22,204	–	–	36,941	22,204
Available-for-sale assets	17,480	14,006	446	380	17,034	13,626
Net loans and advances and acceptances						
– Personal	164,494	147,363	–	–	164,494	147,363
– Institutional	105,400	82,869	–	–	105,400	82,869
– New Zealand Businesses	74,611	68,672	–	–	74,611	68,672
– Asia Pacific	13,253	7,300	–	–	13,253	7,300
– Other business units	1,553	1,740	–	–	1,553	1,740
– Less: Institutional Asia Pacific	(8,827)	(4,529)	–	–	(8,827)	(4,529)
Other financial assets	4,273	3,510	–	–	4,273	3,510
	459,247	383,329	5,315	4,094	453,932	379,235
Undrawn facilities	111,265	107,269	–	–	111,265	107,269
Contingent facilities	30,006	23,816	–	–	30,006	23,816
	141,271	131,085	–	–	141,271	131,085
Total	**600,518**	**514,414**	**5,315**	**4,094**	**595,203**	**510,320**

1 Includes bank notes and coins and cash at bank for liquid assets and equity instruments within trading securities and available-for-sale financial assets.

33: Financial Risk Management (continued)

Maximum exposure to credit risk (continued)

The Company	Reported 2008 $m	Reported 2007 $m	Excluded[1] 2008 $m	Excluded[1] 2007 $m	Maximum exposure to credit risk 2008 $m	Maximum exposure to credit risk 2007 $m
Liquid assets	18,081	10,618	1,260	822	16,821	9,796
Due from other financial institutions	8,573	6,134	–	–	8,573	6,134
Trading securities	12,846	13,359	20	45	12,826	13,314
Derivative financial instruments	33,298	21,370	–	–	33,298	21,370
Available-for-sale assets	15,103	11,383	393	380	14,710	11,003
Net loans and advances and acceptances						
– Personal	150,376	133,296	–	–	150,376	133,296
– Institutional	97,599	76,562	–	–	97,599	76,562
– Asia Pacific	9,127	5,550	–	–	9,127	5,550
– Other business units	1,553	1,740	–	–	1,553	1,740
– Less: Institutional Asia Pacific	(6,636)	(3,982)	–	–	(6,636)	(3,982)
Other financial assets	2,952	2,064	–	–	2,952	2,064
	342,872	278,094	1,673	1,247	341,199	276,847
Undrawn facilities	90,026	86,124	–	–	90,026	86,124
Contingent facilities	28,037	22,174	–	–	28,037	22,174
	118,063	108,298	–	–	118,063	108,298
Total	**460,935**	**386,392**	**1,673**	**1,247**	**459,262**	**385,145**

1 Includes bank notes and coins and cash at bank for liquid assets and equity instruments within trading securities and available-for-sale financial assets.

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

The Group's risk grade profile changes dynamically through new counterparty lending acquisitions 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.

ANZ uses a two-dimensional risk grading system, which measures both the customer's ability to repay (probability of default (PD)) and the loss in the event of default (LGD) (a factor of the security taken to support the lending). ANZ also uses financial and statistical tools to assist in the risk grading of customers. Customer risk grades are actively reviewed and monitored to ensure the risk grade accurately reflects the credit risk of the customer and the prevailing economic conditions. Similarly, the performance of risk grading tools used in the risk grading process is reviewed regularly to ensure the tools remain statistically valid. ANZ applies a masterscale to the key outputs of the risk grading process, the PD and LGD, to consistently report on ANZ lending portfolios.

33: Financial Risk Management (continued)

Restructured items

The Group distinguishes between facilities renegotiated on a commercial basis, on terms similar to those offered to new clients with similar risk, and those renegotiated on non-commercial terms as a result of a client's inability to meet original contractual obligations.

In the course of restructuring facilities due to financial difficulty, the Group may consider modifying its terms to include concessions such as a reduction in the principal amount, a deferral of repayments, and/or an extension of the maturity date materially beyond those typically offered to new facilities with similar risk.

Restructured facilities are classified as productive and must demonstrate sound prospects of being able to adhere to the modified contractual terms. Where doubt exists as to the capacity to sustain the modified terms, the facilities remain impaired and an appropriate level of individual provision is held.

Restructured loans that would otherwise be past due or impaired held by the Group are $846 million (2007: nil), and held by the Company are $846 million (2007: nil). This represents customer facilities which for reason of financial difficulty have been re-negotiated on terms which the Bank considers uncommercial but necessary in the circumstances and are not considered non-performing. Restructured loans includes both on and off balance sheet exposures. The total on and off-balance sheet exposure is $823 million which includes a $23 million credit valuation adjustment on derivative assets.

DISTRIBUTION OF FINANCIAL INSTRUMENTS BY CREDIT QUALITY

	Neither past due nor impaired		Past due but not impaired		Restructured		Impaired		Total	
Consolidated	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Liquid assets	20,181	13,320	–	–	–	–	–	–	20,181	13,320
Due from other financial institutions	9,862	8,040	–	–	–	–	–	–	9,862	8,040
Trading securities	15,157	15,120	–	–	–	–	–	–	15,157	15,120
Derivative financial instruments[1]	36,886	22,159	–	–	55	–	–	45	36,941	22,204
Available-for-sale assets[2]	17,019	13,626	–	–	–	–	15	–	17,034	13,626
Net loans and advances and acceptances										
– Personal	156,366	141,684	7,847	5,509	–	–	281	170	164,494	147,363
– Institutional	101,612	81,736	1,895	777	733	–	1,160	356	105,400	82,869
– New Zealand Businesses	71,539	66,761	2,805	1,817	–	–	267	94	74,611	68,672
– Asia Pacific	12,818	7,230	307	48	–	–	128	22	13,253	7,300
– Other business units	1,516	1,700	32	15	–	–	5	25	1,553	1,740
– Less: Institutional Asia Pacific	(8,734)	(4,526)	(2)	(2)	–	–	(91)	(1)	(8,827)	(4,529)
Other financial assets	4,273	3,510	–	–	–	–	–	–	4,273	3,510
Credit related commitments[3]	141,159	131,049	–	–	35	–	77	36	141,271	131,085
	579,654	**501,409**	**12,884**	**8,164**	**823**	**–**	**1,842**	**747**	**595,203**	**510,320**

	Neither past due nor impaired		Past due but not impaired		Restructured		Impaired		Total	
The Company	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Liquid assets	16,821	9,796	–	–	–	–	–	–	16,821	9,796
Due from other financial institutions	8,573	6,134	–	–	–	–	–	–	8,573	6,134
Trading securities	12,826	13,314	–	–	–	–	–	–	12,826	13,314
Derivative financial instruments[1]	33,243	21,325	–	–	55	–	–	45	33,298	21,370
Available-for-sale assets[2]	14,695	11,003	–	–	–	–	15	–	14,710	11,003
Net loans and advances and acceptances										
– Personal	142,803	128,125	7,397	5,062	–	–	176	109	150,376	133,296
– Institutional	93,818	75,450	1,895	761	733	–	1,153	351	97,599	76,562
– Asia Pacific	8,861	5,528	162	15	–	–	104	7	9,127	5,550
– Other business units	1,516	1,700	32	15	–	–	5	25	1,553	1,740
– Less: Institutional Asia Pacific	(6,543)	(3,980)	(2)	(1)	–	–	(91)	(1)	(6,636)	(3,982)
Other financial assets	2,952	2,064	–	–	–	–	–	–	2,952	2,064
Credit related commitments[3]	117,956	108,267	–	–	35	–	72	31	118,063	108,298
	447,521	**378,726**	**9,484**	**5,852**	**823**	**–**	**1,434**	**567**	**459,262**	**385,145**

1 Derivative assets, considered impaired, net of credit valuation adjustments.
2 Impaired Available-for-sale debt security where the cumulative mark-to-market loss has been transferred from equity to the Income Statement.
3 Comprises undrawn facilities and customer contingent liabilities.

33: Financial Risk Management (continued)

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets is managed by ANZ 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 credit profile	Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. This rating broadly corresponds to ratings “Aaa” to “baa3” and “AAA” to “BBB-” of Moody’s and Standard & Poor respectively.
Satisfactory risk	Customers that have consistently demonstrated sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. This rating broadly corresponds to ratings “Ba1” to “Ba3” and “BB+” to “BB-” of Moody’s and Standard & Poor respectively.
Sub-standard but not past due or impaired	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings “B1” to “Caa” and “B+” to “CCC” of Moody’s and Standard & Poor respectively.

Consolidated	Strong credit profile 2008 $m	Strong credit profile 2007 $m	Satisfactory risk 2008 $m	Satisfactory risk 2007 $m	Sub-standard but not past due or impaired 2008 $m	Sub-standard but not past due or impaired 2007 $m	Total 2008 $m	Total 2007 $m
Liquid assets	18,526	11,802	1,496	1,491	159	27	20,181	13,320
Due from other financial institutions	9,146	7,990	578	38	138	12	9,862	8,040
Trading securities	14,304	14,619	840	368	13	133	15,157	15,120
Derivative financial instruments	34,511	20,957	1,870	821	505	381	36,886	22,159
Available-for-sale assets	15,842	12,763	1,077	863	100	–	17,019	13,626
Net loans and advances and acceptances								
– Personal	121,760	110,035	26,986	24,349	7,620	7,300	156,366	141,684
– Institutional	64,589	55,258	33,999	24,620	3,024	1,858	101,612	81,736
– New Zealand Businesses	48,642	45,709	20,493	19,178	2,404	1,874	71,539	66,761
– Asia Pacific	7,815	4,487	4,749	2,574	254	169	12,818	7,230
– Other business units	717	973	769	723	30	4	1,516	1,700
– Less: Institutional Asia Pacific	(6,979)	(3,864)	(1,746)	(657)	(9)	(5)	(8,734)	(4,526)
Other financial assets	4,246	3,510	27	–	–	–	4,273	3,510
Credit related commitments[1]	110,390	100,690	27,397	28,518	3,372	1,841	141,159	131,049
	443,509	**384,929**	**118,535**	**102,886**	**17,610**	**13,594**	**579,654**	**501,409**

The Company	Strong credit profile 2008 $m	Strong credit profile 2007 $m	Satisfactory risk 2008 $m	Satisfactory risk 2007 $m	Sub-standard but not past due or impaired 2008 $m	Sub-standard but not past due or impaired 2007 $m	Total 2008 $m	Total 2007 $m
Liquid assets	15,423	8,484	1,239	1,290	159	22	16,821	9,796
Due from other financial institutions	7,884	6,102	557	22	132	10	8,573	6,134
Trading securities	11,973	13,284	840	28	13	2	12,826	13,314
Derivative financial instruments	31,288	21,325	1,507	–	448	–	33,243	21,325
Available-for-sale assets	14,542	11,003	65	–	88	–	14,695	11,003
Net loans and advances and acceptances								
– Personal	120,486	109,687	17,733	14,510	4,584	3,928	142,803	128,125
– Institutional	56,795	51,907	33,999	22,212	3,024	1,331	93,818	75,450
– Asia Pacific	5,288	3,448	3,430	1,950	143	130	8,861	5,528
– Other business units	717	973	769	723	30	4	1,516	1,700
– Less: Institutional Asia Pacific	(5,084)	(3,359)	(1,455)	(617)	(4)	(4)	(6,543)	(3,980)
Other financial assets	2,927	2,064	25	–	–	–	2,952	2,064
Credit related commitments[1]	95,026	84,015	20,348	23,164	2,582	1,088	117,956	108,267
	357,265	**308,933**	**79,057**	**63,282**	**11,199**	**6,511**	**447,521**	**378,726**

1 Comprises undrawn facilities and customer contingent liabilities.

33: Financial Risk Management (continued)

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

Ageing analysis of past due loans financial instruments that are not impaired:

As at 30 September 2008	Consolidated 1-5 days $m	Consolidated 6-29 days $m	Consolidated 30-59 days $m	Consolidated 60-89 days $m	Consolidated ≥90 days $m	Consolidated Total $m	The Company 1-5 days $m	The Company 6-29 days $m	The Company 30-59 days $m	The Company 60-89 days $m	The Company ≥90 days $m	The Company Total $m
Liquid assets	–	–	–	–	–	–	–	–	–	–	–	–
Due from other financial institutions	–	–	–	–	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–	–	–	–	–
Available-for-sale assets	–	–	–	–	–	–	–	–	–	–	–	–
Net loans and advances												
– Personal	1,733	4,287	960	353	514	7,847	1,727	4,060	828	293	489	7,397
– Institutional	335	624	138	538	260	1,895	336	624	138	538	259	1,895
– New Zealand Businesses	1,018	961	396	171	259	2,805	–	–	–	–	–	–
– Asia Pacific[2]	–	240	–	42	25	307	–	138	–	16	8	162
– Other business units	10	8	10	–	4	32	10	8	10	–	4	32
– Less: Institutional Asia Pacific	–	–	–	–	(2)	(2)	–	–	–	–	(2)	(2)
Other financial assets	–	–	–	–	–	–	–	–	–	–	–	–
Credit related commitments[1]	–	–	–	–	–	–	–	–	–	–	–	–
	3,096	**6,120**	**1,504**	**1,104**	**1,060**	**12,884**	**2,073**	**4,830**	**976**	**847**	**758**	**9,484**

As at 30 September 2007	Consolidated 1-5 days $m	Consolidated 6-29 days $m	Consolidated 30-59 days $m	Consolidated 60-89 days $m	Consolidated ≥90 days $m	Consolidated Total $m	The Company 1-5 days $m	The Company 6-29 days $m	The Company 30-59 days $m	The Company 60-89 days $m	The Company ≥90 days $m	The Company Total $m
Liquid assets	–	–	–	–	–	–	–	–	–	–	–	–
Due from other financial institutions	–	–	–	–	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–	–	–	–	–
Available-for-sale assets	–	–	–	–	–	–	–	–	–	–	–	–
Net loans and advances and acceptances												
– Personal	1,035	3,241	677	220	336	5,509	1,029	3,004	545	175	309	5,062
– Institutional	176	334	107	49	111	777	160	334	107	49	111	761
– New Zealand Businesses	837	658	178	56	88	1,817	–	–	–	–	–	–
– Asia Pacific[2]	–	–	–	22	26	48	–	–	–	7	8	15
– Other business units	6	3	2	2	2	15	6	3	2	2	2	15
– Less: Institutional Asia Pacific	–	–	–	–	(2)	(2)	–	–	–	–	(1)	(1)
Other financial assets	–	–	–	–	–	–	–	–	–	–	–	–
Credit related commitments[1]	–	–	–	–	–	–	–	–	–	–	–	–
	2,054	**4,236**	**964**	**349**	**561**	**8,164**	**1,195**	**3,341**	**654**	**233**	**429**	**5,852**

1 Comprises undrawn facilities and customer contingent liabilities.
2 For Asia Pacific in 2007, past due pools comprised 30-89 days and 90 days plus. In 2008 this was expanded to 1-29 days (shown above in the 6-29 days band).

Ageing analysis of past due loans is used by the Group to measure and manage emerging credit risks. Financial assets that are past due but not impaired include those which are assessed, approved and managed on a portfolio basis within a centralised environment (for example credit cards and personal loans), those which can be held on a productive basis until they are 180 days past due and those which are 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 ANZ 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.

33: Financial Risk Management (continued)

For all lending proposals, ANZ business units assess the value of the assets being financed and judge the appropriateness of taking a security interest in the assets being financed or other customer assets, based on the risk profile of the customer. Each security is held in favour of the specific ANZ entity providing the facility to which it applies. ANZ business units assess the value of assets being financed and judge the appropriateness of acquiring a security interest in either the assets being financed or over other customer assets. This is an important part in setting the credit appetite for loan amounts. Collateral provided is valued conservatively on a realistically recoverable basis assuming an event of default. Credit policy requires that collateral be re-valued on a regular basis with the frequency varying depending on the nature of the security. The adequacy of security valuations must also be considered at each customer review. ANZ seeks to ensure that assets of non-individual customer entities are covered by registered mortgage debenture or equivalent charge to give ANZ access to the assets in appropriate circumstances. ANZ extends value against types of collateral based on likely recovery rates in the event of default. Parameters for calculating extended values are determined after analysis of historical loss information. Extended values serve as guides in the determination of potential losses in the event of default and also in setting appetites for loan amounts.

For the purposes of this disclosure, where security is valued at more than the corresponding credit exposure, coverage is capped at the value of the credit exposure. Estimated value of collateral and other charges related to past due financial instruments that are past due but not impaired.

	Cash and securities		Real estate		Other		Total value of collateral		Credit exposure		Unsecured portion of credit exposure	
Consolidated	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Liquid assets												
Due from other financial institutions	–	–	–	–	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–	–	–	–	–
Available-for-sale assets	–	–	–	–	–	–	–	–	–	–	–	–
Net loans and advances	–	–	–	–	–	–	–	–	–	–	–	–
and acceptances												
– Personal	–	–	6,292	4,125	693	553	6,985	4,678	7,847	5,509	862	831
– Institutional	–	35	243	179	1,020	543	1,263	757	1,895	777	632	20
– New Zealand Businesses	–	–	1,765	1,039	388	149	2,153	1,188	2,805	1,817	652	629
– Asia Pacific	–	–	–	–	–	–	–	–	307	48	307	48
– Other business units	–	–	1	4	30	7	31	11	32	15	1	4
– Less: Institutional Asia Pacific	–	–	–	–	–	–	–	–	(2)	(2)	(2)	(2)
Other financial assets	–	–	–	–	–	–	–	–	–	–	–	–
Credit related commitments[1]	–	–	–	–	–	–	–	–	–	–	–	–
	–	**35**	**8,301**	**5,347**	**2,131**	**1,252**	**10,432**	**6,634**	**12,884**	**8,164**	**2,452**	**1,530**

	Cash and securities		Real estate		Other		Total value of collateral		Credit exposure		Unsecured portion of credit exposure	
The Company	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Liquid assets												
Due from other financial institutions	–	–	–	–	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–	–	–	–	–
Available-for-sale assets	–	–	–	–	–	–	–	–	–	–	–	–
Net loans and advances	–	–	–	–	–	–	–	–	–	–	–	–
and acceptances												
– Personal	–	–	6,292	4,125	345	245	6,637	4,370	7,397	5,062	760	692
– Institutional	–	35	242	179	1,018	497	1,260	711	1,895	761	635	50
– Asia Pacific	–	–	–	–	–	–	–	–	162	15	162	15
– Other business units	–	–	1	4	30	7	31	11	32	15	1	4
– Less: Institutional Asia Pacific	–	–	–	–	–	–	–	–	(2)	(1)	(2)	(1)
Other financial assets	–	–	–	–	–	–	–	–	–	–	–	–
Credit related commitments[1]	–	–	–	–	–	–	–	–	–	–	–	–
	–	**35**	**6,535**	**4,308**	**1,393**	**749**	**7,928**	**5,092**	**9,484**	**5,852**	**1,556**	**760**

1 Comprises undrawn facilities and customer contingent liabilities.

33: Financial Risk Management (continued)

Credit quality of financial assets that are individually impaired

ANZ regularly reviews its portfolio and monitors adherence to contractual terms. When doubt arises as to the collectability of a credit facility, the financial instrument (or 'the facility') is classified and reported as individually impaired and an individual provision is allocated against it.

As described in the summary of significant accounting policies, provisions are recorded using allowance accounts for financial instruments that are reported on the balance sheet at amortised cost. For instruments reported at fair value, impairment provisions are treated as part of overall change in fair value and directly reduce the reported carrying amounts.

	Consolidated				The Company			
	Impaired instruments		Individual provision balance		Impaired instruments		Individual provision balance	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Australia								
Liquid assets	–	–	–	–	–	–	–	–
Due from other financial institutions	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–
Derivative financial instruments	–	45	–	–	–	45	–	–
Available-for-sale assets	–	–	–	–	–	–	–	–
Net loans and advances and acceptances								
– Personal	281	170	152	102	176	109	89	62
– Institutional	1,020	344	333	103	1,020	344	333	103
– Other business units	5	–	2	–	5	–	2	–
Other financial assets	–	–	–	–	–	–	–	–
Credit related commitments[1]	72	31	29	9	72	31	29	9
	1,378	**590**	**516**	**214**	**1,273**	**529**	**453**	**174**
New Zealand								
Liquid assets	–	–	–	–	–	–	–	–
Due from other financial institutions	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Available-for-sale assets	–	–	–	–	–	–	–	–
Net loans and advances and acceptances								
– Institutional	7	5	4	1	–	–	–	–
– New Zealand Businesses	267	94	107	37	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–
Credit related commitments[1]	5	5	–	–	–	–	–	–
	279	**104**	**111**	**38**	**–**	**–**	**–**	**–**
Overseas Markets								
Liquid assets	–	–	–	–	–	–	–	–
Due from other financial institutions	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Available-for-sale assets[2]	15	–	–	–	15	–	–	–
Net loans and advances and acceptances								
– Institutional	133	7	29	4	133	7	29	4
– Asia Pacific	128	22	19	13	104	7	6	2
– Other business units	–	25	–	2	–	25	–	2
– Less: Institutional Asia Pacific	(91)	(1)	–	(1)	(91)	(1)	–	(1)
Other financial assets	–	–	–	–	–	–	–	–
Credit related commitments	–	–	–	–	–	–	–	–
	185	**53**	**48**	**18**	**161**	**38**	**35**	**7**
Aggregate								
Liquid assets	–	–	–	–	–	–	–	–
Due from other financial institutions	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–
Derivative financial instruments	–	45	–	–	–	45	–	–
Available-for-sale assets	15	–	–	–	15	–	–	–
Net loans and advances and acceptances								
– Personal	281	170	152	102	176	109	89	62
– Institutional	1,160	356	366	108	1,153	351	362	107
– New Zealand Businesses	267	94	107	37	–	–	–	–
– Asia Pacific	128	22	19	13	104	7	6	2
– Other business units	5	25	2	2	5	25	2	2
– Less: Institutional Asia Pacific	(91)	(1)	–	(1)	(91)	(1)	–	(1)
Other financial assets	–	–	–	–	–	–	–	–
Credit related commitments[1]	77	36	29	9	72	31	29	9
	1,842	**747**	**675**	**270**	**1,434**	**567**	**488**	**181**

1 Comprises undrawn facilities and customer contingent liabilities.
2 Impaired Available-for-sale debt security where the cumulative mark-to-market loss has been transferred from equity to the Income Statement.

33: Financial Risk Management (continued)

Credit quality of financial assets that are individually impaired (continued)

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.

	Cash and securities		Real estate		Other		Total value of collateral		Credit exposure		Unsecured portion of credit exposure	
Consolidated	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Liquid assets	–	–	–	–	–	–	–	–	–	–	–	–
Due from other financial institutions	–	–	–	–	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–	–	45	–	45
Available-for-sale assets	–	–	–	–	–	–	–	–	15	–	15	–
Net loans and advances and acceptances												
– Personal	–	–	47	36	82	32	129	68	281	170	152	102
– Institutional	7	2	422	41	365	205	794	248	1,160	356	366	108
– New Zealand Businesses	–	–	94	34	66	23	160	57	267	94	107	37
– Asia Pacific	–	–	–	–	109	9	109	9	128	22	19	13
– Other business units	–	–	–	–	3	23	3	23	5	25	2	2
– Less: Institutional Asia Pacific	–	–	–	–	(91)	–	(91)	–	(91)	(1)	–	(1)
Other financial assets	–	–	–	–	–	–	–	–	–	–	–	–
Credit related commitments[1]	–	–	4	–	44	27	48	27	77	36	29	9
	7	**2**	**567**	**111**	**578**	**319**	**1,152**	**432**	**1,842**	**747**	**690**	**315**

	Cash and securities		Real estate		Other		Total value of collateral		Credit exposure		Unsecured portion of credit exposure	
The Company	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Liquid assets	–	–	–	–	–	–	–	–	–	–	–	–
Due from other financial institutions	–	–	–	–	–	–	–	–	–	–	–	–
Trading securities	–	–	–	–	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–	–	45	–	45
Available-for-sale assets	–	–	–	–	–	–	–	–	15	–	15	–
Net loans and advances and acceptances												
– Personal	–	–	47	36	40	11	87	47	176	109	89	62
– Institutional	5	2	422	41	364	201	791	244	1,153	351	362	107
– Asia Pacific	–	–	–	–	98	5	98	5	104	7	6	2
– Other business units	–	–	–	–	3	23	3	23	5	25	2	2
– Less: Institutional Asia Pacific	–	–	–	–	(91)	–	(91)	–	(91)	(1)	–	(1)
Other financial assets	–	–	–	–	–	–	–	–	–	–	–	–
Credit related commitments[1]	–	–	4	–	39	22	43	22	72	31	29	9
	5	**2**	**473**	**77**	**453**	**262**	**931**	**341**	**1,434**	**567**	**503**	**226**

1 Comprises undrawn facilities and customer contingent liabilities.

33: Financial Risk Management (continued)

MARKET RISK

Market risk is the risk to the 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.

ANZ conducts trading operations in interest rates, foreign exchange, commodities, securities and equities. 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.

ANZ 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.

Group-wide responsibility for the strategies and policies relating to the management of market risk lies with the 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 Credit and Trading Risk Committee ('CTC') and the Group Asset & Liability Committee ('GALCO'). The CTC, chaired by the Chief Risk Officer, is responsible for traded market risk, while the GALCO, chaired by the Chief Financial 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 that ANZ incurs.

Within overall strategies and policies, the control of market risk at the Group level is the joint responsibility of Business Units and Risk Management, with the delegation of market risk limits from the Board and CTC 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 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, equities), risk factors (e.g. interest rates, volatilities) and P&L limits (to monitor and manage the performance of the trading portfolios).

Market risk management and control responsibilities

To facilitate the management, measurement and reporting of market risk, ANZ 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. Trading positions arise from transactions where ANZ 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 benchmark.
- *Commodity risk* is the potential loss arising from the decline in the value of a financial instrument due to changes in commodity prices, or their implied volatilities.

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

This comprises the management of non-traded interest rate risk, liquidity, and the risk to the Australian dollar denominated value of the Group's capital and earnings as a result of foreign exchange rate movements.

Some instruments do not fall into either category that also expose ANZ to market risk. These include equity securities classified as available for sale financial assets that predominantly comprise long term strategic investments.

Value at Risk (VaR) measure

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

ANZ measures VaR at a 97.5% and 99% confidence interval. This means that there is a 97.5% or 99% chance that the loss will not exceed the VaR estimate on any given day.

The Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Group calculates VaR using historical changes in market rates, prices and volatilities 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 Group could experience from an extreme market event. As a result of this limitation, the Group utilises a number of other risk measures (e.g. stress testing) and risk sensitivity limits to measure and manage market risk.

33: Financial Risk Management (continued)

Traded Market Risk

Trading activities are typically focused on servicing customer hedging and investment requirements. The principal product classes include foreign exchange, interest rate, debt securities, equity and commodity markets. These activities are managed along both global and geographical product lines.

Below are aggregate VaR exposures covering both derivative and non-derivative trading positions for the Group's product classes.

	30 September 2008				30 September 2007			
Consolidated	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Value at risk at 97.5% confidence								
Foreign exchange	2.4	2.4	0.4	0.8	0.7	1.3	0.2	0.6
Interest rate	2.8	3.6	1.2	1.9	1.6	7.6	1.2	2.6
Credit spread	1.2	2.6	0.6	1.0	1.0	1.9	0.7	1.2
Commodity	1.3	1.5	0.4	1.0	1.0	1.1	–	0.2
Diversification benefit	(3.6)	n/a	n/a	(2.2)	(2.6)	n/a	n/a	(1.8)
Total VaR	4.1	4.7	1.4	2.5	1.7	8.1	1.4	2.8
Value at risk at 99% confidence								
Foreign exchange	3.2	3.2	0.5	1.2	1.1	2.1	0.3	0.8
Interest rate	5.0	5.4	1.3	2.7	2.3	9.8	1.7	3.4
Credit spread	1.8	3.9	0.9	1.6	1.6	3.2	1.1	2.1
Commodity	2.0	2.3	0.6	1.4	1.4	1.5	0.1	0.3
Diversification benefit	(6.1)	n/a	n/a	(3.4)	(3.7)	n/a	n/a	(2.7)
Total VaR	5.9	8.2	1.7	3.5	2.7	9.9	1.7	3.9

	30 September 2008				30 September 2007			
The Company	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Value at risk at 97.5% confidence								
Foreign exchange	2.4	2.4	0.3	0.8	0.7	1.4	0.2	0.4
Interest rate	2.3	3.5	0.8	1.7	1.5	7.5	1.0	2.4
Credit spread	1.2	2.6	0.6	1.0	1.0	1.9	0.7	1.2
Commodity	1.3	1.5	0.4	1.0	1.0	1.1	–	0.2
Diversification benefit	(4.0)	n/a	n/a	(2.2)	(2.6)	n/a	n/a	(1.8)
Total VaR	3.2	4.7	1.4	2.3	1.6	7.2	1.1	2.4
Value at risk at 99% confidence								
Foreign exchange	3.2	3.2	0.4	1.1	1.0	2.3	0.2	0.6
Interest rate	4.2	5.3	0.7	2.4	2.2	9.7	1.2	3.1
Credit spread	1.8	3.9	0.9	1.6	1.6	3.2	1.1	2.1
Commodity	2.0	2.3	0.6	1.4	1.4	1.5	0.1	0.3
Diversification benefit	(6.4)	n/a	n/a	(3.0)	(3.6)	n/a	n/a	(2.7)
Total VaR	4.8	8.4	2.2	3.5	2.6	8.7	1.4	3.4

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

To supplement the VaR methodology, ANZ applies a wide range of stress tests, both on individual portfolios and at a Group level. ANZ 's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ. Standard stress tests are applied on a daily basis and measure the potential loss arising from applying extreme market movements to individual and groups of individual price factors. Extraordinary stress tests are applied monthly and measure the potential loss arising as a result of scenarios generated from major financial market events.

Non-Traded Market Risk (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 Group's capital. Liquidity risk is dealt with in the next section.

33: Financial Risk Management (continued)

Interest rate risk

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long term. Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Group's future net interest income. 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. Interest rate risk is reported using various techniques including: VaR and scenario analysis (to a 1% shock).

a) VaR Non-Traded Interest Rate Risk

The repricing assumptions used to determine the VaR and 1% rate shock have been revised to reflect the assumptions approved by APRA under APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book. For interest rate risk modelling, assumptions are made about the interest rate sensitivity of non-bearing interest (NBI) accounts. Previously some of these accounts were profiled at zero duration, but are now profiled based on independently validated statistical analysis where this was deemed appropriate. NBI's without statistical evidence or justification have remained at zero duration. Below are aggregate VaR figures covering non-traded interest rate risk.

	30 September 2008				30 September 2007			
Consolidated	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Value at risk at 97.5% confidence								
Australia	11.7	11.7	5.6	8.3	9.2	12.8	3.2	8.2
New Zealand	3.4	3.4	1.8	2.7	2.4	2.6	1.5	2.0
Overseas Markets	3.1	3.6	1.7	2.7	3.3	4.1	1.5	2.3
Diversification benefit	(2.8)	n/a	n/a	(2.9)	(3.0)	n/a	n/a	(3.1)
Total	15.4	15.4	7.9	10.8	11.9	14.9	3.4	9.4

The Company								
Value at risk at 97.5% confidence								
Australia	11.7	11.7	5.6	8.3	9.2	12.8	3.2	8.2
Overseas Markets	2.6	3.0	1.4	2.2	3.0	3.0	1.0	1.8
Diversification Benefit	(2.2)	n/a	n/a	(1.2)	(2.0)	n/a	n/a	(0.9)
Total	12.1	12.3	6.6	9.3	10.2	13.7	3.5	9.1

VaR is calculated separately for Australia, New Zealand and Overseas Markets, as well as for the Group.

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

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 previous financial years – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

	Consolidated		The Company	
	2008	2007	2008	2007
Impact of 1% Rate Shock				
As at 30 September	0.94%	(0.53%)	1.62%	(0.81%)
Maximum exposure	0.94%	0.69%	1.62%	0.93%
Minimum exposure	(0.55%)	(0.96%)	(0.74%)	(1.59%)
Average exposure (in absolute terms)	0.47%	0.38%	0.77%	0.59%

33: Financial Risk Management (continued)

Interest rate risk (continued)

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. On a global basis, the Group quantifies the potential variation in future net interest income as a result of these repricing mismatches each month using a static gap model.

The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the 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. For example, when wholesale market rates are anticipating an official rate increase the Group does not reprice certain customer business until the first repricing date after the official rate rise.

The majority of the Group's non-traded interest exposure exists in Australia and New Zealand. In these centres, a separate balance sheet simulation process supplements this 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 Group to quantify the interest rate risks associated with the balance sheet and to formulate strategies to manage current and future risk profiles.

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. Regular reviews are performed to substantiate valuation of the investments within the portfolio and the equity investments are regularly reviewed by management for impairment. The fair value of the constituents of equity securities classified as available for sale can fluctuate considerably.

The table below outlines the composition of the equity holdings.

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Visa Inc.	243	–	190	–
Sacombank (Vietnam)	92	219	92	219
Saigon Securities Inc. (Vietnam)[1]	–	107	–	107
Energy Infrastructure Trust	46	50	46	50
Other equity holdings	65	4	65	4
	446	380	393	380
Impact on equity of 10% variation in value	45	38	39	38

1 Saigon Securities Inc became an associate effective July 2008 (refer to note 39).

Foreign Currency Risk – structural exposures

The investment of capital in foreign operations, such as branches, subsidiaries or associates with functional currencies other than the Australian dollar, exposes the Group to the risk of changes in foreign exchange rates.

The main operating (or functional) currencies of ANZ Group entities are the Australian dollar and the New Zealand dollar, with a number of overseas undertakings operating in various other currencies. The Group presents its consolidated financial statements in Australian dollars, as the Australian dollar is the dominant currency. The Group's consolidated balance sheet is therefore affected by exchange differences between the Australian dollar and functional currencies of foreign operations. Variations in the value of these overseas operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity.

The Group routinely monitors this risk and conducts hedging, where it is expected to add shareholder value, in accordance with approved policies. The Group's exposures to structural foreign currency risks are managed with the primary objective of ensuring, where practical, that the consolidated Tier 1 capital ratio is neutral to the effect of changes in exchange rates.

Selective hedges were in place during the 2008 and 2007 financial years. For details on the hedging instruments used and effectiveness of hedges of net investments in foreign operations, refer to note 12 to these financial statements.

33: Financial Risk Management (continued)

LIQUIDITY RISK

Liquidity risk is the risk that the 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 cashflows and the related liquidity risk is inherent in all banking operations, and may be impacted from internal and/or external events, including: credit or operational risks; bank-specific rumours; market disruptions; or systemic shocks. The Group's liquidity and funding risks are governed by a detailed policy framework which is approved by the Board of Directors. The management of the liquidity and funding positions and risks are overseen by the Group Asset and Liability Committee (GALCO). The following outlines the Group's approach to liquidity and funding risk management. Principles include:

- Ensuring the liquidity management framework is compatible with local regulatory requirements.
- Daily liquidity reporting and scenario analysis to quantify the Group's positions.
- Targeting wholesale and customer liability composition (via funding metrics).
- 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.

Supervision and Regulation

APRA supervises prudential standards for managing liquidity risk and has adopted guidelines based on the 'Basel Committee' "Sound Practices for Managing Liquidity in Banking Organisations": APS 210 – Liquidity (introduced September 2000).

APRA supervises liquidity through individual agreements with Authorised Deposit-taking Institutions (ADIs), taking into consideration the specific risk characteristics of each organisations operation. APRA requires ADIs to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency liquidity. This must include a formal contingency plan for dealing with a liquidity crisis.

The Group maintains an APRA Compliance Plan for APS 210 - Liquidity. The compliance plan documents methods, processes, controls and monitoring activities required to support compliance with the Standard and assigns responsibilities for these activities.

Scenario Modelling

A key component of the Group's liquidity management framework is scenario modelling. APRA requires ADIs to assess liquidity under different scenarios, including the 'going-concern' and 'name-crisis'.

- 'Going-concern': reflects the normal behaviour of cash flows in the ordinary course of business. APRA requires that the Group must be able to meet all commitments and obligations under a going concern scenario, within the ADIs normal funding capacity ('available to fund' limit), over at least the following 30 calendar days. In estimating the funding requirement, the Group models expected cashflows by reference to historical behaviour and contractual maturity data.

  To ensure that the Group has sufficient capacity to meet its going-concern obligations, maturing wholesale funding is assessed against a severe capital market disruption; whereby no wholesale funding can be issued or rolled over. As protection against this potential funding obligation, the Group manages and monitors wholesale borrowing requirements against both its Liquidity Portfolio and concentration limits for both domestic and offshore wholesale debt maturities.
- 'Name-crisis': refers to a potential name-specific liquidity crisis which models the behaviour of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of the Group or adverse rating changes. Under this scenario the Group may have significant difficulty rolling over or replacing funding. Under a name crisis, APRA requires the Group to be cashflow positive over a five business day period.

  The Group models name-crisis expected cashflow behaviour based on the type of customer and their level of sophistication, and the type of asset/liability. Under name-crisis conditions, a conservative set of APRA approved assumptions are applied over an extended eight calendar day period (to cover APRA's five business day requirement), resulting in an accelerated outflow of customer deposits and limited access to new wholesale funding. As of September 2008, the Group's position under this scenario was cashflow positive, excluding any assumed inflows from the Group's internal Residential Mortgage Backed Securitisations.

The Group also models a number of other stress tests and liquidity scenarios over a variety of time horizons, including the impact of credit rating downgrades, and reduced access to wholesale debt in domestic and offshore markets.

Generally, it would take an extreme event to challenge the Group's continued solvency. A more likely outcome is a period of tight liquidity, as has been experienced over the last 12–18 months, which has resulted in increased funding costs. To assess these risks, the Group models and continually monitors the probability and earnings impact of changes in the Group's credit margin. These changes may be caused by general market factors and/or credit rating downgrades.

33: Financial Risk Management (continued)

Group Funding Composition

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

The table below outlines the Group's funding composition.

Funding Composition	Consolidated 2008 $m	Consolidated 2007 $m
Customer deposits and other liabilities[1]		
Personal	74,207	65,394
Institutional	79,625	68,665
New Zealand Business	40,587	38,333
Asia Pacific	15,726	11,101
Group Centre	1,499	1,807
less: Institutional Asia Pacific	(6,915)	(4,071)
Total customer deposits	204,729	181,229
Other[2]	11,601	12,291
Total customer deposits and other liabilities (funding)	216,330	193,520
Wholesale funding		
Bonds and notes	67,323	54,075
Loan capital	14,266	12,784
Certificates of deposit (wholesale)	52,346	31,903
Commercial paper	22,422	16,914
Liability for acceptances	15,297	14,536
Due to other financial institutions	20,092	19,116
Other wholesale borrowings[3]	(3,532)	1,924
Total wholesale funding	188,214	151,252
Shareholders' equity[4]	25,681	21,177
Total funding maturity		
Short term wholesale funding	18.0%	14.5%
Liability for acceptances	3.6%	4.0%
Long term wholesale funding[5]		
– less than 1 year residual maturity	6.8%	8.0%
– greater than 1 year residual maturity	14.2%	13.7%
Total customer deposits and other liabilities (funding)	50.3%	52.9%
Shareholders' equity and hybrid debt[4]	7.1%	6.9%
Total funding and shareholders' equity[4]	100.0%	100.0%

1 Includes term deposits, other deposits excluding Collateralised Loan Obligation and securitisation deposits.
2 Includes interest accruals, payables and other liabilities, provisions and net tax provisions.
3 Includes net derivative balances, special purpose vehicles, other borrowings and preference share capital Euro hybrids.
4 Shareholders' equity excludes preference share capital.
5 Long term wholesale funding amounts are stated at original hedged exchange rates. Movements due to currency fluctuations in actual amounts borrowed are classified as short term wholesale funding.

Wholesale Funding

The Group's global 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. To the extent that asset growth exceeds funding generated from customer deposits, additional wholesale funds are sourced. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through Group Treasury and local Markets operations. Long-term wholesale funding is managed and executed through Group Treasury operations in Australia and New Zealand.

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

33: Financial Risk Management (continued)

Funding Capacity and Debt Issuance Planning

Senior Management (via the Group Asset and Liability Committee) are provided with and approve wholesale funding plans on a regular basis. These plans cover targeted amounts, markets, investors, terms and currencies, for both senior, subordinated and hybrid transactions, while recognising the need to be flexible in the current uncertain capital market environment. This plan is supplemented by a monthly forecasting process which reviews the funding position to-date, and where appropriate takes action and revises planned issuance volumes.

The debt issuance plan is linked to the Group's three-year strategic planning cycle, which is a key activity assisting the Group to understand current and future funding requirements, and to quantify and plan volumes of funding required.

In aggregate the Group raised $39 billion of new term wholesale debt during 2008 from 338 transactions, comprising $24 billion of debt issued with a tenor greater than one year, an additional $9 billion of debt with an effective term to maturity of approximately one year and an additional $6 billion of extendible notes. The weighted average tenor of new term debt issued in 2008 (greater than one year) was 4.0 years. The average cost of new term debt increased by 64 basis points in 2008 as a result of credit market conditions.

Despite periods of instability in offshore short term markets, the Group was able to access all required short term funding during 2008. Offshore commercial paper markets experienced a decline in average duration towards the end of the year. However this was offset by ANZ's issuance of higher volumes of one year debt than previous years, which was the result of a strategic decision to lengthen the short-end maturity profile.

When calculating volumes of wholesale debt outstanding and the weighted average term to maturity of the term wholesale funding portfolio, the 'effective' maturity of callable wholesale debt instruments is conservatively assumed to be the next call date (rather than final maturity) as extension beyond the call date is uncertain.

Liquidity Portfolio Management

The Group holds a diversified portfolio of cash and unencumbered high-quality, highly-liquid securities that may be sold or pledged to provide same-day liquidity. This portfolio helps protect the Group's liquidity position by providing cash in a severely stressed environment. All assets held in this portfolio are eligible securities for repurchase agreements with the applicable central bank (repo eligible).

The sizing of the Group's Liquidity Portfolio is based on the amount of liquidity required to meet: day-to-day operational requirements; potential name crisis; or potential wholesale 'funding stress' requirements.

Due to increased volatility and instability in the Financial markets, from financial year end 2007 to September 2008, the Group increased the volume of eligible securities held, post repurchase (i.e. repo) discounts applied by the applicable central bank, by approximately $14.6 billion to $34.7 billion. This includes the current market value of the $10.3 billion Australian internal mortgage securitisation (RMBS) that was announced to the market in April 2008.

Since 30 September 2008, $20.6 billion of additional repo eligible internal mortgage securitisation has been executed (being $17.4 billion ($15.7 billion post repo discount) in Australia and NZD3.5 billion (NZD $2.9 billion post repo discount) in New Zealand). Together with the impact of the Reserve Bank of Australia's reduction in the repo discount (initial margin) applied to internal mortgage securitisations from 19% to 10%, the balance of the prime liquid asset portfolio as at the end of September together with the subsequent internal securitisations increased by $19.2 billion to $53.9 billion.

The table below details liquidity portfolio holdings held in the Group's major funding centres.

Eligible securities (Market Values[1])	2008 $m	2007 $m
Australia	12,899	9,281
New Zealand	6,620	5,474
United States	2,739	3,070
United Kingdom	4,157	2,251
Internal RMBS (Australia)	8,305	–
Total	34,720	20,076
Internal securitisations occurring in October 2008		
Internal RMBS (Australia) RBA initial margin adjustment	923	
Internal RMBS (Australia) second tranche	15,685	
Internal RMBS (New Zealand)[2]	2,560	
Total	19,168	
	53,888	

1 Market value is post the repo discount applied by the applicable central bank.
2 NZD3.5 billion.

Supplementing its liquidity position, the Group holds additional cash and liquid asset balances. Also, the Markets business holds secondary sources of liquidity in the form of highly liquid instruments in its trading portfolios. These assets are not included in the Prime Global liquidity Portfolio's value outlined above.

33: Financial Risk Management (continued)

Liquidity Crisis Contingency Planning

The Group maintains APRA-endorsed liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity threatening event at a country and Group-wide basis. The framework is compliant with APRA's key liquidity contingency crisis planning requirements and guidelines and 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 making up 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 the Group's liabilities

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

It should be noted that this is not how the Group manages its liquidity risk. The management of this risk is detailed above.

Contractual maturity analysis of financial liabilities at 30 September 2008:

Consolidated at 30 September 2008	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified[2] $m	Total $m
Due to other financial institutions	17,661	2,295	418	–	–	20,374
Deposits and other borrowings						
Certificates of deposit	29,616	13,990	11,518	109	–	55,233
Term deposits	66,817	23,325	1,737	111	–	91,990
Other deposits bearing interest	98,566	–	–	–	–	98,566
Deposits not bearing interest	9,367	–	–	–	–	9,367
Commercial paper	15,419	6,455	1,876	–	–	23,750
Borrowing corporations' debt	4,836	4,481	1,376	–	–	10,693
Other borrowings	2,031	–	–	–	–	2,031
Liability for acceptances	14,439	1,059	–	–	–	15,498
Bonds and notes[3]	8,120	20,484	43,101	2,331	–	74,036
Loan capital[3]	322	1,981	10,804	2,997	1,075	17,179
Derivative liabilities (trading)	27,126	–	–	–	–	27,126
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg (-ve is an inflow)	(20,210)	(30,268)	(79,793)	(4,055)	–	(134,326)
Pay leg	20,117	31,357	83,327	4,457	–	139,258
– other balance sheet management						
Receive leg (-ve is an inflow)	(3,563)	(5,608)	(7,994)	(489)	–	(17,654)
Pay leg	3,481	5,290	8,138	455	–	17,364

1 Includes at call instruments.
2 Includes perpetual investments brought in at face value only.
3 Any callable wholesale debt instruments have been included at their next call date.

Full mark-to-market of derivative liabilities held for trading purposes has been included in the 'less than 3 months' category. The undiscounted cash flows for all derivative instruments used for the purposes of balance sheet management has been included based on the contractual maturity of the instrument.

33: Financial Risk Management (continued)

Contractual maturity analysis of financial liabilities at 30 September 2007:

Consolidated at 30 September 2007	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified[2] $m	Total $m
Due to other financial institutions	18,450	667	91	360	–	19,568
Deposits and other borrowings						
Certificates of deposit	17,690	8,416	7,581	8	–	33,695
Term deposits	49,971	18,328	4,113	57	–	72,469
Other deposits bearing interest	94,088	–	–	–	–	94,088
Deposits not bearing interest	10,143	–	–	–	–	10,143
Commercial paper	14,726	2,717	–	–	–	17,443
Borrowing corporations' debt	5,065	4,467	1,134	–	–	10,666
Other borrowings	986	–	–	–	–	986
Liability for acceptances	14,585	593	–	–	–	15,178
Bonds and notes[3]	4,583	19,186	34,614	1,252	–	59,635
Loan capital[3]	175	2,704	9,737	1,855	690	15,161
Derivative liabilities (trading)	15,774	–	–	–	–	15,774
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg (-ve is an inflow)	(19,671)	(27,004)	(52,391)	(3,033)	–	(102,099)
Pay leg	20,298	30,726	56,572	3,404	–	111,000
– other balance sheet management						
Receive leg (-ve is an inflow)	(1,867)	(5,475)	(7,585)	(206)	–	(15,133)
Pay leg	1,942	5,018	7,121	196	–	14,277

1 Includes instruments at call.
2 Includes perpetual investments brought in at face value only.
3 Any callable wholesale debt instruments have been included at their next call date.

The Company at 30 September 2008	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified[2] $m	Total $m
Due to other financial institutions	15,859	2,279	22	–	–	18,160
Deposits and other borrowings						
Certificates of deposit	25,972	12,807	11,487	109	–	50,375
Term deposits	47,921	14,745	985	110	–	63,761
Other deposits bearing interest	79,089	–	–	–	–	79,089
Deposits not bearing interest	5,322	–	–	–	–	5,322
Commercial paper	6,790	1,516	1,876	–	–	10,182
Other borrowings	9	–	–	–	–	9
Liabilities for acceptances	14,404	1,059	–	–	–	15,463
Bonds and notes[3]	6,338	14,311	33,832	1,823	–	56,304
Loan capital[3]	305	1,930	9,741	2,997	375	15,348
Derivative liabilities (trading)	28,168	–	–	–	–	28,168
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg (-ve is an inflow)	(10,343)	(17,197)	(56,471)	(3,722)	–	(87,733)
Pay leg	10,258	18,370	59,352	4,141	–	92,121
– other balance sheet management						
Receive leg (-ve is an inflow)	(2,341)	(3,145)	(4,892)	(453)	–	(10,831)
Pay leg	2,269	2,900	4,929	421	–	10,519

1 Includes instruments at call.
2 Includes perpetual investments brought in at face value only.
3 Any callable wholesale debt instruments have been included at their next call date.

33: Financial Risk Management (continued)

The Company at 30 September 2007	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	No maturity specified[2] $m	Total $m
Due to other financial institutions	16,886	617	–	–	–	17,503
Deposits and other borrowings						
Certificates of deposit	14,373	7,769	7,554	8	–	29,704
Term deposits	34,471	8,205	1,810	56	–	44,542
Other deposits bearing interest	75,606	–	–	–	–	75,606
Deposits not bearing interest	5,562	–	–	–	–	5,562
Commercial paper	5,390	376	–	–	–	5,766
Other borrowings	1	–	–	–	–	1
Liabilities for acceptances	14,572	593	–	–	–	15,165
Bonds and notes[3]	4,373	15,044	26,255	1,252	–	46,924
Loan capital[3]	175	2,550	8,703	1,856	690	13,974
Derivative liabilities (trading)	18,425	–	–	–	–	18,425
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg (-ve is an inflow)	(13,536)	(18,878)	(41,619)	(3,033)	–	(77,066)
Pay leg	14,077	21,776	44,817	3,404	–	84,074
– other balance sheet management						
Receive leg (-ve is an inflow)	(792)	(2,177)	(3,067)	(172)	–	(6,208)
Pay leg	877	2,096	2,853	162	–	5,988

1 Includes instruments at call.
2 Includes perpetual investments brought in at face value only.
3 Any callable wholesale debt instruments have been included at their next call date.

CREDIT RELATED CONTINGENCIES

Undrawn facilities and issued guarantees comprises the nominal principal amounts of commitments, contingencies and other undrawn facilities and represents the maximum liquidity at risk position should all facilities extended be drawn.

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be partially used, whereas others may never be required to be drawn upon. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements.

The tables below analyses the Group's undrawn facilities and issued guarantees into relevant maturity groupings based on the earliest date on which ANZ may be required to pay.

	Consolidated			The Company		
30 September 2008	Less than 1 year $m	More than 1 year $m	Total $m	Less than 1 year $m	More than 1 year $m	Total $m
Undrawn facilities	111,265	–	111,265	90,026	–	90,026
Issued guarantees	30,006	–	30,006	28,037	–	28,037

	Consolidated			The Company		
30 September 2007	Less than 1 year $m	More than 1 year $m	Total $m	Less than 1 year $m	More than 1 year $m	Total $m
Undrawn facilities	107,219	50	107,269	86,074	50	86,124
Issued guarantees	23,816	–	23,816	22,174	–	22,174

The liquidity risk of credit related commitments, contingencies and other undrawn facilities may be less than the contract amount, however the liquidity risk has been taken to be the contract amount. The amounts do not necessarily represent future cash requirements as many of these facilities are expected to be partially used or to expire unused.

33: Financial Risk Management (continued)

OPERATIONAL RISK MANAGEMENT

Operational risks are the risks arising from day-to-day operational activities which may result in direct or indirect loss. These losses can result from both internal and external events and include:

- failure to comply with policies, procedures, laws and regulations;
- failure in execution, dealing and process management;
- fraud or forgery;
- a breakdown in the availability or integrity of services, systems and information; or
- damage to ANZ's reputation.

The authority for operational risk oversight is delegated by the Board to the Board Risk Committee. The Operational Risk Executive Committee (OREC) supports the Board Risk Committee in respect of operational risk oversight including compliance.

The key responsibilities of OREC include:

- endorsing the ANZ Operational Risk Framework and approving ANZ's Compliance Framework and operational risk policies;
- monitoring the state of operational risk management and instigating any necessary corrective actions;
- being notified of all material actual, potential or near miss risk events for review; and
- approving the strategy and approach for new and emerging risks and monitoring associated action plans.

Membership of OREC comprises senior executives and OREC is chaired by the Chief Risk Officer.

The Board delegates its authority for operational risk oversight to the Board Risk Committee. The Operational Risk Executive Committee (OREC) reports to the Board Risk Committee and is responsible for the management of the operational risk framework and compliance with operational risk policy.

Primary responsibility for day to day management of current, new and emerging operational risks lies with ANZ divisions/Business Units. This is supported by an independent Operational Risk function which provides oversight, direction, the operational framework, policies and processes.

ANZ's Operational Risk Framework outlines the approach to managing operational risk and specifically covers the core minimum requirements that divisions/business units must undertake in the management of operational risk.

ANZ utilises three lines of defence to manage operational and other risks. The first line is the business with primary responsibility for the day-to-day ownership and management of operational risks at ANZ. The risk management function is the second line of defence providing oversight, direction and specialist support to the business in their management of risks and consistent implementation of the Operational Risk Framework. The risk management function also provides assurance that businesses are owning and managing their risks. The third line of defence is Internal Audit, independently assessing the effectiveness of controls, mitigation strategies, governance and application of policies and frameworks.

The operational risk management process adopted by ANZ consists of a staged approach involving establishing the context, identification, analysis, treatment and monitoring of current, new and emerging operational risks. This is based on the Risk Management Standard issued by Standards Australia/New Zealand (AS/NZS 4360).

ANZ's Operational Risk Framework is supported by a number of operational risk policies and procedures with the effectiveness of the framework assessed through a series of assurance reviews and processes. This is supported by an independent review program by Internal Audit.

ANZ employs the "Risk Drivers and Controls Approach" (RDCA), underpinned by a statistical quantification model to measure the level of operational risk and to determine and allocate operational risk capital.

The RDCA is effectively a system, which:

- assesses the level of ANZ's exposure to specified drivers of risk;
- assesses the scope and quality of ANZ's internal control environment, key operational processes and risk mitigants; and
- directly links these assessments to Operational Risk Capital.

The approach requires completion of a set of scorecards by business units on a half yearly basis. The scorecards provide an assessment of the 'riskiness' of the business unit's activities for specific operational risk categories.

ANZ's business continuity and crisis management capabilities continue to be reviewed, tested and, where necessary, strengthened in response to new and emerging threats.

Business Continuity is viewed as a critical management responsibility within the overall operational risk framework, which seeks to minimise the likelihood of a disruption to normal operations, constrain the impact were an event to occur and achieve efficient and effective recovery.

Crisis Management planning at Group and Country levels supplements Business Continuity Plans in the event of a broader Group or Country crisis. Crisis Management plans include crisis team structures, roles, responsibilities and contact lists, and are subject to periodic testing.

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.

(i) Fair values of financial assets and financial liabilities

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 Group.

In the tables below, financial instruments 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; derivatives in effective hedging relationships; and financial liabilities at fair value through profit and loss.

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 condition after the balance sheet date.

FINANCIAL ASSETS

	Carrying amount							Fair Value
	At amortised cost	At fair value through profit or loss			Hedging	Available- for-sale assets	Total	Total
Consolidated 30 September 2008	$m	Designated on initial recognition $m	Held for Trading $m	Sub-total $m	$m	$m	$m	$m
Liquid assets	25,030	–	–	–	–	–	25,030	25,030
Due from other financial institutions	9,862	–	–	–	–	–	9,862	9,862
Trading securities	–	–	15,177	15,177	–	–	15,177	15,177
Derivative financial instruments[1]	–	–	35,237	35,237	1,704	–	36,941	36,941
Available-for-sale assets	–	–	–	–	–	17,480	17,480	17,480
Loans and advances[2]	334,939	248	–	248	–	–	335,187	334,379
Customers' liability for acceptances	15,297	–	–	–	–	–	15,297	15,297
Other financial assets	4,273	–	–	–	–	–	4,273	4,273
	389,401	248	50,414	50,662	1,704	17,480	459,247	458,439

	Carrying amount							Fair Value
	At amortised cost	At fair value through profit or loss			Hedging	Available- for-sale assets	Total	Total
Consolidated 30 September 2007	$m	Designated on initial recognition $m	Held for Trading $m	Sub-total $m	$m	$m	$m	$m
Liquid assets	16,987	–	–	–	–	–	16,987	16,987
Due from other financial institutions	8,040	–	–	–	–	–	8,040	8,040
Trading securities	–	–	15,167	15,167	–	–	15,167	15,167
Derivative financial instruments[1]	–	–	20,863	20,863	1,341	–	22,204	22,204
Available-for-sale assets	–	–	–	–	–	14,006	14,006	14,006
Loans and advances[2]	288,754	125	–	125	–	–	288,879	288,191
Customers' liability for acceptances	14,536	–	–	–	–	–	14,536	14,536
Other financial assets	3,510	–	–	–	–	–	3,510	3,510
	331,827	125	36,030	36,155	1,341	14,006	383,329	382,641

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

34: Fair Value of Financial Assets and Financial Liabilities (continued)

FINANCIAL ASSETS (continued)

The Company 30 September 2008	Carrying amount: At amortised cost $m	At fair value through profit or loss: Designated on initial recognition $m	Held for Trading $m	Sub-total $m	Hedging $m	Available-for-sale assets $m	Total $m	Fair Value: Total $m
Liquid assets	18,081	–	–	–	–	–	18,081	18,081
Due from other financial institutions	8,573	–	–	–	–	–	8,573	8,573
Trading securities	–	–	12,846	12,846	–	–	12,846	12,846
Derivative financial instruments[1]	–	–	32,042	32,042	1,256	–	33,298	33,298
Available-for-sale assets	–	–	–	–	–	15,103	15,103	15,103
Loans and advances[2]	236,509	248	–	248	–	–	236,757	236,304
Customers' liability for acceptances	15,262	–	–	–	–	–	15,262	15,262
Other financial assets	2,952	–	–	–	–	–	2,952	2,952
	281,377	248	44,888	45,136	1,256	15,103	342,872	342,419

The Company 30 September 2007	Carrying amount: At amortised cost $m	At fair value through profit or loss: Designated on initial recognition $m	Held for Trading $m	Sub-total $m	Hedging $m	Available-for-sale assets $m	Total $m	Fair Value: Total $m
Liquid assets	10,618	–	–	–	–	–	10,618	10,618
Due from other financial institutions	6,134	–	–	–	–	–	6,134	6,134
Trading securities	–	–	13,359	13,359	–	–	13,359	13,359
Derivative financial instruments[1]	–	–	20,554	20,554	816	–	21,370	21,370
Available-for-sale assets	–	–	–	–	–	11,383	11,383	11,383
Loans and advances[2]	198,518	125	–	125	–	–	198,643	198,360
Customers' liability for acceptances	14,523	–	–	–	–	–	14,523	14,523
Other financial assets	2,064	–	–	–	–	–	2,064	2,064
	231,857	125	33,913	34,038	816	11,383	278,094	277,811

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

LIQUID ASSETS AND DUE FROM/TO OTHER FINANCIAL INSTITUTIONS

The carrying values of these financial instruments where there has been no significant change in credit risk is considered to approximate their net fair values as they are short-term in nature, defined as those which reprice or mature in 90 days or less, or are receivable on demand.

TRADING SECURITIES

Trading securities are carried at fair value. Fair value is 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. Exchange traded derivative financial instruments are valued using quoted prices. Over-the-counter derivative financial instruments are valued using accepted valuation models (including discounted cash flow models) based on current market yields for similar types of instruments and the maturity of each instrument and an adjustment reflecting the credit worthiness of the counterparty.

AVAILABLE-FOR-SALE ASSETS

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

NET LOANS AND ADVANCES AND ACCEPTANCES

The carrying value of loans and advances and acceptances 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 and acceptances, the discount rate applied incorporates changes in wholesale market rates, ANZ's cost of wholesale funding and movements in customer margin. For floating rate loans, only changes in wholesale market rates and ANZ's cost of wholesale funding are incorporated in the discount rate. For variable rate loans where ANZ sets the applicable rate at its discretion, the fair value is set equal to the carrying value.

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.

34: Fair Value of Financial Assets and Financial Liabilities (continued)

FINANCIAL LIABILITIES

Consolidated 30 September 2008	Carrying amount At amortised cost $m	At fair value through profit or loss Designated on initial recognition $m	Held for Trading $m	Sub-total $m	Hedging $m	Total $m	Fair Value Total $m
Due to other financial institutions	20,092	–	–	–	–	20,092	20,092
Derivative financial instruments[1]	–	–	30,418	30,418	1,509	31,927	31,927
Deposits and other borrowings	273,098	10,868	–	10,868	–	283,966	284,110
Liability for acceptances	15,297	–	–	–	–	15,297	15,297
Bonds and notes[2]	60,927	6,396	–	6,396	–	67,323	66,794
Loan capital[2]	12,024	2,242	–	2,242	–	14,266	14,013
Payables and other liabilities	9,537	–	–	–	–	9,537	9,537
Total financial liabilities	390,975	19,506	30,418	49,924	1,509	442,408	441,770

Consolidated 30 September 2007	Carrying amount At amortised cost $m	At fair value through profit or loss Designated on initial recognition $m	Held for Trading $m	Sub-total $m	Hedging $m	Total $m	Fair Value Total $m
Due to other financial institutions	19,116	–	–	–	–	19,116	19,116
Derivative financial instruments[1]	–	–	23,186	23,186	994	24,180	24,180
Deposits and other borrowings	225,608	8,135	–	8,135	–	233,743	233,697
Liability for acceptances	14,536	–	–	–	–	14,536	14,536
Bonds and notes[2]	49,079	4,996	–	4,996	–	54,075	54,057
Loan capital[2]	10,524	2,260	–	2,260	–	12,784	12,766
Payables and other liabilities	10,079	–	–	–	–	10,079	10,079
Total financial liabilities	328,942	15,391	23,186	38,577	994	368,513	368,431

The Company 30 September 2008	Carrying amount At amortised cost $m	At fair value through profit or loss Designated on initial recognition $m	Held for Trading $m	Sub-total $m	Hedging $m	Total $m	Fair Value Total $m
Due to other financial institutions	18,001	–	–	–	–	18,001	18,001
Derivative financial instruments[1]	–	–	30,585	30,585	870	31,455	31,455
Deposits and other borrowings	203,328	–	–	–	–	203,328	203,413
Liability for acceptances	15,262	–	–	–	–	15,262	15,262
Bonds and notes[2]	45,675	6,396	–	6,396	–	52,071	51,742
Loan capital[2]	10,534	2,242	–	2,242	–	12,776	12,520
Payables and other liabilities	7,304	–	–	–	–	7,304	7,304
Total financial liabilities	300,104	8,638	30,585	39,223	870	340,197	339,697

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 and loan capital. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

34: Fair Value of Financial Assets and Financial Liabilities (continued)

FINANCIAL LIABILITIES (continued)

The Company 30 September 2007	Carrying amount: At amortised cost $m	At fair value through profit or loss: Designated on initial recognition $m	At fair value through profit or loss: Held for Trading $m	At fair value through profit or loss: Sub-total $m	Hedging $m	Total $m	Fair Value: Total $m
Due to other financial institutions	17,240	–	–	–	–	17,240	17,240
Derivative financial instruments[1]	–	–	24,163	24,163	838	25,001	25,001
Deposits and other borrowings	158,065	–	–	–	–	158,065	158,099
Liability for acceptances	14,523	–	–	–	–	14,523	14,523
Bonds and notes[2]	38,161	4,996	–	4,996	–	43,157	43,157
Loan capital[2]	9,626	2,260	–	2,260	–	11,886	11,886
Payables and other liabilities	8,266	–	–	–	–	8,266	8,266
Total financial liabilities	245,881	7,256	24,163	31,419	838	278,138	278,172

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 and loan capital. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

DEPOSITS AND OTHER BORROWINGS

For interest bearing fixed maturity deposits and other borrowings and acceptances 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.

BONDS AND NOTES 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.

Certain bonds and notes and loan capital have been designated at fair value through profit or loss and are carried at fair value. The fair value is based on a discounted cash flow model based on current market yields for similar types of instruments and the maturity of each instrument. The fair value includes the effects of the appropriate credits spreads applicable to ANZ for that instrument.

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.

COMMITMENTS AND CONTINGENCIES

Adjustments to fair value for commitments and contingencies that are not financial instruments recognised in the balance sheet, are not included in this note.

(ii) Valuation methodology

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

ANZ 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.

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					
	Quoted Markets price		Using observable inputs		With significant non-observable inputs		Total	
Consolidated	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Financial Assets								
Trading securities[1]	412	556	14,616	14,484	149	127	15,177	15,167
Derivative financial instruments[2]	2,428	1,156	33,361	20,898	1,152	150	36,941	22,204
Available-for-sale[3]	2,343	3,105	13,145	8,950	1,992	1,951	17,480	14,006
Loans and advances	–	–	248	125	–	–	248	125
Total	5,183	4,817	61,370	44,457	3,293	2,228	69,846	51,502
Financial Liabilities								
Derivative financial instruments[2]	2,032	1,135	28,102	22,887	1,793	158	31,927	24,180
Deposits and other borrowings	–	–	10,868	8,135	–	–	10,868	8,135
Bonds and notes	–	–	6,396	4,996	–	–	6,396	4,996
Loan capital	–	–	2,242	2,260	–	–	2,242	2,260
Total	2,032	1,135	47,608	38,278	1,793	158	51,433	39,571

1 Trading securities valued using non-observable inputs relate to unquoted illiquid corporate bonds where the credit spread component of the bond value cannot be directly observed in the market.
2 Derivative financial instruments valued using non-observable inputs relate to long date instruments which extend beyond the last observable point on the curve used to model the value, structured credit products where the data on the specific counterparties credit spreads is extremely illiquid as well as adjustments relating to the credit exposure on derivative counterparties where the specific counterparties credit spreads are not observable.
3 Available-for-sale assets valued using non-observable inputs relates to long dated Australian CPI indexed bonds that mature after 2020 and illiquid corporate bonds where the credit spread component of the bond cannot be directly or indirectly observed in the market.

			Valuation technique					
	Quoted Markets price		Using observable inputs		With significant non-observable inputs		Total	
The Company	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Financial Assets								
Trading securities[1]	412	545	12,285	12,687	149	127	12,846	13,359
Derivative financial instruments[2]	2,356	1,146	29,790	20,074	1,152	150	33,298	21,370
Available-for-sale[3]	2,067	2,804	12,112	7,979	924	600	15,103	11,383
Loans and advances	–	–	248	125	–	–	248	125
Total	4,835	4,495	54,435	40,865	2,225	877	61,495	46,237
Financial Liabilities								
Derivative financial instruments[2]	2,105	1,099	27,557	23,744	1,793	158	31,455	25,001
Bonds and notes	–	–	6,396	4,996	–	–	6,396	4,996
Loan capital	–	–	2,242	2,260	–	–	2,242	2,260
Total	2,105	1,099	36,195	31,000	1,793	158	40,093	32,257

1 Trading securities valued using non-observable inputs relate to unquoted illiquid corporate bonds where the credit spread component of the bond value cannot be directly observed in the market.
2 Derivative financial instruments valued using non-observable inputs relate to long date instruments which extend beyond the last observable point on the curve used to model the value, structured credit products where the data on the specific counterparties credit spreads is extremely illiquid as well as adjustments relating to the credit exposure on derivative counterparties where the specific counterparties credit spreads are not observable.
3 Available-for-sale assets valued using non-observable inputs relates to long dated Australian CPI indexed bonds that mature after 2020 and illiquid corporate bonds where the credit spread component of the bond cannot be directly or indirectly observed in the market.

34: Fair Value of Financial Assets and Financial Liabilities (continued)

(iii) Additional information for financial instruments carried at fair value where the valuation incorporates non-observable market data

DEFERRED FAIR VALUE GAINS AND LOSSES

Where the fair value of a financial instrument is determined based on a valuation technique whose valuation is dependent on non-observable data that may have a significant impact on the valuation of the instrument any difference between the transaction price and the amount determined based on the valuation technique (day one gain or loss) arising on initial recognition of the financial instrument is deferred on the balance sheet. The day one gain or loss is recognised in the income statement only to the extent that it arises from a change in factors (including time) that a market participant would consider in setting the price for the instrument.

The fair value recorded in the financial statements for these instruments is the sum of:

- the value given by application of a valuation model, based on the best estimate of the most appropriate model inputs which market participants would use in setting prices for the instrument;
- any fair value adjustments to account for any market features not included within the valuation model (for example, bid-mid spreads, counterparty credit spreads and/or market data uncertainty); and
- unamortised day one gain or loss not recognised immediately in the income statement.

The table below shows movements in the aggregate amount of day one gain(loss) not recognised in the income statement on the initial recognition of the financial instrument because difference between the transaction price and the modelled valuation price was not fully supported by inputs that were observable in the market.

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Opening balance	–	3	–	3
Deferral of gain (loss) on new transactions	5	–	5	–
Recognised in the income statement during the period	–	(3)	–	(3)
Exchange differences	–	–	–	–
	5	–	5	–

SENSITIVITY TO DATA INPUTS

In limited circumstances, the subsequent determination of fair value of a financial instrument is based in whole or in part using valuation techniques based on data derived and extrapolated from data which is not observable in the market. As the valuation models for these instruments are based upon assumptions, changing the assumptions changes the resultant estimate of fair value. The effect of changing those assumptions in valuation models that are not based on observable market data to reasonably possible alternative assumptions is quantified below. The ranges of reasonably possible alternative assumptions are established by application of professional judgement to an analysis of the data available to support each assumption.

Principal inputs used in the determination of fair value of financial instruments based on valuation techniques include data inputs such as statistical data on delinquency rates, foreclosure rates, actual losses, counterparty credit spreads, market-quoted CDS prices, recovery rates, implied default probabilities, market-quoted credit index tranche prices and correlation curves, some of which may not be observable in the market. For both the Group and the Company, the potential effect of changing assumptions to reasonably possible alternative assumptions for valuing financial instruments could result in an increase of $73 million or a decrease of $69 million in net derivative financial instruments as at 30 September 2008. In the prior period, based on conditions as of 30 September 2007, and the then existing portfolio of financial instruments valued based on management assumptions, changes in assumptions to reasonably possible alternatives would not have a material effect on the results of the Group or Company.

34: Fair Value of Financial Assets and Financial Liabilities (continued)

(iv) Additional information for financial instruments designated at fair value through profit or loss

FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The category loans and advances includes certain loans designated at fair value through profit or loss in order to eliminate an accounting mismatch which would arise if the asset were otherwise carried at amortised cost. This mismatch arises as the derivative financial instruments, which were acquired to mitigate interest rate risk of the loan and advances, are measured at fair value through profit or loss. By designating the economically hedged loans, the movements in the fair value attributable to changes in interest rate risks, will also be recognised in the income statement in the same periods.

At balance date, the credit exposure of the Group and the Company on these assets was $248 million (2007: $125 million). Of this, $119 million (2007: $68 million) was mitigated by collateral held.

The cumulative change in fair value attributable to change in credit risk was, for the Group and the Company, a reduction to the assets of $6 million (2007: $1 million). The amount recognised in the income statement attributable to changes in credit risk was a loss of $6 million (2007: $1 million).

The change in fair value of the designated financial assets attributable to changes in credit risk has been calculated by determining the change in credit rating and credit spread implicit in the loans and advances issued by entities with similar credit characteristics.

FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Parts of loan capital, bonds and notes and 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 as the derivatives acquired to mitigate interest rate risk within the financial liabilities are measured at fair value through profit or loss.

The table below compares the carrying amount of financial liabilities carried at full fair value, to the contractual amount payable at maturity and fair value gains and losses recognised during the period on liabilities carried at full fair value that are attributable to changes in ANZ's own credit rating.

	Deposits and other borrowings		Bonds and notes		Loan Capital	
	2008 $m	2007[1] $m	2008 $m	2007 $m	2008 $m	2007 $m
Consolidated						
Carrying amount	10,868	8,135	6,396	4,996	2,242	2,260
Amount by which carrying value is greater/(less) than amount payable at maturity	(88)	(74)	(148)	2	(7)	5
Cumulative change in liability value attributable to own credit risk:						
– opening cumulative (gain)/loss	–	–	(31)	(2)	12	29
– (gain)/loss recognised during the year	(2)	–	(135)	(29)	(59)	(17)
– closing cumulative (gain)/loss	(2)	–	(166)	(31)	(47)	12
Company						
Carrying Amount	–	–	6,396	4,996	2,242	2,260
Amount by which carrying value is greater/(less) than amount payable at maturity	–	–	(148)	2	(7)	5
Cumulative change in liability value attributable to own credit risk:						
– opening cumulative (gain)/loss in liability	–	–	(31)	(2)	12	29
– (gain)/loss recognised during the year	–	–	(135)	(29)	(59)	(17)
– closing cumulative (gain)/loss	–	–	(166)	(31)	(47)	12

1 The component of fair value gain/(loss) attributable to own credit risk for deposits and other borrowings is less than $1 million.

For each of loan capital, bonds and notes and deposits and other borrowings, 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).

35: Maturity Analysis of Assets and Liabilities

The following is an analysis, by remaining contractual maturities at balance date, of selected asset and liability accounts and represents the actual obligation date expected for the asset or liability to be recovered or settled within one year, and greater than one year.

	2008			2007		
Consolidated	Due within one year $m	Greater than one year $m	Total $m	Due within one year $m	Greater than one year $m	Total $m
Due from other financial institutions	9,230	632	9,862	7,434	606	8,040
Available-for-sale assets	14,407	3,073	17,480	9,338	4,668	14,006
Net loans and advances	78,259	256,928	335,187	72,460	216,419	288,879
Customers' liability for acceptances	15,297	–	15,297	14,536	–	14,536
Due to other financial institutions	19,615	477	20,092	18,768	348	19,116
Deposits and other borrowings	267,333	16,633	283,966	224,259	9,484	233,743
Liability for acceptances	15,297	–	15,297	14,536	–	14,536
Bonds and notes	16,198	51,125	67,323	17,696	36,379	54,075
Loan Capital	12	14,254	14,266	11	12,773	12,784

36: Segment Analysis

For management purposes the Group is organised into four major business segments being Personal, Institutional, Asia Pacific and New Zealand Business. An expanded description of the principal activities for each of the business segments is contained in the Glossary on pages 188 to 190.

A summarised description of each business segment is shown below:

Personal	Provides:	■ Rural Commercial & Agribusiness Products, Small Business Banking Products, Banking Products, Consumer Finance, Investment and Insurance Products, Mortgages and other (including the branch network) in Australia; and ■ Vehicle and equipment finance, rental services and fixed and at call investments.
Institutional	Provides:	■ A full range of financial services to the Group's business banking, corporate and institutional customers including Corporate Finance, Business Banking, Markets and Working Capital. Institutional has a major presence in Australia and New Zealand and also has operations in Asia, Europe and the United States.
Asia Pacific	Provides:	■ Personal and private banking business in Asia. ■ A portfolio of strategic retail partnerships in Asia. ■ Trade finance, relationship lending, markets and corporate finance businesses in Asia. ■ Retail banking services in the Pacific region.
New Zealand Businesses	Provides:	■ A full range of banking services for personal, small business and corporate customers in New Zealand. ■ Including ANZ Retail, NBNZ Retail, Corporate and Commercial Banking, Investment Insurance Products, Private Banking, Rural Banking and Central Support.

As the composition of segments was amended during the year, September 2007 comparatives have been adjusted to be consistent with the 2008 segment definitions.

36: Segment Analysis (continued)

BUSINESS SEGMENT ANALYSIS[1, 2]

Consolidated Year ended 30 September 2008	Personal $m	Institutional $m	Asia Pacific $m	New Zealand Businesses $m	Other[3] $m	Less: Institutional Asia Pacific[4] $m	Consolidated total $m
External interest income	13,444	11,753	1,124	6,668	365	(750)	32,604
External interest expense	(4,262)	(8,002)	(802)	(4,361)	(7,836)	509	(24,754)
Adjust for intersegment interest	(5,758)	(1,492)	158	(663)	7,684	71	–
Net interest income	3,424	2,259	480	1,644	213	(170)	7,850
Other external operating income	1,481	1,074	413	487	714	(221)	3,948
Share of net profit of equity accounted investments	–	(3)	146	19	199	–	361
Segment revenue	4,905	3,330	1,039	2,150	1,126	(391)	12,159
Other external expenses	(2,020)	(1,231)	(428)	(1,031)	(1,078)	92	(5,696)
Net intersegment (income)/expenses	(329)	(261)	(42)	4	579	49	–
Operating expenses	(2,349)	(1,492)	(470)	(1,027)	(499)	141	(5,696)
Provision for credit impairment	(437)	(1,218)	(64)	(240)	(9)	20	(1,948)
Segment result	2,119	620	505	883	618	(230)	4,515
Income tax expense	(634)	(91)	(86)	(283)	(151)	57	(1,188)
Minority interests	–	(3)	(6)	–	–	1	(8)
Profit after income tax attributable to shareholders of the company	1,485	526	413	600	467	(172)	3,319
Capital expenditure	15	57	43	40	404	–	559
Non-Cash Expenses							
Depreciation & amortisation	(115)	(42)	(20)	(37)	(117)	1	(330)
Equity-settled share-based payment expenses	(20)	(33)	(7)	(11)	(13)	–	(84)
Provision for credit impairment	(437)	(1,218)	(64)	(240)	(9)	20	(1,948)
Credit risk on derivatives[5]	–	(721)	–	–	–	–	(721)
Provisions for employee entitlements	(32)	(21)	(2)	(59)	(20)	–	(134)
Provision for restructuring	(9)	(6)	(1)	(1)	(164)	–	(181)
Financial Position							
Total external assets[6]	167,744	207,776	31,977	76,125	10,410	(23,463)	470,569
Share of associate and joint venture companies	16	465	2,209	196	1,639	(150)	4,375
Total external liabilities[7]	80,738	175,264	30,172	67,682	111,170	(20,862)	444,164
Goodwill	264	6	61	20	2,713	–	3,064
Intangibles	308	205	44	38	82	–	677

1 Results are equity standardised.
2 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
3 Includes INGA, Group Centre and significant items. Also includes the London headquartered project finance and certain structured finance transactions that ANZ has exited as part of its de-risking strategy.
4 Institutional Asia Pacific is included in both the Institutional business segment and the Asia Pacific business segment consistent with how this business is internally managed. Segment information for Institutional Asia Pacific therefore needs to be deducted to tie back to a consolidated total for Group.
5 This charge arose from changes to the credit worthiness of counterparties to our structured credit intermediation trades, defaults on customer derivative exposures and changes in counterparty credit ratings on the remainder of our derivatives portfolio.
6 Excludes deferred tax assets.
7 Excludes income tax liabilities.

36: Segment Analysis (continued)

BUSINESS SEGMENT ANALYSIS[1, 2]

Consolidated Year ended 30 September 2007	Personal $m	Institutional $m	Asia Pacific $m	New Zealand Businesses $m	Other[3] $m	Less Institutional Asia Pacific[4] $m	Consolidated total $m
External interest income	10,811	9,062	844	5,811	212	(530)	26,210
External interest expense	(3,196)	(6,396)	(643)	(3,539)	(5,491)	357	(18,908)
Adjust for intersegment interest	(4,503)	(682)	146	(614)	5,573	80	–
Net interest income	3,112	1,984	347	1,658	294	(93)	7,302
Other external operating income	1,322	1,465	299	488	369	(164)	3,779
Share of net profit of equity accounted investments	4	16	66	20	153	–	259
Segment revenue	4,438	3,465	712	2,166	816	(257)	11,340
Other external expenses	(1,839)	(1,086)	(285)	(1,035)	(762)	54	(4,953)
Net intersegment (income)/expenses	(311)	(249)	(37)	(1)	561	37	–
Operating expenses	(2,150)	(1,335)	(322)	(1,036)	(201)	91	(4,953)
Provision for credit impairment	(386)	(24)	(42)	(69)	(2)	1	(522)
Segment result	1,902	2,106	348	1,061	613	(165)	5,865
Income tax expense	(571)	(621)	(73)	(341)	(111)	39	(1,678)
Minority interests	(1)	(3)	(4)	–	–	1	(7)
Profit after income tax attributable to shareholders of the company	1,330	1,482	271	720	502	(125)	4,180
Capital expenditure	43	26	26	36	282	–	413
Non-Cash Expenses							
Depreciation & amortisation	(124)	(39)	(17)	(40)	(96)	1	(315)
Equity-settled share-based payment expenses	(19)	(24)	(4)	(11)	(4)	–	(62)
Provision for credit impairment	(386)	(24)	(42)	(69)	(2)	1	(522)
Credit risk on derivatives[5]	–	(45)	–	–	–	–	(45)
Provisions for employee entitlements	(25)	(17)	(1)	(56)	(22)	–	(121)
Provision for restructuring	(6)	(9)	1	–	(9)	–	(23)
Financial Position							
Total external assets[6]	150,403	157,503	16,998	70,602	8,370	(11,216)	392,660
Share of associate and joint venture companies	16	177	1,557	181	1,499	–	3,430
Total external liabilities[7]	72,516	143,628	16,672	58,509	87,792	(9,155)	369,962
Goodwill	264	4	57	20	2,781	–	3,126
Intangibles	312	141	11	22	65	–	551

1 Results are equity standardised.
2 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
3 Includes INGA, Group Centre and significant items. Also includes the London headquartered project finance and certain structured finance transactions that ANZ has exited as part of its de-risking strategy.
4 Institutional Asia Pacific is included in both the Institutional business segment and the Asia Pacific business segment consistent with how this business is internally managed. Segment information for Institutional Asia Pacific therefore needs to be deducted to tie back to a consolidated total for Group.
5 This charge arose from changes to the credit worthiness of counterparties to our structured credit intermediation trades, defaults on customer derivative exposures and changes in counterparty credit ratings on the remainder of our derivatives portfolio.
6 Excludes deferred tax assets.
7 Excludes income tax liabilities.

36: Segment Analysis (continued)

The following analysis details financial information by geographic location.

GEOGRAPHIC SEGMENT ANALYSIS[1, 2]

Consolidated	2008 $m	2008 %	2007 $m	2007 %
Income				
Australia	25,033	68%	20,134	66%
New Zealand	9,110	25%	8,092	27%
Overseas Markets	2,770	7%	2,021	7%
	36,913	100%	30,247	100%
Total assets[3]				
Australia	321,705	69%	272,968	70%
New Zealand	100,270	21%	91,193	23%
Overseas Markets	48,594	10%	28,499	7%
	470,569	100%	392,660	100%
Capital Expenditure				
Australia	460	82%	326	79%
New Zealand	40	7%	36	9%
Overseas Markets	59	11%	51	12%
	559	100%	413	100%

1 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
2 The geographic segments represent the locations in which the transaction was booked.
3 Excludes deferred tax assets.

37: Notes to the Cash Flow Statements

a) Reconciliation of net profit after income tax to net cash provided by operating activities

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Operating profit after income tax attributable to shareholders of the Company	3,319	4,180	3,336	3,551
Adjustments to reconcile operating profit after income tax to net cash provided by/(used in) operating activities				
Provision for credit impairment	1,948	522	1,573	344
Credit risk on derivatives	721	45	718	45
Depreciation and amortisation	330	315	259	242
Profit on sale of businesses	(2)	(234)	(4)	(39)
Provision for employee entitlements, restructuring and other provisions	584	336	418	286
Payments from provisions	(402)	(307)	(230)	(247)
(Profit)/loss on sale of premises and equipment	(32)	(33)	(4)	4
(Profit)/loss on sale of available-for-sale assets	(361)	(14)	(281)	(4)
Amortisation of discounts/premiums included in interest income	(176)	(80)	2	–
Net foreign exchange earnings	(708)	(518)	(340)	(531)
Net gains/losses on trading derivatives	(344)	(405)	(164)	(126)
Share based payments	14	7	14	7
Net (increase)/decrease in operating assets				
Trading securities	31	(5,913)	501	(5,846)
Liquid assets greater than three months	(4,692)	(1,642)	(3,620)	(1,865)
Due from other banks greater than three months	(739)	(410)	(674)	(195)
Loans and advances	(46,855)	(36,943)	(38,446)	(27,606)
Net derivative financial instruments	(1,628)	(2,154)	(796)	(963)
Net intra-group loans and advances	–	–	2,222	(10,305)
Regulatory deposits	(232)	(54)	(134)	(31)
Interest receivable	(248)	(56)	(277)	(3)
Accrued income	40	(23)	22	(38)
Net tax assets	(1,282)	(203)	(1,416)	(565)
Net (decrease)/increase in operating liabilities				
Deposits and other borrowings	49,796	33,964	43,503	34,585
Due to other financial institutions	976	4,326	761	3,050
Payables and other liabilities	(1,189)	23	(2,513)	(11)
Interest payable	754	367	560	206
Accrued expenses	115	23	86	25
Other	(180)	(180)	(2,159)	383
Total adjustments	(3,761)	(9,241)	(419)	(9,198)
Net cash (used in)/provided by operating activities	(442)	(5,061)	2,917	(5,647)

b) Reconciliation of cash and cash equivalents

Cash and cash equivalents include liquid assets and amounts due from other financial institutions with an original term to maturity of less than three months. Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to the related items in the statements of financial position as follows:

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Liquid assets – less than three months (refer note 9)	15,645	12,307	10,133	6,701
Due from other financial institutions – less than three months (refer note 10)	7,842	6,767	7,023	5,339
Cash and cash equivalents in the statement of cashflows	23,487	19,074	17,156	12,040

37: Notes to the Cash Flow Statements (continued)

c) Acquisitions and disposals

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Cash outflows from acquisitions and investments				
Purchases of controlled entities (note 17)	10	203	6	177
Investments in controlled entities	–	–	62	6
Purchases of interest in associates and joint ventures	440	1,247	223	366
	450	1,450	291	549
Cash inflows from disposals				
Disposals of controlled entities (note 17)	81	377	81	–
Disposals of associates and joint ventures	47	67	32	67
	128	444	113	67

d) Non-cash financing and investing activities

Share capital issues				
Dividend reinvestment plans	2,506	442	2,506	442

e) Financing arrangements

	Consolidated			
	2008		2007	
	Available $m	Unused $m	Available $m	Unused $m
Credit standby arrangements				
Standby Lines	1,419	1,419	1,134	1,134
Other financing arrangements				
Overdraft and other financing arrangements	–	–	–	–
Total finance available	1,419	1,419	1,134	1,134

38: Controlled Entities

	Incorporated in	Nature of Business
Ultimate parent of the Group		
Australia and New Zealand Banking Group Limited	Australia	Banking
All controlled entities are 100% owned unless otherwise noted.		
The material controlled entities of the Group are:		
Amerika Samoa Bank*	American Samoa	Banking
ANZ Capel Court Limited	Australia	Investment Banking
ANZ Capital Funding Pty Ltd	Australia	Funding
ANZ Capital Hedging Pty Ltd	Australia	Hedging
ANZ Commodity Trading Pty Ltd	Australia	Finance
ANZcover Insurance Pty Ltd	Australia	Captive-Insurance
ANZ Trustees Limited	Australia	Trustee/Nominee
ANZ Funds Pty Ltd	Australia	Investment
ANZ Bank (Europe) Limited*	England	Banking
ANZ Bank (Samoa) Limited*	Samoa	Banking
ANZ Holdings (New Zealand) Limited*	New Zealand	Holding Company
ANZ National Bank Limited*	New Zealand	Banking
ANZ Investment Services (New Zealand) Limited*	New Zealand	Fund Manager
ANZ National (Int'l) Limited*	New Zealand	Finance
Arawata Finance Limited*	New Zealand	Finance
Arawata Trust*	New Zealand	Finance
Arawata Holdings Limited*	New Zealand	Holding Company
Harcourt Corporation Limited*	New Zealand	Investment
Arawata Trust Company*	New Zealand	Finance
Endeavour Finance Limited*	New Zealand	Finance
Tui Endeavour Limited*	New Zealand	Finance
Private Nominees Limited*	New Zealand	Nominee
UDC Finance Limited*	New Zealand	Finance
ANZ International (Hong Kong) Limited*	Hong Kong	Holding Company
ANZ Asia Limited*	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited*	Vanuatu	Banking
ANZ International Private Limited*	Singapore	Holding Company
ANZ Singapore Limited*	Singapore	Merchant Banking
ANZ Royal Bank (Cambodia) Limited*[1]	Cambodia	Banking
Bank of Kiribati Ltd*[1]	Kiribati	Banking
LFD Limited	Australia	Holding Company
Minerva Holdings Limited*	England	Holding Company
Upspring Limited*	England	Finance
Votraint No. 1103 Pty Limited	Australia	Investment
ANZ Lenders Mortgage Insurance Pty Limited	Australia	Mortgage Insurance
ANZ Nominees Limited	Australia	Nominee
ANZ Orchard Investments Pty Ltd	Australia	Holding Company
Australia and New Zealand Banking Group (PNG) Limited*	Papua New Guinea	Banking
Citizens Bancorp Inc*	Guam	Holding Company
Citizens Security Bank (Guam) Inc*	Guam	Banking
Esanda Finance Corporation Limited	Australia	General Finance
ETRADE Australia Limited	Australia	Online Stockbroking
Omeros II Trust[1]	Australia	Securitisation
PT ANZ Panin Bank*[1]	Indonesia	Banking
ANZ Vientiane Commercial Bank Limited*[1]	Laos	Banking

* Audited by overseas KPMG firms.

1 Minority interests hold ordinary shares or units in the controlled entities listed above as follows: Bank of Kiribati Ltd – 150,000 $1 ordinary shares (25%) (2007: 150,000 $1 ordinary shares (25%)); PT ANZ Panin Bank – 7,500 IDR 1 million shares (15%) (2007: 7,500 IDR 1 million shares (15%)); ANZ Royal Bank (Cambodia) Limited – 189,000 USD100 ordinary shares (35%) (2007: 180,000 USD100 ordinary shares (45%)); ANZ Vientiane Commercial Bank Limited – 4,000,000 $1 ordinary shares (40%) (2007: 4,000,000 $1 ordinary shares (40%)); Omeros II Trust – residual capital unitholder (2007: residual capital unitholder).

39: Associates

Significant associates of the Group are as follows:

	Date became an associate	Ownership interest held	Voting interest	Incorporated in	Carrying value $m 2008	Carrying value $m 2007	Fair value[3] $m	Reporting date	Principal activity
AMMB Holdings Berhad[1]	May 2007	19%	19%[4]	Malaysia	999	804	768[6]	31 March	Banking
P.T. Bank Pan Indonesia	April 2001	30%	30%	Indonesia	406	252	747	31 December	Banking
Shanghai Rural Commercial Bank	September 2007	20%	20%	Peoples Republic of China	403	307	n/a	31 December	Banking
Bank of Tianjin	June 2006	20%	20%	Peoples Republic of China	218	164	n/a	31 December	Banking
Saigon Securities Inc.[1]	July 2008	18%	18%	Vietnam	150	n/a	106[6]	31 December	Stockbroking
Diversified Infrastructure Trust[5]	March 2008	54%	54%	Australia	100	n/a	n/a	30 September	Investment
Cards NZ Limited[2]	August 2002	15%	25%	New Zealand	72	–	n/a	30 September	Cards Services
Metrobank Card Corporation Inc	October 2003	40%	40%	Philippines	30	28	n/a	31 December	Cards Issuing
Other associates					230	194			
Total carrying value of associates					2,608	1,749			

1 Significant influence was established via representation on the Board of Directors.
2 Equity accounted gain arising from the allocation of shares in Visa Inc. through the Group's associate, Cards NZ Limited, on Visa shares in New Zealand.
3 Applicable to those investments in associates where there are published price quotations.
4 The investment in AMMB Holdings Berhad comprises ordinary shares and bonds exchangeable into ordinary shares. The terms of the exchangeable bonds allow ANZ to convert the exchangeable bonds into ordinary shares at any time within the 10 year period to maturity. Currently held ordinary shares provide ANZ a voting interest of 19%. The other instruments could increase ANZ's voting interest and ownership interest up to 25%, when converted or exchanged in full. An increase above 20% would require regulatory approval.
5 ANZ has significant influence but not control over this entity (refer note 17 for further details).
6 A value-in-use estimation supports the carrying value of these investments.

	2008 $m	2007 $m
Aggregate assets of significant associates (100%)	88,929	64,649
Aggregate liabilities of significant associates (100%)	81,561	60,081
Aggregate revenue of significant associates (100%)	5,239	4,737

	Consolidated 2008 $m	Consolidated 2007 $m
Results of Associates		
Share of associates profit before income tax	282	131
Share of income tax expense	(57)	(37)
Share of associates net profit – as disclosed by associates	225	94
Adjustments		
– withholding tax	(1)	(4)
– provisioning	(21)	(2)
– release of acquisition fair value adjustments	16	–
– other	(1)	(1)
Share of associates net profit accounted for using the equity method	218	87

40: Interests in Joint Venture Entities

The Group has interests in joint venture entities as follows:

	Ownership interest held	Voting interest held	Incorporated in	Carrying value[6] $m	Reporting dates	Principal activity
ING Australia Limited[1, 5]	49%[2]	49%	Australia	1,589	31 December	Funds Management and Insurance
ING (NZ) Holdings Limited[3,5]	49%[4]	50%	New Zealand	178	31 December	Funds Management and Insurance
Total interests in Joint Venture entities				1,767		

1 A joint venture entity from 1 May 2002.
2 This represents the Group's 49% share of the assets and liabilities of ING Australia Limited. The Group has joint control of the joint venture, and accordingly the entity is not consolidated.
Key details of the joint venture are:
- ING Australia Limited is owned 51% by ING Group and 49% by ANZ.
- Both shareholders have an equal say in strategic decisions with a number of matters requiring the approval of both shareholders (i.e. require unanimous approval). These include major items of capital expenditure, acquisitions or disposals in excess of $20 million and changes to the Board structure.
- Equal board representation with four Group nominees and four ING Group nominees. All key issues (including business plans, major capital expenditure, acquisitions etc) require unanimous Board approval.
- Refer to Critical Estimates and Judgements used in Applying Accounting Policies item (ii) for details regarding valuation of investment in ING Australia Limited.

The Joint Venture includes the majority of the Group's and ING's funds management and insurance activities in Australia.
3 A joint venture entity from 30 September 2005.
4 This represents the Group's 49% share of assets and liabilities of ING (NZ) Holdings Limited. The Group has joint control of the joint venture, and accordingly the entity is not consolidated.
Key details of the joint venture are:
- ING (NZ) Holdings Limited is owned 51% by ING Group and 49% by ANZ.
- Both shareholders have an equal say in strategic decisions with a number of matters requiring the approval of both shareholders (i.e. require unanimous approval). These include major items of capital expenditure, acquisitions or disposals in excess of $20 million and changes to the Board structure.
- Equal board representation with four Group nominees and four ING Group nominees. All key decisions (including business plans, major capital expenditure, acquisitions etc) require unanimous Board approval.
- Refer to Critical Estimates and Judgements used in Applying Accounting Policies item (iii) for details regarding valuation of investment in ING (NZ) Holdings Limited

The joint venture includes the majority of the Group's and ING's funds management and insurance activities in New Zealand.
5 ING Australia Limited and ING (NZ) Holdings Limited have different reporting dates than the Consolidated Group to align with the ING Group parent entity.
6 2007 carrying values as follows: ING Australia Limited $1,519 million; and ING (NZ) Holdings Limited $162 million.

40: Interests in Joint Venture Entities (continued)

	ING Australia Limited		ING (NZ) Holdings Limited		Consolidated Total	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Retained profits attributable to the joint venture entity						
At the beginning of the year	313	256	39	19	352	275
At the end of the year	410	313	58	39	468	352
Movement in the carrying amount of the joint venture entity						
Carrying amount at the commencement of the year	1,519	1,462	162	146	1,681	1,608
Share of net profit	124	152	19	20	143	172
Dividend received	(27)	(95)	–	–	(27)	(95)
Movement in reserves	(27)	–	–	–	(27)	–
Adjustment for exchange rate fluctuations	–	–	(3)	(4)	(3)	(4)
Carrying amount at the end of the year	1,589	1,519	178	162	1,767	1,681
Share of assets and liabilities[1]						
Investments	12,498	14,712	65	70	12,563	14,782
Other assets	2,340	1,817	134	137	2,474	1,954
Share of total assets	14,838	16,529	199	207	15,037	16,736
Policy holder liabilities	13,311	14,881	(3)	19	13,308	14,900
Other liabilities	516	698	9	9	525	707
Share of total liabilities	13,827	15,579	6	28	13,833	15,607
Share of net assets	1,011	950	193	179	1,204	1,129
Share of revenues, expenses and results						
Revenues	396	433	77	69	473	502
Expenses	(230)	(233)	(63)	(49)	(293)	(282)
Profit before income tax	166	200	14	20	180	220
Income tax expense	(42)	(48)	5	–	(37)	(48)
Profit after income tax	124	152	19	20	143	172
Net equity accounted profit	124	152	19	20	143	172
Share of commitments						
Lease commitments	141	150	7	3	148	153
Other commitments	51	19	–	–	51	19
Share of total expenditure commitments	192	169	7	3	199	172
Share of contingent liabilities						
In relation to ANZ's interest in the joint venture entity[2]	27	27	–	–	27	27
	27	27	–	–	27	27

1 This represents the Group's share of the assets and liabilities of ING Australia Limited and ING (NZ) Holdings Limited, less minority interests and including goodwill on acquisition of ANZ Funds Management entities.
2 This represents Deeds of Subordination with ASIC and buyer of last resort.

41: Securitisations

ANZ 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 ANZ 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 ANZ 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 ANZ's continuing involvement.

The following table summarises ANZ's securitisation activities for ANZ-originated assets. The 2008 securitisation activity relates to an internal residential mortgage securitisation creating instruments eligible for repurchase arrangements with the Reserve Bank of Australia.

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Carrying amount of assets securitised (sold) during year	–	–	11,229	–
Net cash proceeds received	–	–	–	–
Retained interests	–	–	(11,229)	–
Gain/(loss) on securitisation/sale (pre-tax)	–	–	–	–

ANZ-originated financial assets that do not qualify for derecognition typically relate to loans that have been securitised under arrangements by which ANZ retains a continuing involvement in the transferred assets. Continuing involvement may entail: retaining the rights to future cash flows arising from the assets after investors have received their contractual terms providing subordinated interests; liquidity support; continuing to service the underlying asset; or entering into derivative transactions with the securitisation vehicles. In such instances, ANZ continues to be exposed to risks associated with these transactions.

The rights and obligations that ANZ retains from its continuing involvement in securitisations are initially recorded as an allocation of the fair value of the financial asset between the portion that is derecognised and the portion that continues to be recognised on the date of transfer. The carrying amount of ANZ-originated financial assets that did not achieve derecognition during the year are set out below:

	Consolidated		The Company	
Securitisations	2008 $m	2007 $m	2008 $m	2007 $m
Carrying amount of assets (original)	–	–	11,229	–
Carrying amount of assets (currently recognised)	–	–	10,360	–
Carrying amount of associated liabilities	–	–	10,360	–

Additional information in relation to securitisation exposures is included in Financial Information section 4 (unaudited disclosures).

42: Fiduciary Activities

The Group conducts various fiduciary activities as follows:

Investment fiduciary activities for trusts

The Group conducts investment fiduciary activities for trusts, including deceased estates. These trusts have not been consolidated as the Group does not have direct or indirect control.

Where the Company or its controlled entities incur liabilities in respect of these operations as trustee, where the primary obligation is incurred in an agency capacity as trustee of the trust rather than on the Group's own account, a right of indemnity exists against the assets of the applicable funds or trusts. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Company or its controlled entities will be required to settle the liabilities, the liabilities are not included in the financial statements.

42: Fiduciary Activities (continued)

The aggregate amounts of funds concerned are as follows:

	Consolidated 2008 $m	Consolidated 2007 $m
Trusteeships	2,338	2,651

Funds management activities

Funds management activities are conducted through the ING Australia Limited and ING (NZ) Holdings Limited joint ventures and certain subsidiaries of the Group. As stated in note 1A(vii), shares in joint venture entities are stated in the consolidated balance sheet at cost plus the Group's share of post acquisition earnings. Funds under management on behalf of customers are not consolidated because these funds invest in specified investments on behalf of clients.

The Group controlled or jointly controlled fund management companies with funds under management as follows:

	2008 $m	2007 $m
ING Australia Limited Joint Venture	42,507	49,461
ING (NZ) Holdings Limited Joint Venture	6,764	7,220
Controlled entities – New Zealand	4,908	3,895
Controlled entities – Australia	1,365	798
	55,544	61,374

Custodian services activities

Custodian services are conducted through ANZ Custodian Services. ANZ Custodian Services holds investment assets under custody on behalf of external customers and as a consequence the assets are not consolidated in the Group's accounts. As at 30 September 2008, ANZ Custodian Services had funds under custody and administration of $143.2 billion (30 September 2007: $148.2 billion).

43: Commitments

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Property				
Contracts for construction of new office building in Docklands area, Melbourne Australia				
Not later than 1 year	375	171	375	171
Later than one year but not later than 5 years	9	212	9	212
Acquisitions				
Not later than 1 year	6	9	–	9
Capital expenditure				
Contracts for outstanding capital expenditure				
Not later than 1 year	53	101	22	83
Total capital expenditure commitments[1]	443	493	406	475
Lease rentals				
Land and buildings				
Not later than 1 year	271	232	197	159
Later than 1 year but not later than 5 years	597	512	437	373
Later than 5 years	362	384	340	356
	1,230	1,128	974	888
Furniture and equipment				
Not later than 1 year	37	29	25	16
Later than 1 year but not later than 5 years	47	29	35	16
Later than 5 years	–	–	–	–
	84	58	60	32
Total lease rental commitments	1,314	1,186	1,034	920
Total commitments	1,757	1,679	1,440	1,395

1 Relates to premises and equipment.

44: Credit Related Commitments, Guarantees, Contingent Liabilities and Contingent Assets

CREDIT RELATED COMMITMENTS GUARANTEES AND CONTINGENT LIABILITIES

Credit related commitments

Facilities provided

	Consolidated		The Company	
	2008 Contract amount $m	2007 Contract amount $m	2008 Contract amount $m	2007 Contract amount $m
Undrawn facilities[1]	111,265	107,269	90,026	86,124
Australia	71,911	70,692	71,109	69,999
New Zealand	18,818	18,765	–	–
Overseas Markets	20,536	17,812	18,917	16,125
Total	111,265	107,269	90,026	86,124

1 The credit risk of the undrawn facilities may be less than the contract amount, however the credit risk has been taken to be the contract amount. The majority of undrawn facilities are subject to customers maintaining specific credit standards. The amount does not necessarily represent future cash requirements as many of these facilities are expected to be partially used or to expire unused.

Guarantees and contingent liabilities

Details of the estimated maximum amount of guarantees and contingent liabilities that may become payable are disclosed on the following pages. These guarantees and contingent liabilities relate to transactions that the Group has entered into as principal. Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Standby letters of credit are obligations on the part of the Group to pay to third parties when customers fail to make payments when due.

Documentary letters of credit involve the issue of letters of credit guaranteeing payment in favour of an exporter secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Group to make payments to a third party should the customer fail to fulfil the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements for customers that apply for loans. The contract amount represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

	Consolidated		The Company	
	2008 Contract amount $m	2007 Contract amount $m	2008 Contract amount $m	2007 Contract amount $m
Financial Guarantees	6,679	5,410	6,442	5,194
Standby letters of credit	1,651	1,476	1,617	1,474
Bill endorsements	10	28	10	28
Documentary letters of credit	4,957	3,238	4,744	3,080
Performance related contingencies	15,568	12,671	14,518	12,091
Other	1,141	993	706	307
Total	30,006	23,816	28,037	22,174
Australia	13,170	10,535	13,184	10,525
New Zealand	1,435	1,253	–	–
Overseas Markets	15,401	12,028	14,853	11,649
Total	30,006	23,816	28,037	22,174

44: Credit Related Commitments, Guarantees, Contingent Liabilities and Contingent Assets (continued)

OTHER BANK RELATED CONTINGENT LIABILITIES

GENERAL

There are outstanding court proceedings, claims and possible claims against the Group, the aggregate amount of which cannot readily be quantified. Appropriate legal advice has been obtained and, in the light of such advice, provisions as deemed necessary have been made. In some instances we have not disclosed the estimated financial impact as this may prejudice the interests of the Group.

i) Opes Prime Stockbroking Limited

ANZ entered into Master Securities Lending Agreements (AMSLAs) with Opes Prime and a related company on 26 July 2006. Under the AMSLAs, ANZ acquired shares in various companies listed on the ASX. On 20 March 2008, there was a reorganisation of security arrangements between Opes Prime and ANZ. On 27 March 2008, ANZ appointed a receiver and manager to Opes Prime and related companies.

In relation to Opes Prime:

- There are outstanding court proceedings and claims against ANZ including a class action on behalf of some clients of Opes Prime.
- ASIC is conducting an investigation into Opes Prime generally. As part of that investigation, ASIC and ANZ have had extensive correspondence concerning Opes Prime. ASIC has raised concerns about disclosure requirements in respect of interests in entities (arising under transactions entered into pursuant to the AMSLAs) and various pother potential breaches of the Corporations Act. From investigations to date, ANZ believes it has in all material respects acted in accordance with the applicable laws.
- It has been suggested that the reorganisation of security arrangements between Opes Prime and ANZ might be challenged under the Corporations Act by the liquidators of Opes Prime. In a Notice to Creditors of Opes Prime issued on 6 October 2008, the liquidators valued these potential claims in the region of $205 million to $270 million and also flagged potential claims against another financier, Merrill Lynch. They also pointed out to the creditors that there would be complexities, risks and considerable time periods involved, if these potential claims were to be pursued by litigation.

ANZ and Merrill Lynch have engaged in a mediation process with the liquidators and ASIC.

There are ongoing developments concerning the events surrounding Opes Prime which may continue for some time. There is a risk that further actions (court proceedings or regulatory actions) may be commenced against various parties, including ANZ. The potential impact or outcome of future claims (if any) cannot presently be ascertained. ANZ would review and defend any claim, as appropriate.

ii) Contingent tax liability

The Australian Taxation Office (ATO) is reviewing the taxation treatment of certain transactions, including structured finance transactions, undertaken by the Group in the course of normal business activities. Some assessments have been received which are being challenged in the normal manner.

The Inland Revenue Department (IRD) in New Zealand is reviewing a number of conduit-relieved structured finance transactions as part of normal revenue authority audit procedures. This is part of an industry-wide review by the IRD of these transactions undertaken in New Zealand. The IRD has issued Notices of Proposed Adjustment (the 'Notices') in respect of some of those structured finance transactions. The Notices are not tax assessments and do not establish a tax liability, but are the first step in a formal dispute process. In addition, the IRD has issued some tax assessments as a follow up to the Notices in some cases. Should the same position be adopted by the IRD on the remaining transactions of that kind as reflected in the Notices and in the tax assessments received, the maximum potential tax liability would be approximately NZD541 million (including interest tax effected) for the period to 30 September 2008. Of that maximum potential liability, approximately NZD151 million is subject to tax indemnities provided by Lloyds TSB Bank PLC under the agreement by which ANZ acquired the National Bank of New Zealand and which relate to transactions undertaken by the National Bank of New Zealand before December 2003. All of these conduit-relieved transactions have now either matured or been terminated.

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

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

iii) Interbank deposit agreement

ANZ has entered into an Interbank Deposit Agreement with the major banks in the payments system. This agreement is a payment system support facility certified by the Australian Prudential Regulation Authority, where the terms are such that if any bank is experiencing liquidity problems, the other participants are required to deposit equal amounts of up to $2 billion for a period of 30 days. At the end of 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of mortgages to the value of the deposit.

iv) Nominee activities

The Group will indemnify each customer of controlled entities engaged in nominee activities against loss suffered by reason of such entities failing to perform any obligation undertaken by them to a customer (refer note 42).

v) Clearing and settlement obligations

In accordance with the clearing and settlement arrangements set out:

- in the Australian Payments Clearing Association Limited Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System (HVCS), the Company has a commitment to comply with rules which could result in a bilateral exposure and loss in the event of a failure to settle by a member institution; and
- in the Austraclear System Regulations and the CLS Bank International Rules, the Company has a commitment to participate in loss-sharing arrangements in the event of a failure to settle by a member institution.

For HVCS and Austraclear, the obligation arises only in limited circumstances.

44: Credit Related Commitments, Guarantees, Contingent Liabilities and Contingent Assets (continued)

vi) Deed of Cross Guarantee in respect of certain controlled entities

Pursuant to class order 98/1418 (as amended) dated 13 August 1998, relief was granted to a number of wholly owned controlled entities from the Corporations Act 2001 requirements for preparation, audit, and publication of individual financial statements. The results of these companies are included in the consolidated Group results. The entities to which relief was granted are:

- ANZ Properties (Australia) Pty Ltd[1]
- ANZ Capital Hedging Pty Ltd[1]
- Alliance Holdings Pty Ltd[1]
- ANZ Orchard Investments Pty Ltd[2]
- ANZ Securities (Holdings) Limited[3]
- ANZ Commodity Trading Pty Ltd[4]
- ANZ Funds Pty Ltd[1]
- Votraint No. 1103 Pty Ltd[2]

1 Relief originally granted on 21 August 2001.
2 Relief originally granted on 13 August 2002.
3 Relief originally granted on 9 September 2003.
4 Relief originally granted on 11 August 2008.

It is a condition of the class order that the Company and each of the above controlled entities enter into a Deed of Cross Guarantee. A Deed of Cross Guarantee under the class order was executed by them and lodged with the Australian Securities and Investments Commission. The Deed of Cross Guarantee is dated 1 March 2006. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of the controlled entities under certain provisions of the Corporations Act 2001. If a winding up occurs, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up. The consolidated income statement and consolidated balance sheet of the Company and its wholly owned controlled entities which have entered into the Deed of Cross Guarantee are:

	Consolidated	
	2008 $m	2007 $m
Profit before tax	3,950	4,835
Income tax expense	(679)	(916)
Profit after income tax	3,271	3,919
Retained profits at start of year[1]	10,105	8,240
Adjustment on adoption of AASB 2005-1	–	141
Total available for appropriation	13,376	12,300
Ordinary share dividends provided for or paid	(2,506)	(2,363)
Transfer from reserves	–	–
Actuarial gains/(losses) on defined benefit plans after tax	(60)	75
Retained profits at end of year	10,810	10,012
Assets		
Liquid assets	18,081	10,618
Available-for-sale assets	15,103	11,383
Net loans and advances	236,772	198,610
Other assets	107,542	78,242
Premises and equipment	1,043	802
Total assets	378,541	299,655
Liabilities		
Deposits and other borrowings	203,328	161,195
Income tax liability	253	669
Payables and other liabilities	150,461	117,992
Provisions	908	710
Total liabilities	354,950	280,566
Net assets	23,591	19,089
Shareholders' equity[2]	23,591	19,089

1 The companies included in the class order changed in 2008. Accordingly, retained profits did not carry forward in 2008.
2 Shareholders' equity excludes retained profits and reserves of controlled entities within the class order.

44: Credit Related Commitments, Guarantees, Contingent Liabilities and Contingent Assets (continued)

vii) New Zealand Commerce Commission

In November 2006, the New Zealand 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 Commission alleges price fixing and substantially lessening competition in relation to the setting of credit card interchange fees and is seeking penalties and orders under the Commerce Act.

Subsequently, several major New Zealand retailers have issued proceedings against ANZ National Bank and the other above mentioned defendants seeking unquantified damages, based on allegations similar to those contained in the Commerce Commission proceedings. ANZ National Bank is defending the proceedings. At this stage, the risks and any potential liabilities cannot be assessed. The court has now allocated a ten week fixture for the proceedings beginning in October 2009.

viii) Trade Sanctions

On 1 February 2007, following a review of its compliance with United States (US) economic sanctions and discussions with US regulators, the Group announced that it had curtailed financial transactions with US sanctioned countries and had taken further action to ensure compliance with US sanction regulations. A small number of transactions, 42 in total, involved parties from US sanctioned countries. The Group has made voluntary disclosures to US financial regulators and remains in discussion with US regulators regarding the transactions. The Group has also briefed Australian and New Zealand regulators. The US sanctions regime includes the possibility of fines. Based on current knowledge, it is difficult to predict the level of fines. Nonetheless, the Group considers that it holds appropriate provisions for these issues.

ix) ING New Zealand Funds

ANZ markets and distributes a range of wealth management products in New Zealand which are managed by ING (NZ) Limited (of which ANZ holds 49%). Trading in the New Zealand ING Diversified Yield fund and the ING Regular Income Fund was suspended on 13 March 2008 by the fund manager, ING (NZ) Limited, due to the deterioration in liquidity in credit markets. The matter is being reviewed by both ANZ and ING (NZ) and it is too early to assess the nature or quantum of any potential liability.

x) Sale of Grindlays businesses

On 31 July 2000, ANZ completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. ANZ provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liability. The issues below have not impacted adversely the reported results. All settlements, penalties and costs have been covered within the provisions established at the time.

FERA

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India.

The Indian authorities served notices on Grindlays and certain of its officers in India and civil penalties have been imposed which are the subject of appeals. Criminal prosecutions are pending and will be defended. The amounts in issue are not material.

Tax Indemnity

ANZ provided an indemnity relating to tax liabilities of Grindlays (and its subsidiaries) and the Jersey Sub-Group to the extent to which such liabilities were not provided for in the Grindlays accounts as at 31 July 2000. Claims have been made under this indemnity, with no material impact on the Group expected.

xi) Underpinning agreement – ANZ National Bank Limited

The Company is party to an underpinning agreement with ANZ National Bank Limited whereby the Company undertakes to assume risk in relation to credit facilities extended by ANZ National Bank Limited to individual customers which exceed 35% of ANZ National Bank Limited's capital base.

xii) Underpinning agreement – Australia and New Zealand Banking Group (PNG) Limited

The Company is party to an underpinning agreement with Australia and New Zealand Banking Group (PNG) Limited whereby the Company undertakes to assume risk in relation to credit facilities extended by Australia and New Zealand Banking Group (PNG) Limited to individual customers which exceed 25% of Australia and New Zealand Banking Group (PNG) Limited's capital base.

CONTINGENT ASSETS

National Housing Bank

In 1992, Grindlays received a claim aggregating to approximately Indian Rupees 5.06 billion from the National Housing Bank (NHB) in India. The claim arose out of cheques drawn by NHB in favour of Grindlays, the proceeds of which were credited to the account of a Grindlays customer.

Grindlays won an arbitration award in March 1997, under which NHB paid Grindlays an award of Indian Rupees 9.12 billion. NHB subsequently won an appeal to the Special Court of Mumbai, after which Grindlays filed an appeal with the Supreme Court of India. Grindlays paid the disputed money including interest into court. Ultimately, the parties settled the matter and agreed to share the monies paid into court which by then totalled Indian Rupees 16.45 billion (AUD 661 million at 19 January 2002 exchange rates), with Grindlays receiving Indian Rupees 6.20 billion (AUD 248 million at 19 January 2002 exchange rates) of the disputed monies.

ANZ in turn received a payment of USD 124 million (USD equivalent of the Indian Rupees received by Grindlays) from Standard Chartered Bank under the terms of an indemnity given in connection with the sale of Grindlays to Standard Chartered Bank.

ANZ recovered $114 million in 2006 from its insurers in respect of the above.

In addition, ANZ is entitled to share with NHB in the proceeds of any recovery from the estate of the customer whose account was credited with the cheques drawn from NHB. However, the Indian Taxation Department is claiming a statutory priority to all of the funds available for distribution to creditors of that customer. The Special Court passed an order in late 2007 scaling down the Income Taxation Department's priority, however, that order has been appealed by the Income Taxation Department to the Supreme Court of India. The appeal was heard in late August 2008 and a decision by the Supreme Court of India is now pending.

45: Superannuation and Other Post Employment Benefit Schemes

Description of the Group's post employment benefit schemes

The Group has established a number of pension, superannuation and post retirement medical benefit schemes throughout the world. The Group may be obliged to contribute to the schemes as a consequence of legislation and provisions of trust deeds. Legal enforceability is dependent on the terms of the legislation and trust deeds.

The major schemes with assets in excess of $25m are:

			Contribution levels	
Country	Scheme	Scheme type	Employee/participant	Employer
Australia	ANZ Australian Staff Superannuation Scheme[1,2]	Defined contribution scheme Section C[3] *or*	Optional[8]	Balance of cost[10]
		Defined contribution scheme Section A *or*	Optional	9% of salary[11]
		Defined benefit scheme Pension Section[4]	Nil	Balance of cost[12]
New Zealand	ANZ National Bank Staff Superannuation Scheme (formerly ANZ Group (New Zealand) Staff Superannuation Scheme)[1,2]	Defined benefit scheme[5] *or*	Nil	Balance of cost[13]
		Defined contribution scheme	Minimum of 2.5% of salary	7.5% of salary[14]
	National Bank Staff Superannuation Fund[1,2]	Defined benefit scheme[6] *or*	5.0% of salary	Balance of cost[15]
		Defined contribution scheme[7]	Minimum of 2.0% salary	11.5% of salary[16]
UK	ANZ UK Staff Pension Scheme[1]	Defined benefit scheme[7]	5.0% of salary[9]	Balance of cost[17]

Balance of cost: the Group's contribution is assessed by the actuary after taking account of members' contributions and the value of the schemes' assets.

1 These schemes provide for pension benefits.
2 These schemes provide for lump sum benefits.
3 Closed to new members in 1997.
4 Closed to new members. Operates to make pension payments to retired members or their dependants.
5 Closed to new members on 31 March 1990. Operates to make pension payments to retired members of that section of the scheme or their dependants.
6 Closed to new members on 1 October 1991.
7 Closed to new members on 1 October 2004.
8 Optional but with minimum of 1% of salary.
9 From 1 October 2003, all member contributions are at a rate of 5% of salary.
10 As determined by the Trustee on the recommendation of the actuary – currently 9% (2007: 9%) of members' salaries.
11 2007: 9% of salary.
12 As determined by the Trustee on the recommendation of the actuary – currently nil (2007: nil).
13 As recommended by the actuary – currently nil (2007: nil).
14 2007: 7.5% of salary.
15 As recommended by the actuary – currently 24.8% (2007: 24.8%) of members' salaries.
16 2007: 11.5% of salary.
17 As agreed by the Trustee and Group after taking the advice of the actuary – currently 26% (2007: 26%) of pensionable salaries and additional quarterly contributions of GBP 3.5 million until December 2015.

45: Superannuation and Other Post Employment Benefit Schemes (continued)

Funding and contribution information for the defined benefit sections of the schemes

The funding and contribution information for the defined benefit sections of the schemes as extracted from the schemes' most recent financial reports are set out below.

In this financial report, the net (liability)/asset arising from the defined benefit obligation recognised in the balance sheet has been determined in accordance with AASB 119 "Employee Benefits". However, the excess or deficit of the net market value of assets over accrued benefits shown below has been determined in accordance with AAS 25 'Financial Reporting by Superannuation Plans'. The excess or deficit for funding purposes below differs from the net (liability)/asset in the balance sheet because AAS 25 prescribes a different measurement date and basis to those used for AASB 119 purposes.

2008 Schemes	Accrued benefits* $m	Net market value of assets held by scheme $m	Excess/(deficit) of net market value of assets over accrued benefits $m
ANZ Australian Staff Superannuation Scheme Pension Section[1]	35	33	(2)
ANZ UK Staff Pension Scheme[1]	1,083	959	(124)
ANZ UK Health Benefits Scheme[3]	12	–	(12)
ANZ National Bank Staff Superannuation Scheme[1]	5	5	–
National Bank Staff Superannuation Fund[2]	164	159	(5)
Other[4,5]	7	5	(2)
Total	1,306	1,161	(145)

* Determined in accordance with AAS 25 'Financial Reporting by Superannuation Plans', which prescribes a different measurement date and basis to those applied in this financial report under AASB 119 'Employee Benefits'. Under AASB 119, the discount rates used are based on prevailing government and corporate bond rates at the reporting date (30 September 2008), rather than the expected return on scheme assets as at the most recent actuarial valuation date, set out below, as prescribed by AAS 25.
1 Amounts were measured at 31 December 2007.
2 Amounts were measured at 31 March 2007.
3 Amounts were measured at 30 September 2008.
4 Amounts were measured at 30 September 2007.
5 Other includes the defined benefit arrangements in Japan, Philippines and Taiwan.

2007 Schemes	Accrued benefits* $m	Net market value of assets held by scheme $m	Excess/(deficit) of net market value of assets over accrued benefits $m
ANZ Australian Staff Superannuation Scheme Pension Section[2]	36	35	(1)
ANZ UK Staff Pension Scheme[2]	1,134	967	(167)
ANZ UK Health Benefits Scheme[4]	15	–	(15)
ANZ National Bank Staff Superannuation Scheme[1]	6	6	–
National Bank Staff Superannuation Fund[3]	168	163	(5)
Other[4, 5]	7	5	(2)
Total	1,366	1,176	(190)

* Determined in accordance with AAS 25 'Financial Reporting by Superannuation Plans', which prescribes a different measurement date and basis to those applied in this financial report under AASB 119 'Employee Benefits'. Under AASB 119 the discount rates used are based on prevailing government and corporate bond rates at the reporting date (30 September 2007), rather than the expected return on scheme assets as at the most recent actuarial valuation date, set out below, as prescribed by AAS 25.
1 Amounts were measured at 31 December 2004.
2 Amounts were measured at 31 December 2006.
3 Amounts were measured at 31 March 2007.
4 Amounts were measured at 30 September 2007.
5 Other includes the defined benefit arrangements in Japan, Philippines and Taiwan.

Employer contributions to the defined benefit schemes are based on recommendations by the schemes' actuaries. Funding recommendations are made by the actuaries based on assumptions of various matters such as future investment performance, interest rates, salary increases, mortality rates and turnover levels. The funding methods adopted by the actuaries are intended to ensure that the benefit entitlements of employees are fully funded by the time they become payable.

The Group expects to make contributions of $40 million to the defined benefit sections of the schemes during the next financial year.

45: Superannuation and Other Post Employment Benefit Schemes (continued)

The current contribution recommendations for the major defined sections of the schemes are described below.

ANZ Australian Staff Superannuation Scheme Pension Section

The Pension Section of the ANZ Australian Staff Superannuation Scheme is closed to new members. A full actuarial valuation, conducted by consulting actuaries Russell Employee Benefits as at 31 December 2007 showed a deficit of $2 million and the actuary recommended that Group contributions to the Pension Section remain suspended. The next full actuarial valuation is due to be conducted as at 31 December 2010, at which time the funding position will be reassessed.

The following economic assumptions were used in formulating the actuary's funding recommendations:

Rate of investment return	8% p.a.
Pension indexation rate	3% p.a.

The Group has no present liability under the Scheme's Trust Deed to commence contributions or fund the deficit.

ANZ UK Staff Pension Scheme

A full actuarial valuation, conducted by consulting actuaries Watson Wyatt LLP, as at 31 December 2007 showed a deficit of GBP 55 million ($124 million at 30 September 2008 exchange rates).

Following the actuarial valuation as at 31 December 2007, the Group agreed to make regular contributions at the rate of 26% of pensionable salaries. These contributions are sufficient to cover the cost of accruing benefits. To address the deficit, the Group agreed to continue to pay additional quarterly contributions of GBP 3.5 million until 31 December 2015. These contributions will be reviewed at the next actuarial valuation which is scheduled to be undertaken as at 31 December 2009.

The following economic assumptions were used in formulating the actuary's funding recommendations:

Rate of investment return on existing assets	5.8% p.a.
Rate of investment return for determining ongoing contributions	7.2% p.a.
Salary increases	5.2% p.a.
Pension increases	3.4% p.a.

The Group has no present liability under the Scheme's Trust Deed to fund the deficit measured under AAS 25. A contingent liability may arise in the event that the Scheme was wound up. If this were to happen, the Trustee would be able to pursue the Group for additional contributions under the UK Employer Debt Regulations. The Group intends to continue the Scheme on an on-going basis.

A net liability representing the defined benefit obligation calculated under AASB 119 is recognised on the balance sheet. The basis of calculation under AASB 119 is detailed in note 1F(vi), and on page 164.

National Bank Staff Superannuation Fund

A full actuarial valuation of the National Bank Staff Superannuation Fund, conducted by consulting actuaries AON Consulting NZ, as at 31 March 2007 showed a deficit of NZD6 million ($5 million at 30 September 2008 exchange rates). The actuary recommended that the Group make contributions of 24.8% of salaries in respect of members of the defined benefit section.

The following economic assumptions were used in formulating the actuary's funding recommendations:

Rate of investment return (net of income tax)	5.5% p.a.
Salary increases	3.0% p.a.
Pension increases	2.5% p.a.

The Group has no present liability under the Fund's Trust Deed to fund the deficit measured under AAS 25. A contingent liability may arise in the event that the Fund was wound up. Under the Fund's Trust Deed, if the Fund were wound up, the Group is required to pay the Trustees of the Fund an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled. The Group intends to continue the Fund on an on-going basis.

A net liability representing the defined benefit obligation calculated under AASB 119 is recognised on the balance sheet. The basis of calculation under AASB 119 is detailed in note 1F(vi), and on page 164.

45: Superannuation and Other Post Employment Benefit Schemes (continued)

The following tables summarise the components of the expense recognised in the income statement and the amounts recognised in the balance sheet under AASB 119 for the defined benefit sections of the schemes:

	Consolidated		The Company	
	2008 $m	2007 $m	2008 $m	2007 $m
Amount recognised in income in respect of defined benefit schemes				
Current service cost	10	14	8	11
Interest cost	70	71	60	61
Expected return on assets	(77)	(77)	(68)	(67)
Past service cost	–	1	–	1
Adjustment for contributions tax	2	2	–	–
Total included in personnel expenses (refer note 4)	5	11	–	6
Amounts included in the balance sheet in respect of its defined benefit schemes				
Present value of funded defined benefit obligation	(1,160)	(1,267)	(1,003)	(1,112)
Fair value of scheme assets	1,006	1,199	871	1,037
Present value of net obligation	(154)	(68)	(132)	(75)
Amounts recognised in the balance sheet				
Other assets (refer note 20)	–	7	–	–
Payables and other liabilities (refer note 24)	(154)	(75)	(132)	(75)
Present value of net obligation	(154)	(68)	(132)	(75)
Amounts recognised in equity in respect of defined benefit schemes				
Actuarial (gains)/losses incurred during the year and recognised directly in retained earnings	112	(107)	84	(104)
Cumulative actuarial (gains)/losses recognised directly in retained earnings	48	(64)	28	(56)

The Group has a legal liability to fund deficits in the schemes, but no legal right to use any surplus in the schemes to further its own interests. The Group has no present liability to settle deficits with an immediate contribution. For more information about the Group's legal liability to fund deficits, refer to the earlier description of the current contribution recommendations for the schemes.

	Consolidated 2008 $m	Consolidated 2007 $m	The Company 2008 $m	The Company 2007 $m
Movements in the present value of the defined benefit obligation in the relevant period				
Opening defined benefit obligation	1,267	1,462	1,112	1,296
Current service cost	10	14	8	11
Interest cost	70	72	60	62
Contributions from scheme participants	1	1	–	–
Actuarial (gains)/losses	(83)	(101)	(93)	(92)
Past service cost	–	1	–	1
Exchange differences on foreign schemes	(35)	(111)	(32)	(108)
Benefits paid	(70)	(71)	(52)	(58)
Closing defined benefit obligation	1,160	1,267	1,003	1,112
Movements in the fair value of scheme assets in the relevant period				
Opening fair value of scheme assets	1,199	1,238	1,037	1,067
Expected return on scheme assets	77	77	68	67
Actuarial gains/(losses)	(195)	6	(177)	12
Exchange differences on foreign schemes	(45)	(92)	(42)	(89)
Contributions from the employer	39	40	37	38
Contributions from scheme participants	1	1	–	–
Benefits paid	(70)	(71)	(52)	(58)
Closing fair value of scheme assets[1]	1,006	1,199	871	1,037
Actual return on scheme assets	(118)	82	(109)	79

1 Scheme assets include the following financial instruments issued by the Group: Cash and short term debt instruments $59.1 million (September 2007: $4.8 million), fixed interest securities $1.0 million (September 2007: $1.0 million) and equities $0.3 million (September 2007: $0.2 million).

45: Superannuation and Other Post Employment Benefit Schemes (continued)

	Consolidated Fair value of scheme assets 2008 %	Consolidated Fair value of scheme assets 2007 %	The Company Fair value of scheme assets 2008 %	The Company Fair value of scheme assets 2007 %
Analysis of the scheme assets				
Equities	32	48	30	48
Debt securities	37	33	34	30
Property	11	13	13	15
Other	20	6	23	7
Total assets	100	100	100	100

	2008 %	2007 %
Key actuarial assumptions used (expressed as weighted averages)		
Discount rate		
ANZ Australian Staff Superannuation Scheme – Pension Section	5.25	6.25
ANZ UK Staff Pension Scheme	7.00	5.90
ANZ UK Health Benefits Scheme	7.20	6.00
ANZ National Bank Staff Superannuation Scheme	6.04	6.50
National Bank Staff Superannuation Fund	6.04	6.50
Expected rate of return on scheme assets		
ANZ Australian Staff Superannuation Scheme – Pension Section	8.50	8.50
ANZ UK Staff Pension Scheme	7.40	7.00
ANZ UK Health Benefits Scheme	n/a	n/a
ANZ National Bank Staff Superannuation Scheme	4.50	4.50
National Bank Staff Superannuation Fund	5.50	5.50
Future salary increases		
ANZ UK Staff Pension Scheme	5.50	5.15
National Bank Staff Superannuation Fund	3.00	3.00
Future pension increases		
ANZ Australian Staff Superannuation Scheme – Pension Section	3.00	3.00
ANZ UK Staff Pension Scheme	3.70	3.35
ANZ National Bank Staff Superannuation Scheme	2.50	2.50
National Bank Staff Superannuation Fund	2.50	2.50
Future medical cost trend – short term		
ANZ UK Health Benefits Scheme	11.00	10.00
Future medical cost trend – long term		
ANZ UK Health Benefits Scheme	6.00	5.50

To determine the expected returns of each of the asset classes held by the relevant scheme, the directors assessed historical return trends and market expectations for the asset classes. The overall expected rate of return on assets for each scheme is determined as the weighted average of the expected returns for the asset classes.

Assumed medical cost trend rates do not have a material effect on the amounts recognised as income or included in the balance sheet.

	Consolidated 2008 $m	Consolidated 2007 $m	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2008 $m	The Company 2007 $m	The Company 2006 $m	The Company 2005 $m
History of experience adjustments								
Defined benefit obligation	(1,160)	(1,267)	(1,462)	(1,246)	(1,003)	(1,112)	(1,296)	(1,076)
Fair value of scheme assets	1,006	1,199	1,238	1,099	871	1,037	1,067	922
Surplus/(deficit)	(154)	(68)	(224)	(147)	(132)	(75)	(229)	(154)
Experience adjustments on scheme liabilities	12	9	7	(6)	8	10	5	(7)
Experience adjustments on scheme assets	(195)	6	48	100	(177)	12	44	90

Information for 2004 is not available.

46: Employee Share and Option Plans

ANZ operates a number of employee share and option schemes under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan (ESAP) schemes that existed during the 2007 and 2008 financial years were the $1,000 Share Plan, the Restricted Share Plan, the Deferred Share Plan, Performance Shares and the Employee Share Save Scheme (ESSS). Note the ESSS is an employee salary sacrifice plan and is not captured as a share based payment expense.

$1,000 share plan

Each permanent employee (excluding senior executives) who has had continuous service for one year is eligible to participate in the $1,000 scheme enabling the grant of up to $1,000 of ANZ shares in each financial year, subject to approval of the Board. At a date approved by the Board, the shares will be granted to all eligible employees using the 1 week weighted average price of ANZ shares traded on the ASX in the week leading up to and including the date of grant.

In Australia and most overseas locations, ANZ ordinary shares are granted to eligible employees for nil consideration and vest immediately when granted, as there is no forfeiture provision. It is a requirement, however, that shares are held in trust for three years from the date of grant, after which time they may remain in trust, be transferred to the employee's name or sold. In general, dividends received on the shares are automatically reinvested into the Dividend Reinvestment Plan.

Shares granted to eligible New Zealand employees under this plan vest subject to the satisfaction of a three year service period, after which time they may remain in trust, be transferred into the employee's name or sold. At the time of transfer, employees are required to pay NZD 1 cent per share. Shares may be forfeited in the event of dismissal for serious misconduct or resignation. Dividends are received as cash.

During the 2008 year, 926,878 shares with an issue price of $28.24 were granted under the plan to employees on 13 December 2007 (2007 year: 901,374 shares with an issue price of $27.97 were granted on 4 December 2006 and a further 2,958 ANZ shares with an issue price of $29.37 were granted under the plan to ETRADE Australia Limited employees on 22 June 2007 following the ANZ acquisition).

Deferred share plan

Selected employees may also be granted long-term incentive (LTI) deferred shares which vest to the employee up to three years from the date of grant. Ordinary shares granted under this LTI plan may be held in trust beyond the deferral period. Unvested LTI deferred shares are forfeited on resignation, dismissal for serious misconduct or termination on notice. In the event of death or total and permanent disablement, all shares will be released to the employee in full.

Short-term incentive (STI) three year deferred shares were granted under a historical ANZ STI program, and may be held in trust beyond the deferral period. The last grant of three year STI deferred shares was made on 11 May 2004 (with the vesting date being 11 May 2007). There were no 3 year STI deferred share grants in the 2007 or 2008 financial years. STI deferred shares with a two year deferral period were granted under a business unit specific incentive plan (primarily as a retention tool), and may be held in trust beyond the deferral period. A new STI deferral program will be implemented for 2009 bonuses, with equity deferral relating to 50% of amounts above a specified threshold. For Management Board members, mandatory STI equity deferral commenced in 2008 (rather than 2009), with expensing to begin in the 2009 financial year due to the 31 October 2008 grant date. Refer to page 26 of the Remuneration Report for details. Unvested STI deferred shares (granted prior to 2008) are forfeited on resignation or dismissal for serious misconduct.

In exceptional circumstances, sign-on deferred shares are granted to certain employees upon commencement with ANZ to compensate for equity foregone from their previous employer.

The vesting period generally aligns with the remaining vesting period of equity forgone, and therefore varies between grants. Retention three year deferred shares may also be granted occasionally to high performing employees who are regarded as a significant retention risk to ANZ. Sign-on and retention deferred shares will be forfeited on resignation, dismissal for serious misconduct or termination on notice. In the event of death or total and permanent disablement, all shares will be released to the employee in full.

The employee receives all dividends on deferred shares while held in trust (cash or dividend reinvestment plan). The issue price for deferred shares is based on the volume weighted average price of the shares traded on the ASX in the week leading up to and including the date of grant.

During the 2008 year, 2,445,372 deferred shares with a weighted average grant price of $28.26 were granted under the deferred share plan (2007 year:1,275,132 shares with a weighted average grant price of $29.13 were granted).

Restricted share plan

Eligible employees may elect a pre-tax sacrifice of part or all of their annual cash bonus for ANZ shares. The shares are subject to a 12 month restriction period, however, they may be left in trust beyond the restriction period. The shares are subject to forfeiture on dismissal for serious misconduct. The shares are released to the employee on termination for any other reason. The employee receives all dividends on these restricted shares (cash or dividend reinvestment plan). The issue price is based on the volume weighted average price of the shares traded on the ASX on the week leading up to and including the date of grant.

During the 2008 year, 354,384 shares with an issue price of $29.95 were granted under the Restricted Share Plan (2007 year: 339,269 shares with an issue price of $29.04 were granted).

46: Employee Share and Option Plans (continued)

Performance share plan

Performance shares are essentially LTI deferred shares with a performance hurdle. They were granted to i) a small number of US based employees on 7 November 2005 to accommodate local taxation laws, and ii) to former CEO, J McFarlane on 31 December 2004. ANZ agreed to acquire J McFarlane's interest in the 175,000 Performance Shares on his departure. Refer to page 31 of the Remuneration Report for further details.

Based on the conditions of grant, the proportion of performance shares that vest will depend upon the Total Shareholder Return (TSR) achieved by ANZ relative to a comparator group of major financial services companies. Performance equal to the median TSR of the comparator group will result in half the performance shares vesting. Vesting will increase on a straight-line basis until all of the performance shares vest where ANZ TSR is at or above the 75th percentile of TSRs in the comparator group. Where ANZ's performance falls between two of the comparators, TSR is measured on a pro-rata basis.

Share valuations

The fair value of shares granted in the 2008 year under the $1,000 share plan, the Deferred Share Plan and the Restricted Share Plan, measured as at the date of grant of the shares, is $105.3 million based on 3,726,634 shares at a weighted average price of $28.26 (2007 year: fair value of shares granted is $72.7 million based on 2,518,733 shares at a weighted average price of $28.88). The volume weighted average share price of all ANZ shares sold on the ASX on the date of grant is used to calculate the fair value of shares. No dividends are incorporated into the measurement of the fair value of shares.

ANZ SHARE OPTION PLAN

Selected employees may be granted options/rights, which entitle them to purchase ordinary fully paid shares in ANZ at a price fixed at the time the options/rights are granted. Voting and dividend rights will be attached to the unissued ordinary shares when the options/rights have been exercised.

Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. The exercise price of the options, determined in accordance with the rules of the plan, is generally based on the weighted average price of the shares traded on the ASX in the week leading up to and including the date of grant. For rights, the exercise price is nil.

ANZ Share Option Plan schemes expensed in the 2007 and 2008 years are as follows:

Current Option Plans

Performance rights plan (excl. CEO performance rights)

Performance rights are granted to certain employees as part of ANZ's long-term incentive (LTI) program. The first grant of performance rights was in November 2005, and provides 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 LTI performance rights that become exercisable will depend upon the TSR achieved by ANZ relative to a comparator group of major financial services companies, measured over the same period (since grant) and calculated at the third anniversary of grant. Performance equal to the median TSR of the comparator group will result in half the performance rights becoming exercisable. Vesting will increase on a straight-line basis until all of the performance rights become exercisable where ANZ TSR is at or above the 75th percentile of TSRs in the comparator group. Where ANZ's performance falls between two of the comparators, TSR is measured on a pro-rata basis. The performance hurdle will only be tested once at the end of the three year vesting period. If the performance rights do not pass the hurdle on the testing date, or they are not exercised by the end of the exercise period (5 years from the date of grant), they will lapse. In the case of dismissal for serious misconduct, all unexercised performance rights will be forfeited. In the case of resignation or termination on notice, only performance rights that become exercisable (and pass the performance hurdle) by the end of the notice period may be exercised. In the case of death or total and permanent disablement, all performance rights are available for exercise (with the performance hurdle waived).

CEO Performance rights

CEO M Smith's LTI (as approved by shareholders at the 2007 Annual General Meeting), consists of 3 tranches of performance rights, each to a maximum value of $3 million. The performance periods for each tranche begin on the date of grant of 19 December 2007 and end on the 3rd, 4th and 5th anniversaries respectively (i.e. only one performance measurement for each tranche). The level of vesting for each tranche will be based on ANZ Total Shareholder Return (TSR) performance against a comparator group of companies consistent with the performance rights plan. Each tranche has a 1 year exercise period. In the case of resignation or dismissal for serious misconduct, all unexercised performance rights will be forfeited. In the case of termination on notice, only performance rights that become exercisable (and pass the performance hurdle) by the end of the notice period may be exercised. In the case of death or total and permanent disablement, all performance rights are available for exercise (with the performance hurdle waived).

46: Employee Share and Option Plans (continued)

Deferred share rights (No performance hurdles)

Deferred share rights are granted instead of deferred shares to accommodate off-shore taxation implications. They provide the right to acquire ANZ shares at nil cost after a specified vesting period. The fair value of rights is adjusted for the absence of dividends during the restriction period.

Treatment of rights in respect of cessation relates to the purpose of the grant (refer to Deferred Share Plan and Restricted Share Plan sections).

Legacy Option Plans

The following legacy plans are no longer being offered to Group employees, but were expensed during the 2007 and 2008 years.

Performance option plan (No performance hurdle applies)

Performance options were granted to certain employees (below executive levels) as part of a historical LTI program, with 7 November 2005 being the last grant of LTI performance options. The options can only be exercised after a three-year vesting period and before the seventh anniversary of the grant date. There are no performance conditions attached to these options as they were primarily granted as a retention tool. All unexercised options are forfeited on dismissal for serious misconduct, resignation and termination on notice. On death or total and permanent disablement, all unvested options will become available for exercise.

Deferred share rights (No performance hurdle)

Special deferred share rights were granted to a small number of New Zealand employees in December 2004. They provide the right to acquire ANZ shares at nil cost after a three year vesting period. Rights must be exercised by the seventh anniversary of the grant date. They may be forfeited at the Company's discretion if the employee ceases employment for any reason. The fair value of rights is adjusted for the absence of dividends during the restriction period.

Hurdled options

Hurdled options were granted to certain employees as part of a historical LTI program. The options can only be exercised subject to the satisfaction of time and performance based hurdles. Options may be exercised during the four year period commencing three years, and ending seven years after the grant date, subject to meeting the relevant performance hurdle. The performance hurdle will be measured during the exercise period by comparing ANZ's Total Shareholder Return (ANZ's TSR) against the comparator group relevant to the hurdled option grant.

Hurdled options granted in November 2004 will be tested against a comparator group consisting of major financial services companies, excluding ANZ. The options become exercisable depending on ANZ's ranking within the comparator group.

ANZ must rank at the 50th percentile for 50% of the options to become exercisable. For each 1% increase above the 50th percentile an additional 2% of options will become exercisable, with 100% being exercisable where ANZ ranks at or above the 75th percentile. This will be calculated as at the last trading day of any month (once the exercise period has commenced).

Other hurdled option grants will be measured against the S&P/ASX 200 Banks Accumulation Index, and the S&P/ASX 100 Accumulation Index. Half the options may only be exercised once ANZ's TSR exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index, measured over the same period (since grant) and calculated as at the last trading day of any month (once the exercise period has commenced); and the other half of hurdled options may only be exercised once the ANZ TSR exceeds the percentage change in the S&P/ASX 100 Accumulation Index, measured over the same period (since grant) and calculated as at the last trading day of any month (once the exercise period has commenced). The forfeiture provisions are the same as the performance option plan.

Options granted to former CEO, J McFarlane

Of the options granted to former CEO J McFarlane, only the balance of the 31 December 2004 grant was expensed during the 2007 financial year (with all other grants expensed during previous reporting periods). This option grant may be exercised subject to the following: one half of the options may be exercised only if the ANZ TSR calculated over the period commencing on the date of grant and ending on the last day of any month after the second anniversary of the date of grant, exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index over that same period; and the other half of the options may be exercised only if the ANZ TSR calculated over the relevant period exceeds the percentage change in the S&P/ASX 100 Accumulation Index over that same period. 50% of these options remain unvested and may be held by J McFarlane until their expiry date of 31 December 2008. Refer to the Remuneration Report on page 31 for further details.

46: Employee Share and Option Plans (continued)

Option Movements

Details of options over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of the 2008 financial year and movements during the 2008 financial year are set out below:

	Opening Balance 1 October 2007	Options Granted	Options Forfeited	Options Expired[1]	Options Exercised	Closing Balance 30 September 2008
	21,693,355	2,001,018	1,721,322	123,289	4,152,181	17,697,581
Weighted Average Exercise Price	$16.23	$0.00	$12.19	$17.15	$16.09	$14.81

1 Numbers in the "Options Expired" column includes any options which may have expired due to a termination of employment whereby the employee was offered a grace period in which to exercise.

The weighted average share price during the year ended 30 September 2008 was $21.74 (2007: $28.99).

The weighted average remaining contractual life of share options outstanding at 30 September 2008 was 2.5 years (2007: 3.0 years).

The weighted average exercise price of all exercisable share options outstanding at 30 September 2008 was $18.78 (2007: $16.79).

A total of 5,327,652 exercisable share options were outstanding at 30 September 2008 (2007: 8,876,289).

Details of options over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of the 2007 financial year and movements during the 2007 financial year are set out below:

	Opening Balance 1 October 2006	Options Granted	Options Forfeited	Options Expired[1]	Options Exercised	Closing Balance 30 September 2007
	29,400,706	1,431,170	1,122,241	155,670	7,860,610	21,693,355
Weighted Average Exercise Price	$17.18	–	$16.55	$17.32	$16.77	$16.23

1 Numbers in the "Options Expired" column includes any options which may have expired due to a termination of employment whereby the employee was offered a grace period in which to exercise.

46: Employee Share and Option Plans (continued)

The following options over ordinary shares have been granted since the end of the 2008 financial year up to the signing of the Directors' Report on 7 November 2008.

	Grant date	Exercise price $	Earliest exercise date	Expiry date	Options granted
Performance Rights	31-Oct-2008	0.00	31-Oct-2011	31-Oct-2013	368,368
1 year Deferred/Restricted Share Rights	31-Oct-2008	0.00	31-Oct-2009	31-Oct-2013	84,659
2 year Deferred Share Rights	31-Oct-2008	0.00	31-Oct-2010	31-Oct-2013	89,121
3 year Deferred Share Rights	31-Oct-2008	0.00	31-Oct-2011	31-Oct-2013	370,224
1 year Deferred/Restricted Options	31-Oct-2008	17.18	31-Oct-2009	31-Oct-2013	1,212,216
2 year Deferred Options	31-Oct-2008	17.18	31-Oct-2010	31-Oct-2013	418,766

Details of shares issued as a result of the exercise of options during the year ended 30 September 2008 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	17,473	–	16.09	12,750	205,148
0.00	14,507	–	16.33	322,570	5,267,568
0.00	5,069	–	17.34	149,062	2,584,735
12.98	451,191	5,856,459	17.55	339,691	5,961,577
12.98	27,600	358,248	17.60	154,991	2,727,842
13.62	194,000	2,642,280	18.03	211,685	3,816,681
13.91	264,500	3,679,195	18.22	395,538	7,206,702
13.91	194,050	2,699,236	18.55	19,525	362,189
14.20	729,716	10,361,967	20.68	584,587	12,089,259
14.61	54,750	799,898	23.49	8,926	209,672

Details of shares issued as a result of the exercise of options during the year ended 30 September 2007 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	22,549	–	16.33	50,000	816,500
9.39	20,000	187,800	18.03	522,283	9,416,762
11.09	57,000	632,130	18.03	172,600	3,111,978
12.03	10,000	120,300	18.03	175,000	3,155,250
13.62	126,804	1,727,070	18.55	34,575	641,366
13.91	213,175	2,965,264	17.34	422,365	7,323,809
13.91	148,000	2,058,680	16.69	500,000	8,345,000
14.20	648,432	9,207,734	17.60	552,245	9,719,512
12.98	85,200	1,105,896	17.55	968,518	16,997,491
12.98	344,573	4,472,558	17.55	620,868	10,896,233
12.98	6,200	80,476	18.22	646,321	11,775,969
14.61	49,550	723,926	18.22	387,732	7,064,477
15.77	76,000	1,198,520	20.68	102,828	2,126,483
16.09	16,000	257,440	20.68	49,319	1,019,917
16.33	91,700	1,497,461	20.49	250,000	5,122,500
16.33	480,655	7,849,096	23.49	10,118	237,672

Details of shares issued as a result of the exercise of options since the end of the 2008 financial year up to the signing of the Directors' Report on 7 November 2008 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	12,481	–	17.34	1,082	18,762
0.00	50,671	–	17.60	2,351	41,378
16.33	397,775	6,495,666	17.55	4,287	75,237
18.03	1,925	34,708	18.22	2,574	46,898

46: Employee Share and Option Plans (continued)

In determining the fair value below, we used standard market techniques for valuation including Monte Carlo and/or Black Scholes pricing models. The models take into account early exercise, non-transferability and market based performance hurdles.

The significant assumptions used to measure the fair value of instruments granted during the 2008 financial year are contained in the table below.

Option Type	Performance Rights	Performance Rights	Performance Rights	Deferred Share Rights	Deferred Share Rights	Deferred Share Rights	Performance Rights
Grant Date	19-Dec-07	19-Dec-07	19-Dec-07	29-May-08	9-Nov-07	9-Nov-07	30-Oct-07
Number of Options	258,620	259,740	260,642	22,633	49,717	208,780	940,886
Option Fair Value (AUD)	$11.60	$11.55	$11.51	$18.38	$25.59	$24.49	$12.30
Exercise Price (5 day VWAP)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Share price at date of grant	$26.85	$26.85	$26.85	$21.35	$27.95	$27.95	$29.69
ANZ expected Volatility[1]	17.0%	17.0%	17.0%	N/A	15.0%	15.0%	15.0%
Option Term	4 years	5 years	6 years	5 years	5 years	5 years	5 years
Vesting period	3 years	4 years	5 years	3 years	2 years	3 years	3 years
Expected life	3 years	4 years	5 years	3 years	2 years	3 years	3 years
Expected Dividend Yield	4.50%	4.50%	4.50%	5.00%	4.50%	4.50%	4.50%
Risk Free Interest Rate	6.82%	6.73%	6.66%	N/A	6.77%	6.69%	6.63%

1 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the options. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the options.

The significant assumptions used to measure the fair value of instruments granted during the 2007 financial year are contained in the table below.

Option Type	Deferred Share Rights	Deferred Share Rights	Deferred Share Rights	Deferred Share Rights	Performance Rights
Grant Date	11-July-07	1-Nov-06	1-Nov-06	1-Nov-06	24-Oct-06
Number of Options	44,431	4,060	29,905	129,856	1,223,018
Option Fair Value (AUD)	$25.94	$27.54	$25.66	$26.89	$13.08
Exercise Price (5 day VWAP)	$0.00	$0.00	$0.00	$0.00	$0.00
Share price at date of grant	$29.60	$29.54	$29.54	$29.54	$28.15
ANZ expected Volatility[1]	15%	15%	15%	15%	15%
Option Term	5 years	5 years	5 years	5 years	5 years
Vesting period	3 years	1.5 year	3 years	2 years	3 years
Expected life	3 years	1.5 year	3 years	2 years	4 years
Expected Dividend Yield	4.50%	4.80%	4.80%	4.80%	4.80%
Risk Free Interest Rate	6.37%	6.11%	6.02%	6.11%	6.00%

1 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the options. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the options.

47: Key Management Personnel Disclosures

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Details regarding loans outstanding at the reporting date to directors of the Company and other key management personnel of the Group including their personally related parties, where the individuals aggregate loan balance exceeded $100,000 at any time in the reporting period, are as follows:

	Opening balance 1 October $	Closing balance 30 September $	Interest paid and payable in the reporting period $	Highest balance in the reporting period $
Directors				
Non-executive Directors				
2007				
J P Morschel[8]	705,489	452,374	60,641	707,342
D M Gonski[1]	18,342,000	–	105,497	18,342,000
Executive Director				
2008				
M Smith[2]	356,800	535,611	60,829	2,099,851
2007				
J McFarlane[3,4]	201,686	–	243,616	6,017,051
Other key management personnel				
2008				
R J Edgar	560,291	–	14,085	1,083,067
B C Hartzer	7,806,997	12,438,898	973,081	14,707,145
G K Hodges	3,672,905	3,055,034	250,229	4,391,758
P R Marriott	2,824,293	905,479	181,186	2,883,188
A Thursby[7]	–	1,931,834	139,013	2,190,000
2007				
R J Edgar	1,453,114	560,291	122,109	2,954,530
B C Hartzer[5]	3,486,967	7,806,997	564,663	11,047,613
G K Hodges	2,986,598	3,672,905	251,450	3,893,704
P R Marriott	2,614,674	2,824,293	209,619	2,824,293
S Targett[6]	600,000	–	41,431	619,902

1 D Gonski retired effective 30 June 2007.
2 M Smith appointment as CEO effective 1 October 2007.
3 J McFarlane retired effective 30 September 2007.
4 The loan balances largely relate to loans for the purchase of ANZ shares, including the exercise of options.
5 Interest payments on the loan balances outstanding during the year were reduced as a result of a linked offset account.
6 S Targett ceased as the Group Managing Director effective 7 June 2007, and his employment with ANZ terminated on 7 June 2008.
7 A Thursby commenced employment with ANZ in the position of Group Managing Director Asia Pacific effective 3 September 2007.
8 Loan to an entity that does not meet the definition of a related party in 2008.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to each group of directors and other key management personnel including related parties are as follows:

	Opening balance 1 October $	Closing balance 30 September $	Interest paid and payable in the reporting period $	Number in group at 30 September[1]
Directors				
2008	356,800	535,611	60,829	1
2007	19,249,175	452,374	409,754	1
Other key management personnel				
2008	14,864,486	18,331,245	1,557,594	4
2007	11,141,353	14,864,486	1,189,272	4

1 Number in the Group includes directors and specified executive with loan balances greater than $100,000.

48: Transactions with Other Related Parties

Joint Venture Entities

During the course of the financial year the Company and the Group conducted transactions with joint venture entities on normal commercial terms and conditions as shown below:

	Consolidated 2008 $000	Consolidated 2007 $000	The Company 2008 $000	The Company 2007 $000
Amounts receivable from joint venture entities	223,232	230,943	223,224	218,688
Interest revenue	16,407	18,922	15,264	15,253
Dividend revenue	26,950	95,500	–	–
Commissions received from joint venture entities	184,058	196,454	164,795	176,848
Costs recovered from joint venture entities	9,423	9,158	8,499	8,553

There have been no guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

Associates

During the course of the financial year the Company and Group conducted transactions with associates on normal terms and conditions as shown below:

	Consolidated 2008 $000	Consolidated 2007 $000	The Company 2008 $000	The Company 2007 $000
Amounts receivable from associates	237,719	98,072	181,223	50,304
Amounts payable to associates	71,693	602	–	–
Interest revenue	19,144	9,969	14,780	5,634
Interest payable	630	–	–	–
Other revenue	12,106	–	2,400	–
Dividend revenue	15,451	9,809	3,979	3,356
Costs recovered from associates	1,649	1,611	1,649	1,611

There have been no guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

Subsidiaries

During the course of the financial year subsidiaries conducted transactions with each other and joint ventures and associates on normal terms and conditions. They are fully eliminated on consolidation. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

Other relationships

In the 2007 Annual Report, in relation to the independence of Margaret Jackson, a non-executive Director of ANZ, it was disclosed that ANZ has commercial relationships with Qantas Airways Limited (in respect of which Ms Jackson was then Chairman) as a partner in the co-branded ANZ Frequent Flyer Visa Cards, and that ANZ also acquires travel services from Qantas. Having regard to the nature and value of the commercial relationships and the Board's materiality criteria, the Board concluded that Ms Jackson remained independent. Ms Jackson retired from the Board of Qantas in November 2007.

49: Exchange Rates

The exchange rates used in the translation of the results and the assets and liabilities of major overseas branches and controlled entities are:

	2008 Closing	2008 Average	2007 Closing	2007 Average
Euro	0.5568	0.6030	0.6223	0.6072
Great British pound	0.4440	0.4601	0.4355	0.4103
New Zealand dollar	1.1934	1.1918	1.1643	1.1330
United States dollar	0.7995	0.9069	0.8816	0.8084

50: Events Since the End of the Financial Year

Since balance date, global financial and equity markets have exhibited significant volatility. The impact of this volatility on future earnings is not capable of reliable measurement.

The adjustment for credit risk on structured credit derivatives purchased has moved significantly since balance date, reflecting the depreciation of the AUD against the USD (these derivative trades are in USD) and the impact of extreme market turmoil impacting spreads and correlation, and there will continue to be substantial volatility in this. However, ANZ expects the adjustment for credit risk on these structured credit derivatives to substantially reverse as credit spreads contract and/or the derivatives reach maturity.

Directors' Declaration

The directors of Australia and New Zealand Banking Group Limited declare that:

a) in the directors' opinion, the financial statements and notes of the Company and the consolidated entity have been prepared in accordance with the Corporations Act 2001, including that they:

   i) comply with applicable Australian Accounting Standards, (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   ii) give a true and fair view of the financial position of the Company and of the consolidated entity as at 30 September 2008 and of their performance as represented by the results of their operations and their cash flows, for the year ended on that date; and

   iii) the financial statements and notes of the Company and the consolidated entity comply with International Financial Reporting Standards as described in note 1(A)(i).

b) in the directors' opinion, the remuneration disclosures that are contained on pages 20 to 41 of the Remuneration Report comply with the Corporations Act 2001; and

c) the directors have received the declarations required by section 295A of the Corporations Act 2001; and

d) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

e) the Company and certain of its wholly owned controlled entities (listed in note 44) have executed a Deed of Cross Guarantee enabling them to take advantage of the accounting and audit relief offered by class order 98/1418 (as amended), issued by the Australian Securities and Investments Commission. The nature of the Deed of Cross Guarantee is to guarantee to each creditor payment in full of any debt in accordance with the terms of the Deed of Cross Guarantee. At the date of this declaration, there are reasonable grounds to believe that the Company and its controlled entities which executed the Deed of Cross Guarantee are able, as an economic entity, to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the directors.

Charles Goode
Chairman

Michael R P Smith
Director

7 November 2008

Independent Auditor's Report to the Members of Australia and New Zealand Banking Group Limited

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Australia and New Zealand Banking Group Limited (the Company), which comprises the balance sheets as at 30 September 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 50 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group and of the Company, comprising the financial statements and notes, comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

AUDITOR'S OPINION

In our opinion:

(a) the financial report of Australia and New Zealand Banking Group Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and the Group's financial position as at 30 September 2008 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the Company and the Group also complies with International Financial Reporting Standards as disclosed in note 1(A)(i).

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 20 to 41 of the directors' report for the year ended 30 September 2008. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of Australia and New Zealand Banking Group Limited for the year ended 30 September 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

mv Hinchliffe

KPMG

Melbourne, Australia
7 November 2008

Michelle Hinchliffe
Partner

1: Capital Adequacy

Qualifying Capital		Basel II As at Sep 08 $m	Basel I As at Sep 07 $m
Tier 1			
Shareholders' equity and outside equity interests		26,552	22,048
Prudential adjustments to shareholders' equity	Table 1	(2,409)	(2,318)
Fundamental Tier 1 capital		24,143	19,730
Non-innovative Tier 1 capital instruments		2,095	1,033
Innovative Tier 1 capital instruments		2,847	3,119
Gross Tier 1 capital		29,085	23,882
Deductions	Table 2	(7,856)	(6,170)
Transitional Tier 1 capital relief		–	716
Tier 1 capital		21,229	18,428
Tier 2			
Upper Tier 2 capital	Table 3	1,374	2,296
Subordinated notes	Table 4	9,170	8,826
Deductions	Table 2	(1,206)	–
Tier 2 capital		9,338	11,122
Deductions	Table 5	n/a	(1,837)
Total qualifying capital		30,567	27,713
Capital adequacy ratios			
Tier 1		7.7%	6.7%
Tier 2		3.4%	4.1%
		11.1%	10.8%
Deductions		n/a	(0.7%)
Total		11.1%	10.1%
Risk weighted assets	Table 6	275,434	275,018

1: Capital Adequacy (continued)

		Basel II As at Sep 08 $m	Basel I As at Sep 07 $m
Table 1: Prudential adjustments to shareholders' equity			
Reclassification of preference share capital		(871)	(871)
Accumulated retained profits and reserves of insurance, funds management and securitisation entities and associates		(841)	(398)
Deferred fee revenue including fees deferred as part of loan yields		351	306
Hedging reserve		(78)	(153)
Available-for-sale reserve		88	(97)
Dividend not provided for		(1,511)	(1,381)
Accrual for Dividend Reinvestment Plans		453	276
Total		**(2,409)**	**(2,318)**
Table 2: Deductions from Tier 1 capital			
Unamortised goodwill & other intangibles		(4,889)	(4,911)
Capitalised software		(625)	(462)
Capitalised expenses including loan and lease origination fees, capitalised securitisation establishment costs and costs associated with debt raisings		(642)	(602)
Applicable deferred tax assets (excluding the component relating to the general reserve for impairment of financial assets)		(92)	(57)
Investment in ANZ Lenders Mortgage Insurance		–	(101)
Earnings not recognised for prudential purposes		(117)	–
Other deductions		(285)	(37)
Sub-total		(6,650)	(6,170)
Deductions taken 50% from Tier 1 and 50% from Tier 2	**Gross**	50%	
Investment in ANZ Lenders Mortgage Insurance	(131)	(65)	–
Investment in Funds Management and Securitisation entities	(68)	(34)	–
Investment in joint ventures with ING in Australia and New Zealand	(524)	(262)	–
Investment in other Authorised Deposit Taking Institutions and overseas equivalents	(1,219)	(610)	–
Expected losses in excess of eligible provisions	(334)	(167)	–
Investment in other commercial operations	(72)	(36)	–
Other deductions	(64)	(32)	–
Sub-total	(2,412)	(1,206)	–
Total		**(7,856)**	**(6,170)**
Table 3: Upper Tier 2 capital			
Eligible component of post acquisition earnings and reserves in associates and joint ventures		248	197
Perpetual subordinated notes		1,072	690
General reserve for impairment of financial assets net of attributable deferred tax asset[1]		54	1,392
Transitional Upper Tier 2 capital relief		–	17
Total		**1,374**	**2,296**

1 Under Basel II, this consists of the surplus general reserve for impairment of financial assets net of tax and/or the provisions attributable to the standardised portfolio.

1: Capital Adequacy (continued)

	Basel II As at Sep 08 $m	Basel I As at Sep 07 $m
Table 4: Subordinated notes		
For capital adequacy calculation purposes, subordinated note issues are reduced by 20% of the original amount over the last four years to maturity and are limited to 50% of Tier 1 capital. The fair value adjustment is also excluded for prudential purposes as the prudential standard only permits inclusion of cash received and makes no allowance for hedging.		
Table 5: Deductions from Total capital[1]		
Investment in Funds Management and Securitisation entities	n/a	(85)
Investment in joint ventures with ING in Australia and New Zealand	n/a	(525)
Investment in other Authorised Deposit Taking Institutions (ADIs) and overseas equivalents	n/a	(1,025)
Investment in other commercial operations	n/a	(124)
Other	n/a	(78)
Total	**n/a**	**(1,837)**
Table 6: Risk weighted assets		
On balance sheet	177,570	236,883
Commitments	47,398	15,791
Contingents	14,519	12,018
Derivatives	11,263	8,379
Total credit risk	250,750	273,071
Market risk – Traded	2,609	1,947
Market risk – Interest rate risk in the banking book	4,058	–
Operational risk	18,017	–
Total risk weighted assets	**275,434**	**275,018**

1 Not applicable under Basel II.

The measurement of risk weighted assets is based on: a) a credit risk-based approach whereby risk weightings are applied to balance sheet assets and to credit converted off-balance sheet exposures. Categories of risk weights are assigned based upon the nature of the counterparty and the relative liquidity of the assets concerned; and b) the recognition of risk weighted assets attributable to market risk arising from trading and commodity positions. Trading and commodity balance sheet positions do not attract a risk weighting under the credit risk-based approach.

The Basel II Accord principles took effect from 1 January 2008. For calculation of minimum capital requirements under Pillar 1 (Capital Requirements) of the Basel II Accord, ANZ has gained accreditation from APRA for use of Advanced Internal Ratings Based (AIRB) methodology for credit risk weighted assets and Advanced Measurement Approach (AMA) for operational risk weighted asset equivalent.

Whilst accreditation has been received a number of aspects of the measurement of risk weighted assets and regulatory capital are still under review in conjunction with APRA and changes are likely.

2: Average Balance Sheet and Related Interest

Averages used in the following table are predominantly daily averages. Interest income figures are presented on a tax-equivalent basis. Impaired loans are included under the interest earning asset category 'loans and advances'. Intragroup interest earning assets and interest bearing liabilities are treated as external assets and liabilities for the geographic segments.

	2008			2007		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Interest earning assets						
Due from other financial institutions						
Australia	3,002	193	6.4	2,011	113	5.6
New Zealand	1,390	92	6.6	1,598	111	6.9
Overseas Markets	6,171	250	4.1	4,987	264	5.3
Trading and available-for-sale assets						
Australia	22,733	1,633	7.2	18,164	1,157	6.4
New Zealand	2,316	187	8.1	2,701	212	7.8
Overseas Markets	6,223	313	5.0	3,904	215	5.5
Loans and advances						
Australia	221,006	18,884	8.5	188,582	14,752	7.8
New Zealand	78,103	7,491	9.6	73,426	6,536	8.9
Overseas Markets	17,299	1,042	6.0	10,387	761	7.3
Customers' liability for acceptances						
Australia	15,397	1,347	8.7	13,852	1,054	7.6
Overseas Markets	463	23	5.0	293	18	6.1
Other assets						
Australia	4,512	366	8.1	4,794	355	7.4
New Zealand	5,152	401	7.8	5,054	404	8.0
Overseas Markets	7,647	382	5.0	3,608	258	7.2
Intragroup assets						
Australia	4,753	344	7.2	2,910	232	8.0
Overseas Markets	1,476	92	6.2	4,043	228	5.6
	397,643	33,040		340,314	26,670	
Intragroup elimination	(6,229)	(436)		(6,953)	(460)	
	391,414	32,604	8.3	333,361	26,210	7.9
Non-interest earning assets						
Derivative financial instruments						
Australia	24,656			12,708		
New Zealand	4,358			3,227		
Overseas Markets	1,889			667		
Premises and equipment	1,513			1,318		
Other assets	15,136			14,319		
Provision for credit impairment						
Australia	(2,040)			(1,688)		
New Zealand	(442)			(412)		
Overseas Markets	(193)			(167)		
	44,877			29,972		
Total average assets	436,291			363,333		
Total average assets						
Australia	303,257			249,686		
New Zealand	94,765			89,969		
Overseas Markets	44,498			30,631		
	442,520			370,286		
Intragroup elimination	(6,229)			(6,953)		
	436,291			363,333		
% of total average assets attributable to overseas activities	31.6%			32.1%		

2: Average Balance Sheet and Related Interest (continued)

	2008			2007		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Interest bearing liabilities						
Time deposits						
Australia	71,698	5,224	7.3	49,000	3,071	6.3
New Zealand	29,653	2,444	8.2	28,279	2,096	7.4
Overseas Markets	25,274	1,016	4.0	15,122	781	5.2
Savings deposits						
Australia	18,062	778	4.3	16,536	597	3.6
New Zealand	1,819	60	3.3	2,520	82	3.3
Overseas Markets	584	8	1.4	504	4	0.8
Other demand deposits						
Australia	54,900	3,193	5.8	46,429	2,376	5.1
New Zealand	15,720	1,063	6.8	15,938	997	6.3
Overseas Markets	1,273	19	1.5	1,166	29	2.5
Due to other financial institutions						
Australia	6,234	412	6.6	8,186	500	6.1
New Zealand	1,746	106	6.1	1,838	105	5.7
Overseas Markets	10,804	447	4.1	6,724	357	5.3
Commercial paper						
Australia	11,293	834	7.4	9,981	636	6.4
New Zealand	9,282	819	8.8	6,566	525	8.0
Overseas Markets	–	–	–	926	49	5.3
Borrowing corporations' debt						
Australia	8,637	618	7.2	8,752	544	6.2
New Zealand	1,484	123	8.3	1,722	127	7.4
Liability for acceptances						
Australia	15,397	1,160	7.5	13,852	898	6.5
Overseas Markets	463	23	5.0	293	17	5.8
Loan capital, bonds and notes						
Australia	62,458	4,653	7.4	55,577	3,651	6.6
New Zealand	14,848	1,322	8.9	11,841	958	8.1
Overseas Markets	359	25	7.0	311	19	6.1
Other liabilities[1]						
Australia	4,495	280	n/a	5,243	355	n/a
New Zealand	87	95	n/a	132	96	n/a
Overseas Markets	38	32	n/a	421	38	n/a
Intragroup liabilities						
New Zealand	6,229	436	7.0	6,953	460	6.6
	372,837	25,190		314,812	19,368	
Intragroup elimination	(6,229)	(436)		(6,953)	(460)	
	366,608	24,754	6.8	307,859	18,908	6.1

1 Includes foreign exchange swap costs.

2: Average Balance Sheet and Related Interest (continued)

	2008 Average balance $m	2007 Average balance $m
Non-interest bearing liabilities		
Deposits		
Australia	4,787	4,734
New Zealand	3,432	3,829
Overseas Markets	1,200	1,220
Derivative financial instruments		
Australia	22,841	11,719
New Zealand	3,542	2,882
Overseas Markets	(884)	(494)
Other liabilities	11,242	10,855
	46,160	34,745
Total average liabilities	412,768	342,604
Total average liabilities		
Australia	289,291	237,762
New Zealand	89,022	84,176
Overseas Markets	40,684	27,619
	418,997	349,557
Intragroup elimination	(6,229)	(6,953)
	412,768	342,604
% of total average liabilities attributable to overseas activities	29.9%	30.6%
Total average shareholders' equity		
Ordinary share capital[1]	22,652	19,858
Preference share capital	871	871
	23,523	20,729
Total average liabilities and shareholders' equity	436,291	363,333

1 Includes reserves and retained earnings.

3: Interest Spreads and Net Interest Average Margins

	2008 $m	2007 $m
Net interest income[1]		
Australia	5,614	5,036
New Zealand	1,703	1,817
Overseas Markets	533	449
	7,850	7,302
Average interest earning assets		
Australia	271,403	230,313
New Zealand	86,961	82,779
Overseas Markets	39,279	27,222
Intragroup elimination	(6,229)	(6,953)
	391,414	333,361

	%	%
Gross earnings rate[2]		
Australia	8.39	7.67
New Zealand	9.40	8.77
Overseas Markets	5.35	6.41
Group	8.33	7.86
Interest spreads and net interest average margins may be analysed as follows		
Australia		
Gross interest spread	1.62	1.77
Interest foregone on impaired assets	(0.01)	(0.01)
Net interest spread	1.61	1.76
Interest attributable to net non-interest bearing items	0.46	0.43
Net interest average margin – Australia	2.07	2.19
New Zealand		
Gross interest spread	1.42	1.60
Interest foregone on impaired assets	(0.02)	(0.01)
Net interest spread	1.40	1.59
Interest attributable to net non-interest bearing items	0.56	0.61
Net interest average margin – New Zealand	1.96	2.20
Overseas Markets		
Gross interest spread	1.33	1.35
Interest foregone on impaired assets	(0.02)	(0.03)
Net interest spread	1.31	1.32
Interest attributable to net non-interest bearing items	0.05	0.33
Net interest average margin – Overseas Markets	1.36	1.65
Group		
Gross interest spread	1.59	1.73
Interest foregone on impaired assets	(0.01)	(0.01)
Net interest spread	1.58	1.72
Interest attributable to net non-interest bearing items	0.43	0.47
Net interest average margin – Group	2.01	2.19

1 On a tax equivalent basis.
2 Average interest rate received on interest earning assets. Overseas Markets includes intragroup assets.

4: Special Purpose and Off-Balance Sheet Entities

Below is an analysis of the assets of consolidated and non-consolidated special purpose entities (SPEs) which ANZ has established or manages. The disclosures do not include every transaction that the Group has entered into with an SPE. This note is designed to reflect the Group's main exposures to SPEs. This analysis excludes vehicles that are used in connection with stock-based compensation programs.

	Non-consolidated SPEs		Consolidated SPEs[1]	
	2008 $m	2007 $m	2008 $m	2007 $m
Total assets of SPEs				
Securitisation vehicles	8,021	7,786	11,884	2,328
Structured finance entities[1]	n/a	n/a	147	95
Credit protection	2,145	2,145	–	–
	10,166	**9,931**	**12,031**	**2,423**

1 ANZ's net investment in non-consolidated Structured Finance entities is $166 million at 30 September 2008 (30 September 2007: $229 million)

Total assets of SPEs:

	Australia		New Zealand		Other		Total	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Non-consolidated SPEs which ANZ established or manage								
Corporate loans[1]	2,145	2,145	–	–	–	–	2,145	2,145
Rural loans	2,064	1,737	–	–	–	–	2,064	1,737
Trade receivables	2,096	2,166	–	–	–	–	2,096	2,166
Residential mortgages	1,442	1,520	–	215	–	–	1,442	1,735
Credit cards and other personal loans	13	34	557	557	–	–	570	591
Car loans and equipment finance	577	621	–	–	–	–	577	621
Other[2]	1,018	658	254	278	–	–	1,272	936
	9,355	**8,881**	**811**	**1,050**	**–**	**–**	**10,166**	**9,931**
Consolidated SPEs								
Corporate loans	–	–	–	–	410	415	410	415
Trade receivables	185	162	–	–	–	–	185	162
Residential mortgages	10,731	1,019	–	–	–	–	10,731	1,019
Car loans and equipment finance	69	182	–	–	77	83	146	265
Other	559	529	–	–	–	33	559	562
	11,544	**1,892**	**–**	**–**	**487**	**531**	**12,031**	**2,423**

1 Exposures to corporate loans created through derivatives and a deposit with ANZ.
2 Includes investment loans and insurance premiums.

	Non-consolidated SPEs[1]	
	2008 $m	2007 $m
Maximum exposure to non-consolidated SPEs[1]		
Liquidity support facilities (drawn)[2]	1,237	1,976
Liquidity support facilities (undrawn)	3,290	2,753
Credit default swaps (net fair value)	33	3
Other facilities (drawn)	1,768	872
Other facilities (undrawn)	958	315
Notes held in credit protection entities	393	–
Other derivatives (net fair value)	21	(4)
	7,700	5,915

1 Excluding Structured Finance entities.
2 Facilities amounting to $0.9 billion were drawn on consolidated special purpose entities as at September 2007.

5: Leveraged Finance

The Group has a dedicated Leveraged & Acquisition Finance team, which provides secured financing for the acquisition of companies through the use of debt.

Leveraged & Acquisition Finance provides acquisition finance for private equity firms and other corporations with operations in Australia and New Zealand, and concentrates on company cash flows. Target businesses are those with stable and established earnings and the ability to reduce borrowing levels.

The tables below provide an analysis of the credit exposures arising from the provision of leverage finance. This excludes all public company acquisition finance which may be undertaken by the Leveraged & Acquisition Finance Team because it has a different risk profile.

	Unfunded commitments		Funded exposures		Total gross exposures		Individual provision		Net exposure	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Exposure by industry										
Manufacturing	141	270	744	548	885	818	(9)	(10)	876	808
Business services	139	145	628	436	767	581	(13)	–	754	581
Healthcare	46	55	131	133	177	188	–	–	177	188
Retail	103	83	532	330	635	413	–	–	635	413
Media	34	89	146	47	180	136	–	–	180	136
Other	50	110	666	293	716	403	–	–	716	403
	513	**752**	**2,847**	**1,787**	**3,360**	**2,539**	**(22)**	**(10)**	**3,338**	**2,529**
Exposure by geography										
Australia	271	588	1,507	977	1,778	1,565	(22)	(10)	1,756	1,555
New Zealand	175	164	1,156	771	1,331	935	–	–	1,331	935
Other	67	–	184	39	251	39	–	–	251	39
	513	**752**	**2,847**	**1,787**	**3,360**	**2,539**	**(22)**	**(10)**	**3,338**	**2,529**

	2008 $m	2007 $m
Movements in individual provision		
Balance at start of year	10	3
Charge to income statement	30	16
Bad debts written off	(18)	(9)
Total individual provision	**22**	**10**

6: Asset-Backed Securities

The Group may acquire asset-backed securities primarily as part of the trading activities (classified as trading securities), liquidity management (classified as available-for-sale assets) or through investments in special purpose vehicles. Asset-backed securities are debt instruments that are based on pools of assets or are collateralised by the cash flows from a specified pool of underlying assets. All asset-backed securities held by the Group are carried at fair value on the balance sheet. Specifically with regard to residential mortgage backed securities originated in the US, the following terminology may be used in the industry:

- Subprime mortgages – sub-prime represents mortgages granted to borrowers with a poor or limited credit history. Sub-prime loans carry higher interest rates to compensate for potential losses from default.
- Alternative-A-paper – US mortgages underwritten with lower or alternative documentation than a full documentation mortgage loan or with higher loan to valuation ratios than mortgages guaranteed by US Government sponsored enterprises. Alt-A mortgages have a stronger risk profile than sub-prime mortgages.
- Alt-A mortgages – these are loans that are underwritten with lower or alternative documentation than a full documentation mortgage loan. As a result, Alt-A mortgage loans may have a higher risk of default than non-Alt-A mortgage loans. In reporting our Alt-A exposure, we have classified mortgage loans as Alt-A if mortgage-related securities that we hold in our portfolio were labelled as Alt-A when we bought them.

While note 33 Financial Risk Management provides a comprehensive analysis of the quality of all financial instruments giving rise to credit risk, the tables below contain a similar analysis for held asset-backed securities only.

	Face value		Carrying amount[1]	
	2008 $m	2007 $m	2008 $m	2007 $m
Asset-backed securities				
Collateralised debt obligations[1]	395	33	393	28
Commercial mortgage backed securities	140	156	138	154
Residential mortgage backed securities	892	1,118	655	1,070
Other asset-backed securities	461	549	453	543
	1,888	**1,856**	**1,639**	**1,795**

	Trading portfolio		Liquidity portfolio		Other		Total	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Carrying amount by classification of underlying assets								
Sub-prime	–	–	–	–	–	–	–	–
Alt-A	–	–	318	530	–	–	318	530
A rated (mortgage) paper and other assets	161	174	211	243	949	848	1,321	1,265
	161	**174**	**529**	**773**	**949**	**848**	**1,639**	**1,795**

	AAA & AA		A		BBB		BB and below inc not rated		Total	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Carrying amount by rating and location of underlying assets										
Australia and New Zealand	552	158	557	821	1	1	–	14	1,110	994
U.S.A.	412	801	117	–	–	–	–	–	529	801
	964	**959**	**674**	**821**	**1**	**1**	**–**	**14**	**1,639**	**1,795**

1 September 2008 comprises notes held in a credit protection SPE, refer page 76.

AAS – Australian Accounting Standards.

AASB – Australian Accounting Standards Board.

AFS – Available-for-sale assets.

AIFRS – Australian Equivalents to International Financial Reporting Standards.

Alt-A – Alternative A-paper, US mortgages underwritten with lower or alternative documentation than a full documentation mortgage loan or with higher loan to valuation ratios than mortgages guaranteed by US Government sponsored enterprises. Alt-A mortgages have a stronger risk profile than sub-prime mortgages.

APRA – Australian Prudential Regulation Authority.

Asia Pacific – Asia Pacific includes the following:

- **Retail Asia** includes the Personal and Private Banking Asia business.
- **Asian Partnerships** is a portfolio of strategic retail partnerships in Asia. This includes partnerships in Indonesia with PT Panin Bank, in the Philippines with Metrobank, in Cambodia with the Royal Group, in China with Bank of Tianjin and Shanghai Rural Commercial Bank, in Malaysia with AMMB Holdings Berhad and in Vietnam with investments in Sacombank and Saigon Securities Incorporation.
- **Institutional Asia Pacific** includes the trade finance, relationship lending, markets and corporate finance businesses in Asia and foreign exchange activities in the Pacific Region.
- **Retail Pacific** provides retail and corporate banking services to customers in the Pacific region.
- **Executive & Support** includes the central support functions for the division.

Collective provision is the provision for Credit Losses that are inherent in the portfolio but not able to be individually identified; presently unidentified impaired assets. A collective provision may only be recognised when a loss event has already occurred. Losses expected as a result of future events, no matter how likely, are not recognised.

Credit equivalent represents the calculation of on-balance sheet equivalents for market related items.

Customer Deposits represent term deposits, other deposits bearing interest, deposits not bearing interest and borrowing corporations debt excluding collateralised loan obligation and securitisation vehicle funding.

Equity standardisation. Economic Value Added (EVA™) principles are in use throughout the Group, whereby risk adjusted capital is allocated and charged against business units. Equity standardised profit is determined by eliminating the impact of earnings on each business unit's book capital and attributing earnings on the business unit's risk adjusted capital. This enhances comparability of business unit performance. Geographic results are not equity standardised.

Group Centre division includes Operations, Technology and Shared Services, Treasury (funding component), Group Human Resources, Group Strategic Development, Group Financial Management, Group Risk Management, Capital Funding, Group Items and Private Bank.

Private Bank specialises in assisting high net worth individuals and families to manage, grow and preserve their assets. The contribution of the Private Bank business in the Group Centre includes only sales commissions. Other revenue earned is recognised in Personal.

IFRS – International Financial Reporting Standards.

Impaired assets are those financial assets where doubt exists as to whether the full contractual amount will be received in a timely manner, or where concessional terms have been provided because of the financial difficulties of the customer. Financial Assets are impaired if there is objective evidence of impairment as a result of a loss event that occurred prior to the reporting date, and that loss event has had impact, which can be reliably estimated, on the expected future cash flows of the individual asset or portfolio of assets.

Income includes external interest income and other external operating income.

Individual provision charge is the amount of expected credit losses on those financial instruments assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected cash flow over the lives of those financial instruments.

INGA includes the equity accounted earnings from our 49% stake in ING Australia Ltd, a joint venture between ANZ and ING.

Institutional division provides a full range of financial services principally to ANZ Australia and New Zealand corporate and institutional customers in all geographies. Institutional has a major presence in Australia and New Zealand and also operations in Europe, USA and Asia.

- Working Capital provides working capital solutions including lending and deposit products, cash transaction banking management, trade finance, international payments, clearing and custodian services principally to Institutional and Corporate customers.
- Relationship Lending manages the Institutional and Corporate balance sheets with a particular focus on credit quality, diversification and maximising risk adjusted returns.
- Markets provides risk management services to Corporate and Institutional clients globally in relation to foreign exchange, interest rates, credit and commodities. This includes the business providing origination, underwriting, structuring and risk management services, advice and sale of credit and derivative products globally. Markets also manages the Group's interest rate risk position.
- Business Banking provides a full range of banking services, including risk management, to metropolitan based small to medium sized business clients with up to $50 million turnover.
- Corporate Finance excluding Relationship Lending provides complex financing and advisory services, structured financial products, leasing, private equity finance, project finance, leveraged finance and infrastructure investment products to our global client set.
- Relationships & Infrastructure includes Institutional Banking, Financial Institutions and Corporate Banking. These units use our client relationship teams for our global Institutional and Financial Institutions customers and our Corporate customers in Australia.

Liquid assets are cash and cash equivalent assets. Cash equivalent assets are highly liquid investments with short periods to maturity, are readily convertible to cash at ANZ's option and are subject to an insignificant risk of changes in value.

Net advances include gross loans and advances and acceptances and capitalised brokerage/mortgage origination fees, less income yet to mature and allowance for credit impairment.

Net interest average margin is net interest income as a percentage of average interest earning assets. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

Net interest spread is the average interest rate received on interest earning assets less the average interest rate paid on interest bearing liabilities. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

Net non-interest bearing items, which are referred to in the analysis of interest spread and net interest average margin, includes shareholders' equity, impairment of loans and advances, deposits not bearing interest and other liabilities not bearing interest, offset by premises and equipment and other non-interest earning assets. Non-performing loans are included within interest bearing loans, advances and bills discounted.

Net tangible assets equals share capital and reserves attributable to shareholders of the Group less preference share capital and unamortised intangible assets (including goodwill and software).

New Zealand Businesses includes the following businesses:

- ANZ Retail – operating under the ANZ brand in New Zealand provides a full range of banking services to personal and business banking customers.
- NBNZ Retail – operating under the National Bank brand in New Zealand, provides a full range of banking services to personal and business banking customers.
- Corporate and Commercial Banking in New Zealand – incorporates the ANZ and National Bank brands and provides financial solutions through a relationship management model for medium-sized businesses with a turnover up to NZD100 million.
- Rural Banking in New Zealand – provides a full range of banking services to rural and agribusiness customers.
- Private Banking and Retail Specialist Units – includes ANZ's 49% stake in ING New Zealand, Private Banking operating under the ANZ and National brands and Bonus Bonds.
- UDC – provides motor vehicle and equipment finance, operating leases and investment products.

Non-core items are disclosed separately in the income statement to remove volatility from the underlying business result, and include significant items, and non-core income arising from the use of derivatives in economic hedges on fair value through profit and loss.

Non-performing commitments and contingencies comprises undrawn facilities and contingent facilities where the customer's status is defined as impaired.

Non-performing loans comprises drawn facilities where the customer's status is defined as impaired.

Operating expenses exclude the provision for impairment of loans and advances charge.

Operating income in business segments includes equity standardised net interest and other operating income.

Operations, Technology & Shared Services comprises the Group's core support units responsible for operating the Group's global technology platforms, development and maintenance of business applications, information security, the Group's payments back-office processing, and the provision of other essential shared services to the Group, including property, people capital operations, procurement and outsourcing.

Overseas includes the results of all operations outside Australia, except if New Zealand is separately shown.

Overseas Markets includes all operations outside of Australia and New Zealand. The Group's geographic segments are Australia, New Zealand and Overseas Markets.

Personal is a division comprising Rural Commercial & Agribusiness Products, Small Business Banking Products, Banking Products, Mortgages, Consumer Finance, Investment and Insurance Products, Esanda, and a number of other areas, including the branch network and marketing and support costs in Australia.

- Mortgages – provides housing finance to consumers in Australia for both owner occupied and investment purposes.
- Banking Products – provides transaction banking and savings products, such as term deposits, V2+, and cash management accounts.
- Consumer Finance – provides consumer and commercial credit cards, ePayment products, personal loans, merchant payment facilities in Australia and ATM facilities.
- Rural Commercial & Agribusiness Products – provides a full range of banking services to personal customers and to small business and agribusiness customers in rural and regional Australia.
- Small Business Banking Products – provides a full range of banking services for metropolitan-based small businesses in Australia with unsecured loans up to $100,000.
- Esanda – provides motor vehicle and equipment finance, operating leases and investment products.
- Investments and Insurance Products – comprises ANZ Australia's Financial Planning, Margin Lending, insurance distribution, Trustees business and ETrade Australia, an online broking business.

Repo discount is a discount applicable on the repurchase by a central bank of an eligible security pursuant to a repurchase agreement.

Restructured items refers to customers who have been provided concessions due to their financial difficulties. In the course of restructuring facilities, the following concessions might be considered: a reduction in the principal amount; a deferral of repayments; and/or an extension of the maturity date materially beyond those typically offered to new facilities with similar risk.

Return on asset ratios include net intra group assets which are risk weighted at 0% for return on risk weighted assets calculations.

Revenue includes net interest income and other operating income.

Segment assets represents total external assets excluding deferred tax assets.

Segment result represents equity standardised profit before income tax expense.

Segment revenue includes equity standardised net interest income and other operating income.

Service transfer pricing is used to allocate services that are provided by central areas to each of their business units. The objective of service transfer pricing is to remove cross-subsidies between business units, and ensure each business accounts for the cost of the services it uses.

Service transfer pricing charges are reported in the profit and loss statement of each business unit as:

- Net inter business unit fees – includes intra-group receipts or payments for sales commissions and branch service fees. A product business will pay a distribution channel for product sales. Both the payment and receipt are shown as net inter business unit fees.
- Net inter business unit expenses – consists of the charges made to business units for the provision of support services. Both payments by business units and receipts by service providers are shown as net inter business unit expenses.

Significant items are items that have a substantial impact on profit after tax, or the earnings used in the earnings per share calculation. Significant items also do not arise in the normal course of business and are infrequent in nature. Divestments are typically defined as significant items.

Sub-prime represents mortgages granted to borrowers with a poor or limited credit history. Sub-prime loans carry higher interest rates to compensate for potential losses from default.

Sub-standard assets are customers that have demonstrated some operational and financial instability, with variablility and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.

Total advances include gross loans and advances and acceptances less income yet to mature (for both as at and average volumes). Loans and advances classified as available-for-sale are excluded from total advances.

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Alphabetical Index

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