ANZ National Bank Limited
General Disclosure Statement

FOR THE YEAR ENDED 30 SEPTEMBER 2010 | NUMBER 59 ISSUED NOVEMBER 2010

General Disclosure Statement

For the year ended 30 September 2010

Contents

Glossary of Terms

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

In this General Disclosure Statement unless the context otherwise requires:

(a) "Bank" means ANZ National Bank Limited;

(b) "Banking Group" means ANZ National Bank and all its controlled entities;

(c) "Immediate Parent Company" means ANZ Holdings (New Zealand) Limited;

(d) "NZ Branch" means the New Zealand branch office of Australia and New Zealand Banking Group Limited;

(e) "ANZ New Zealand" means the combined New Zealand operations of Australia and New Zealand Banking Group Limited;

(f) "Ultimate Parent Bank" means Australia and New Zealand Banking Group Limited;

(g) "Overseas Banking Group" means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities;

(h) "RBNZ" means the Reserve Bank of New Zealand;

(i) "APRA" means the Australian Prudential Regulation Authority; and

(j) Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

General Disclosures

General Matters

The address for service for the Bank is Level 6, 1 Victoria Street, Wellington, New Zealand. The Bank was incorporated under the Companies Act 1955 by virtue of the ANZ Banking Group (New Zealand) Act 1979 on 23 October 1979, and was reregistered under the Companies Act 1993 on 13 June 1997.

The Bank is wholly owned by its immediate parent company and ultimately by the Ultimate Parent Bank. The Immediate Parent Company of the Bank is incorporated in New Zealand and owned by ANZ Funds Pty Limited and the Ultimate Parent Bank (both incorporated in Australia). The address for service for the Ultimate Parent Bank is ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

The Immediate Parent Company has the power under the Bank's Constitution to appoint any person as a Director of the Bank either to fill a casual vacancy or as an additional Director or to remove any person from the office of Director, from time to time by giving written notice to the Bank. No appointment of a new Director may occur unless the RBNZ confirms that it does not object to the appointment.

The NZ Branch was established on 5 January 2009. Its address for service is Level 6, 1 Victoria Street, Wellington, New Zealand.

On 30 November 2009, the Banking Group purchased ING Groep's 51% interest in ING (NZ) Holdings Limited ("ING NZ"), which was the holding company for the ANZ-ING wealth management and life insurance joint venture in New Zealand. As a result of the change in ownership, the name of these businesses was changed to OnePath in November 2010.

Nature Of Business

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

Material Financial Support

In accordance with the requirements issued by APRA pursuant to its Prudential Standards, the Ultimate Parent Bank may not provide material financial support to the Bank contrary to the following:

- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank;
- the Ultimate Parent Bank should not hold unlimited exposures (should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank should not enter into cross default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations;

General Disclosures (continued)

- the Board of the Ultimate Parent Bank in determining limits on acceptable levels of exposure to the Bank should have regard to:
  - the level of exposure that would be approved to third parties of broadly equivalent credit status. In this regard, prior consultation (and in some cases approval) is required before entering exceptionally large exposures;
  - the impact on the Ultimate Parent Bank's capital and liquidity position and its ability to continue operating in the event of a failure by the Bank; and
- the level of exposure to the Bank not exceeding:
  - 50% on an individual exposure basis; and
  - 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank)

  of the Ultimate Parent Bank's capital base.

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

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

Pending Proceedings or Arbitration

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

Further details on pending proceedings or arbitration are set out in Note 37.

Other Material Matters

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

Credit Rating Information

Credit ratings are assigned to sovereigns and businesses by the international credit rating agencies. Credit ratings provide investors with an indication of the credit-worthiness of an entity in which they are considering investing. There are three major internationally recognised credit rating agencies: Standard & Poor's, Moody's Investors Service and Fitch Ratings.

As at 22 November 2010 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 20 May 2010 Fitch changed the outlook on the Bank from Stable to Positive. During the two years ended 30 September 2010 there were no other changes to the Bank's credit ratings or qualifications.

The Bank's Credit Ratings are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA	Outlook Stable
Moody's Investors Service	Aa2	Outlook Stable
Fitch Ratings	AA-	Outlook Positive

The following table describes the credit rating grades available:

	Standard & Poor's	Moody's Investors Service	Fitch Ratings
The following grades display investment grade characteristics:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	BB
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC to C
Obligations currently in default.	D	-	RD & D

Credit ratings from Standard & Poor's and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the 'AA' to 'B' categories. Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the 'Aa' to 'Caa' classifications, with 1 indicating the higher end and 3 the lower end of the rating category.

Guarantors

As at the date of this General Disclosure Statement the only material obligations of the Bank that are guaranteed are debt securities for which the Crown has issued a Guarantee Eligibility Certificate under the New Zealand Wholesale Funding Guarantee Facility ("Crown Wholesale Guarantee") copies of which are available on the Treasury website www.treasury.govt.nz.

Crown Wholesale Guarantee

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

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

(a) guaranteed the payment by the Bank of any liability of the Bank to pay principal and interest (excluding any penalty interest or other amount only payable following a default) in respect of the debt securities; and

(b) undertaken that if the Bank does not pay any such liability on the date on which it becomes due and payable, the Crown shall, within five Business Days of a demand being made in accordance with the Wholesale Deed and following the expiry of any applicable grace period, pay such liability.

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

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

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

(a) the scheduled maturity date for the debt security under which the guaranteed liability arises; and

(b) the date falling five years after the date of issue of the debt security under which the guaranteed liability arises,

unless valid demand has been made on the Crown prior to that time.

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

Further information

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

Further information about the Crown, including a copy of its most recent audited financial statements can be obtained at www.treasury.govt.nz.

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

The Crown's foreign currency credit ratings are:

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

The Crown's domestic currency credit ratings are:

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

Supplemental Disclosure Statement

The most recent Supplemental Disclosure Statement for the year to 30 September 2010 is available at no charge:

(a) on the Bank's websites www.anz.co.nz and www.nationalbank.co.nz;

(b) immediately if request is made at the Bank's registered office, located at Level 6, 1 Victoria Street, Wellington, New Zealand; and

(c) within five working days of a request, if a request is made at any branch of the ANZ or The National Bank of New Zealand.

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

Directorate

Jennifer Anne Fagg resigned as a Director of the Bank on 1 September 2010 and David Duncan Hisco was appointed a Director on 13 October 2010. There have been no other changes to directors since the authorisation date of the previous General Short Form Disclosure Statement on 13 August 2010.

Summary of Financial Statements

$ millions	Banking Group				
	Year to 30/09/2010	Year to 30/09/2009	Year to 30/09/2008	Year to[1] 30/09/2007	Year to[1] 30/09/2006
Continuing operations					
Interest income	**5,876**	7,345	9,857	8,309	7,206
Interest expense	**3,457**	4,892	7,568	6,059	5,077
Net interest income	**2,419**	2,453	2,289	2,250	2,129
Other operating income	**744**	663	1,124	861	802
Operating income	**3,163**	3,116	3,413	3,111	2,931
Operating expenses	**1,565**	1,477	1,444	1,331	1,323
Profit before provision for credit impairment and income tax	**1,598**	1,639	1,969	1,780	1,608
Collective provision charge / (credit)	**(5)**	264	112	20	(10)
Individual provision charge	**441**	610	190	54	28
Provision for credit impairment	**436**	874	302	74	18
Profit before income tax	**1,162**	765	1,667	1,706	1,590
Income tax expense	**335**	467	504	614	523
Profit after income tax from continuing operations	**827**	298	1,163	1,092	1,067
Discontinued operations					
Profit from discontinued operations (net of income tax)	**-**	-	-	76	5
Profit after income tax	**827**	298	1,163	1,168	1,072
Dividends paid	**(600)**	(1,000)	-	(728)	(900)

$ millions	Banking Group				
	As at 30/09/2010	As at 30/09/2009	As at 30/09/2008	As at[1] 30/09/2007	As at[1] 30/09/2006
Total impaired assets	**2,004**	1,178	327	115	151
Total assets	**116,458**	117,891	122,915	107,787	95,814
Total liabilities	**106,012**	107,803	113,108	99,084	87,581
Non-controlling interests	**1**	-	-	-	-
Equity	**10,446**	10,088	9,807	8,703	8,233

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

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

Income Statements

$ millions	Note	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Interest income	4	5,876	7,345	5,963	7,528
Interest expense	5	3,457	4,892	3,904	5,538
Net interest income		2,419	2,453	2,059	1,990
Net trading gains	4	39	187	22	185
Funds management and insurance income	4	218	97	65	78
Other operating income	4	445	366	954	1,393
Share of profit of equity accounted associates and jointly controlled entities	16	42	13	-	-
Operating income		3,163	3,116	3,100	3,646
Operating expenses	5	1,565	1,477	1,401	1,410
Profit before provision for credit impairment		1,598	1,639	1,699	2,236
Provision for credit impairment	15	436	874	417	840
Profit before income tax		1,162	765	1,282	1,396
Income tax expense	6	335	467	227	386
Profit after income tax		827	298	1,055	1,010

Statements of Comprehensive Income

$ millions	Note	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Profit after income tax		827	298	1,055	1,010
Available-for-sale revaluation reserve					
Valuation gain before tax		53	2	15	2
Cumulative gain transferred to the income statement on sale of financial assets		(12)	-	-	-
Cash flow hedging reserve					
Valuation gain / (loss) before tax	11	89	(1)	89	(1)
Transferred to income statement	11	21	(3)	21	(3)
Other items recognised directly in equity					
Actuarial gain / (loss) on defined benefit schemes	40	27	(25)	27	(25)
Income tax credit / (expense) on items recognised directly in equity	6	(48)	10	(41)	10
Net income / (expense) recognised directly in equity		130	(17)	111	(17)
Total comprehensive income for the year		957	281	1,166	993

The notes to the financial statements form part of and should be read in conjunction with these financial statements

Statements of Changes in Equity

$ millions	Note	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Ordinary share capital					
Balance at beginning of the year		**6,943**	5,943	**6,943**	5,943
Ordinary share capital issued during the year		**-**	1,000	**-**	1,000
Balance at end of the year	**30**	**6,943**	6,943	**6,943**	6,943
Available-for-sale revaluation reserve					
Balance at beginning of the year		**25**	23	**25**	23
Valuation gain recognised after tax		**42**	2	**14**	2
Transferred to income statement after tax		**(9)**	-	**-**	-
Balance at end of the year		**58**	25	**39**	25
Cash flow hedging reserve					
Balance at beginning of the year		**23**	24	**23**	24
Valuation gain recognised after tax		**64**	-	**64**	-
Transferred to income statement after tax		**15**	(1)	**15**	(1)
Balance at end of the year	**11**	**102**	23	**102**	23
Total reserves		**160**	48	**141**	48
Retained earnings					
Balance at beginning of the year		**3,097**	3,817	**2,314**	2,322
Profit after income tax attributable to parent		**827**	298	**1,055**	1,010
Total available for appropriation		**3,924**	4,115	**3,369**	3,332
Actuarial gain / (loss) on defined benefit schemes after tax		**18**	(18)	**18**	(18)
Dividend paid	**30**	**(600)**	(1,000)	**(600)**	(1,000)
Balance at end of the year		**3,342**	3,097	**2,787**	2,314
Non-controlling interests					
Balance at beginning of the year		**-**	-	**-**	-
Acquired in a business combination	**41**	**1**	-	**-**	-
Balance at end of the year		**1**	-	**-**	-
Total equity					
Balance at beginning of the year		**10,088**	9,807	**9,305**	8,312
Total comprehensive income for the year		**957**	281	**1,166**	993
Transactions with shareholders		**(600)**	-	**(600)**	-
Non-controlling interests	**41**	**1**	-	**-**	-
Balance at end of the year		**10,446**	10,088	**9,871**	9,305

The notes to the financial statements form part of and should be read in conjunction with these financial statements

Balance Sheets

$ millions	Note	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Assets					
Liquid assets	8	**2,238**	2,762	**2,223**	2,758
Due from other financial institutions	9	**3,496**	4,514	**1,926**	4,361
Trading securities	10	**6,757**	4,166	**6,757**	4,166
Derivative financial instruments	11	**10,367**	11,408	**10,382**	11,449
Available-for-sale assets	12	**2,210**	1,513	**2,040**	1,511
Net loans and advances	13	**85,913**	88,259	**83,522**	85,952
Due from subsidiary companies	27	**-**	-	**9,043**	7,703
Investments relating to insurance business		**28**	-	**-**	-
Insurance policy assets		**138**	-	**-**	-
Due from Immediate Parent Company	27	**6**	-	**6**	-
Shares in controlled entities, associates and jointly controlled entities	16	**144**	464	**7,428**	7,702
Current tax assets		**25**	65	**73**	168
Other assets	17	**965**	1,137	**929**	1,081
Deferred tax assets	18	**312**	-	**293**	-
Premises and equipment	19	**311**	278	**83**	63
Goodwill and other intangible assets	20	**3,548**	3,325	**3,292**	3,274
Total assets		**116,458**	117,891	**127,997**	130,188
Liabilities					
Due to other financial institutions	21	**1,819**	3,725	**1,819**	3,239
Deposits and other borrowings	22	**70,295**	71,764	**61,680**	62,835
Due to subsidiary companies	27	**-**	-	**37,458**	36,793
Due to Immediate Parent Company	27	**-**	930	**-**	930
Derivative financial instruments	11	**10,715**	10,762	**10,715**	10,769
Payables and other liabilities	23	**1,700**	1,809	**1,668**	1,847
Deferred tax liabilities	18	**-**	17	**-**	83
Provisions	24	**315**	283	**217**	275
Bonds and notes	25	**18,761**	15,917	**2,157**	1,516
Loan capital	26	**2,407**	2,596	**2,412**	2,596
Total liabilities		**106,012**	107,803	**118,126**	120,883
Net assets		**10,446**	10,088	**9,871**	9,305
Equity					
Ordinary share capital	30	**6,943**	6,943	**6,943**	6,943
Reserves		**160**	48	**141**	48
Retained earnings		**3,342**	3,097	**2,787**	2,314
Parent shareholder's equity		**10,445**	10,088	**9,871**	9,305
Non-controlling interest		**1**	-	**-**	-
Total equity		**10,446**	10,088	**9,871**	9,305

For and on behalf of the Board of Directors:

Sir Dryden Spring
Chairman
22 November 2010

David Hisco
Executive Director
22 November 2010

The notes to the financial statements form part of and should be read in conjunction with these financial statements

Cash Flow Statements

$ millions	Note	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Cash flows from operating activities					
Interest received		**5,636**	7,230	**5,723**	7,369
Dividends received		**2**	3	**435**	1,100
Net funds management & insurance income		**137**	97	**65**	78
Fees and other income received		**771**	821	**802**	749
Interest paid		**(3,412)**	(4,884)	**(3,860)**	(5,465)
Operating expenses paid		**(1,476)**	(1,480)	**(1,345)**	(1,452)
Income taxes paid		**(629)**	(425)	**(521)**	(245)
Cash flows from operating profits before changes in operating assets and liabilities		**1,029**	1,362	**1,299**	2,134
Net changes in operating assets and liabilities:					
Change in due from other financial institutions – term		**1,967**	(246)	**1,755**	(596)
Change in trading securities		**(2,613)**	(1,505)	**(2,613)**	(1,505)
Change in derivative financial instruments		**1,571**	(3,936)	**1,947**	(3,842)
Change in available-for-sale assets		**(435)**	(1,388)	**(466)**	(1,390)
Change in insurance investment assets		**22**	-	**-**	-
Change in loans and advances		**(1,950)**	(1,108)	**(1,847)**	(1,206)
Proceeds from sale of loans and advances to NZ Branch		**3,494**	9,863	**3,494**	9,863
Change in due from subsidiary companies		**-**	-	**(1,333)**	(5,711)
Change in due to subsidiary companies		**-**	-	**(346)**	409
Change in other assets		**145**	(164)	**104**	(174)
Change in due to other financial institutions		**(1,963)**	509	**(1,420)**	1,299
Change in deposits		**(1,493)**	672	**(1,264)**	(268)
Change in other borrowings		**(417)**	(4,637)	**-**	-
Change in payables and other liabilities		**(103)**	165	**(138)**	471
Net cash flows used in operating activities	**35**	**(746)**	(413)	**(828)**	(516)
Cash flows from investing activities					
Proceeds from sale of shares in associates and jointly controlled entities		**7**	-	**2**	-
Proceeds from sale of premises and equipment		**1**	33	**-**	2
Proceeds from sale of software		**-**	1	**-**	1
Purchase of shares in associates and jointly controlled entities		**-**	(92)	**-**	(29)
Purchase of shares in subsidiary entities		**(247)**	-	**(272)**	-
Purchase of intangible assets		**(43)**	(20)	**(37)**	(18)
Purchase of premises and equipment		**(80)**	(95)	**(44)**	(32)
Net cash flows used in investing activities		**(362)**	(173)	**(351)**	(76)
Cash flows from financing activities					
Proceeds from bonds and notes		**5,481**	5,012	**746**	500
Redemptions of bonds and notes		**(3,825)**	(7,751)	**(240)**	(270)
Redemptions of loan capital		**(200)**	(225)	**(200)**	(225)
Change in due to subsidiary companies – term		**-**	-	**1,150**	(2,964)
Change in funding from Immediate Parent Company		**(936)**	526	**(936)**	526
Proceeds from share issue		**-**	1,000	**-**	1,000
Dividends paid		**(600)**	(1,000)	**(600)**	(1,000)
Net cash flows used in financing activities		**(80)**	(2,438)	**(80)**	(2,433)
Net cash flows used in operating activities		**(746)**	(413)	**(828)**	(516)
Net cash flows used in investing activities		**(362)**	(173)	**(351)**	(76)
Net cash flows used in financing activities		**(80)**	(2,438)	**(80)**	(2,433)
Net decrease in cash and cash equivalents		**(1,188)**	(3,024)	**(1,259)**	(3,025)
Cash and cash equivalents at beginning of the year		**4,765**	7,789	**4,761**	7,786
Cash and cash equivalents at end of the year	35	**3,577**	4,765	**3,502**	4,761

The notes to the financial statements form part of and should be read in conjunction with these financial statements

Notes to the Financial Statements

1. Significant Accounting Policies

(a) Basis of Preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Order. The Bank's financial statements are for ANZ National Bank Limited as a separate entity and the Banking Group's financial statements are for the Bank's consolidated group, which includes subsidiaries, associate companies and jointly controlled entities.

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

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

These financial statements were authorised for issue by the Board of Directors on 22 November 2010

(ii) Use of estimates and assumptions

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

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

(iii) Basis of measurement

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

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

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

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the prior period with the exception that all new accounting standards and interpretations applicable to annual reporting periods beginning on or after 1 October 2009 have been applied by the Banking Group effective from the required date of application. The initial application of these standards and interpretations have only resulted in changes to disclosures in the financial statements of the Banking Group.

NZ IFRS 8 *Operating Segments* ("NZ IFRS 8"), NZ IAS 1 *Presentation of Financial Statements (revised)* ("NZ IAS 1"), NZ IAS 27 *Consolidated and Separate Financial Statements* and NZ IFRS 3 *Business Combinations (revised)* have been applied by the Banking Group for the year ended 30 September 2010.

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

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

There have been no other changes in accounting policies since the authorisation date of the previous annual financial statements on 13 November 2009.

(v) Rounding

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

(vi) Comparatives

In prior years some fee income integral to the effective interest rate of financial assets was presented in other operating income. For the year ended 30 September 2010 this income has been classified to interest income, to more accurately reflect the nature of the income. Also for the year ended 30 September 2010 income from insurance and funds management activities has been presented as a separate category in the income statement.

Comparative data has been restated accordingly. For the year ended 30 September 2009 these reclassifications have, for the Banking Group, increased interest income by $99 million, increased net funds management and insurance income by $97 million and reduced other operating income by $196 million. There was no impact on total operating income or net profit after taxation.

Certain other amounts in the comparative information have also been reclassified to ensure consistency with the current year's presentation.

Notes to the Financial Statements

(vii) Principles of consolidation

Subsidiaries

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

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

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

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

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

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

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

Associates and joint ventures

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

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

(viii) Foreign currency translation

Functional and presentation currency

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

Foreign currency transactions

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

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

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

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

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

(b) Income recognition

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

(i) Interest income

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

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

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

(ii) Fee and commission income

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

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

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

Notes to the Financial Statements

(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 plant and equipment

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

(c) Expense recognition

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

(i) Interest expense

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

(ii) Loan origination expenses

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

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

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

(iii) Share-based compensation expense

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

Shares

The fair value of the Ultimate Parent Bank's shares granted under the Employee Share Acquisition Plan is measured at grant date, using a volume weighted average market price of the Ultimate Parent Bank's 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 over the Ultimate Parent Bank's shares is measured at grant date, using an option pricing model. The fair value is expensed on a straight-line basis over the relevant vesting period. This is recognised as an employee compensation expense with a corresponding increase in the share options liability account.

The option pricing model takes into account the exercise price of the option, the risk free interest rate, the expected volatility of the Ultimate Parent Bank's 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 the Ultimate Parent Bank. The fair value of Performance Rights is determined at grant date using an option pricing model, taking into account market conditions. The fair value is expensed over the relevant vesting period with a corresponding increase in the share options liability account.

Other adjustments

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

(iv) Lease payments

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

(d) Income tax

(i) Income tax expense

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

(ii) Current tax

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

(iii) Deferred tax

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

Notes to the Financial Statements

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

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

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

(iv) Offsetting

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

(e) Assets

Financial assets

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

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

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

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

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

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

(ii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying price index or other variables, require little or no initial net investment and are settled at a later date. They include swaps, forward rate agreements, futures, options and combinations of these instruments.

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

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

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

Fair value hedge

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

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

Notes to the Financial Statements

Cash flow hedge

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

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

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

Derivatives that do not qualify for hedge accounting

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

Set-off arrangements

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

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

(iii) Available-for-sale assets

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

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

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

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

(iv) Net loans and advances

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

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

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

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

Impairment of loans and advances

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

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

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

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

Notes to the Financial Statements

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

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

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

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

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

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

(v) Lease receivables

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

(vi) Repurchase agreements

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

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

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

(vii) Derecognition

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

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

(viii) Investments relating to insurance business

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

Non-financial assets

(ix) Goodwill

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

(x) Other intangible assets

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

Notes to the Financial Statements

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

Management rights and customer relationships, including the value of in force insurance contracts, are initially measured at fair value. Management rights and customer relationships with a definite useful life are amortised over the expected useful life. Where management rights and customer relationships do not have finite terms and the cash flows associated with these management rights are expected to continue indefinitely, the intangible assets associated with these items are treated as having an indefinite useful life. Management rights and customer relationships with an indefinite useful life are not amortised.

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

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

(xi) Premises and equipment

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

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

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

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

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

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

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

(xii) Insurance policy assets / liabilities

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

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

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

(f) Liabilities

Financial liabilities

(i) Deposits and other borrowings

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

(ii) Bonds, notes and loan capital

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

(iii) Financial guarantee contracts

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

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

Notes to the Financial Statements

(iv) Derecognition

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

Non-financial liabilities

(v) Employee benefits

Leave benefits

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

Superannuation schemes

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

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

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

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

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

(vi) Provisions

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

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

(g) Equity

(i) Shares

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

(ii) Non-controlling interests

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

(iii) Reserves

Available-for-sale revaluation reserve

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

Cash flow hedging reserve

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

(h) Presentation

(i) Offsetting of income and expenses

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

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

Notes to the Financial Statements

(ii) Offsetting of financial assets and liabilities

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

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

(iii) Statement of cash flows

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

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

(iv) Segment reporting

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

(v) Goods and services tax

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

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

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

(i) Other

(i) Contingent liabilities

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

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

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

Further disclosure is made within Note 37, where the above requirements are not met, but there is a possible obligation that is higher than remote. Specific details of the nature of the contingent liability are provided and, where practicable, an estimate of its financial effect. Alternatively, where no disclosure is made of its financial effect because it is not practicable to do so, a statement to that effect is provided.

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

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

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

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

(iii) Discontinued operations

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

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

(iv) Accounting Standards not early adopted

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

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

Notes to the Financial Statements

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

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

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

Improvements to New Zealand equivalents to International Financial Reporting Standards (various effective dates) – are the International Accounting Standards Board's annual omnibus updates of standards.

2. Critical Estimates and Judgement Used in Applying Accounting Policies

These financial statements are prepared in accordance with NZ IFRS. However, there are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Critical accounting estimates and assumptions

Credit provisioning

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

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

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

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

Refer to Note 15 for details of credit impairment provisions.

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

Critical judgements in applying the Banking Group's accounting policies

Derivatives and hedging

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

A hedging instrument is a designated derivative whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that (a) exposes the Banking Group to the risk of changes in fair value or future cash flows and (b) is designated as being hedged.

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

Goodwill

The carrying value of goodwill is subject to an impairment test to ensure that the current carrying value does not exceed its recoverable value at the balance sheet date. Any excess of carrying value over recoverable amount is taken to the income statement as an impairment write down. Refer to Note 20 for details of goodwill.

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Each of these cash generating units is represented by an individual reporting segment – Retail, Commercial and Institutional. Refer to Note 7.

Impairment testing of purchased goodwill is performed annually, or more frequently where there is an indication that the goodwill may be impaired, by comparing the recoverable value of each cash generating unit with the current carrying amount of its net assets, including goodwill.

The recoverable amount is based on value-in-use calculations. These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and CPI. Cash flows beyond the three year period are extrapolated using a 3% growth rate.

Notes to the Financial Statements

These cash flow projections are discounted using a capital asset pricing model. As at 31 March 2010, when the last valuation was prepared, a discount rate of 11.66% was applied to each segment. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the Banking Group's carrying amount to exceed its recoverable amount.

3. Risk Management Policies

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

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

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

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

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

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

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

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

A number of new and existing types of risk have been recognised following the consolidation of ING NZ (now known as OnePath) into the Banking Group. The new risks relate to OnePath's insurance, real estate management and funds management businesses. The new risks identified are not considered material to the Banking Group.

Financial risk management

Refer to Note 32 for detailed disclosures on the Banking Group's financial risk management policies.

Operational Risk

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to the Banking Group's reputation.

Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

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

Notes to the Financial Statements

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

Compliance

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

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

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

Internal audit

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

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

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

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

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

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

Notes to the Financial Statements

4. Income

$ millions	Note	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Interest income					
Financial assets at fair value through profit or loss					
Trading securities		346	187	346	187
Due from controlled entities		-	-	266	380
		346	187	612	567
Financial assets not at fair value through profit or loss					
Liquid assets		66	118	65	118
Other financial institutions		67	259	57	230
Available-for-sale assets		69	16	51	16
Lending on productive loans		5,103	6,662	4,910	6,453
Lending on impaired assets		59	8	56	8
Controlled entities		-	-	52	46
Immediate Parent Company		10	-	10	-
Other		156	95	150	90
		5,530	7,158	5,351	6,961
Total interest income		5,876	7,345	5,963	7,528
Net trading gains					
Net gain on foreign exchange trading		123	201	121	199
Net gain on trading securities		174	43	161	43
Net loss on trading derivatives		(258)	(57)	(260)	(57)
Net trading gains		39	187	22	185
Funds management and insurance income					
Fee income on trust and other fiduciary activities		62	52	21	32
Other funds management and insurance income		156	45	44	46
Total funds management and insurance income		218	97	65	78
Other operating income					
Lending and credit facility fee income		45	62	45	63
Other fee income		587	590	590	585
Total fee income		632	652	635	648
Direct fee expense		181	172	181	172
Net fee income		451	480	454	475
Dividends received		2	1	381	1,100
Gain recognised on winding up of subsidiaries	16	-	-	54	-
Net gain / (loss) on financial assets designated at fair value		-	-	80	(2)
Net gain / (loss) on hedges not qualifying for hedge accounting		50	3	22	43
Net ineffectiveness on qualifying fair value hedges	11	22	71	22	71
Net cash flow hedge gain / (loss) transferred to income statement	11	(21)	3	(21)	3
Net gain / (loss) on financial liabilities designated at fair value		1	(21)	12	(59)
ING NZ Funds	37	-	(211)	-	(211)
Loss on re-measuring existing equity interests to fair value	41	(82)	-	(61)	-
Other income		22	40	11	(27)
Total other operating income		445	366	954	1,393

Notes to the Financial Statements

5. Expenses

$ millions	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Interest expense				
Financial liabilities at fair value through profit or loss				
Commercial paper	**265**	561	**-**	-
Due to controlled entities	**-**	-	**412**	503
	265	561	**412**	503
Financial liabilities not at fair value through profit or loss				
Other financial institutions	**39**	167	**34**	115
Deposits and other borrowings	**2,150**	2,959	**2,193**	3,203
Controlled entities	**-**	-	**925**	1,301
Bonds and notes	**748**	894	**134**	108
Related party funding	**5**	28	**5**	28
Loan capital	**180**	207	**180**	207
Other	**70**	76	**21**	73
	3,192	4,331	**3,492**	5,035
Total interest expense	**3,457**	4,892	**3,904**	5,538
Operating expenses				
Personnel costs	**735**	718	**661**	684
Employee entitlements	**71**	72	**69**	71
Pension costs				
– Defined contribution schemes	**36**	36	**35**	35
– Defined benefit schemes	**7**	8	**7**	8
Share-based payments expense	**21**	18	**21**	18
Building occupancy costs	**44**	42	**8**	10
Depreciation of premises and equipment	**47**	39	**21**	16
Leasing and rental costs	**82**	80	**15**	14
Related parties (Note 27)	**86**	91	**199**	200
Computer expenses	**131**	120	**122**	114
Administrative expenses	**209**	177	**185**	173
Other costs	**96**	76	**58**	67
Total operating expenses	**1,565**	1,477	**1,401**	1,410

$ thousands	Year to 30/09/2010	Year to 30/09/2009	Year to 30/09/2010	Year to 30/09/2009
Fees paid to principal auditors				
Audit or review of financial statements	**2,194**	1,994	**1,422**	1,508
Other audit-related services	**668**	369	**575**	448
Total auditors' remuneration	**2,862**	2,363	**1,997**	1,956
Audit fees paid to other audit firms	**140**	-	**-**	-

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

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

Notes to the Financial Statements

6. Income Tax Expense

$ millions	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Reconciliation of the prima facie income tax payable on profit				
Profit before income tax	**1,162**	765	**1,282**	1,396
Prima facie income tax at 30%	**349**	230	**385**	419
Rebateable and non-assessable dividends	**(6)**	(8)	**(131)**	(329)
Effect of changes in tax legislation	**45**	-	**29**	-
Change in tax provisions	**(54)**	240	**(54)**	240
Non-deductible expenses / (non-assessable income)	**1**	6	**(2)**	56
	335	468	**227**	386
Income tax under provided in prior years	**-**	(1)	**-**	-
Total income tax expense	**335**	467	**227**	386
Effective tax rate (%) before change in tax provisions and the effect of changes in tax legislation	**29.6%**	29.6%	**19.6%**	10.4%
Effective tax rate (%)	**28.8%**	61.0%	**17.7%**	27.6%
Amounts recognised in the income statement				
Current income tax charge				
Current income tax charge	**634**	426	**608**	299
Adjustments recognised in the current year in relation to current tax of prior years	**-**	(1)	**-**	-
Deferred income tax				
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	**(326)**	141	**(408)**	186
Other (including indemnity)	**27**	(99)	**27**	(99)
Total income tax expense recognised in the income statement	**335**	467	**227**	386
Amounts recognised directly in equity				
Current income tax				
Actuarial gain / (loss) on defined benefit schemes	**8**	(7)	**8**	(7)
Net gain on revaluation of financial instruments	**8**	-	**1**	-
Deferred income tax				
Net gain / (loss) on revaluation of financial instruments	**32**	(3)	**32**	(3)
Total income tax charge / (benefit) recognised directly in equity	**48**	(10)	**41**	(10)
Imputation Credit Account				
Balance at beginning of the year	**645**	696	**528**	446
Imputation credits attached to dividends received	**31**	31	**106**	285
Taxation paid	**375**	138	**270**	55
Imputation credits attached to dividends paid	**(125)**	(252)	**(125)**	(282)
Other	**9**	32	**23**	24
Balance at end of the year	**935**	645	**802**	528

The above amounts only include items that give rise to imputation credits that are available for use by the Banking Group and/or the Bank. The figures shown for the Bank include the imputation credits available for use by the Bank held by the Banking Group imputation group.

Changes in tax legislation

In May 2010 legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28% and to remove the ability to claim tax depreciation on buildings with an estimated useful life greater than fifty years, effective for the 2011-2012 income tax year. The tax effect shown is the estimated impact on the value of deferred tax as a result of the changes from 1 October 2011.

Settlement with Inland Revenue Department

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

Notes to the Financial Statements

7. Segmental Analysis

For segment reporting purposes, the Banking Group is organised into three major business segments – Retail, Commercial and Institutional. Centralised back office and corporate functions support these segments. These segments are consistent with internal reporting provided to the chief operating decision maker, being the Bank's Chief Executive Officer.

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

Retail

Retail provides banking products and services to individuals and small businesses through separate ANZ and The National Bank of New Zealand branded distribution channels. Personal banking customers have access to a wide range of financial services and products. Small business banking services are offered to enterprises with annual revenues of less than $5 million. The Banking Group's wealth businesses include private banking and investment services provided to high net worth individuals, the OnePath wealth management and insurance businesses, and other investment products. This segment also includes other profit centres supporting the Retail Banking segment.

Commercial

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

Institutional

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

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

Other

Other includes treasury and back office support functions, none of which constitutes a separately reportable segment.

Notes to the Financial Statements

Business segment analysis[1]

$ millions 30/09/2010	Banking Group Retail[3]	Commercial	Institutional	Other	Total
External interest income	3,142	2,321	405	8	5,876
External interest expense	(1,422)	(345)	(414)	(1,276)	(3,457)
Net intersegment interest	(718)	(1,118)	487	1,349	-
Net interest income	1,002	858	478	81	2,419
Other external operating income[3]	506	50	114	32	702
Share of profit of equity accounted associates and jointly controlled entities	35	-	5	2	42
Operating income	1,543	908	597	115	3,163
Other external expenses	603	153	101	622	1,479
Net intersegment and related party expenses[2]	482	117	64	(577)	86
Operating expenses	1,085	270	165	45	1,565
Profit before provision for credit impairment	458	638	432	70	1,598
Provision for credit impairment	204	292	(60)	-	436
Profit before income tax	254	346	492	70	1,162
Income tax expense	77	104	141	13	335
Profit after income tax	177	242	351	57	827
Other information					
Depreciation and amortisation	22	3	1	45	71
Goodwill	1,141	1,052	1,072	-	3,265
Intangible assets – indefinite life	125	-	-	-	125
Intangible assets – definite life	146	8	-	4	158
Shares in associates and jointly controlled entities	-	-	56	88	144
Total external assets	46,028	36,873	30,426	3,131	116,458
Total external liabilities	39,924	9,623	32,445	24,020	106,012

30/09/2009	Retail[3]	Commercial	Institutional	Other[4]	Total
External interest income	4,130	2,728	490	(3)	7,345
External interest expense	(1,765)	(533)	(731)	(1,863)	(4,892)
Net intersegment interest	(1,300)	(1,397)	741	1,956	-
Net interest income	1,065	798	500	90	2,453
Other external operating income	268	65	259	58	650
Share of profit of equity accounted associates and jointly controlled entities	13	-	(2)	2	13
Operating income	1,346	863	757	150	3,116
Other external expenses	486	160	111	629	1,386
Net intersegment and related party expenses[2]	465	113	56	(543)	91
Operating expenses	951	273	167	86	1,477
Profit before provision for credit impairment	395	590	590	64	1,639
Provision for credit impairment	359	419	96	-	874
Profit before income tax	36	171	494	64	765
Income tax expense	6	50	142	269	467
Profit after income tax	30	121	352	(205)	298
Other information					
Depreciation and amortisation	13	2	2	35	52
Goodwill	1,141	1,052	1,072	-	3,265
Intangible assets – indefinite life	-	-	-	-	-
Intangible assets – definite life	44	9	2	5	60
Shares in associates and jointly controlled entities	329	-	61	74	464
Total external assets	46,430	37,541	31,351	2,569	117,891
Total external liabilities	38,960	10,510	30,248	28,085	107,803

[1] Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
[2] Net intersegment and related party expenses are eliminated at the Overseas Banking Group level.
[3] Includes a loss of $82 million (30/9/2009 nil) on acquisition of ING NZ (refer Note 41) and a charge of $nil (30/9/2009 $211 million) in relation to ING NZ Funds (refer Note 37).
[4] This segment has negative external revenues as this segment incurs funding costs on behalf of the Banking Group and is reimbursed internally.

Notes to the Financial Statements

8. Liquid Assets

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Cash and balances with central banks	**1,829**	2,373	**1,829**	2,373
Money at call	**328**	341	**320**	340
Bills receivable and remittances in transit	**81**	48	**74**	45
Total liquid assets	**2,238**	2,762	**2,223**	2,758
Overnight balances with central banks included in liquid assets	**1,670**	2,207	**1,670**	2,207

9. Due from Other Financial Institutions

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Able to be withdrawn without prior notice	**457**	172	**448**	172
Securities purchased under agreement to resell	**176**	1,083	**176**	1,083
Securities purchased under agreement to resell with central banks	**170**	-	**170**	-
Security settlements	**1,535**	117	**108**	117
Certificates of deposit	**707**	2,338	**657**	2,338
Reserve bank bills	**-**	398	**-**	398
Term loans and advances	**451**	406	**367**	253
Total due from other financial institutions	**3,496**	4,514	**1,926**	4,361

None of these assets were used to secure deposit obligations or were encumbered through repurchase agreements at 30 September 2010 (30/09/2009 $nil).

10. Trading Securities

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Government, Local Body stock and bonds	**3,917**	1,389	**3,917**	1,389
Certificates of deposit	**32**	191	**32**	191
Promissory notes	**64**	28	**64**	28
Other bank bonds	**2,655**	2,475	**2,655**	2,475
Other	**89**	83	**89**	83
Total trading securities	**6,757**	4,166	**6,757**	4,166
Assets encumbered through repurchase agreements included in trading securities	**222**	159	**222**	159

11. Derivative Financial Instruments

The use of derivatives and their sale to customers as risk management products is an integral part of the Banking Group's trading activities. Derivatives are also used to manage the Banking Group's own exposure to fluctuations in exchange and interest rates as part of its asset and liability management activities (i.e. balance sheet risk management).

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

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

Trading positions

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

Notes to the Financial Statements

Balance sheet risk management

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

The following tables provide an overview of the Banking Group's and the Bank's foreign exchange rate, interest rate and commodity derivatives.

30/09/2010 $ millions	Banking Group Notional Principal Amount	Banking Group Fair values Assets	Banking Group Fair values Liabilities	Bank Notional Principal Amount	Bank Fair values Assets	Bank Fair values Liabilities
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	36,249	465	925	36,298	464	925
Swap agreements	101,489	1,788	3,155	101,572	1,791	3,155
Options purchased	1,563	48	-	1,563	48	-
Options sold	1,505	1	58	1,505	1	58
Collateral received / paid	n/a	(361)	(1,242)	n/a	(361)	(1,242)
	140,806	1,941	2,896	140,938	1,943	2,896
Interest rate derivatives						
Forward rate agreements	46,736	7	7	46,736	7	7
Swap agreements	410,238	7,766	7,340	416,881	7,779	7,340
Futures contracts	25,494	3	22	25,494	3	22
Options purchased	524	21	-	524	21	-
Options sold	2,630	-	15	2,630	-	15
	485,622	7,797	7,384	492,265	7,810	7,384
Commodity derivatives						
Fuel derivatives	62	1	1	62	1	1
Electricity derivatives	6	1	1	6	1	1
Total derivatives held for trading	626,496	9,740	10,282	633,271	9,755	10,282
Derivatives held for hedging						
(a) Designated as cash flow hedges						
Interest rate derivatives						
Swap agreements	9,082	227	80	9,082	227	80
Futures contracts	6,226	-	13	6,226	-	13
Total derivatives designated as cash flow hedges	15,308	227	93	15,308	227	93
(b) Designated as fair value hedges						
Foreign exchange derivatives						
Swap agreements	53	3	-	53	3	-
Interest rate derivatives						
Swap agreements	18,656	397	340	18,656	397	340
Total derivatives designated as fair value hedges	18,709	400	340	18,709	400	340
Total derivatives held for hedging	34,017	627	433	34,017	627	433
Total derivative financial instruments	660,513	10,367	10,715	667,288	10,382	10,715

Notes to the Financial Statements

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

Hedging relationships

The Banking Group has entered into two types of allowable hedging: fair value hedges and cash flow hedges. For details on the accounting treatment of each type of hedging relationship refer to Note 1.

Fair value hedges

The Banking Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

Gain / (loss) on fair value hedges attributable to the hedged risk

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Gain / (loss) arising from fair value hedges:				
– hedged item	**(478)**	263	**(478)**	263
– hedging instrument	**500**	(192)	**500**	(192)
Net ineffectiveness on qualifying fair value hedges	**22**	71	**22**	71

Notes to the Financial Statements

Cash flow hedges

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

Analysis of the cash flow hedging reserve

	Banking Group		Bank	
$ millions	**30/09/2010**	30/09/2009	**30/09/2010**	30/09/2009
Balance at beginning of the year	**23**	24	**23**	24
Valuation gain / (loss) taken to equity	**89**	(1)	**89**	(1)
Tax effect of valuation loss / (gain) taken to equity	**(25)**	1	**(25)**	1
Transferred to income statement	**21**	(3)	**21**	(3)
Tax effect of items transferred to income statement	**(6)**	2	**(6)**	2
Balance at end of the year	**102**	23	**102**	23
Attributable to:				
Variable rate loan assets	**200**	149	**200**	149
Variable rate liabilities	**(34)**	(29)	**(34)**	(29)
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	**(64)**	(97)	**(64)**	(97)
Total cash flow hedging reserve	**102**	23	**102**	23

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

Ineffectiveness recognised in the income statement in respect of cash flow hedges was less than $1 million in the Banking Group and Bank (30/09/2009 less than $1 million).

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

12. Available-for-sale Assets

	Banking Group		Bank	
$ millions	**30/09/2010**	30/09/2009	**30/09/2010**	30/09/2009
Government, Local Body stock and bonds	**1,939**	1,394	**1,916**	1,394
Other debt securities	**193**	48	**46**	48
Equity securities	**78**	71	**78**	69
Total available-for-sale assets	**2,210**	1,513	**2,040**	1,511

Notes to the Financial Statements

13. Net Loans and Advances

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Overdrafts	**2,131**	2,087	**2,131**	2,087
Credit card outstandings	**1,388**	1,402	**1,388**	1,402
Term loans – housing	**43,887**	44,763	**43,887**	44,763
Term loans – non-housing	**39,179**	40,231	**37,153**	38,251
Finance lease receivables	**726**	683	**24**	30
Gross loans and advances	**87,311**	89,166	**84,583**	86,533
Provision for credit impairment (Note 15)	**(1,398)**	(1,272)	**(1,339)**	(1,212)
Unearned finance income	**(273)**	(262)	**-**	-
Fair value hedge adjustment	**279**	615	**279**	615
Deferred fee revenue and expenses	**(49)**	(51)	**(44)**	(47)
Capitalised brokerage/mortgage origination fees	**43**	63	**43**	63
Total net loans and advances	**85,913**	88,259	**83,522**	85,952

As at 30 September 2010 the Banking Group has not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ (30/09/2009 repurchase agreements of $1,806 million). Therefore no underlying collateral has been accepted by the RBNZ under this transaction (30/09/2009 mortgages to the value of $2,250 million were held by the RBNZ as collateral).

In February 2009 and July 2009, the Bank sold $4,877 million and $4,986 million, respectively, of residential mortgages to the NZ Branch. These existing tranches of residential mortgages are regularly topped up with additional mortgages. Sales, repurchases and repayments have resulted in the NZ Branch holding mortgages with a carrying value of $10,029 million as at 30 September 2010 (30/09/2009 $8,795 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets. Net loans and advances have decreased as a result of selling these assets.

14. Impaired Assets, Past Due Assets and Other Assets Under Administration

Individually impaired assets $ millions	Banking Group Retail mortgages	Banking Group Other retail exposures	Banking Group Corporate exposures	Banking Group Total	Bank Retail mortgages	Bank Other retail exposures	Bank Corporate exposures	Bank Total
30/09/2010								
Balance at beginning of the year	**377**	**59**	**740**	**1,176**	**377**	**51**	**689**	**1,117**
Transfers from productive	**532**	**258**	**1,282**	**2,072**	**532**	**251**	**1,207**	**1,990**
Transfers to productive	**(20)**	**(2)**	**(73)**	**(95)**	**(20)**	**(2)**	**(71)**	**(93)**
Assets realised or loans repaid	**(321)**	**(111)**	**(454)**	**(886)**	**(321)**	**(107)**	**(424)**	**(852)**
Write offs	**(57)**	**(123)**	**(92)**	**(272)**	**(57)**	**(120)**	**(76)**	**(253)**
Individually impaired asset balance at end of the year	**511**	**81**	**1,403**	**1,995**	**511**	**73**	**1,325**	**1,909**
Restructured items	**9**	**-**	**-**	**9**	**9**	**-**	**-**	**9**
Total impaired assets	**520**	**81**	**1,403**	**2,004**	**520**	**73**	**1,325**	**1,918**
30/09/2009								
Balance at beginning of the year	83	30	214	327	83	14	191	288
Transfers from productive	576	243	882	1,701	576	235	802	1,613
Transfers to productive	(22)	(20)	(25)	(67)	(22)	(20)	(17)	(59)
Assets realised or loans repaid	(232)	(45)	(230)	(507)	(232)	(37)	(206)	(475)
Write offs	(28)	(149)	(101)	(278)	(28)	(141)	(81)	(250)
Individually impaired asset balance at end of the year	377	59	740	1,176	377	51	689	1,117
Restructured items	2	-	-	2	2	-	-	2
Total impaired assets	379	59	740	1,178	379	51	689	1,119

Notes to the Financial Statements

Restructured assets

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

Restructured assets $ millions	Banking Group				Bank			
	Retail mortgages	Other retail exposures	Corporate exposures	Total	Retail mortgages	Other retail exposures	Corporate exposures	Total
30/09/2010								
Balance at beginning of the year	**2**	**-**	**-**	**2**	**2**	**-**	**-**	**2**
Transfers to restructured items	**9**	**-**	**-**	**9**	**9**	**-**	**-**	**9**
Transfers from restructured items	**(2)**	**-**	**-**	**(2)**	**(2)**	**-**	**-**	**(2)**
Balance at end of the year	**9**	**-**	**-**	**9**	**9**	**-**	**-**	**9**
30/09/2009								
Balance at beginning of the year	-	-	-	-	-	-	-	-
Transfers to restructured items	2	-	18	20	2	-	-	2
Transfers from restructured items	-	-	(18)	(18)	-	-	-	-
Balance at end of the year	2	-	-	2	2	-	-	2

Renegotiated loans

Renegotiated loans are loans that would otherwise be past due or impaired had their terms not been renegotiated. At 30 September 2010, loans and advances of $621 million were renegotiated in the Banking Group (30/09/2009 $266 million) and $565 million were renegotiated in the Bank (30/09/2009 $196 million).

Assets acquired through enforcement of security

Assets acquired through enforcement of security are those assets which are legally owned by the Banking Group as a result of enforcing security, other than any buildings occupied by the Banking Group. The Banking Group held no material assets acquired through enforcement of security (30/09/2009 $nil).

Past due assets

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

Other assets under administration

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

Interest forgone

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

Notes to the Financial Statements

30/09/2010 $ millions	Banking Group				Bank			
	Retail mortgages	Other retail exposures	Corporate exposures	Total	Retail mortgages	Other retail exposures	Corporate exposures	Total
Past due assets (90 days past due assets)[1]								
Balance at beginning of the year	**265**	**59**	**111**	**435**	**265**	**51**	**100**	**416**
Transfers to past due assets	**450**	**127**	**510**	**1,087**	**450**	**102**	**500**	**1,052**
Transfers from past due assets	**(583)**	**(153)**	**(494)**	**(1,230)**	**(583)**	**(127)**	**(478)**	**(1,188)**
Balance at end of the year	**132**	**33**	**127**	**292**	**132**	**26**	**122**	**280**
Other assets under administration								
Balance at beginning of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers to other assets under administration	**-**	**-**	**4**	**4**	**-**	**-**	**4**	**4**
Transfers from other assets under administration	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at end of the year	**-**	**-**	**4**	**4**	**-**	**-**	**4**	**4**
Undrawn facilities with impaired customers								
Balance at beginning of the year	**-**	**-**	**32**	**32**	**-**	**-**	**32**	**32**
Net transfers to / (from) undrawn facilities with impaired customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at end of the year	**-**	**-**	**32**	**32**	**-**	**-**	**32**	**32**
Interest forgone on impaired assets								
Gross interest receivable on impaired loans	**44**	**7**	**68**	**119**	**44**	**6**	**63**	**113**
Interest recognised	**(16)**	**(3)**	**(40)**	**(59)**	**(16)**	**(2)**	**(38)**	**(56)**
Net interest forgone on impaired loans	**28**	**4**	**28**	**60**	**28**	**4**	**25**	**57**
30/09/2009								
Past due assets (90 days past due assets)[1]								
Balance at beginning of the year	244	54	11	309	244	47	5	296
Transfers to past due assets	852	149	448	1,449	852	104	399	1,355
Transfers from past due assets	(831)	(144)	(348)	(1,323)	(831)	(100)	(304)	(1,235)
Balance at end of the year	265	59	111	435	265	51	100	416
Other assets under administration								
Balance at beginning of the year	-	-	1	1	-	-	1	1
Transfers to other assets under administration	-	-	42	42	-	-	42	42
Transfers from other assets under administration	-	-	(43)	(43)	-	-	(43)	(43)
Balance at end of the year	-	-	-	-	-	-	-	-
Undrawn facilities with impaired customers								
Balance at beginning of the year	-	-	6	6	-	-	6	6
Net transfers to / (from) undrawn facilities with impaired customers	-	-	26	26	-	-	26	26
Balance at end of the year	-	-	32	32	-	-	32	32
Interest forgone on impaired assets								
Gross interest receivable on impaired loans	22	4	42	68	22	4	42	68
Interest recognised	(4)	(1)	(3)	(8)	(4)	(1)	(3)	(8)
Net interest forgone on impaired loans	18	3	39	60	18	3	39	60

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

Notes to the Financial Statements

15. Provision for Credit Impairment

$ millions	Banking Group				Bank			
	Retail mortgages	Other retail exposures	Corporate exposures	Total	Retail mortgages	Other retail exposures	Corporate exposures	Total
30/09/2010								
Collective provision								
Balance at beginning of the year	**121**	**159**	**518**	**798**	**121**	**140**	**501**	**762**
Charge / (credit) to income statement	**(10)**	**(10)**	**15**	**(5)**	**(10)**	**(5)**	**17**	**2**
Balance at end of the year	**111**	**149**	**533**	**793**	**111**	**135**	**518**	**764**
Individual provision (individually impaired assets)								
Balance at beginning of the year	**153**	**40**	**281**	**474**	**153**	**23**	**274**	**450**
Charge to income statement	**125**	**120**	**196**	**441**	**125**	**112**	**178**	**415**
Recoveries of amounts previously written off	**2**	**17**	**2**	**21**	**2**	**16**	**1**	**19**
Bad debts written off	**(57)**	**(123)**	**(92)**	**(272)**	**(57)**	**(120)**	**(76)**	**(253)**
Discount unwind[1]	**(16)**	**(3)**	**(40)**	**(59)**	**(16)**	**(2)**	**(38)**	**(56)**
Balance at end of the year	**207**	**51**	**347**	**605**	**207**	**29**	**339**	**575**
Total provision for credit impairment	**318**	**200**	**880**	**1,398**	**318**	**164**	**857**	**1,339**
30/09/2009								
Collective provision								
Balance at beginning of the year	81	164	289	534	81	146	270	497
Charge to income statement	40	(5)	229	264	40	(6)	231	265
Balance at end of the year	121	159	518	798	121	140	501	762
Individual provision (individually impaired assets)								
Balance at beginning of the year	28	10	94	132	28	4	83	115
Charge to income statement	152	161	297	610	152	142	281	575
Recoveries of amounts previously written off	1	18	1	20	1	18	1	20
Bad debts written off	(28)	(149)	(101)	(278)	(28)	(141)	(81)	(250)
Discount unwind[1]	-	-	(10)	(10)	-	-	(10)	(10)
Balance at end of the year	153	40	281	474	153	23	274	450
Total provision for credit impairment	274	199	799	1,272	274	163	775	1,212

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

Notes to the Financial Statements

Provision movement analysis $ millions	Banking Group				Bank			
	Retail mortgages	Other retail exposures	Corporate exposures	Total	Retail mortgages	Other retail exposures	Corporate exposures	Total
30/09/2010								
New and increased provisions	187	160	337	684	187	151	313	651
Provision releases	(60)	(23)	(139)	(222)	(60)	(23)	(134)	(217)
	127	137	198	462	127	128	179	434
Recoveries of amounts previously written off	(2)	(17)	(2)	(21)	(2)	(16)	(1)	(19)
Individual provision charge	125	120	196	441	125	112	178	415
Collective provision charge / (credit)	(10)	(10)	15	(5)	(10)	(5)	17	2
Total charge to income statement	115	110	211	436	115	107	195	417
30/09/2009								
New and increased provisions	162	182	316	660	162	162	299	623
Provision releases	(9)	(3)	(18)	(30)	(9)	(2)	(17)	(28)
	153	179	298	630	153	160	282	595
Recoveries of amounts previously written off	(1)	(18)	(1)	(20)	(1)	(18)	(1)	(20)
Individual provision charge	152	161	297	610	152	142	281	575
Collective provision charge	40	(5)	229	264	40	(6)	231	265
Total charge to income statement	192	156	526	874	192	136	512	840

16. Controlled Entities, Associates and Jointly Controlled Entities

$ millions	Banking Group		Bank	
	30/09/2010	30/09/2009	**30/09/2010**	30/09/2009
Shares in controlled entities	**-**	-	**7,343**	7,377
Shares in associates	**143**	211	**85**	94
Shares in jointly controlled entities	**1**	253	**-**	231
Total shares in controlled entities, associates and jointly controlled entities	**144**	464	**7,428**	7,702

Notes to the Financial Statements

Controlled Entities	Ownership Interest %	Balance Date	Nature of business
Alos Holdings Limited	100	30 September	Investment company
ANZ Capital NZ Limited	100	30 September	Investment company
ANZ Investment Services (New Zealand) Limited	100	30 September	Funds management company
ANZ National (Int'l) Limited	100	30 September	Finance company
ANZ National Staff Superannuation Limited	100	30 September	Staff superannuation scheme trustee
APAC Investments Limited[3]	65	31 December	Finance company
Arawata Assets Limited	100	30 September	Property company
Arawata Capital Limited	100	30 September	Investment company
Arawata Finance Limited	100	30 September	Investment company
Arawata Holdings Limited	100	30 September	Investment company
Arawata Securities Limited[2]	100	30 September	Non operative
Arawata Trust	-	30 September	Finance entity
Arawata Trust Company	100	30 September	Investment company
Argosy Property Management Limited (formerly ING Property Trust Management Limited)[1]	100	31 March	Management company
Australian Properties Ltd[1]	100	30 September	Management company
AUT Investments Limited (formerly ING NZ AUT Investments Limited)[1]	100	30 September	Holding company
BHI Limited	100	30 September	Investment company
CBC Finance Limited (registered in British Virgin Islands)	100	31 December	Non operative
Control Nominees Limited	100	30 September	Finance company
Direct Broking Limited	100	30 September	On-line share broker
Direct Nominees Limited	100	30 September	Nominee company
Diversified Yield Fund (formerly ING Diversified Yield Fund, registered in Australia)[1]	99	30 June	Fixed income fund
Eastern Specialists Consulting Ltd[1]	100	30 September	Holding company
EFTPOS New Zealand Limited	100	30 September	EFTPOS service provider
Endeavour Finance Limited	100	30 September	Investment company
General Finance Custodians Limited	-	31 March	Mortgage finance
Harcourt Corporation Limited	100	30 September	Investment company
Karapiro Investments Limited	100	30 September	Non operative
Kingfisher NZ Trust 2008-1	-	30 September	Finance entity
National Bank of New Zealand Custodians Limited	100	30 September	Nominee company
NBNZ Holdings Hong Kong Limited (registered in Hong Kong)	100	31 December	Non operative
NBNZ Holdings Limited	100	30 September	Finance company
OneAnswer Nominees Limited[1]	100	30 September	Finance company
OnePath (NZ) Limited (formerly ING (NZ) Limited)[1]	100	30 September	Finance company
OnePath Holdings (NZ) Limited (formerly ING (NZ) Holdings Limited)[1]	100	30 September	Holding company
OnePath Insurance Holdings (NZ) Limited (formerly ING Insurance Holdings Limited)[1]	100	30 September	Holding company
OnePath Insurance Services (NZ) Limited (formerly ING Insurance Services (NZ) Limited)[1]	100	30 September	Insurance company
OnePath Life (NZ) Limited (formerly ING Life (NZ) Limited)[1]	100	30 September	Insurance company
OnePath Nominees (NZ) Limited (formerly ING (NZ) Nominees Limited)[1]	100	30 September	Finance company
Origin Mortgage Management Services Limited	-	31 March	Mortgage finance
Origin Mortgage Management Services (2008) Limited	-	31 March	Mortgage finance
Private Nominees Limited	100	30 September	Nominee company
Radiola Corporation Limited	100	30 September	Non operative
Regular Income Fund (formerly ING Regular Income Fund, registered in Australia)[1]	99	30 June	Fixed income fund
Rural Growth Fund Limited	100	30 September	Investment company
Silver Fern Life Brokers Limited[1]	100	30 September	Insurance company
South Pacific Merchant Finance Limited	100	30 September	Investment company
Southpac Corporation Limited	100	30 September	Investment company
Trillium Holdings Limited[2]	100	30 September	Non operative
Tui Securities Limited[2]	100	30 September	Non operative
UDC Finance Limited	100	30 September	Finance company
Vital Healthcare Australian Property Proprietary Limited (formerly ING Medical Australian Properties Proprietary Limited, registered in Australia)[1]	100	30 September	Holding company
Vital Healthcare Management Limited (formerly ING Medical Properties Limited)[1]	100	31 March	Management company

[1] Controlling stake acquired on 30 November 2009.
[2] Currently being wound up.
[3] Sold on 1 October 2010.

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

Notes to the Financial Statements

For all controlled entities, with the exception of General Finance Custodians Limited, Origin Mortgage Management Services Limited and Origin Mortgage Management Services 2008 Limited, the ownership interest percentage equates to the voting power held. In relation to these companies, control exists through the Banking Group having 100% of the voting rights.

In relation to Arawata Trust control exists through the Bank being trustee of the Trusts. In relation to Kingfisher NZ Trust 2008-1 control exists as the Banking Group retains substantially all the risks and rewards of the operations.

Movements in controlled entities

In October 2008, Kingfisher Trust 2008-1 was established.

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

In April 2009, the Banking Group ceased to control Marmion Trust. Control previously existed through the undertaking of the majority of risks and rewards relating to a particular transaction. This transaction was unwound in April 2009.

On 30 November 2009 the Banking Group acquired control over ING NZ and its subsidiary companies, which had previously been treated as jointly controlled entities, and of the Diversified Yield Fund and the Regular Income Fund, which had been previously treated as investments in associates.

In June 2010 Airlie Investments Limited, Endeavour Securities Limited and Sefton Finance Limited were deregistered.

In August 2010 the following companies were amalgamated:

- Harcourt Investments Limited and Corvine Investments Limited into their direct parent company, Harcourt Corporation Limited;
- NBNZ Finance Limited into its direct parent company, Alos Holdings Limited,
- Tui Endeavour Limited into its direct parent company, Endeavour Finance Limited; and
- Arawata Funding Limited, Culver Finance Limited and Cortland Finance Limited into their direct parent company, Arawata Finance Limited.

In September 2010 all the assets of three subsidiaries, Arawata Securities Limited, Trillium Holdings Limited and Tui Securities Limited, were distributed up to their direct parent company, the Bank, as part of the process of winding them up.

The calculation of the gain recognised on the distributions received from these three subsidiaries is shown below:

	Bank	
$ millions	**30/09/2010**	30/09/2009
Total distribution received from subsidiaries	**538**	-
Less: Investment in subsidiaries at cost	**(484)**	-
Gain recognised on winding up of subsidiaries	**54**	-

	Banking Group		Bank	
$ millions	**30/09/2010**	30/09/2009	**30/09/2010**	30/09/2009
Balance at beginning of the year	**211**	144	**94**	88
Acquisitions	**-**	67	**-**	6
Transfers to subsidiary company	**(96)**	-	**(7)**	-
Impairment	**(4)**	(2)	**(2)**	-
Share of profit of equity accounted associates	**34**	2	**-**	-
Dividends received from associates	**(2)**	-	**-**	-
Balance at end of the year	**143**	211	**85**	94

In August 2009, the Banking Group acquired an interest in the ING Diversified Yield Field and ING Regular Income Fund, giving it significant influence over these entities.

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

On 30 November 2009 the Banking Group acquired control over the Diversified Yield Fund and the Regular Income Fund, which had been previously treated as investments in associates.

Shares in associates at 30 September 2010 includes goodwill of $56 million (30/09/2009 $57 million) for the Banking Group and $nil (30/09/2009 $nil) for the Bank.

All of the following associates are incorporated in New Zealand, except for the Diversified Yield Fund and the Regular Income Fund which are incorporated in Australia.

Notes to the Financial Statements

Associates	30/09/2010 Book Value $m	30/09/2009 Book Value $m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Bennetts Financial Services Limited	**1**	-	20	20	31 March	Financial services
Cards NZ Limited	**85**	85	30	15	30 September	Card services
ING Diversified Yield Fund	**-**	46	49	49	30 June	Fixed income fund
ING Regular Income Fund	**-**	21	49	49	30 June	Fixed income fund
NZ Poultry Enterprises Limited	**43**	41	20	20	30 April	Poultry processor
Paymark Limited	**2**	2	25	25	31 March	EFTPOS settlements
UCG Investments Limited	**10**	13	40	40	31 March	Rest home operator
Wyma Engineering (NZ) Limited	**2**	3	31	31	31 March	Agricultural machinery supplier
Total investment in associates	**143**	211				

Jointly Controlled Entities

	Banking Group		Bank	
$ millions	**30/09/2010**	30/09/2009	**30/09/2010**	30/09/2009
Balance at beginning of the year	**253**	219	**231**	208
Acquisitions	**-**	23	**-**	23
Disposals	**(2)**	-	**-**	-
Transfers to subsidiary company	**(255)**	-	**(231)**	-
Impairment	**(3)**	-	**-**	
Share of profit of equity accounted jointly controlled entities	**8**	11	**-**	-
Balance at end of the year	**1**	253	**-**	231

Jointly controlled entities	30/09/2010 Book Value $m	30/09/2009 Book Value $m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Argenta Limited	**1**	2	21	21	31 July	Manufacture and marketing of animal remedies
BCS Group Limited	**-**	2	40	40	30 June	Manufacturer of baggage handling systems
ING (NZ) Holdings Limited	**-**	248	50	49	31 December	Funds management and insurance
JMI Aerospace Limited	**-**	1	33	33	31 March	Airline maintenance
Total investment in jointly controlled entities	**1**	253				

Shares in jointly controlled entities at 30 September 2010 includes goodwill of $nil million (30/09/2009 $94 million) for the Banking Group and $nil million (30/09/2009 $90 million) for Bank.

On 30 November 2009 the Banking Group acquired control over ING NZ and its subsidiary companies which had previously been treated as jointly controlled entities.

In December 2009 the Banking Group sold its interest in JMI Aerospace Limited and in September 2010 the Banking Group sold its interest in BCS Group Limited.

There are no unrecognised losses in respect of any of the Banking Group's jointly controlled entities. The Banking Group's share of the contingent liabilities of its joint ventures are incurred jointly with other investors. Other than as referred to in Note 37, there were no material contingent liabilities as at 30 September 2010 (30/09/2009 $nil).

Notes to the Financial Statements

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

$ millions	Bank 30/09/2010	Bank 30/09/2009
Share of assets and liabilities		
Investments	-	91
Other assets	-	171
Total assets	-	262
Life insurance policy liabilities	-	(46)
Other liabilities	-	63
Total liabilities	-	17
Net assets	-	245
Share of revenue, expenses and results		
Net underwriting result	**16**	84
Other revenue	**4**	32
Total revenue	**20**	116
Expenses	**15**	108
Profit before income tax	**5**	8
Income tax credit	**(1)**	(5)
Profit after tax	**6**	13
Share of commitments		
Lease commitments	-	17

17. Other Assets

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Accrued interest and prepaid discounts	**391**	397	**423**	425
Accrued commission	**25**	19	**18**	16
Share-based payments asset	**57**	52	**57**	52
Prepaid expenses	**60**	86	**59**	78
Security settlements	**81**	291	**81**	291
Other assets	**351**	292	**291**	219
Total other assets	**965**	1,137	**929**	1,081

Notes to the Financial Statements

18. Deferred Tax Assets and Liabilities

$ millions	Banking Group		Bank	
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
Deferred tax assets / (liabilities)				
Balance at beginning of the year	**(17)**	121	**(83)**	100
Credited / (charged) to income statement[1]	**326**	(141)	**408**	(186)
Credited / (charged) directly to equity	**(32)**	3	**(32)**	3
Acquired as part of a business combination	**35**	-	**-**	-
Balance at end of the year	**312**	(17)	**293**	(83)
Deferred tax assets / (liabilities) comprise the following temporary differences:				
Provision for credit impairment	**391**	381	**375**	363
Premises and equipment, software and intangibles	**(20)**	7	**(3)**	1
Provisions and accruals	**149**	191	**137**	148
Deferred acquisition costs and policy holder liabilities	**(72)**	-	**-**	-
Financial instruments	**(39)**	(6)	**(39)**	(7)
Carried forward losses	**82**	-	**-**	-
Lease finance	**(126)**	(112)	**(122)**	(110)
Other deferred tax assets and liabilities (including provisions)	**(53)**	(478)	**(55)**	(478)
Net deferred tax assets / (liabilities)[2]	**312**	(17)	**293**	(83)
Deferred tax credited / (charged) to the income statement comprises the following temporary differences:				
Provision for credit impairment	**10**	181	**12**	179
Premises and equipment, software and intangibles	**(5)**	5	**(4)**	2
Provisions and accruals	**(73)**	66	**(11)**	30
Deferred acquisition costs and policy holder liabilities	**(21)**	-	**-**	-
Financial instruments	**(8)**	(2)	**-**	-
Carried forward losses	**5**	-	**-**	-
Lease finance	**(14)**	(22)	**(12)**	(25)
Other deferred tax assets and liabilities (including provisions)	**432**	(369)	**423**	(372)
Total deferred tax charged / (credited) to the income statement	**326**	(141)	**408**	(186)
Deferred tax credited / (charged) to equity comprises the following temporary differences:				
Financial instruments	**(32)**	3	**(32)**	3
Total deferred tax credited directly to equity	**(32)**	3	**(32)**	3

[1] Amounts charged / credited to the income statement include deferred tax assets / liabilities which have crystallised and have been transferred to current tax assets / liabilities. These transfers are accounted for by charging / crediting deferred income tax expense and crediting / charging current tax expense.

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

Notes to the Financial Statements

19. Premises and Equipment

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Freehold and leasehold land and buildings				
At cost	63	69	-	-
Accumulated depreciation	(11)	(12)	-	-
Balance at beginning of year	52	57	-	-
Additions	22	10	-	-
Disposals	-	(15)	-	-
Depreciation	(1)	-	-	-
At cost	85	63	-	-
Accumulated depreciation	(12)	(11)	-	-
Balance at end of year	73	52	-	-
Leasehold improvements				
At cost	99	98	2	2
Accumulated depreciation	(78)	(75)	(1)	(1)
Balance at beginning of year	21	23	1	1
Additions	3	3	-	-
Depreciation	(5)	(5)	-	-
At cost	101	99	2	2
Accumulated depreciation	(82)	(78)	(1)	(1)
Balance at end of year	19	21	1	1
Furniture and equipment				
At cost	265	255	18	20
Accumulated depreciation	(191)	(176)	(11)	(12)
Balance at beginning of year	74	79	7	8
Additions	38	10	2	2
Acquired as part of business combination	2	-	-	-
Disposals	-	(1)	-	(1)
Depreciation	(17)	(14)	(3)	(2)
At cost	302	265	17	18
Accumulated depreciation	(205)	(191)	(11)	(11)
Balance at end of year	97	74	6	7
Computer and office equipment				
At cost	251	246	212	207
Accumulated depreciation	(200)	(196)	(170)	(169)
Balance at beginning of year	51	50	42	38
Additions	62	24	52	23
Acquired as part of business combination	2	-	-	-
Disposals	(1)	(4)	(1)	(4)
Depreciation	(24)	(19)	(18)	(15)
At cost	291	251	249	212
Accumulated depreciation	(201)	(200)	(174)	(170)
Balance at end of year	90	51	75	42
Work in progress				
Balance at beginning of year	80	33	13	6
Net additions / (capitalisations)	(48)	47	(12)	7
Balance at end of year	32	80	1	13
Total premises and equipment	311	278	83	63

Notes to the Financial Statements

20. Goodwill and Other Intangible Assets

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Goodwill				
Balance at beginning of year	**3,265**	3,265	**3,217**	3,217
Balance at end of year	**3,265**	3,265	**3,217**	3,217
Software				
At cost	**115**	96	**110**	93
Accumulated amortisation	**(58)**	(47)	**(56)**	(45)
Balance at beginning of year	**57**	49	**54**	48
Additions from internal developments	**42**	19	**37**	17
Acquired in a business combination	**1**	-	**-**	-
Amortisation expense[1]	**(16)**	(11)	**(14)**	(11)
Net book value of software impaired / written off	**(2)**	-	**(2)**	-
At cost	**147**	115	**136**	110
Accumulated amortisation	**(65)**	(58)	**(61)**	(56)
Balance at end of year	**82**	57	**75**	54
Other intangible assets				
At cost	**6**	4	**6**	4
Accumulated amortisation	**(3)**	(1)	**(3)**	(1)
Balance at beginning of year	**3**	3	**3**	3
Additions from purchases	**-**	9	**-**	9
Acquired in a business combination	**209**	-	**-**	-
Amortisation expense[1]	**(8)**	(2)	**-**	(2)
Net book value of other intangible assets impaired / written off	**(3)**	(7)	**(3)**	(7)
At cost	**209**	6	**-**	6
Accumulated amortisation	**(8)**	(3)	**-**	(3)
Balance at end of year	**201**	3	**-**	3
Total goodwill and other intangible assets	**3,548**	3,325	**3,292**	3,274

[1] Software and other intangibles amortisation expense is included in 'other costs' in the Income Statement.

The goodwill balance above largely comprises the goodwill purchased on acquisition by the Banking Group and Bank of NBNZ Holdings Limited in December 2003 and the subsequent acquisition and amalgamation by the Bank of The National Bank of New Zealand Limited from NBNZ Holdings Limited in June 2004. Refer Note 2 for discussion of impairment testing for this goodwill.

21. Due to Other Financial Institutions

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Due to other financial institutions	**1,597**	1,760	**1,597**	1,274
Securities sold under agreements to repurchase from other financial institutions	**222**	159	**222**	159
Securities sold under agreements to repurchase from central banks[1]	**-**	1,806	**-**	1,806
Total due to other financial institutions	**1,819**	3,725	**1,819**	3,239

[1] As at 30 September 2010 the Banking Group had entered into no repurchase agreements for residential mortgage-backed securities with the RBNZ (30/09/2009 $1,806 million). Therefore no underlying collateral had been accepted by the RBNZ in relation to repurchase agreements (30/09/2009 residential mortgages to the value of $2,250 million were held by RBNZ as collateral).

Notes to the Financial Statements

22. Deposits and Other Borrowings

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Amortised cost				
Certificates of deposit	**3,245**	4,441	**3,245**	4,441
Term deposits	**34,687**	32,997	**34,687**	32,997
Demand deposits bearing interest	**18,714**	21,024	**18,784**	21,024
Deposits not bearing interest	**4,964**	4,373	**4,964**	4,373
Secured debenture stock	**1,378**	1,537	**-**	-
Total deposits and other borrowings recognised at amortised cost	**62,988**	64,372	**61,680**	62,835
Fair value through profit or loss				
Commercial paper	**7,307**	7,392	**-**	-
Total deposits and other borrowings recognised at fair value	**7,307**	7,392	**-**	-
Total deposits and other borrowings	**70,295**	71,764	**61,680**	62,835
Amortised cost of balances included within deposits and other borrowings recognised at fair value:				
Commercial paper issued by ANZ National (Int'l) Limited guaranteed by ANZ National Bank Limited	**7,305**	7,388	**-**	-
Secured debenture stock are secured over:				
Carrying value of total tangible assets of UDC Finance Limited	**2,111**	1,877	**-**	-

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

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

23. Payables and Other Liabilities

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Creditors	**98**	81	**54**	38
Accrued interest and unearned discounts	**623**	687	**494**	559
Defined benefit schemes deficit	**26**	55	**26**	55
Share-based payments liability	**28**	28	**28**	28
Accrued charges	**308**	257	**289**	239
Security settlements	**195**	205	**188**	201
Equitable assignment of mortgages[1]	**16**	19	**16**	19
Other liabilities	**406**	477	**573**	708
Total payables and other liabilities	**1,700**	1,809	**1,668**	1,847

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

Notes to the Financial Statements

24. Provisions

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Non-lending losses, frauds and forgeries	**3**	4	**3**	4
Employee entitlements				
Balance at beginning of the year	**119**	117	**117**	115
Provisions made during the year	**59**	60	**58**	59
Payments made during the year	**(58)**	(58)	**(54)**	(57)
Acquired as part of business combination	**7**	-	**-**	-
Balance at end of the year	**127**	119	**121**	117
Personnel restructuring costs				
Balance at beginning of the year	**6**	32	**6**	32
Provisions made during the year	**-**	17	**-**	17
Payments made during the year	**(4)**	(43)	**(4)**	(43)
Balance at end of the year	**2**	6	**2**	6
Redundant assets restructuring costs				
Balance at beginning of the year	**18**	1	**14**	1
Provisions made during the year	**13**	17	**5**	17
Payments made during the year	**(9)**	-	**(6)**	-
Transfer/release of provision	**-**	-	**-**	(4)
Balance at end of the year	**22**	18	**13**	14
Other provisions				
Balance at beginning of the year	**136**	29	**134**	27
Provisions made during the year	**11**	257	**11**	257
Payments made during the year	**(68)**	(150)	**(63)**	(150)
Transfer/release of provision	**(6)**	-	**(4)**	-
Acquired as part of business combination	**88**	-	**-**	-
Balance at end of the year	**161**	136	**78**	134
Total provisions	**315**	283	**217**	275

Employee entitlements

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

Personnel restructuring costs and redundant assets restructuring costs

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

Other provisions

Other provisions includes provisions relating to the ING New Zealand Funds (refer to Note 37 for further information) and the fair value of other contingent liabilities and provisions acquired as part of the acquisition of ING NZ.

Notes to the Financial Statements

25. Bonds and Notes

$ millions					Banking Group	
Currency	Face value	Type of note	Maturity	Interest rate %	30/09/2010	30/09/2009
Issued by the Bank						
NZD	70m	floating rate notes	2010	3 month BKBM + 0.35%	**70**	70
NZD	100m	fixed rate notes	2010	8.50%	**-**	100
NZD	75m	fixed rate notes	2010	8.50%	**-**	75
NZD	65m	fixed rate notes	2010	3 month BKBM + 0.80%	**-**	65
NZD	50m	floating rate notes	2011	3 month BKBM + 1.24%	**50**	50
NZD	150m	fixed rate notes	2011	6.80%	**150**	150
NZD	170m	floating rate notes	2011	3 month BKBM + 0.90%	**170**	170
NZD	50m	fixed rate notes	2011	8.25%	**50**	50
NZD	100m	floating rate notes	2012	3 month BKBM + 1.025%	**100**	100
NZD	150m	fixed rate notes	2012	5.63%	**150**	150
NZD	40m	floating rate notes	2012	3 month BKBM + 0.90%	**40**	-
NZD	100m	fixed rate notes	2013	6.32%	**100**	-
NZD	175m	fixed rate notes	2014	8.50%	**175**	175
NZD	60m	fixed rate notes	2014	8.50%	**60**	60
NZD	250m	fixed rate notes	2015	6.60%	**250**	-
NZD	350m	fixed rate notes	2015	6.51%	**350**	-
Index linked notes					**100**	78
Fair value hedge adjustment					**365**	223
Less Bond instruments held by the Bank					**(23)**	-
					2,157	1,516
Issued by ANZ National (Int'l) Limited						
NZD	150m	floating rate notes	2009	3 month BKBM + 0.10%	**-**	150
USD	300m	floating rate notes	2009	1 month LIBOR + 0.04%	**-**	416
USD	789m	floating rate notes[2]	2009	3 month LIBOR + 0.24%	**-**	1,093
JPY	6,000m	floating rate notes	2009	3 month JPY LIBOR	**-**	92
USD	8m	floating rate notes[1]	2010	1 month LIBOR + 0.03%	**-**	11
USD	750m	floating rate notes	2010	3 month LIBOR + 0.11%	**-**	1,039
NZD	100m	floating rate notes	2010	3 month BKBM + 0.05%	**-**	100
CHF	275m	floating rate notes	2010	3 month CHF LIBOR + 0.75%	**-**	369
SGD	200m	fixed rate notes	2010	3.22%	**-**	196
USD	100m	floating rate notes	2010	3 month LIBOR + 0.55%	**-**	139
AUD	50m	floating rate notes	2010	3 month BBSW + 0.61%	**-**	61
USD	890m	floating rate notes[3]	2010	3 month LIBOR + 1.03%	**1,210**	1,234
USD	300m	fixed rate notes	2011	5.50%	**407**	416
GBP	435m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	**935**	966
GBP	105m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	**226**	233
USD	500m	floating rate notes[4]	2011	3 month LIBOR + 0.18%	**679**	693
USD	250m	floating rate notes	2011	3 month LIBOR + 0.70%	**340**	346
USD	100m	floating rate notes[4]	2011	3 month LIBOR + 0.32%	**136**	139
USD	20m	floating rate notes[4]	2011	3 month LIBOR + 0.20%	**27**	28
USD	100m	floating rate notes	2011	3 month LIBOR + 0.65%	**136**	139
HKD	155m	floating rate notes	2011	3 month HIBOR + 0.51%	**27**	28
GBP	450m	floating rate notes[3]	2012	6 month GBP LIBOR + 0.08%	**968**	999
USD	1,000m	fixed rate notes[4]	2012	3.25%	**1,359**	1,386

Notes to the Financial Statements

USD	500m	fixed rate notes[4]	2012	3.25%	**679**	693
USD	100m	floating rate notes[4]	2012	3 month LIBOR + 0.25%	**136**	139
USD	15m	floating rate notes	2012	3 month LIBOR + 0.80%	**20**	21
USD	1250m	fixed rate notes	2012	2.38%	**1,698**	-
HKD	300m	floating rate notes	2012	3 month HIBOR + 0.71%	**53**	-
USD	2,000m	fixed rate notes	2013	6.20%	**2,717**	2,772
JPY	500m	fixed rate notes	2014	1.40%	**8**	-
JPY	3,000m	fixed rate notes	2014	1.50%	**49**	-
USD	100m	floating rate notes[4]	2014	3 month LIBOR + 0.44%	**136**	139
HKD	100m	fixed rate notes	2014	3.40%	**18**	18
HKD	100m	fixed rate notes	2014	3.03%	**18**	-
CHF	300m	fixed rate notes	2014	2.01%	**417**	-
CHF	250m	fixed rate notes	2014	2.01%	**347**	-
USD	71m	floating rate notes[4]	2014	3 month LIBOR + 0.28%	**96**	-
USD	20m	floating rate notes	2014	3 month LIBOR + 1.10%	**27**	-
USD	50m	floating rate notes	2014	3 month LIBOR + 1.15%	**68**	-
USD	1,050m	floating rate notes[3]	2014	3 month LIBOR + 1.16%	**1,427**	-
HKD	105m	fixed rate notes	2015	3.30%	**18**	-
JPY	500m	floating rate notes	2015	3 month JPY LIBOR + 0.50%	**8**	-
JPY	11,800m	fixed rate notes	2015	1.54%	**192**	-
JPY	7,200m	floating rate notes	2015	3 month JPY LIBOR + 1.00%	**117**	-
SGD	200m	fixed rate notes	2015	2.95%	**206**	-
USD	250m	floating rate notes	2015	3 month LIBOR + 0.90%	**340**	346
USD	1,000m	fixed rate notes	2015	3.13%	**1,359**	-
					16,604	14,401
Total bonds and notes					**18,761**	15,917

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

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

[1] On 6 March 2009, investors elected not to extend these bonds. As a result these bonds carry a fixed maturity of 5 March 2010.
[2] On 10 December 2008, investors elected not to extend which has resulted in these bonds carrying a fixed maturity of 9 October 2009.
[3] These notes were issued to subsidiaries of the Overseas Banking Group.
[4] As well as being guaranteed by the Banking Group these notes also benefit from a supporting guarantee from the NZ Crown.

26. Loan Capital

	Banking Group		Bank	
$ millions	**30/09/2010**	30/09/2009	**30/09/2010**	30/09/2009
AUD 265,740,000 perpetual subordinated floating rate loan	**349**	324	**349**	324
AUD 186,100,000 term subordinated floating rate loan	**-**	227	**-**	227
AUD 43,767,507 term subordinated floating rate loan	**58**	53	**58**	53
AUD 169,520,000 term subordinated floating rate loan	**223**	207	**223**	207
Term subordinated fixed rate bonds	**950**	950	**950**	950
Perpetual subordinated bond	**835**	835	**835**	835
Total loan capital issued	**2,415**	2,596	**2,415**	2,596
Less loan capital instruments held by the Banking Group	**(8)**	-	**(3)**	-
Total loan capital	**2,407**	2,596	**2,412**	2,596

Notes to the Financial Statements

AUD 265,740,000 loan

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

AUD 186,100,000 loan

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

AUD 43,767,507 loan

This loan was drawn down on 15 September 2006 with an ultimate maturity date of 15 September 2016. The Bank may elect to repay the loan on 15 September each year commencing from 2011 through to 2015. All interest is payable half yearly in arrears, with interest payments due 15 March and 15 September. Interest is based on BBSW + 0.29% p.a. to 15 September 2011 and increases to BBSW + 0.79% p.a. thereafter.

AUD 169,520,000 loan

This loan was drawn down on 17 September 2007 with an ultimate maturity date of 18 September 2017. The Bank may elect to repay the loan on 17 September each year commencing from 2012 through to 2016. All interest is payable half yearly in arrears, with interest payments due 17 March and 17 September. Interest is based on BBSW + 0.68% p.a. to 17 September 2012 and increases to BBSW + 1.18% p.a. thereafter.

NZD subordinated bonds

Term subordinated fixed rate bonds

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

As at 30 September 2010, these bonds carried an AA- rating by Standard & Poor's.

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

Perpetual subordinated bonds

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

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

As at 30 September 2010, this bond carried an A+ rating by Standard and Poor's and an A1 by Moody's.

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

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

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

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

Notes to the Financial Statements

27. Related Party Transactions

$ thousands Key management personnel	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Key management personnel compensation				
Salaries and short-term employee benefits	**11,282**	10,748	**11,282**	10,748
Post-employment benefits	**352**	373	**352**	373
Other long-term benefits	**1,581**	782	**1,581**	782
Termination benefits	**931**	58	**931**	58
Share-based payments	**3,911**	4,339	**3,911**	4,339
Total compensation of key management personnel	**18,057**	16,300	**18,057**	16,300
Loans to key management personnel	**4,056**	4,424	**4,056**	4,424
Deposits from key management personnel	**7,539**	5,543	**7,539**	5,543

Key management personnel are defined as being Directors and senior management of the Banking Group, those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The information above relating to key management personnel includes transactions with those individuals, their close family members and their controlled entities.

Loans made to and deposits held by key management personnel are made in the course of ordinary business on normal commercial terms and conditions no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed, variable and interest only, all of which have been made in accordance with the Bank's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (30/09/2009 $nil).

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

Transactions with other related parties

The Bank and Banking Group undertake transactions with the Immediate Parent Company, Ultimate Parent Bank, other members of the Overseas Banking Group, associates and joint ventures.

These transactions principally consist of funding and hedging transactions, the provision of other financial and investment services, technology and process support, and compensation for share based payments made to Banking Group employees. Transactions with related parties outside of the Banking Group are conducted on an arm's length basis and on normal commercial terms.

In addition the Bank undertakes similar transactions with controlled entities, which are eliminated in the consolidated Banking Group financial statements. Included within the Bank's transactions with controlled entities is the provision of administrative functions to some controlled entities for which no payments have been made.

Notes to the Financial Statements

Transactions with related parties $ millions	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Interest income				
Received from Immediate Parent Company	**10**	-	**10**	-
Received from controlled entities	**-**	-	**328**	426
Received from associates	**7**	2	**7**	2
Received from joint ventures	**2**	3	**2**	3
Interest expense				
Paid to Ultimate Parent Bank and subsidiaries not part of the Banking Group	**65**	176	**37**	58
Paid to Immediate Parent Company	**5**	28	**5**	28
Paid to controlled entities	**-**	-	**1,337**	1,804
Paid to associates	**2**	4	**2**	4
Other operating income				
Fees received from NZ Branch	**26**	10	**26**	10
Dividends received from controlled entities	**-**	-	**379**	1,099
Fees & commission received from controlled entities	**-**	-	**66**	30
Dividends received from associates	**2**	2	**2**	2
Commission received from joint ventures	**6**	39	**6**	39
Operating expenses				
Paid to Ultimate Parent Bank and subsidiaries not part of the Banking Group	**86**	91	**86**	91
Operating expenses paid to controlled entities	**-**	-	**113**	109
Costs recovered from joint ventures	**-**	(1)	**-**	(1)

Notes to the Financial Statements

Balances with related parties $ millions	Banking Group		Bank	
	30/09/2010	30/09/2009	**30/09/2010**	30/09/2009
Due from other financial institutions				
Due from Ultimate Parent Bank and subsidiaries not part of ANZ New Zealand	**1,507**	-	**80**	-
Derivative financial assets				
Due from related entities	**2,060**	2,969	**2,077**	3,010
Net loans and advances				
Due from associates	**151**	161	**151**	161
Due from joint ventures	**36**	36	**36**	36
Due from controlled entities	**-**	-	**9,043**	7,703
Due from Immediate Parent Company	**6**	-	**6**	-
Shares in controlled entities, associates and joint ventures	**144**	464	**7,428**	7,702
Other assets				
Due from Ultimate Parent Bank	**37**	37	**36**	37
Total due from related parties	**4,024**	3,809	**18,938**	18,791
Due to other financial institutions				
Due to Ultimate Parent Bank	**8**	497	**8**	12
Deposits and other borrowings				
Due to associates	**85**	85	**85**	85
Due to controlled entities	**-**	-	**37,458**	36,793
Due to Immediate Parent Company	**-**	930	**-**	930
Derivative financial liabilities				
Due to related entities	**2,646**	2,338	**2,648**	2,345
Payables and other liabilities				
Due to NZ Branch	**302**	357	**302**	341
Due to Ultimate Parent Bank	**38**	28	**38**	28
Bonds and notes				
Due to subsidiaries of the Ultimate Parent Bank not part of ANZ New Zealand	**3,605**	2,233	**-**	-
Loan capital				
Due to Ultimate Parent Bank	**630**	811	**630**	811
Total due to related parties	**7,363**	7,253	**41,216**	41,319

Balances due from / to related parties are unsecured other than that the Banking Group and the Bank have provided guarantees and commitments to related parties as follows:

$ millions	Banking Group		Bank	
	30/09/2010	30/09/2009	**30/09/2010**	30/09/2009
Balances due to subsidiaries of the Ultimate Parent Bank not part of ANZ New Zealand from ANZ National (Int'l) Limited guaranteed by the Bank	**-**	-	**3,605**	2,233
Financial guarantees provided to the Ultimate Parent Bank	**1,660**	1,617	**1,660**	1,617
Undrawn credit commitments provided to controlled entities	**-**	-	**400**	500

A provision for credit impairment of $10 million has been recognised for amounts due from associates as at 30 September 2010 (30/09/2009 $10 million). No credit impairment loss was charged during the year ended 30 September 2010 (30/09/2009 $5 million). No other provisions have been recognised on related party balances.

Kingfisher NZ Trust 2008-1 (“the Kingfisher Trust”)

Included within the tables above are transactions with the Kingfisher Trust. The Bank has purchased securities issued by the Kingfisher Trust as part of the securitisation detailed in Note 38. These are in exchange for the transfer of residential mortgages to the Kingfisher Trust and forms part of the due from and due to subsidiary company balances. These assets, the associated liabilities and items recognised in operating income are eliminated on consolidation as they are part of an in-house residential mortgage-backed securities facility.

Notes to the Financial Statements

Residential mortgage-backed securities

$ millions	Bank	
	As at 30/09/2010	As at 30/09/2009
Carrying amount of securitised assets		
Due from subsidiary companies	**6,641**	5,838
Carrying amount of associated liabilities		
Due to subsidiary companies	**6,531**	5,687
Other	**110**	151
	-	-

$ millions	Year to 30/09/2010	Year to 30/09/2009
Associated items recognised in operating income		
Interest received	**266**	379
Fees received	**18**	17
Gains from hedging activity	**123**	110
Interest paid	**(412)**	(503)
	(5)	3

28. Interest Earning and Discount Bearing Assets and Liabilities

$ millions	Banking Group		Bank	
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
Interest earning and discount bearing assets	**98,250**	100,935	**104,575**	105,557
Interest and discount bearing liabilities	**86,956**	90,491	**100,627**	104,038

Notes to the Financial Statements

29. Current and Non-current Assets and Liabilities

	Banking Group				Bank			
	30/09/2010		30/09/2009		30/09/2010		30/09/2009	
$ millions	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Assets								
Liquid assets	**2,238**	**-**	2,762	-	**2,223**	**-**	2,758	-
Due from other financial institutions	**3,496**	**-**	4,451	63	**1,926**	**-**	4,361	-
Trading securities	**6,757**		4,166	-	**6,757**	**-**	4,166	-
Derivative financial instruments	**10,367**	**-**	11,408	-	**10,382**	**-**	11,449	-
Available-for-sale assets	**1,941**	**269**	1,435	78	**1,915**	**125**	1,433	78
Net loans and advances	**25,160**	**60,753**	20,450	67,809	**24,794**	**58,728**	19,930	66,022
Due from subsidiary companies	**-**	**-**	-	-	**2,064**	**6,979**	1,595	6,108
Investments relating to insurance business	**11**	**17**	-	-	**-**	**-**	-	-
Insurance policy assets	**-**	**138**	-	-	**-**	**-**	-	-
Due from immediate parent company	**6**	**-**	-	-	**6**	**-**	-	-
Shares in controlled entities, associates	**-**	**144**	-	464	**-**	**7,428**	-	7,702
Current tax assets	**25**	**-**	65	-	**73**	**-**	168	-
Other assets	**908**	**57**	1,085	52	**872**	**57**	1,029	52
Deferred tax assets	**325**	**(13)**	-	-	**261**	**32**	-	-
Premises and equipment	**-**	**311**	-	278	**-**	**83**	-	63
Goodwill and other intangible assets	**-**	**3,548**	-	3,325	**-**	**3,292**	-	3,274
Total assets	**51,234**	**65,224**	45,822	72,069	**51,273**	**76,724**	46,889	83,299
Liabilities								
Due to other financial institutions	**1,791**	**28**	3,703	22	**1,790**	**29**	3,217	22
Deposits and other borrowings	**68,314**	**1,981**	68,989	2,775	**60,013**	**1,667**	60,266	2,569
Due to subsidiary companies	**-**	**-**	-	-	**18,977**	**18,481**	19,587	17,206
Due to immediate parent company	**-**	**-**	930	-	**-**	**-**	930	-
Derivative financial instruments	**10,715**	**-**	10,762	-	**10,715**	**-**	10,769	-
Payables and other liabilities	**1,646**	**54**	1,726	83	**1,614**	**54**	1,764	83
Deferred tax liabilities	**-**	**-**	134	(117)	**-**	**-**	183	(100)
Provisions	**228**	**87**	197	86	**130**	**87**	190	85
Bonds and notes	**3,628**	**15,133**	4,205	11,712	**832**	**1,325**	541	975
Loan capital	**-**	**2,407**	811	1,785	**-**	**2,412**	811	1,785
Total liabilities	**86,322**	**19,690**	91,457	16,346	**94,071**	**24,055**	98,258	22,625

Assets and liabilities are classified as current if:

- it is expected they will be realised, consumed or settled in the normal operating cycle or within twelve months after the end of the reporting date; or
- they are held primarily for trading; or
- they are assets that are cash or a cash equivalent; or
- they are liabilities where there is no unconditional right to defer settlement for at least twelve months.

Non-current assets include premises and equipment and intangible assets as well as financial assets of a long-term nature. Non-current liabilities include financial and non-financial liabilities which are expected to be settled after twelve months from balance date.

For the purposes of this disclosure, the fair value of both trading and hedging derivatives has been classified as current. For more information on the contractual timing of expected outflows and inflows in relation to hedging derivatives refer to Note 32.

Notes to the Financial Statements

30. Ordinary Share Capital

	Banking Group		Bank	
Issued share capital	**30/09/2010**	30/09/2009	**30/09/2010**	30/09/2009
Number of shares				
Ordinary shares at beginning of the year	**1,700,755,498**	700,755,498	**1,700,755,498**	700,755,498
Ordinary shares issued during the year	**-**	1,000,000,000	**-**	1,000,000,000
Ordinary shares at end of the year	**1,700,755,498**	1,700,755,498	**1,700,755,498**	1,700,755,498
$ millions				
Ordinary share capital at beginning of the year	**6,943**	5,943	**6,943**	5,943
Ordinary share capital issued during the year	**-**	1,000	**-**	1,000
Ordinary share capital at end of the year	**6,943**	6,943	**6,943**	6,943

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

During the year ended 30 September 2010 the Bank paid an ordinary dividend of $600 million to the Immediate Parent Company (equivalent to $0.35 per share). There were no changes to issued capital. (30/09/2009 the Bank paid an ordinary dividend of $1 billion to the Immediate Parent Company (equivalent to $1.43 per share). On the same day the Bank issued 1 billion ordinary shares to the value of $1 billion).

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

31. Capital Adequacy

Adoption of Basel II Accord

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

Capital management policies

The Bank is subject to regulation by the RBNZ. The RBNZ specifies, in the Bank's Conditions of Registration, minimum capital requirements that the Bank must comply with. The Bank's Conditions of Registration require capital adequacy ratios for the Banking Group to be calculated under the Basel II framework, in accordance with the RBNZ document entitled 'Capital Adequacy Framework (Internal Models Based Approach)' ("BS2B"), dated October 2010.

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

The Bank has an Internal Capital Adequacy Assessment Process ("ICAAP") which complies with the requirements under the Bank's Conditions of Registration, set out in the RBNZ document entitled 'Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")' ("BS12"), dated December 2007. The Bank's ICAAP incorporates: overall capital policies and objectives; capital management policies and plans; allocation of capital to business units; and stress testing of both risk and capital positions.

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

The Bank's core capital objectives are to:

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

Notes to the Financial Statements

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

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

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

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

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

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

Capital ratios of the Banking Group under the Basel II internal models based approach (Unaudited)

	Banking Group	
	30/09/2010	30/09/2009
Tier One Capital	**9.68%**	9.03%
RBNZ minimum Tier One Capital ratio	**4.00%**	4.00%
Total Capital	**13.11%**	12.67%
RBNZ minimum Total Capital ratio	**8.00%**	8.00%

Capital of the Banking Group as at 30 September 2010 (Unaudited)

	$m
Tier One Capital	
Ordinary share capital	**6,943**
Revenue and similar reserves	**2,675**
Current year's profit after tax	**827**
Non-controlling interests	**1**
Less deductions from Tier One Capital	
Goodwill	**3,265**
Software and other intangible assets	**283**
Future income tax benefits	**87**
Cash flow hedging reserve	**102**
50% of expected loss to the extent higher than total eligible allowances for impairment	**49**
Total Tier One Capital	**6,660**
Tier Two Capital – Upper Level	
Perpetual subordinated debt	**1,184**
Tier Two Capital – Lower Level	
Term subordinated debt	**1,223**
Less deductions from Tier Two Capital	
50% of expected loss to the extent higher than total eligible allowances for impairment	**49**
Total Tier Two Capital	**2,358**
Total Capital	**9,018**

Notes to the Financial Statements

Total required capital of the Banking Group as at 30 September 2010 (Unaudited)

$ millions	Exposure at default	Risk weighted exposure or implied risk weighted exposure[2]	Total capital requirement
Exposures subject to internal ratings based approach	119,767	49,522	3,963
Specialised lending exposures subject to slotting approach	6,647	6,429	515
Exposures subject to standardised approach	444	375	31
Equity exposures	224	950	76
Other exposures	2,685	907	73
Total credit risk	129,767	58,183	4,658
Operational risk	n/a	5,178	414
Market risk	n/a	3,900	312
Supervisory adjustment[1]	n/a	1,518	121
Total capital requirement	129,767	68,779	5,505

[1] The supervisory adjustment includes an adjustment of 15% of risk-weighted retail mortgages and an adjustment, if required, in order to maintain the Basel II minimum capital requirement at no less than 90% of the Basel I minimum capital requirement, in accordance with the Bank's Conditions of Registration. No adjustment was required to maintain the Basel II minimum capital requirement at no less than 90% of the Basel I minimum capital requirement as at 30 September 2010.

[2] Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

Capital adequacy ratios under the Basel I approach (Unaudited)

	Banking Group		Bank	
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
Tier One Capital	9.01%	8.43%	9.20%	8.34%
Total Capital	12.24%	11.82%	11.46%	11.66%
Total risk-weighted exposures ($million)	74,455	76,467	72,487	74,665
RBNZ minimum ratios:				
Tier One Capital	4.00%	4.00%	4.00%	4.00%
Total Capital	8.00%	8.00%	8.00%	8.00%

Basel I capital adequacy in respect of the Banking Group and Bank has been derived in accordance with the RBNZ document entitled Capital Adequacy Framework (Basel I Approach) ("BS2"), dated October 2010.

Implementation of the advanced internal ratings based approach to credit risk measurement

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

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

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

Exposure at Default ("EAD") – the expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration; and

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

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

The exceptions to IRB treatment are six minor portfolios where, due to systems constraints or other reasons, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document entitled 'Capital Adequacy Framework (Standardised Approach)' ("BS2A"), dated October 2010.

Notes to the Financial Statements

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

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

Standardised approach

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

Controls surrounding credit risk rating systems

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

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

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

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

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

Notes to the Financial Statements

Capital requirements by asset class under the IRB approach

Banking Group As at 30/09/2010 (Unaudited)	Total exposure or principal amount $m	Exposure at default $m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure $m	Total capital requirement $m
On-balance sheet exposures						
Corporate	35,287	35,287	36	66	24,644	1,972
Sovereign	7,948	7,948	5	1	70	6
Bank	5,055	3,322	60	15	511	41
Retail mortgages	40,963	40,963	20	22	9,613	769
Other retail	4,344	4,344	61	80	3,703	296
Total on-balance sheet exposures	93,597	91,864	28	40	38,541	3,084
Off-balance sheet exposures						
Corporate	12,010	10,209	48	47	5,114	409
Sovereign	56	56	5	-	-	-
Bank	702	606	50	17	108	9
Retail mortgages	5,252	4,891	20	21	1,114	89
Other retail	4,568	4,599	75	50	2,434	195
Total off-balance sheet exposures	22,588	20,361	47	41	8,770	702
Market related contracts						
Corporate	58,616	1,838	56	53	1,035	83
Sovereign	9,000	492	5	1	5	-
Bank	591,156	5,212	65	21	1,171	94
Total market related contracts	658,772	7,542	59	28	2,211	177
Total credit risk exposures subject to the IRB approach	774,957	119,767	33	39	49,522	3,963

Notes to the Financial Statements

IRB exposures by customer credit rating

Banking Group As at 30/09/2010 (Unaudited)	Probability of default %	Exposure at default $m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure $m	Total capital requirement $m
Corporate						
0 - 2	0.06%	5,464	61	23	1,316	105
3 - 4	0.35%	18,486	36	35	6,794	544
5	1.01%	10,554	36	60	6,681	534
6	2.29%	6,371	37	79	5,332	427
7 - 8	7.25%	5,073	40	116	6,236	499
Default	100.00%	1,386	45	302	4,434	355
Total corporate exposures	4.38%	47,334	40	61	30,793	2,464
Sovereign						
0	0.01%	8,496	5	1	75	6
Total sovereign exposures	0.01%	8,496	5	1	75	6
Bank						
0	0.01%	5,324	65	18	1,002	81
1	0.02%	3,355	58	17	617	49
2 - 4	0.10%	426	59	32	146	12
5 - 6	1.03%	20	65	104	22	2
7 - 8	6.55%	1	65	283	3	-
Default	100.00%	14	65	-	-	-
Total bank exposures	0.17%	9,140	62	18	1,790	144
Retail mortgages						
0 - 3	0.19%	17,596	19	7	1,383	111
4	0.44%	9,088	20	14	1,337	107
5	0.94%	12,421	21	25	3,261	260
6	2.33%	3,425	21	45	1,639	131
7 - 8	11.72%	2,503	23	103	2,732	219
Default	100.00%	821	29	43	375	30
Total residential mortgages exposures	3.02%	45,854	20	22	10,727	858
Other retail						
0 - 2	0.10%	21	76	18	4	-
3 - 4	0.30%	4,330	73	36	1,671	135
5	1.12%	1,698	66	69	1,241	99
6	2.57%	1,589	60	81	1,362	109
7 - 8	11.23%	1,150	68	119	1,455	116
Default	100.00%	155	63	246	404	32
Total other retail exposures	3.99%	8,943	69	65	6,137	491

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

Notes to the Financial Statements

Specialised lending subject to the slotting approach

Banking Group As at 30/09/2010 (Unaudited)	Exposure amount $m	Risk weight %	Risk weighted exposure $m	Total capital requirement $m
On-balance sheet exposures				
Strong	1,525	70	1,132	91
Good	2,870	90	2,738	219
Satisfactory	1,179	115	1,437	115
Weak	230	250	610	49
Default	331	-	-	-
Total on-balance sheet exposures	6,135	91	5,917	474

	Exposure amount $m	Exposure at default $m	Average risk weight %	Risk weighted exposure $m	Total capital requirement $m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	458	406	96	411	33
Market related contracts	1,741	106	90	101	8
Total off-balance sheet exposures	2,199	512	94	512	41

Specialised lending exposures subject to the slotting approach have been calculated in accordance with BS2B.

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

Credit risk exposures subject to the standardised approach

Banking Group As at 30/09/2010 (Unaudited)	Exposure amount $m	Risk weight %	Risk weighted exposure $m	Total capital requirement $m
On-balance sheet exposures				
Corporates	171	100	182	15
Banks	9	20	2	-
Residential mortgages	83	39	34	3
Other retail	8	100	9	1
Default	2	150	3	-
Total on-balance sheet exposures	273	79	230	19

	Exposure amount $m	Average credit conversion factor %	Credit equivalent amount $m	Average risk weight %	Risk weighted exposure $m	Total capital requirement $m
Off-balance sheet exposures						
Undrawn commitments and other off balance sheet exposures	477	36	171	80	145	12

Credit exposures subject to the Standardised Approach have been calculated in accordance with BS2A.

Equity Exposures

Banking Group As at 30/09/2010 (Unaudited)	Exposure amount $m	Risk weight %	Risk weighted exposure $m	Total capital requirement $m
All other equity holdings not deducted from capital	224	400	950	76

Equity exposures have been calculated in accordance with BS2B.

Notes to the Financial Statements

Other Exposures

Banking Group As at 30/09/2010 (Unaudited)	Exposure amount $m	Risk weight %	Risk weighted exposure $m	Total capital requirement $m
Cash and gold bullion	159	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	1,670	-	-	-
Other assets	856	100	907	73
Total other IRB credit risk exposures	2,685	32	907	73

Other exposures have been calculated in accordance with BS2B.

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

Operational risk

As at 30 September 2010 the Banking Group had an implied risk weighted exposure of $5,178 million for operational risk and an operational risk capital requirement of $414 million. The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B.

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

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

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

The Banking Group’s operating risk capital is calculated using the Ultimate Parent Bank’s methodology, but with standalone New Zealand inputs to ensure there are no diversification benefits.

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

Market risk

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

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

	Implied risk weighted exposure		Aggregate capital charge		Aggregate capital charge as a percentage of the Banking Group's Equity	
Banking Group (Unaudited) As at 30/09/2010	As at $m	Peak $m	As at $m	Peak $m	As at %	Peak %
30/09/2010						
Interest rate risk	3,797	3,797	304	304	2.9%	2.9%
Foreign currency risk	25	101	2	8	0.0%	0.1%
Equity risk	78	81	6	6	0.1%	0.1%
	3,900		312			
30/09/2009						
Interest rate risk	3,824	3,824	306	306	3.0%	3.0%
Foreign currency risk	5	301	-	24	0.0%	0.2%
Equity risk	69	82	6	7	0.1%	0.1%
	3,898		312			

Notes to the Financial Statements

Credit risk mitigation

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

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

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

As at 30 September 2010, under the IRB approach, the Banking Group had $1,234 million of Corporate exposures covered by guarantees and $nil of Corporate exposures covered by credit derivatives, where the presence of the guarantees or credit derivatives was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Retail mortgages by loan-to-valuation ratio ("LVR")

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

Banking Group As at 30/09/2010 (Unaudited)	Exposure amount $m
LVR range	
0% - 59%	**21,453**
60% - 69%	**6,872**
70% - 79%	**8,482**
80% - 89%	**3,942**
Over 90%	**3,954**
Total retail mortgage exposures subject to the internal ratings based approach	**44,703**

Pillar II capital for other material risks

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

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

The Banking Group's internal capital allocation for these other material risks is $120 million (30/09/2009: $148 million)

Capital adequacy of the Ultimate Parent Bank under the Basel II approach

	Overseas Banking Group		Ultimate Parent Bank	
	30/09/2010	30/09/2009	**30/09/2010**	30/09/2009
Tier One Capital	**10.1%**	10.6%	**11.0%**	11.6%
Total Capital	**11.9%**	13.7%	**12.3%**	14.2%

Notes to the Financial Statements

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

Under prudential regulations, the Ultimate Parent Bank is required to hold a minimum Prudential Capital Ratio ("PCR") as determined by APRA. The Ultimate Parent Bank met the minimum capital adequacy requirements set by APRA as at 30 September 2010 and for the comparative prior period.

The Ultimate Parent Bank is required to publicly disclose Pillar III financial information as at 30 September 2010. The Ultimate Parent Bank's Consolidated Financial Report, Dividend Announcement and Appendix 4E, for the Year to 30 September 2010, discloses capital adequacy ratios calculated under the Basel II methodology. These documents can be accessed at the following website: www.anz.com.

32. Financial Risk Management

Strategy in using financial instruments

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

Credit risk

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

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

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

Credit risk management

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

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

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

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

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

Notes to the Financial Statements

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

Country risk management

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

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

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

Portfolio stress testing

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

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

Portfolio analysis and reporting

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

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

Collateral management

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

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

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

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

Notes to the Financial Statements

Concentrations of credit risk

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

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

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

Concentrations of credit risk analysis

	Banking Group						
$ millions 30/09/2010	Liquid assets and due from other financial institutions	Trading securities and available-for-sale assets	Derivative financial instruments	Net loans and advances	Other financial assets	Credit related commitments[3]	Total
Industry							
Agriculture, forestry, fishing	48	1	127	19,012	192	1,503	20,883
Business & property services	32	1	80	8,354	84	1,944	10,495
Construction	-	-	2	999	10	823	1,834
Entertainment, leisure and tourism	-	-	39	1,099	11	500	1,649
Finance and insurance	3,755	3,132	9,102	1,793	18	1,236	19,036
Government and local authority[1]	1,677	5,582	317	1,425	14	805	9,820
Manufacturing	55	20	123	3,093	31	3,264	6,586
Personal lending	-	-	1	45,535	461	8,796	54,793
Retail trade	105	2	70	1,438	15	958	2,588
Transport and storage	6	21	150	1,791	18	576	2,562
Wholesale trade	56	-	19	1,218	12	1,296	2,601
Other	-	208	337	1,554	16	1,822	3,937
	5,734	8,967	10,367	87,311	882	23,523	136,784
Provisions for credit impairment	-	-	-	(1,398)	-	-	(1,398)
Fair value hedge adjustment	-	-	-	279	-	-	279
Unearned finance income and deferred fees	-	-	-	(279)	-	-	(279)
Total financial assets	5,734	8,967	10,367	85,913	882	23,523	135,386
Geography							
New Zealand	3,130	6,676	3,145	84,325	882	23,523	121,681
Overseas	2,604	2,291	7,222	1,588	-	-	13,705
Total financial assets	5,734	8,967	10,367	85,913	882	23,523	135,386

Notes to the Financial Statements

$ millions 30/09/2009	Banking Group						
	Liquid assets and due from other financial institutions	Trading securities and available-for-sale assets	Derivative financial instruments	Net loans and advances	Other financial assets	Credit related commitments[3]	Total
Industry							
Agriculture, forestry, fishing	48	-	261	20,360	228	1,555	22,452
Business and property services	5	-	49	9,104	102	2,361	11,621
Construction	-	-	3	871	10	853	1,737
Entertainment, leisure and tourism	-	48	28	1,015	11	487	1,589
Finance and insurance	4,606	4,191	10,457	1,312	15	1,371	21,952
Government and local authority[1]	2,412	1,392	175	1,432	16	802	6,229
Manufacturing	83	1	96	2,807	31	3,835	6,853
Personal lending	-	-	1	45,956	516	10,461	56,934
Retail trade	91	-	74	1,607	18	1,206	2,996
Transport and storage	6	8	80	1,602	18	686	2,400
Wholesale trade	19	-	6	1,713	19	1,036	2,793
Other[2]	6	39	178	1,387	15	1,341	2,966
	7,276	5,679	11,408	89,166	999	25,994	140,522
Provisions for credit impairment	-	-	-	(1,272)	-	-	(1,272)
Fair value hedge adjustment	-	-	-	615	-	-	615
Unearned finance income and deferred fees	-	-	-	(250)	-	-	(250)
Total financial assets	7,276	5,679	11,408	88,259	999	25,994	139,615
Geography							
New Zealand	6,213	3,272	2,951	86,784	999	25,994	126,213
Overseas	1,063	2,407	8,457	1,475	-	-	13,402
Total financial assets	7,276	5,679	11,408	88,259	999	25,994	139,615

Notes to the Financial Statements

$ millions 30/09/2010	Bank							
	Liquid assets and due from other financial institutions	Trading securities and available-for-sale assets	Derivative financial instruments	Net loans and advances	Due from subsidiary companies	Other financial assets	Credit related commitments[3]	Total
Industry								
Agriculture, forestry, fishing	48	-	127	18,579	-	180	1,487	20,421
Business and property services	32	-	80	8,179	-	79	1,927	10,297
Construction	-	-	2	779	-	8	791	1,580
Entertainment, leisure and tourism	-	-	39	1,052	-	10	498	1,599
Finance and insurance	2,170	2,993	9,118	1,780	9,043	17	1,636	26,758
Government and local authority[1]	1,677	5,555	317	1,183	-	11	805	9,548
Manufacturing	55	20	123	2,900	-	28	3,242	6,368
Personal lending	-	-	1	44,981	-	436	8,793	54,210
Retail trade	105	2	70	1,272	-	12	895	2,356
Transport and storage	6	21	150	1,326	-	13	535	2,050
Wholesale trade	56	-	19	1,164	-	11	1,278	2,529
Other[2]	-	206	337	1,388	-	13	1,813	3,757
	4,149	8,797	10,382	84,583	9,043	819	23,700	141,473
Provisions for credit impairment	-	-	-	(1,339)	-	-	-	(1,339)
Fair value hedge adjustment	-	-	-	279	-	-	-	279
Unearned finance income and deferred fees	-	-	-	(1)	-	-	-	(1)
Total financial assets	4,149	8,797	10,382	83,522	9,043	819	23,700	140,412
Geography								
New Zealand	2,981	6,631	3,160	81,934	9,043	819	23,700	128,268
Overseas	1,168	2,166	7,222	1,588	-	-	-	12,144
Total financial assets	4,149	8,797	10,382	83,522	9,043	819	23,700	140,412

Notes to the Financial Statements

$ millions 30/09/2009	Bank							
	Liquid assets and due from other financial institutions	Trading securities and available-for-sale assets	Derivative financial instruments	Net loans and advances	Due from subsidiary companies	Other financial assets	Credit related commitments[3]	Total
Industry								
Agriculture, forestry, fishing	48	-	261	19,992	-	219	1,499	22,019
Business and property services	5	-	49	8,930	-	98	2,287	11,369
Construction	-	-	3	642	-	7	806	1,458
Entertainment, leisure and tourism	-	48	28	971	-	11	469	1,527
Finance and insurance	4,449	4,189	10,498	1,166	7,703	13	1,336	29,354
Government and local authority[1]	2,412	1,392	175	1,238	-	14	780	6,011
Manufacturing	83	1	96	2,599	-	29	4,561	7,369
Personal lending	-	-	1	45,609	-	501	10,461	56,572
Retail trade	91	-	74	1,457	-	16	1,073	2,711
Transport and storage	6	8	80	1,194	-	13	632	1,933
Wholesale trade	19	-	6	1,644	-	18	993	2,680
Other[2]	6	39	178	1,091	-	12	1,302	2,628
	7,119	5,677	11,449	86,533	7,703	951	26,199	145,631
Provisions for credit impairment	-	-	-	(1,212)	-	-	-	(1,212)
Fair value hedge adjustment	-	-	-	615	-	-	-	615
Unearned finance income and deferred fees	-	-	-	16	-	-	-	16
Total financial assets	7,119	5,677	11,449	85,952	7,703	951	26,199	145,050
Geography								
New Zealand	6,056	3,270	2,992	84,477	7,703	951	26,199	131,648
Overseas	1,063	2,407	8,457	1,475	-	-	-	13,402
Total financial assets	7,119	5,677	11,449	85,952	7,703	951	26,199	145,050

[1] Government and local authority includes exposures to government administration and defence, education and health and community services.
[2] Other includes exposures to electricity, gas and water, communications and personal services.
[3] Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

Maximum exposure to credit risk

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

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

Notes to the Financial Statements

$ millions 30/09/2010	Banking Group Retail mortgages	Banking Group Other retail exposures	Banking Group Corporate exposures[1]	Banking Group Total maximum exposure to credit risk	Bank Retail mortgages	Bank Other retail exposures	Bank Corporate exposures[1]	Bank Total maximum exposure to credit risk
On and off-balance sheet positions								
Liquid assets	-	-	**2,238**	**2,238**	-	-	**2,223**	**2,223**
Due from other financial institutions	-	-	**3,496**	**3,496**	-	-	**1,926**	**1,926**
Trading securities	-	-	**6,757**	**6,757**	-	-	**6,757**	**6,757**
Derivative financial instruments	-	-	**10,367**	**10,367**	-	-	**10,382**	**10,382**
Available-for-sale assets	-	-	**2,210**	**2,210**	-	-	**2,040**	**2,040**
Net loans and advances	**40,878**	**4,087**	**40,948**	**85,913**	**40,881**	**3,399**	**39,242**	**83,522**
Due from subsidiary companies	-	-	-	-	-	-	**9,043**	**9,043**
Other financial assets	-	-	**882**	**882**	-	-	**819**	**819**
Credit related commitments	**5,261**	**4,575**	**13,687**	**23,523**	**5,261**	**4,573**	**13,866**	**23,700**
Total exposure to credit risk	**46,139**	**8,662**	**80,585**	**135,386**	**46,142**	**7,972**	**86,298**	**140,412**
30/09/2009								
On and off-balance sheet positions								
Liquid assets	-	-	2,762	2,762	-	-	2,758	2,758
Due from other financial institutions	-	-	4,514	4,514	-	-	4,361	4,361
Trading securities	-	-	4,166	4,166	-	-	4,166	4,166
Derivative financial instruments	-	-	11,408	11,408	-	-	11,449	11,449
Available-for-sale assets	-	-	1,513	1,513	-	-	1,511	1,511
Net loans and advances	42,141	4,006	42,112	88,259	42,152	3,374	40,426	85,952
Due from subsidiary companies	-	-	-	-	-	-	7,703	7,703
Other financial assets	-	-	999	999	-	-	951	951
Credit related commitments	5,692	4,769	15,533	25,994	5,692	4,769	15,738	26,199
Total exposure to credit risk	47,833	8,775	82,998	139,615	47,844	8,143	89,063	145,050

[1] Includes corporates, sovereigns and banks.

Notes to the Financial Statements

Credit quality

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

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

Impairment and provisioning of financial assets

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

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

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

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

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

Distribution of gross loans and advances assets by credit quality

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

Distribution of gross loans and advances by credit quality

	Banking Group				Bank			
$ millions	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total
30/09/2010								
Neither past due nor impaired	**39,266**	**3,967**	**39,494**	**82,727**	**39,266**	**3,247**	**37,696**	**80,209**
Past due but not impaired:								
1 to 89 days	**1,002**	**261**	**1,025**	**2,288**	**1,002**	**217**	**957**	**2,176**
over 90 days	**132**	**33**	**127**	**292**	**132**	**26**	**122**	**280**
Impaired	**520**	**81**	**1,403**	**2,004**	**520**	**73**	**1,325**	**1,918**
	40,920	**4,342**	**42,049**	**87,311**	**40,920**	**3,563**	**40,100**	**84,583**
30/09/2009								
Neither past due nor impaired	39,948	3,822	41,593	85,363	39,948	3,166	39,770	82,884
Past due but not impaired:								
1 to 89 days	1,213	315	662	2,190	1,213	266	635	2,114
over 90 days	265	59	111	435	265	51	100	416
Impaired	379	59	740	1,178	377	53	689	1,119
	41,805	4,255	43,106	89,166	41,803	3,536	41,194	86,533

[1] Includes corporates, sovereigns and banks.

Notes to the Financial Statements

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

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

Internal ratings

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

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

Substandard but not past due or impaired – Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band broadly corresponds to ratings "B1" to "Caa" and "B+" to "CCC" of Moody's Investors Service and Standard & Poor's respectively.

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

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

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

	Banking Group				Bank			
$ millions	Retail mortgages[1]	Other retail exposures	Corporate exposures[2]	Total	Retail mortgages[1]	Other retail exposures	Corporate exposures[2]	Total
30/09/2010								
Strong risk rating	**29,787**	**976**	**16,600**	**47,363**	**29,787**	**976**	**15,669**	**46,432**
Satisfactory risk rating	**7,835**	**2,349**	**18,300**	**28,484**	**7,835**	**1,646**	**17,525**	**27,006**
Substandard but not past due or impaired	**1,644**	**642**	**4,594**	**6,880**	**1,644**	**625**	**4,502**	**6,771**
	39,266	**3,967**	**39,494**	**82,727**	**39,266**	**3,247**	**37,696**	**80,209**
30/09/2009								
Strong risk rating	36,726	1,459	18,093	56,278	36,726	1,382	17,169	55,277
Satisfactory risk rating	2,646	2,010	19,078	23,734	2,646	1,446	18,346	22,438
Substandard but not past due or impaired	576	353	4,422	5,351	576	338	4,255	5,169
	39,948	3,822	41,593	85,363	39,948	3,166	39,770	82,884

[1] Since September 2009, the Banking Group has agreed new mortgage pooling methodologies with RBNZ and has also implemented new spot PD estimates, which take account of more recent performance data. The change in the retail mortgage bands between the periods reflects these modelling changes.

[2] Includes corporates, sovereigns and banks.

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

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

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

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

Notes to the Financial Statements

Ageing analysis of loans that are past due but not impaired

$ millions	Banking Group				Bank			
	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total
30/09/2010								
1 to 5 days	**224**	**92**	**565**	**881**	**224**	**92**	**525**	**841**
6 to 29 days	**512**	**113**	**235**	**860**	**512**	**83**	**216**	**811**
30 to 59 days	**209**	**38**	**159**	**406**	**209**	**28**	**150**	**387**
60 to 89 days	**57**	**18**	**66**	**141**	**57**	**14**	**66**	**137**
90 days or over	**132**	**33**	**127**	**292**	**132**	**26**	**122**	**280**
	1,134	**294**	**1,152**	**2,580**	**1,134**	**243**	**1,079**	**2,456**
30/09/2009								
1 to 5 days	270	104	397	771	270	104	397	771
6 to 29 days	586	136	122	844	586	104	106	796
30 to 59 days	237	49	71	357	237	38	64	339
60 to 89 days	120	26	72	218	120	20	68	208
90 days or over	265	59	111	435	265	51	100	416
	1,478	374	773	2,625	1,478	317	735	2,530

[1] Includes corporates, sovereigns and banks.

Credit quality of financial assets that are individually impaired

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

$ millions	Banking Group				Bank			
	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total
30/09/2010								
Impaired financial assets	**520**	**81**	**1,403**	**2,004**	**520**	**73**	**1,325**	**1,918**
Undrawn facilities with impaired customers	**-**	**-**	**32**	**32**	**-**	**-**	**32**	**32**
Individual provision balance	**207**	**51**	**347**	**605**	**207**	**29**	**339**	**575**
Net impaired financial assets	**313**	**30**	**1,088**	**1,431**	**313**	**44**	**1,018**	**1,375**
Collective provision balance	**111**	**149**	**533**	**793**	**111**	**135**	**518**	**764**
30/09/2009								
Impaired financial assets	379	59	740	1,178	377	53	689	1,119
Undrawn facilities with impaired customers	-	-	32	32	-	-	32	32
Individual provision balance	153	40	281	474	153	23	274	450
Net impaired financial assets	226	19	491	736	224	30	447	701
Collective provision balance	121	159	518	798	121	140	501	762

[1] Includes corporates, sovereigns and banks.

Notes to the Financial Statements

Estimated value of collateral 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.

	Banking Group			Bank		
$ millions	Net Loans and advances[1]	Credit related commitments[2]	Total	Net Loans and advances[1]	Credit related commitments[2]	Total
30/09/2010						
Real estate	**945**	**-**	**945**	**971**	**-**	**971**
Other	**462**	**24**	**486**	**384**	**24**	**408**
Total value of collateral	**1,407**	**24**	**1,431**	**1,355**	**24**	**1,379**
Credit exposure	**2,004**	**32**	**2,036**	**1,918**	**32**	**1,950**
Unsecured portion of credit	**597**	**8**	**605**	**563**	**8**	**571**
30/09/2009						
Real estate	488	-	488	488	-	488
Other	216	32	248	181	32	213
Total value of collateral	704	32	736	669	32	701
Credit exposure	1,178	32	1,210	1,119	32	1,151
Unsecured portion of credit	474	-	474	450	-	450

[1] All individually impaired financial assets are classified as loans and advances.

[2] Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

Market risk

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

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

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

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

Market risk management and control responsibilities

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

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

Notes to the Financial Statements

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

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

a. Traded market risk

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

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

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

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

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

The traded market risk function provides specific oversight of each of the main trading areas and is responsible for the establishment of a Value at Risk ("VaR") framework and detailed control limits. In all trading areas the Banking Group has implemented models that calculate VaR exposures, monitor risk exposures against defined limits on a daily basis, and 'stress test' trading portfolios. The Banking Group has an ALCO, comprising executive management to provide monthly oversight of market risk.

The Bank's Chief Risk Officer is responsible for daily review and oversight of traded market risk reports. The Chief Risk Officer has the authority for instructing the business to close exposures and withdraw limits where appropriate.

Value at Risk ("VaR") measure

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

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

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

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

Traded and non-traded market risks are considered separately.

Notes to the Financial Statements

Traded market risks

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

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

	Banking Group Value at risk at 97.5% confidence				Banking Group Value at risk at 99% confidence			
$ millions	As at	High for year	Low for year	Average for year	As at	High for year	Low for year	Average for year
30/09/2010								
Foreign exchange risk	**0.5**	**1.3**	**0.2**	**0.5**	**0.7**	**1.9**	**0.3**	**0.8**
Interest rate risk	**2.8**	**5.0**	**1.5**	**2.9**	**4.1**	**6.6**	**2.0**	**4.1**
Credit spread risk	**0.6**	**1.2**	**0.3**	**0.6**	**0.8**	**2.7**	**0.4**	**0.8**
Diversification benefit	**(1.1)**	**n/a**	**n/a**	**(1.1)**	**(1.5)**	**n/a**	**n/a**	**(1.5)**
Total VaR	**2.8**	**5.2**	**1.5**	**2.9**	**4.1**	**7.2**	**2.1**	**4.2**
30/09/2009								
Foreign exchange risk	0.4	1.4	0.2	0.5	0.6	1.9	0.3	0.7
Interest rate risk	2.6	3.0	1.1	2.0	3.5	4.9	1.7	3.0
Credit spread risk	0.4	0.5	0.2	0.3	0.6	0.8	0.2	0.5
Diversification benefit	(0.8)	n/a	n/a	(0.8)	(1.2)	n/a	n/a	(1.2)
Total VaR	2.6	3.4	1.1	2.0	3.5	4.6	1.7	3.0

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

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

Non-traded market risks (balance sheet risk)

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

Interest rate risk

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

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

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

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

Notes to the Financial Statements

a) VaR non-traded interest rate risk

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

	Banking Group			
$ millions	As at	High for year	Low for year	Average for year
30/09/2010				
Value at risk at 97.5% confidence	**18.6**	**25.2**	**18.6**	**21.8**
30/09/2009				
Value at risk at 97.5% confidence	22.4	22.8	18.9	20.8

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

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

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

	Banking Group	
	30/09/2010	30/09/2009
Impact of 1% rate shock		
As at	**1.8%**	0.2%
Maximum exposure	**1.8%**	0.7%
Minimum exposure	**0.3%**	(0.1)%
Average exposure (in absolute terms)	**1.3%**	0.3%

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

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

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

Interest rate sensitivity gap

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

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

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

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

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

Notes to the Financial Statements

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

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

	Banking Group						
30/09/2010 $ millions	Total	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Beyond 5 years	Not bearing interest
Assets							
Liquid assets	2,238	2,079	-	-	-	-	159
Due from other financial institutions	3,496	1,932	-	-	-	-	1,564
Trading securities	6,757	836	26	133	5,618	144	-
Derivative financial instruments	10,367	-	-	-	-	-	10,367
Available-for-sale assets	2,210	762	1,061	246	33	30	78
Net loans and advances	85,913	56,780	4,694	8,654	15,164	24	597
Other financial assets	882	34	-	-	-	-	848
Total financial assets	111,863	62,423	5,781	9,033	20,815	198	13,613
Non-financial assets	4,595	-	-	-	-	-	4,595
Total assets	116,458	62,423	5,781	9,033	20,815	198	18,208
Liabilities							
Due to other financial institutions	1,819	1,762	-	-	25	-	32
Deposits and other borrowings	70,295	43,696	13,223	6,414	1,998	-	4,964
Derivative financial instruments	10,715	-	-	-	-	-	10,715
Payables and other financial liabilities	1,282	97	-	-	-	-	1,185
Bonds and notes	18,761	7,982	150	457	10,172	-	-
Loan capital	2,407	-	630	350	1,427	-	-
Total financial liabilities	105,279	53,537	14,003	7,221	13,622	-	16,896
Non-financial liabilities	733	-	-	-	-	-	733
Equity	10,446	-	-	-	-	-	10,446
Total liabilities and equity	116,458	53,537	14,003	7,221	13,622	-	28,075
On-balance sheet interest sensitivity gap	-	8,886	(8,222)	1,812	7,193	198	(9,867)
Hedging instruments	-	5,222	(2,208)	(992)	(1,873)	(149)	-
Interest sensitivity gap – net	-	14,108	(10,430)	820	5,320	49	(9,867)
Interest sensitivity gap – cumulative	-	14,108	3,678	4,498	9,818	9,867	-

Notes to the Financial Statements

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

Notes to the Financial Statements

30/09/2010 $ millions	Bank						
	Total	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Beyond 5 years	Not bearing interest
Assets							
Liquid assets	2,223	2,064	-	-	-	-	159
Due from other financial institutions	1,926	1,790	-	-	-	-	136
Trading securities	6,757	836	26	133	5,618	144	-
Derivative financial instruments	10,382	-	-	-	-	-	10,382
Available-for-sale assets	2,040	609	1,066	246	11	30	78
Net loans and advances	83,522	55,690	4,574	8,424	14,247	18	569
Due from subsidiary companies	9,043	9,043	-	-	-	-	-
Due from parent company	6	6	-	-	-	-	-
Other financial assets	813	-	-	-	-	-	813
Total financial assets	116,712	70,038	5,666	8,803	19,876	192	12,137
Non-financial assets	11,285	-	-	-	-	-	11,285
Total assets	127,997	70,038	5,666	8,803	19,876	192	23,422
Liabilities							
Due to other financial institutions	1,819	1,762	-	-	25	-	32
Deposits and other borrowings	61,680	37,666	11,346	6,021	1,683	-	4,964
Due to subsidiary companies	37,458	22,792	2,213	1,588	10,865	-	-
Derivative financial instruments	10,715	-	-	-	-	-	10,715
Payables and other financial liabilities	1,278	97	-	-	-	-	1,181
Bonds and notes	2,157	872	150	50	1,085	-	-
Loan capital	2,412	-	630	350	1,432	-	-
Total financial liabilities	117,519	63,189	14,339	8,009	15,090	-	16,892
Non-financial liabilities	607	-	-	-	-	-	607
Equity	9,871	-	-	-	-	-	9,871
Total liabilities and equity	127,997	63,189	14,339	8,009	15,090	-	27,370
On-balance sheet interest sensitivity gap	-	6,849	(8,673)	794	4,786	192	(3,948)
Hedging instruments	-	1,803	(1,649)	92	(97)	(149)	-
Interest sensitivity gap – net	-	8,652	(10,322)	886	4,689	43	(3,948)
Interest sensitivity gap – cumulative	-	8,652	(1,670)	(784)	3,905	3,948	-

Notes to the Financial Statements

30/09/2009 $ millions	Bank Total	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Beyond 5 years	Not bearing interest
Assets							
Liquid assets	2,758	2,592	-	-	-	-	166
Due from other financial institutions	4,361	3,923	300	-	-	-	138
Trading securities	4,166	429	66	418	2,575	678	-
Derivative financial instruments	11,449	-	-	-	-	-	11,449
Available-for-sale assets	1,511	150	1,283	-	9	-	69
Net loans and advances	85,952	47,426	6,378	11,915	20,281	45	(93)
Due from subsidiary companies	7,703	6,736	-	128	225	-	614
Other financial assets	951	-	-	-	-	-	951
Total financial assets	118,851	61,256	8,027	12,461	23,090	723	13,294
Non-financial assets	11,337	-	-	-	-	-	11,337
Total assets	130,188	61,256	8,027	12,461	23,090	723	24,631
Liabilities							
Due to other financial institutions	3,239	2,865	220	-	22	-	132
Deposits and other borrowings	62,835	41,414	9,813	4,653	2,582	-	4,373
Due to subsidiary companies	36,793	22,928	4,892	2,017	6,956	-	-
Due to parent company	930	930	-	-	-	-	-
Derivative financial instruments	10,769	-	-	-	-	-	10,769
Payables and other financial liabilities	1,478	634	-	-	-	-	844
Bonds and notes	1,516	756	-	175	585	-	-
Loan capital	2,596	227	584	-	1,785	-	-
Total financial liabilities	120,156	69,754	15,509	6,845	11,930	-	16,118
Non-financial liabilities	727	-	-	-	-	-	727
Equity	9,305	-	-	-	-	-	9,305
Total liabilities and equity	130,188	69,754	15,509	6,845	11,930	-	26,150
On-balance sheet interest sensitivity gap	-	(8,498)	(7,482)	5,616	11,160	723	(1,519)
Hedging instruments	-	6,065	6,419	(9,673)	(1,771)	(1,040)	-
Interest sensitivity gap – net	-	(2,433)	(1,063)	(4,057)	9,389	(317)	(1,519)
Interest sensitivity gap – cumulative	-	(2,433)	(3,496)	(7,553)	1,836	1,519	-

Notes to the Financial Statements

Equity price risk

The portfolio of financial assets, classified as available-for-sale for measurement and financial reporting purposes, also contains equity investment holdings held for longer term strategic intentions. These equity investments are also subject to market risk which is not captured by the VaR measures for traded and non-traded market risks. The fair value of these securities as at 30 September 2010 was $78 million (30/09/2009 $71 million). Regular reviews are performed to substantiate valuation of the investments within the portfolio. The fair value of the equity securities classified as available-for-sale can fluctuate considerably. A 10 per cent reduction in the value of the available-for-sale equity securities at 30 September 2010 would have reduced equity by $8 million (30/09/2009 $7 million).

Foreign currency related risks

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

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

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

	Banking Group		Bank	
$ millions	**30/09/2010**	30/09/2009	**30/09/2010**	30/09/2009
Net open position				
Australian dollar	20	1	20	1
Euro	2	(1)	2	(1)
Japanese yen	2	-	2	-
Pound sterling	(1)	-	(1)	-
US dollar	37	2	37	2
Other	2	(1)	2	(1)
Total net open position	62	1	62	1

Liquidity risk

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

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

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

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

Management of liquidity and funding risks are overseen by ALCO.

Notes to the Financial Statements

Supervision and Regulation

The RBNZ requires the Banking Group to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. From 22 October 2009, the Reserve Bank has modified the Bank's conditions of registration with respect to liquidity policy. These revised conditions became effective from 30 March 2010. The Banking Group has systems and process in place to comply with these regulations. Refer to condition 13 of the Conditions of Registration.

Scenario Modelling

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

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

In estimating the funding requirement, the Banking Group models expected cash flows by reference to historical behaviour and contractual maturity data.

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

Under this scenario the Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the Banking Group must be cash flow positive over an eight calendar day period.

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

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

As of 30 September 2010 the Banking Group was in compliance with all of the above scenarios.

Notes to the Financial Statements

Funding Composition

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

	Banking Group		Bank	
$ millions	**30/09/2010**	30/09/2009	**30/09/2010**	30/09/2009
Funding composition				
Customer deposits[1]				
New Zealand	**52,183**	52,065	**50,981**	50,640
Overseas	**7,560**	7,866	**7,454**	7,754
Total customer deposits	**59,743**	59,931	**58,435**	58,394
Wholesale funding				
Bonds and notes	**18,761**	15,917	**2,157**	1,516
Loan capital	**2,407**	2,596	**2,412**	2,596
Certificates of deposit	**3,245**	4,441	**3,245**	4,441
Commercial paper	**7,307**	7,392	**-**	-
Due to subsidiary companies – ANZ National (Int'l) Limited	**-**	-	**22,601**	22,378
Due to subsidiary companies – other	**-**	-	**14,857**	14,415
Due to parent company	**-**	930	**-**	930
Due to other financial institutions	**1,819**	3,725	**1,819**	3,239
Total wholesale funding	**33,539**	35,001	**47,091**	49,515
Total funding	**93,282**	94,932	**105,526**	107,909
Concentrations of funding by industry				
Households	**37,968**	37,738	**36,590**	36,208
Agriculture, forestry and fishing	**2,520**	3,872	**2,520**	3,872
Manufacturing	**2,772**	1,354	**2,772**	1,354
Entertainment, leisure and tourism	**596**	573	**596**	573
Finance and insurance	**40,017**	42,220	**53,638**	56,727
Retail trade	**670**	753	**670**	753
Wholesale trade	**677**	602	**677**	602
Business and property services	**3,754**	3,960	**3,754**	3,960
Transport and storage	**620**	614	**620**	614
Construction	**731**	736	**731**	736
Government and local authority	**1,967**	1,548	**1,967**	1,548
Other[2]	**991**	962	**991**	962
Total funding	**93,282**	94,932	**105,526**	107,909
Concentrations of funding by geography[3]				
New Zealand	**59,990**	62,456	**72,340**	75,545
Australia	**1,978**	2,404	**1,964**	2,390
United States	**17,325**	17,031	**17,315**	17,019
Europe	**8,708**	7,511	**8,684**	7,486
Other countries	**5,281**	5,530	**5,223**	5,469
Total funding	**93,282**	94,932	**105,526**	107,909

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

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

[3] Funding of the Banking Group via ANZ National (Int'l) Limited is classified as either from the United States or Europe, as the company conducts overseas funding activities through its London branch.

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

Notes to the Financial Statements

Wholesale funding

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

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

Funding capacity and debt issuance planning

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

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

Liquidity portfolio management

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

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

Total liquidity portfolio $ millions	Banking Group		Bank	
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
Cash and balances with central banks	**1,015**	2,207	**1,015**	2,207
Securities purchased under agreement to resell	**266**	1,075	**266**	1,075
Certificates of deposit	**687**	2,736	**687**	2,736
Government, Local Body stock and bonds	**3,631**	1,102	**3,631**	1,102
Available-for-sale assets	**1,915**	1,435	**1,915**	1,435
Other bonds	**2,698**	2,522	**2,698**	2,522
Total liquidity portfolio	**10,212**	11,077	**10,212**	11,077

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets are accepted as collateral by the RBNZ in repurchase transactions. The post-"haircut" value of these assets at 30 September 2010 was $10,199 million. The Banking Group also held unencumbered Internal RMBS with a post-"haircut" value of $5,011 million (from 1 April 2010 the RBNZ has imposed a cap limiting the amount of RMBS deemed as eligible in the liquidity portfolio to 4% of total assets).

Liquidity crisis contingency planning

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

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

Notes to the Financial Statements

Contractual maturity analysis of financial assets and liabilities

The tables below present the Banking Group's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the Bank or the Banking Group may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows and may differ to the amounts reported on the balance sheet.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which the Banking Group or the Bank can be called upon to pay. The liquidity risk of credit related commitments and contingent liabilities may be less than the contract amount, and does not necessarily represent future cash requirements as many of these facilities are expected to be only partially used or to expire unused.

The Banking Group does not manage its liquidity risk on the basis of the information following.

	Banking Group						
$ millions 30/09/2010	Total	At call	Less than 3 months	3 to 12 months	1 to 5 years	Beyond 5 years	No maturity specified
Financial assets							
Liquid assets	2,238	2,238	-	-	-	-	-
Due from other financial institutions	3,499	457	2,959	83	-	-	-
Trading securities	7,991	-	924	396	6,501	170	-
Derivative financial assets (trading)	8,705	-	8,705	-	-	-	-
Available-for-sale assets	2,221	-	634	1,309	54	146	78
Net loans and advances	119,551	-	9,822	19,229	34,203	55,706	591
Due from immediate parent company	6	6	-	-	-	-	-
Other financial assets	876	-	855	4	11	6	-
Total financial assets	145,087	2,701	23,899	21,021	40,769	56,028	669
Financial liabilities							
Due to other financial institutions	2,016	690	1,277	5	44	-	-
Deposits and other borrowings	71,974	23,678	23,649	22,326	2,280	41	-
Derivative financial liabilities (trading)	9,028	-	9,028	-	-	-	-
Other financial liabilities	1,282	-	1,282	-	-	-	-
Bonds and notes	20,364	-	1,711	2,426	16,118	109	-
Loan capital	3,781	-	48	144	960	1,445	1,184
Total financial liabilities	108,445	24,368	36,995	24,901	19,402	1,595	1,184
Net financial assets	36,642	(21,667)	(13,096)	(3,880)	21,367	54,433	(515)
Derivative financial instruments used for balance sheet management							
– gross inflows	23,111	-	845	6,080	16,161	24	-
– gross outflows	(22,606)	-	(820)	(5,891)	(15,869)	(26)	-
Net financial assets after balance sheet management	37,147	(21,667)	(13,070)	(3,690)	21,659	54,431	(515)

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Banking Group		
$ millions 30/09/2010	Total	Less than 1 year	Beyond 1 year
Non-credit related commitments	303	303	-
Credit related commitments	20,782	20,782	-
Contingent liabilities	2,741	2,741	-
Total	23,826	23,826	-

Notes to the Financial Statements

$ millions 30/09/2009	Banking Group						
	Total	At call	Less than 3 months	3 to 12 months	1 to 5 years	Beyond 5 years	No maturity specified
Financial assets							
Liquid assets	2,762	2,762	-	-	-	-	-
Due from other financial institutions	4,530	172	3,891	400	67	-	-
Trading securities	5,080	-	403	688	3,248	741	-
Derivative financial assets (trading)	9,578	-	9,578	-	-	-	-
Available-for-sale assets	1,526	-	121	1,295	16	25	69
Net loans and advances	133,716	-	8,016	17,893	39,972	67,929	(94)
Other financial assets	999	-	999	-	-	-	-
Total financial assets	158,191	2,934	23,008	20,276	43,303	68,695	(25)
Liabilities							
Due to other financial institutions	3,995	1,139	2,101	714	37	4	-
Deposits and other borrowings	73,155	25,397	23,178	21,408	3,116	56	-
Derivative financial liabilities (trading)	8,049	-	8,049	-	-	-	-
Other financial liabilities	1,414	-	1,414	-	-	-	-
Bonds and notes	16,078	-	2,073	2,204	11,454	347	-
Due to parent company	938	930	8	-	-	-	-
Loan capital	4,029	-	51	154	1,023	1,642	1,159
Total financial liabilities	107,658	27,466	36,874	24,480	15,630	2,049	1,159
Net financial assets / (liabilities)	50,533	(24,532)	(13,866)	(4,204)	27,673	66,646	(1,184)
Derivative financial instruments used for balance sheet management							
– gross inflows	24,861	-	2,234	6,645	15,500	482	-
– gross outflows	(25,222)	-	(2,341)	(7,026)	(15,419)	(436)	-
Net financial assets after balance sheet management	50,172	(24,532)	(13,973)	(4,585)	27,754	66,692	(1,184)

Contractual maturity of off-balance sheet commitments and contingent liabilities

$ millions 30/09/2009	Banking Group		
	Total	Less than 1 year	Beyond 1 year
Non-credit related commitments	287	287	-
Credit related commitments	22,829	22,829	-
Contingent liabilities	3,165	3,165	-
Total	26,281	26,281	-

Notes to the Financial Statements

$ millions 30/09/2010	Bank						
	Total	At call	Less than 3 months	3 to 12 months	1 to 5 years	Beyond 5 years	No maturity specified
Financial assets							
Liquid assets	2,223	2,223	-	-	-	-	-
Due from other financial institutions	1,926	448	1,478	-	-	-	-
Trading securities	7,991	-	924	396	6,501	170	-
Derivative financial assets (trading)	8,709	-	8,709	-	-	-	-
Available-for-sale assets	2,052	-	610	1,308	18	38	78
Net loans and advances	116,727	-	9,592	18,926	32,169	55,478	562
Due from subsidiary companies	9,155	-	1,474	630	337	6,714	-
Due from immediate parent company	6	6	-	-	-	-	-
Other financial assets	813	-	813	-	-	-	-
Total financial assets	149,602	2,677	23,600	21,260	39,025	62,400	640
Financial liabilities							
Due to other financial institutions	1,819	690	1,101	-	28	-	-
Deposits and other borrowings	80,610	23,748	36,215	18,677	1,929	41	-
Due to subsidiary companies	42,423	-	14,369	5,415	15,759	6,880	-
Derivative financial liabilities (trading)	9,030	-	9,030	-	-	-	-
Other financial liabilities	1,279	-	1,279	-	-	-	-
Bonds and notes	2,513	-	434	498	1,472	109	-
Loan capital	3,677	-	43	131	867	1,452	1,184
Total financial liabilities	141,351	24,439	62,471	24,721	20,055	8,482	1,184
Net financial assets / (liabilities)	8,250	(21,762)	(38,871)	(3,461)	18,970	53,918	(544)
Derivative financial instruments used for balance sheet management							
– gross inflows	26,950	-	952	6,379	17,468	2,150	-
– gross outflows	(34,881)	-	(909)	(6,156)	(17,291)	(10,525)	-
Net financial assets after balance sheet management	319	(21,762)	(38,827)	(3,238)	19,148	45,542	(544)

Contractual maturity of off-balance sheet commitments and contingent liabilities

$ millions 30/09/2010	Bank		
	Total	Less than 1 year	Beyond 1 year
Non-credit related commitments	255	255	-
Credit related commitments	20,960	20,960	-
Contingent liabilities	2,740	2,740	-
Total	23,955	23,955	-

Notes to the Financial Statements

$ millions 30/09/2009	Bank						
	Total	At call	Less than 3 months	3 to 12 months	1 to 5 years	Beyond 5 years	No maturity specified
Assets							
Liquid assets	2,758	2,758	-	-	-	-	-
Due from other financial institutions	4,361	172	3,889	300	-	-	-
Trading securities	5,080	-	403	688	3,248	741	-
Derivative financial instruments (trading)	9,578	-	9,578	-	-	-	-
Available-for-sale assets	1,512	-	119	1,295	9	20	69
Net loans and advances	131,034	-	7,710	17,480	38,183	67,754	(93)
Due from subsidiary companies	16,857	-	1,474	385	1,309	13,689	-
Other financial assets	951	-	951	-	-	-	-
Total financial assets (inclusive of interest)	172,131	2,930	24,124	20,148	42,749	82,204	(24)
Liabilities							
Due to other financial institutions	3,324	1,116	1,959	227	22	-	-
Deposits and other borrowings	64,140	25,397	19,481	16,326	2,936	-	-
Due to subsidiary companies	43,899	-	12,833	7,398	13,002	10,666	-
Derivative financial instruments (trading)	8,049	-	8,049	-	-	-	-
Other financial liabilities	1,478	-	1,478	-	-	-	-
Bonds and notes	1,705	-	324	289	1,092	-	-
Due to parent company	951	-	951	-	-	-	-
Loan capital	4,498	-	45	274	1,378	1,642	1,159
Total financial liabilities (inclusive of interest)	128,044	26,513	45,120	24,514	18,430	12,308	1,159
Net finanical assets	44,087	(23,583)	(20,996)	(4,366)	24,319	69,896	(1,183)
Derivative financial instruments used for balance sheet management							
– gross inflows	28,475	-	2,335	6,919	16,680	2,540	-
– gross outflows	(34,628)	-	(2,408)	(7,224)	(16,477)	(8,519)	-
Net financial assets after balance sheet management	37,934	(23,583)	(21,068)	(4,671)	24,522	63,917	(1,183)

Contractual maturity of off-balance sheet commitments and contingent liabilities

$ millions 30/09/2009	Bank		
	Total	Less than 1 year	Beyond 1 year
Non-credit related commitments	266	266	-
Credit related commitments	23,037	23,037	-
Contingent liabilities	3,162	3,162	-
Total	26,465	26,465	-

Notes to the Financial Statements

33. Concentrations of Credit Risk

Concentrations of credit risk to individual counterparties

The number of individual counterparties (excluding OECD Governments and connected persons), where the Banking Group's quarter end and peak end-of-day credit exposure over the quarter equals or exceeds 10% of equity (as at the end of the quarter) in ranges of 10% of equity, on the basis of exposures, are:

	Banking Group			
	30/09/2010		30/09/2009	
Number of counterparties	As at	Peak for the quarter	As at	Peak for the quarter
Concentrations of credit risk to bank counterparties				
10% to 20% of equity	**2**	**3**	3	2
20% to 30% of equity	**-**	**-**	1	2
Concentrations of credit risk to non bank counterparties				
10% to 20% of equity	**1**	**1**	1	1

The number of individual counterparties disclosed within the various equity ranges and the total exposure as at the end of the quarter are gross exposures. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures.

The peak number is calculated separately for each individual counterparty and the peak for all counterparties may not have occurred at the same time.

Total period end exposures to counterparties where the individual counterparty's exposure is greater than 10% of equity

	Banking Group	
$ millions	30/09/2010	30/09/2009
As at		
Banks	**2,603**	6,201
Non banks	**1,260**	1,194

Credit ratings of counterparties

All of the counterparties included in the preceding tables have an investment grade credit rating (30/09/2009 100%). An investment grade credit rating means a credit rating of BBB or Baa3 or above, or its equivalent. In the case of a group of closely related counterparties, the credit rating applicable is that of the entity heading the group of closely related counterparties. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars, or to an entity's long term senior unsecured foreign currency obligations.

Notes to the Financial Statements

Concentrations of credit risk to connected persons

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis, and partially on a gross basis. Netting has occurred in respect of certain transactions which are the subject of a bilateral netting agreement disclosed in the Bank's most recent Supplemental Disclosure Statement for the year ended 30 September 2010.

	Banking Group			
	30/09/2010		30/09/2009	
	Amount $m	% of Tier One Capital	Amount $m	% of Tier One Capital
Aggregate at end of period				
Other connected persons (on gross basis, before netting)[1]	3,925	58.9%	4,503	69.9%
Other connected persons (amount netted off)[1]	3,229	48.4%	3,010	46.7%
Other connected persons (on partial bilateral net basis)[1]	696	10.5%	1,493	23.2%
Non-bank connected persons[2]	-	0.0%	-	0.0%
Peak end-of-day for the period[3]				
Other connected persons (on gross basis, before netting)	4,981	74.8%	5,490	85.2%
Other connected persons (amount netted off)	3,126	46.9%	2,693	41.8%
Other connected persons (on partial bilateral net basis)	1,855	27.9%	2,797	43.4%
Rating-contingent limit[4]				
Other connected persons (on partial bilateral net basis)	n/a	70.0%	n/a	70.0%
Non-bank connected persons	n/a	15.0%	n/a	15.0%

[1] The Banking Group has amounts due from the Immediate Parent Company and the Ultimate Parent Bank and other entities within the Overseas Banking Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 30 September 2010, the gross exposures to the Immediate Parent Company were $34 million (30/09/2009 $522 million). As at 30 September 2010, the gross exposures to the Ultimate Parent Bank were $3,891 million (30/09/2009 $3,981 million).

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

[3] The Banking Group has complied with the limits on aggregate credit exposure (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, as set out in the Conditions of Registration, at all times during the quarter. The peak end-of-day credit exposures for the quarter to connected persons are measured over Tier One Capital as at the end of the quarter.

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

The credit exposure concentrations disclosed for connected persons are on the basis of actual gross exposures and exclusive of exposures of a capital nature. There were no individual provisions provided against credit exposures to connected persons as at 30 September 2010 (30/09/2009 $nil). The Banking Group had no contingent exposures arising from risk lay-off arrangements to connected persons as at 30 September 2010 (30/09/2009 $nil).

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.

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 in the balance sheet, and fair values of all financial assets and liabilities.

In the tables below, financial instruments have been allocated by their accounting treatment. The accounting policies note describes how the categories of financial assets and liabilities are measured and how income and expenses, including fair value gains and losses, are recognised.

Notes to the Financial Statements

	Banking Group						
		At fair value through profit or loss					
$ millions Carrying amount	At amortised cost	Designated on initial recognition	Held for trading	Hedging	Available-for-sale assets	Total	Fair value
30/09/2010							
Liquid assets	2,238	-	-	-	-	2,238	2,238
Due from other financial institutions	2,789	-	-	-	707	3,496	3,496
Trading securities	-	-	6,757	-	-	6,757	6,757
Derivative financial instruments[1]	-	-	9,740	627	-	10,367	10,367
Available-for-sale assets	-	-	-	-	2,210	2,210	2,210
Net loans and advances[2]	85,913	-	-	-	-	85,913	85,900
Other financial assets	854	28	-	-	-	882	882
Total financial assets	91,794	28	16,497	627	2,917	111,863	111,850
Due to other financial institutions	1,819	-	-	-	-	1,819	1,819
Deposits and other borrowings	62,988	7,307	-	-	-	70,295	70,362
Derivative financial instruments[1]	-	-	10,282	433	-	10,715	10,715
Other financial liabilities	1,282	-	-	-	-	1,282	1,282
Bonds and notes[2]	18,761	-	-	-	-	18,761	18,902
Loan capital	2,407	-	-	-	-	2,407	2,361
Total financial liabilities	87,257	7,307	10,282	433	-	105,279	105,441
30/09/2009							
Liquid assets	2,762	-	-	-	-	2,762	2,762
Due from other financial institutions	1,778	-	-	-	2,736	4,514	4,514
Trading securities	-	-	4,166	-	-	4,166	4,166
Derivative financial instruments[1]	-	-	10,986	422	-	11,408	11,408
Available-for-sale assets	-	-	-	-	1,513	1,513	1,513
Net loans and advances[2]	88,259	-	-	-	-	88,259	87,996
Other financial assets	999	-	-	-	-	999	999
Total financial assets	93,798	-	15,152	422	4,249	113,621	113,358
Due to other financial institutions	3,725	-	-	-	-	3,725	3,725
Deposits and other borrowings	64,372	7,392	-	-	-	71,764	71,796
Derivative financial instruments[1]	-	-	9,862	900	-	10,762	10,762
Other financial liabilities	1,414	-	-	-	-	1,414	1,414
Bonds and notes[2]	15,917	-	-	-	-	15,917	16,051
Due to Immediate Parent Company	930	-	-	-	-	930	930
Loan capital	2,596	-	-	-	-	2,596	2,516
Total financial liabilities	88,954	7,392	9,862	900	-	107,108	107,195

Notes to the Financial Statements

$ millions Carrying amount	Bank At amortised cost	At fair value through profit or loss Designated on initial recognition	Held for trading	Hedging	Available-for-sale assets	Total	Fair value
30/09/2010							
Liquid assets	**2,223**	**-**	**-**	**-**	**-**	**2,223**	**2,223**
Due from other financial institutions	**1,269**	**-**	**-**	**-**	**657**	**1,926**	**1,926**
Trading securities	**-**	**-**	**6,757**	**-**	**-**	**6,757**	**6,757**
Derivative financial instruments[1]	**-**	**-**	**9,755**	**627**	**-**	**10,382**	**10,382**
Available-for-sale assets	**-**	**-**	**-**	**-**	**2,040**	**2,040**	**2,040**
Net loans and advances[2]	**83,522**	**-**	**-**	**-**	**-**	**83,522**	**83,496**
Due from subsidiary companies	**2,402**	**6,641**	**-**	**-**	**-**	**9,043**	**9,043**
Other financial assets	**819**	**-**	**-**	**-**	**-**	**819**	**819**
Total financial assets	**90,235**	**6,641**	**16,512**	**627**	**2,697**	**116,712**	**116,686**
Due to other financial institutions	**1,819**	**-**	**-**	**-**	**-**	**1,819**	**1,819**
Deposits and other borrowings	**61,680**	**-**	**-**	**-**	**-**	**61,680**	**61,740**
Due to subsidiary companies	**30,927**	**6,531**	**-**	**-**	**-**	**37,458**	**37,548**
Derivative financial instruments[1]	**-**	**-**	**10,282**	**433**	**-**	**10,715**	**10,715**
Other financial liabilities	**1,278**	**-**	**-**	**-**	**-**	**1,278**	**1,278**
Bonds and notes[2]	**2,157**	**-**	**-**	**-**	**-**	**2,157**	**2,208**
Loan capital	**2,412**	**-**	**-**	**-**	**-**	**2,412**	**2,366**
Total financial liabilities	**100,273**	**6,531**	**10,282**	**433**	**-**	**117,519**	**117,674**
30/09/2009							
Liquid assets	2,758	-	-	-	-	2,758	2,758
Due from other financial institutions	1,625	-	-	-	2,736	4,361	4,361
Trading securities	-	-	4,166	-	-	4,166	4,166
Derivative financial instruments[1]	-	-	11,027	422	-	11,449	11,449
Available-for-sale assets	-	-	-	-	1,511	1,511	1,511
Net loans and advances[2]	85,952	-	-	-	-	85,952	85,672
Due from subsidiary companies	1,865	5,838	-	-	-	7,703	7,703
Other financial assets	951	-	-	-	-	951	951
Total financial assets	93,151	5,838	15,193	422	4,247	118,851	118,571
Due to other financial institutions	3,239	-	-	-	-	3,239	3,239
Deposits and other borrowings	62,835	-	-	-	-	62,835	62,860
Due to subsidiary companies	31,106	5,687	-	-	-	36,793	37,115
Derivative financial instruments[1]	-	-	9,869	900	-	10,769	900
Other financial liabilities	1,478	-	-	-	-	1,478	1,478
Bonds and notes[2]	1,516	-	-	-	-	1,516	1,545
Due to Immediate Parent Company	930	-	-	-	-	930	930
Loan capital	2,596	-	-	-	-	2,596	2,516
Total financial liabilities	103,700	5,687	9,869	900	-	120,156	110,583

[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 adjustment means that the carrying value differs from the amortised cost.

Notes to the Financial Statements

Estimation of fair value

Liquid assets and due from / to other financial institutions

Where these financial instruments are short-term in nature, defined as those that reprice or mature in 90 days or less, or are receivable on demand, the carrying values is considered to approximate the fair values. When longer term in nature, fair value is based on quoted market prices, or for those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of that debt instrument.

Trading securities

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

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

Available-for-sale assets

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

Net loans and advances

Fair value has been estimated through discounting future cash flows. For fixed rate loans and advances, the discount rate applied incorporates changes in wholesale market rates, the Banking Group's cost of wholesale funding and movements in customer margin. For floating rate loans, only changes in wholesale market rates and the Banking Group's cost of wholesale funding are incorporated in the discount rate. For variable rate loans where the Banking Group sets the applicable rate at its discretion, the carrying value is considered to approximate the fair value.

Other financial assets / liabilities

Included in this category are accrued interest and fees receivable / payable. For these balances the carrying value is considered to approximate the fair values, as they are short term in nature or are receivable / payable on demand.

Deposits and other borrowings

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

Certain items included in deposits and other borrowings have been designated as financial liabilities at fair value through profit or loss and are carried at fair value.

At balance date, the carrying amount of deposits and other borrowings designated by the Banking Group at fair value through profit or loss was $2 million higher (30/09/2009 $4 million higher) than their amortised cost.

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

Bonds and notes, due to parent company and loan capital

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

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.

Notes to the Financial Statements

Valuation hierarchy

In determining the carrying amount of financial instruments held at fair value the Banking Group uses a valuation method within the following hierarchy:

"Level 1" – Quoted market price

Where an active market exists fair value is based on quoted market prices for identical financial instruments. The quoted market price is not adjusted for any potential impact that may be attributed to a large holding of the financial instrument.

"Level 2" – Valuation technique using observable inputs

In the event that there is no quoted market price for the instruments, fair values are based on present value estimates or other market accepted valuation techniques which include data from observable markets wherever possible.

"Level 3" – Valuation technique with significant non observable inputs

The majority of valuation techniques employ only observable market data. However, the Banking Group holds some investments in unlisted collateralised debt obligations and other similar assets which do not trade in an active market. For these 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. Where observable market data is not available, the fair value is determined using broker quotes or valuation techniques based on data derived and extrapolated from market data and tested against historic transactions and observed market trends.

Valuation technique $ millions	Banking Group				Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
30/09/2010								
Due from other financial institutions	**707**	**-**	**-**	**707**	**657**	**-**	**-**	**657**
Trading securities	**3,630**	**3,127**	**-**	**6,757**	**3,630**	**3,127**	**-**	**6,757**
Available-for-sale assets	**1,990**	**101**	**119**	**2,210**	**1,990**	**50**	**-**	**2,040**
Derivative financial instruments	**3**	**10,364**	**-**	**10,367**	**3**	**10,379**	**-**	**10,382**
Investments relating to insurance business	**-**	**28**	**-**	**28**	**-**	**-**	**-**	**-**
Due from subsidiary companies	**-**	**-**	**-**	**-**	**-**	**6,641**	**-**	**6,641**
Total financial assets held at fair value	**6,330**	**13,620**	**119**	**20,069**	**6,280**	**20,197**	**-**	**26,477**
Commercial paper	**-**	**7,307**	**-**	**7,307**	**-**	**-**	**-**	**-**
Derivative financial instruments	**35**	**10,680**	**-**	**10,715**	**35**	**10,680**	**-**	**10,715**
Due to subsidiary companies	**-**	**-**	**-**	**-**	**-**	**6,531**	**-**	**6,531**
Total financial liabilities held at fair value	**35**	**17,987**	**-**	**18,022**	**35**	**17,211**	**-**	**17,246**
30/09/2009								
Due from other financial institutions	2,736	-	-	2,736	2,736	-	-	2,736
Trading securities	1,261	2,905	-	4,166	1,261	2,905	-	4,166
Available-for-sale assets	1,413	100	-	1,513	1,413	98	-	1,511
Derivative financial instruments	45	11,363	-	11,408	45	11,404	-	11,449
Due from subsidiary companies	-	-	-	-	-	5,838	-	5,838
Total financial assets held at fair value	5,455	14,368	-	19,823	5,455	20,245	-	25,700
Commercial paper	-	7,392	-	7,392	-	-	-	-
Derivative financial instruments	2	10,760	-	10,762	2	10,767	-	10,769
Due to subsidiary companies	-	-	-	-	-	5,687	-	5,687
Total financial liabilities held at fair value	2	18,152	-	18,154	2	16,454	-	16,456

Movements in level 3 valuations

$ millions	Banking Group		Bank	
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
Opening balance	**-**	-	**-**	-
Acquired in a business combination	**127**	-	**-**	-
Revaluations	**38**	-	**-**	-
Foreign exchange movements	**(8)**	-	**-**	-
Sales	**(38)**	-	**-**	-
Closing balance	**119**	-	**-**	-

Notes to the Financial Statements

35. Notes to the Cash Flow Statements

$ millions	Banking Group Year to 30/09/2010	Banking Group Year to 30/09/2009	Bank Year to 30/09/2010	Bank Year to 30/09/2009
Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities				
Profit after income tax	**827**	298	**1,055**	1,010
Non-cash items:				
Depreciation and amortisation	**71**	50	**35**	27
Provision for credit impairment	**436**	874	**417**	840
Deferred fee revenue and expenses	**(5)**	(8)	**(5)**	(7)
Share-based payments expense	**21**	18	**21**	18
Amortisation of capitalised brokerage/ mortgage origination fees	**35**	50	**35**	50
Deferrals or accruals of past or future operating cash receipts or payments:				
Change in net operating assets less liabilities	**(1,789)**	(1,874)	**(2,127)**	(2,749)
Change in interest receivable	**6**	138	**2**	90
Change in interest payable	**(64)**	(295)	**(65)**	(252)
Change in accrued income	**(6)**	1	**(2)**	-
Change in accrued expenses	**51**	42	**50**	41
Change in provisions	**(63)**	100	**(58)**	96
Amortisation of premiums and discounts	**39**	76	**39**	76
Change in insurance policy assets	**(49)**	-	**-**	-
Change in insurance investment assets	**(10)**	-	**-**	-
Change in income tax assets	**(302)**	141	**(294)**	240
Items classified as investing/financing:				
Share of profit of equity accounted associates and jointly controlled entities	**(42)**	(11)	**-**	-
Impairment of associates	**7**	-	**-**	-
Re-measuring existing equity interest to fair value	**82**	-	**61**	-
Loss / (Gain) on disposal of premises and equipment and intangibles	**9**	(13)	**8**	4
Net cash flows used in operating activities	**(746)**	(413)	**(828)**	(516)

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Reconciliation of cash and cash equivalents to the balance sheets				
Liquid assets	**2,238**	2,762	**2,223**	2,758
Due from other financial institutions – less than 90 days	**1,339**	2,003	**1,279**	2,003
Total cash and cash equivalents	**3,577**	4,765	**3,502**	4,761

Notes to the Financial Statements

36. Commitments

$ millions	Banking Group 30/09/2010	Banking Group 30/09/2009	Bank 30/09/2010	Bank 30/09/2009
Contracts for outstanding capital expenditure				
Premises and equipment				
Not later than 1 year	17	19	4	-
Total capital expenditure commitments	17	19	4	-
Future minimum lease payments under non-cancellable operating leases				
Premises and equipment				
Not later than 1 year	91	82	83	81
Later than 1 year but not later than 5 years	166	155	147	154
Later than 5 years	29	31	21	31
Total lease rental commitments	286	268	251	266
Total commitments	303	287	255	266

37. Credit Related Commitments and Contingent Liabilities

	Banking Group		Bank	
	Face or contract value		Face or contract value	
$ millions	30/09/2010	30/09/2009	30/09/2010	30/09/2009
Credit related commitments				
Commitments with certain drawdown due within one year	**493**	735	**493**	735
Commitments to provide financial services	**20,289**	22,094	**20,467**	22,302
Total credit related commitments	**20,782**	22,829	**20,960**	23,037
Contingent liabilities				
Financial guarantees	**1,686**	1,753	**1,686**	1,753
Standby letters of credit	**60**	341	**60**	341
Transaction related contingent items	**898**	982	**898**	982
Trade related contingent liabilities	**97**	89	**96**	86
Total contingent liabilities	**2,741**	3,165	**2,740**	3,162

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

Notes to the Financial Statements

Commerce Commission

The Banking Group is aware that the Commerce Commission is looking at credit contract fees under the Credit Contracts and Consumer Finance Act 2003 ("CCCFA"). In its 2010-2013 Statement of Intent the Commission stated that:

"In CCCFA enforcement, the Commission will continue to focus on unreasonable credit fees, while still being mindful of disclosure issues."

In particular the Banking Group is aware that the Commission is investigating the level of default fees charged on credit cards, the level of currency conversion charges on overseas transactions using credit cards and informal excess arrangements on credit cards under the CCCFA. At this stage the possible outcome of these investigations and any liability or impact on fees cannot be determined with any certainty.

ING NZ Funds

The Banking Group markets and distributes a range of wealth management products in New Zealand. The products are manufactured and managed by ING NZ. Trading in two of the products, the ING Diversified Yield Fund and the ING Regular Income Fund (together, "the Funds"), was suspended on 13 March 2008, due to deterioration in the liquidity and credit markets. Some of the units in the Funds were sold by the Bank to its customers.

In June 2009, ING NZ AUT Investments Limited, a subsidiary of ING NZ, made an offer to investors in the Funds. Investors holding approximately 99% of the Funds accepted the offer to purchase their units.

In June 2010, the Bank and ING NZ reached settlements with the Commerce Commission and the Securities Commission in relation to the Commerce Commission's investigation into the Bank and ING NZ's marketing and promotion of the Funds.

As part of the settlement with the Commerce Commission, $45 million has been or will be paid to eligible investors in the Funds, and $1 million has been paid to the Commerce Commission towards their investigation costs.

As part of the settlement with the Securities Commission, ING NZ has undertaken to engage an external party to complete, by 1 February 2011, an audit and review of its procedures and processes to the extent they relate to ING NZ's business of developing and offering investment products to the public and to subsequently implement any recommendations of that review. The Bank has undertaken to facilitate and assist with the ING NZ audit, review and implementation.

The Commerce Commission and the Securities Commission have agreed they will not take any further action against the Bank, ING NZ or their affiliates in relation to the Funds.

The ultimate cost to the Banking Group will depend on the final value of units in the Funds, any recoveries under insurance, the assessment and outcome of customer complaints and the results of any litigation that may be brought in connection with the Funds or their sale. The Banking Group considers that it has adequately provided for these matters.

Other contingent liabilities

The Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made whereappropriate. As at 30 September 2010, there were no other contingent assets or liabilities required to be disclosed (30/09/2009 nil).

38. Securitisations, Funds Management, Other Fiduciary Activities and Insurance

Securitisation

In October 2008, the Banking Group established an in-house residential mortgage backed securities facility that could issue securities meeting the RBNZ criteria for use as collateral in repurchase transactions with the RBNZ. As at 30 September 2010 the rights to cash flows associated with residential mortgages with a carrying value of $6,531 million (30/09/2009 $5,687 million) were held in the facility. These assets do not qualify for derecognition as the Bank retains a continuing involvement in the transferred assets, therefore the Banking Group's financial statements do not change as a result of establishing these facilities.

Notes to the Financial Statements

Funds management

Certain subsidiaries of the Bank act as trustee and/or manager for a number of unit trusts and investment and superannuation funds. The Banking Group provides private banking services to a number of clients, including investment advice and portfolio management. The Banking Group is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

As funds under management are not controlled by the Banking Group, they are not included in these financial statements. The Banking Group derives fee and commission income from the sale and management of investment funds and superannuation bonds, unit trusts and the provision of private banking services to a number of clients. The Banking Group derives commission income from the sale of third party funds management products.

Some funds under management are invested in products owned or securities issued by the Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2010, $2,888 million of funds under management were invested in the Banking Group's own products or securities (30/09/2009 $2,664 million).

Aggregate value of funds managed by the Banking Group

	Banking Group	
$ millions	30/09/2010	30/09/2009
Funds managed by OnePath	**7,430**	-
The Bonus Bonds Trust	**2,973**	2,889
Other discretionary funds	**4,760**	4,360
Totals funds under management	**15,163**	7,249

Custodial services

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

Provision of financial services

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities, and to affiliated insurance companies which conduct marketing or distribution of insurance products, or on whose behalf the marketing or distribution of insurance products are conducted, are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value.

Except for standard lending facilities provided in the normal course of business on arm's length terms, the Banking Group has not provided any funding to entities which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group (30/09/2009 $nil).

Insurance business

The Banking Group conducts an insurance business through OnePath Insurance Holdings (NZ) Limited and its subsidiaries ("OnePath Insurance"), the assets, liabilities and operations of which are fully consolidated into the Banking Group. OnePath Insurance provides risk transfer and investment contract life insurance products. In addition, other entities within the Banking Group market and distribute a range of insurance products which are underwritten by OnePath Insurance, or by third party insurance companies.

The aggregate insurance business conducted by OnePath Insurance comprises assets totalling $337 million (30/09/2009: $nil), which is 0.3% (30/09/2009: 0.0%) of the total consolidated assets of the Banking Group.

Risk management

The Bank and subsidiaries of the Bank participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Bank or the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

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

- Investment statements, prospectuses and brochures for insurance products include disclosures that neither the Bank nor any member of the Banking Group guarantees the insurer, the insurer's subsidiaries, or any of the products issued by the insurer or the insurer's subsidiaries.
- Investment statements, prospectuses and brochures of fund management products and insurance products subject to the Securities Act 1978 additionally include disclosures that:
  - the products do not represent deposits or other liabilities of the entities within the Banking Group;
  - the products are subject to investment risk, including possible loss of income and principal; and
  - entities within the Banking Group do not guarantee the capital value or performance of the products.
- Application forms for insurance and fund management products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures noted above.

Notes to the Financial Statements

39. Employee Share and Option Plans

The Banking Group participates in the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan operated by the Overseas Banking Group. Any shares or options granted under these plans are shares in the Ultimate Parent Bank.

The closing market price of one ordinary share of the Ultimate Parent Bank quoted on the ASX (Australian Stock Exchange) at 30 September 2010 was A$23.68 (30/09/2009 A$24.39).

ANZ Employee Share Acquisition Plan

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

A$1,000 share plan

Each permanent employee who has had continuous service for one year with the Banking Group is eligible to participate in a scheme enabling the issue of up to A$1,000 of shares of the Ultimate Parent Bank in each financial year, subject to the approval of the Ultimate Parent Bank's Board. The shares vest subject to satisfaction of a three year service period but will be forfeited in the event of resignation or termination for serious misconduct. On expiration of that period, an employee may sell the shares, transfer them into their name, or have them retained in trust. The issue price is based on the Volume Weighted Average Price (VWAP) of ANZ shares traded in the one week up to and including the allocation date. All eligible employees were allocated shares under the Employee $1,000 Share Plan at no cost on 7 December 2009, based on an allocation price of $22.06 (the Volume Weighted Average Price (VWAP) of ANZ traded in the one week up to and including the allocation date).

The Banking Group's employees are required to pay NZ 1 cent per share at the time the shares are issued to them. During the year to 30 September 2010, 358,313 shares with an average issue price of A$22.02 were issued under the A$1,000 Share Plan (30/09/2009 540,305 shares with an average issue price of A$14.94 were issued).

Deferred share plan

The Banking Group's last issue of shares under this plan was in November 2004. Selected employees were issued deferred shares, which vest subject to satisfaction of a minimum three year service period from the date of issue. Ordinary shares issued under this plan may be held in trust for up to 10 years, and may be required to meet performance hurdles before being able to be traded after the restriction period has expired. The issue price is based on the VWAP of the shares traded on the ASX in the five trading days leading up to and including the date of issue. Unvested shares are forfeited on resignation or dismissal, or if a performance condition has not been met.

Restricted share plan – no longer available

From 2007, the Banking Group will no longer be offering the option to take a portion of any incentive payment received as Restricted Shares. Selected employees have the option to take some (or all) of their incentive payment as Restricted Shares. The shares are held in trust and may not be traded until the conclusion of the one-year restriction period, after which they may be transferred into the employee's name. Until they are transferred into the employee's name, they continue to be subject to forfeiture on termination for serious misconduct.

Shares valuations

The fair value of services received in return for shares in the ANZ Employee Share Acquisition Plan are measured by referring to the fair value of shares granted. The fair value of shares granted in the current period, measured at the date of grant of the shares, is $10 million based on 358,313 shares at a weighted average price of A$22.02 converted at the exchange rate of 0.7999 (30/09/2009 NZ $10 million based on 540,305 shares at a weighted average price of A$14.94 converted at the exchange rate of 0.8232 were issued).

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

ANZ Share Option Plan

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

The main schemes of the ANZ Share Option Plan are as follows:

Notes to the Financial Statements

Current option plans

Special Retention Deferred Share Rights

This is a program available to certain Banking Group employees. It grants the right to acquire shares at nil cost subject to satisfactorily meeting the time based hurdle. The Special Retention Deferred Share Rights can only be exercised between the third and fifth anniversary of their allocation (the 'Exercise Period'). In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of termination on notice, retrenchment, retirement, death or total and permanent disablement, a grace period is provided in which to exercise all deferred share rights.

Performance rights plan

This scheme is a long term incentive program available to certain Banking Group employees since November 2005 and grants the right to acquire shares at nil cost, subject to a three year vesting period and a Total Shareholder Return ("TSR") performance hurdle. The proportion of rights that will become exercisable will depend upon the TSR achieved by the Ultimate Parent Bank relative to the companies in the comparator group, which consists of selected major financial services companies in the Standard & Poor's and ASX 100 Index. Performance equal to the median TSR of the comparator group will result in half the rights becoming exercisable. Performance above the median will result in further performance rights becoming exercisable, increasing on a straight line basis until all of the rights become exercisable where the Ultimate Parent Bank's TSR is at or above the 75th percentile in the comparator group.

The TSR hurdle will only be tested once at the end of the three-year vesting period. If the rights do not pass the hurdle on testing date, or if they pass the hurdle on testing date and are not exercised by the end of five years from the grant date, the rights will lapse. In the case of resignation or termination on notice, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of retrenchment or retirement, performance rights will be performance tested at the date of termination and where performance hurdles have been met, performance rights will be pro-rated and a grace period provided in which to exercise the rights. In case of death or total and permanent disablement, a grace period is provided in which to exercise all performance rights.

LTI Deferred Share Rights

This scheme is a long term incentive program available to certain Banking Group employees and grants the right to acquire a share at nil cost, subject to satisfactorily meeting the time based hurdle. The LTI Deferred Share Rights can only be exercised between the third and fifth anniversary of their allocation (their "Exercise Period"). In the case of resignation, all unvested LTI Deferred Share Rights (in addition to any vested unexercised rights) as at the time notice of resignation is given, will be forfeited. In case of termination on notice by the Ultimate Parent Bank, all unvested LTI Deferred Share Rights as at the time notice of termination of notice is received, will be forfeited. Any vested unexercised LTI Deferred Share Rights will be delivered as shares. In case of retrenchment (redundancy), any unvested LTI Deferred Share Rights as at the termination date will be pro-rated and be delivered as shares. In case of death or total and permanent disablement, all LTI Deferred Share Rights will vest and be delivered as shares.

Deferred share rights

This scheme is a short term incentive program available to certain Banking Group employees since November 2004 and grants the right to acquire shares at nil cost after a specified vesting period ranging from one to three years. Deferred share rights must be exercised by the seventh anniversary of grant date. In the case of resignation, all unvested deferred share rights and any vested unexercised share rights will be forfeited. In the case of termination on notice, all unvested share rights will be forfeited and any vested unexercised share rights will be delivered as shares. In the case of retrenchment, death or total and permanent disablement, all share rights will be available and delivered as shares.

Deferred share options

This scheme is a part of the short term incentive program available whereby certain Banking Group employees receive a mandatory deferred bonus under the Ultimate Parent Bank's Short Term Incentive ("STI") program. The options can only be exercised between the first and fifth anniversary (one-year deferred options) and between the second and fifth anniversary (two-year deferred options) of the grant date (exercise period) and subject to the requirement that the share price is greater than the exercise price. In the case of resignation or dismissal for serious misconduct, all unvested STI deferred options and any vested unexercised options, as at the time notice of resignation is given or upon dismissal, will be forfeited. In the case of termination on notice, all deferred options will be forfeited and a grace period is provided in which to exercise any vested unexercised deferred options. In the case of redundancy, retrenchment, death or total and permanent disablement, all STI deferred options will vest and a grace period is provided in which to exercise all deferred share options.

Notes to the Financial Statements

Legacy Option Plans

Performance options plan

This scheme is a long term incentive program available to certain Banking Group employees. The options can only be exercised after a three year vesting period and before the seventh anniversary of the grant date. There are no other performance conditions attached to these options. All unexercised options are generally forfeited on resignation but any options to which the Banking Group employee is entitled will need to be exercised within a specified period of termination. On retrenchment, entitlements to options will be pro-rated over the three year vesting period. On death or total and permanent disablement, all unvested options will become available for exercise. No further performance options have been granted to Banking Group employees after November 2005.

Zero-price options ("ZPO")

A ZPO is a right to acquire a share at nil cost and is granted to certain employees as part of their employment contracts. The ZPO's have no time based vesting criteria, so can be exercised at any time during employment and within 6 months of termination of employment. ZPO's must be exercised within two years of grant date or they lapse.

Other past option plans which are no longer available to the Banking Group's employees, but continue to be amortised during their appropriate vesting periods are hurdled options and index linked options ("ILOs").

Details of the options over unissued Ultimate Parent Bank ordinary shares and their related weighted average exercise prices as at the beginning and end of the year and movements during the year are set out below:

	Banking Group / Bank			
	30/09/2010		30/09/2009	
$ millions	**Number of shares**	**Weighted average exercise price[1]**	Number of shares	Weighted average exercise price[1]
Share options at beginning of the year	**2,067,345**	**8.32**	1,741,771	10.86
Share options granted	**495,193**	**1.39**	709,805	2.51
Share options exercised	**(471,831)**	**9.30**	(109,936)	5.73
Share options forfeited and expired	**(139,323)**	**3.26**	(274,295)	10.44
Share options at end of the year	**1,951,384**	**6.40**	2,067,345	8.32
Weighted average share price during the year		**22.80**		16.53
Range of exercise prices on share options at end of the year		**0.00 - 23.49**		0.00 - 23.49
Weighted average remaining contractual life on share options at end of the year		**32 months**		35 months

[1] Calculation of weighted average exercise prices are affected by performance rights, deferred share rights and ZPO plans which have nil exercise prices.

Notes to the Financial Statements

Options valuations

The fair value of services received in return for share options are measured by referring to the fair value of share options granted. The fair value of options granted in the current year, measured at the date of grant are calculated using one of the following models:

a. Monte-Carlo simulation model utilising the assumptions underlying Black-Scholes. In terms of factoring in early exercise, the model assumes that deferred share rights and performance rights are exercised as soon as they vest so that the option holder can benefit from the dividends. It assumes that the performance options are exercised when the share price reaches twice the exercise price; or

b. An adjusted form of the Binomial Option pricing model ("BOM"). In terms of factoring in early exercise, the model assumes that the expected life of vanilla options is 5 years, performance rights is 4 years and that deferred share rights are exercised immediately to account for lack of marketability.

In addition, both models are designed such that they take into account as appropriate, any performance hurdles and non-transferability of the options.

The following inputs are used to measure the fair value of instruments granted during the year. All prices are quoted in Australian dollars:

Option type	STI deferred share rights	STI deferred share rights	LTI deferred share rights	Performance rights	Share options	Share options
Grant date	13/11/2009	13/11/2009	13/11/2009	13/11/2009	13/11/2009	13/11/2009
Number of options	79,646	83,635	259,713	41,084	15,046	15,044
Option value	$21.41	$20.39	$19.42	$12.17	$4.83	$5.09
Exercise price (5 day VWAP)	$nil	$nil	$nil	$nil	$22.80	$22.80
Share price at grant ($A)	$22.48	$22.48	$22.48	$22.48	$22.48	$22.48
Expected volatility[2]	35%	35%	35%	35%	35%	35%
Option term	5 years	5 years	5 years	5 years	5 years	5 years
Vesting period	1 year	2 years	3 years	3 years	1 year	2 years
Expected life	1 year	2 years	3 years	3 years	3 years	4 years
Expected dividends	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Risk free interest rate	4.3%	4.7%	5.0%	5.0%	5.0%	5.2%

[2] Expected volatility is based on the Ultimate Parent Bank's historical volatility.

40. Retirement Benefit Obligations

The Banking Group has established a number of pension and superannuation schemes. The Banking Group may be obliged to contribute to the schemes as a consequence of legislation and provision of trust deeds. Legal enforceability is dependent on the terms of the legislation and the requirements of Scheme Trust Deeds. The major schemes are:

		Contribution levels	
Scheme	Scheme type	Employee	Employer
ANZ National Bank Staff Superannuation Scheme[1]	Defined Benefit Scheme[2] or Defined Contribution Scheme	Nil 2.5% minimum of salary	Balance of cost[4] 7.5% of salary[5]
The National Bank Staff Superannuation Fund[1]	Defined Benefit Scheme[2] or Defined Contribution Scheme	5% of salary 2.0% minimum of salary	Balance of cost[4] 11.5% of salary[6]

[1] These schemes provide for pension benefits and provide for lump sum benefits.
[2] Closed to new members. Operates to make pension payments to retirees who were members of that section of the scheme or to dependents of the members.
[3] 30/09/2010: $nil (30/09/2009 $nil).
[4] 30/09/2010: 24.8% (30/09/2009 24.8%) of members' salaries.
[5] 30/09/2010: 7.5% (30/09/2009 7.5%) of members' salaries.
[6] 30/09/2010: 11.5% (30/09/2009 11.5%) of members' salaries.

Actuarial valuations for financial reporting purposes are undertaken every six months. The latest valuations were carried out as at 30 September 2010.

Notes to the Financial Statements

Amounts recognised in the balance sheet arising from the Banking Group's obligation in respect of defined benefit schemes

	Banking Group / Bank	
$ millions	30/09/2010	30/09/2009
Defined benefit obligation at beginning of the year	174	179
Current service cost	3	3
Interest cost	10	11
Contributions by scheme participants	1	1
Actuarial gains	(6)	(2)
Benefits paid	(17)	(18)
Present value of funded defined benefit obligations	165	174
Fair value of scheme assets at beginning of the year	119	152
Expected return on scheme assets net of tax	8	8
Actuarial gains / (losses)	21	(27)
Contributions by employer	7	3
Contributions by scheme participants	1	1
Benefits paid	(17)	(18)
Fair value of scheme assets	139	119
Net defined benefit liability recognised on balance sheet	(26)	(55)

The fair value of scheme assets include cash deposits and fixed interest investments of $3 million with the Banking Group as at 30 September 2010 (30/09/2009 $4 million).

Amounts recognised in the income statement in respect of defined benefit schemes

	Banking Group / Bank	
$ millions	30/09/2010	30/09/2009
Current service cost	3	3
Interest cost	10	11
Expected return on scheme assets net of tax	(8)	(8)
Contribution withholding tax	2	2
Total pension costs recognised in the income statement	7	8

Amounts recognised in equity in respect of defined benefit schemes

	Banking Group / Bank	
$ millions	30/09/2010	30/09/2009
Actuarial gains / (losses) incurred during the year and recognised directly in retained earnings	18	(18)
Cumulative actuarial losses recognised directly in retained earnings	(16)	(34)

Principal actuarial assumptions

	The National Bank Staff Superannuation Fund		ANZ National Bank Staff Superannuation Scheme	
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
Defined benefits calculation				
Discount rate gross of tax	**6.0%**	6.0%	**6.0%**	6.0%
Future price inflation	**2.5%**	2.5%	**2.5%**	2.5%
Future pension increases	**2.5%**	2.5%	**2.5%**	2.5%
Future salary increases	**3.0%**		**n/a**	n/a
– 2009 and 2010		2.5%		
– Post 2010		3.0%		
Scheme assets calculation				
Expected return on scheme assets net of tax	**5.5%**	5.5%	**4.5%**	4.5%

Notes to the Financial Statements

The overall expected return on scheme assets is determined by reference to market expectations at the beginning of the relevant period of asset performance applicable to the period over which the defined benefit obligation is to be settled. The overall expected return on scheme assets reflects an aggregation of the expected returns on the underlying asset classes.

The actual return on scheme assets (net of tax) for The National Bank Staff Superannuation Fund was 6.9% for the year ended 30 September 2010 (30/09/2009 -0.7%). The actual return on scheme assets (net of tax) for the ANZ National Bank Staff Superannuation Scheme was 6.2% for the year ended 30 September 2010 (30/09/2009 0.0%).

The investment return on scheme assets is taxed at 30% (30/09/2009 30%).

Major categories of scheme assets as a percentage of the fair value of scheme plan assets

	The National Bank Staff Superannuation Fund		ANZ National Bank Staff Superannuation Scheme	
	30/09/2010	30/09/2009	**30/09/2010**	30/09/2009
Cash and short term debt instruments	**7.3%**	14.1%	**8.7%**	8.1%
New Zealand fixed interest	**13.2%**	12.6%	**19.6%**	22.4%
Overseas fixed interest	**24.8%**	24.3%	**37.4%**	30.6%
Australasian shares	**19.8%**	10.4%	**9.9%**	10.2%
Overseas shares	**34.9%**	38.6%	**24.4%**	24.2%
Property fund units	**0.0%**	0.0%	**0.0%**	4.5%
	100.0%	100.0%	**100.0%**	100.0%

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

Historical summary

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred in the period) and the effects of changes in actuarial assumptions on valuation date. The history of the schemes' net position and experience adjustments is as follows:

	Banking Group / Bank				
$ millions	**30/09/2010**	30/09/2009	30/09/2008	30/09/2007	30/09/2006
Defined benefit obligation	**(165)**	(174)	(179)	(181)	(190)
Fair value of scheme assets	**139**	119	152	189	196
Net benefit asset / (liability)	**(26)**	(55)	(27)	8	6
Experience adjustments on scheme liabilities	**3**	1	5	(1)	3
Experience adjustment on scheme assets	**14**	(20)	(21)	(7)	5

Employer contributions

To ensure the defined benefit schemes remain solvent, the schemes' independent actuaries recommend an employer contribution rate to the Banking Group annually for The National Bank Staff Superannuation Fund and every three years for the ANZ National Bank Staff Superannuation Scheme.

The National Bank Staff Superannuation Fund deficit for funding purposes was valued at $20m in the most recent actuarial review at 1 April 2010. The ANZ National Bank Staff Superannuation Scheme surplus was valued at less than $1 million in the most recent actuarial valuation at 31 December 2007.

The Banking Group contributed $7 million (net of contributions withholding tax) to its defined benefit schemes in the year to 30 September 2010 (30/09/2009 $3 million). Employer contributions are taxed at a maximum rate of 33% (30/09/2009 33%).

Contingent liabilities

The National Bank Staff Superannuation Fund

Under the Fund's Trust Deed, if this scheme were wound up, the Banking Group would be required to pay the Trustee of the Fund an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled.

ANZ National Bank Staff Superannuation Scheme

If the Scheme is wound up then its assets must be cashed up and applied to all members' benefits. If Scheme funds are insufficient to pay all members' benefits then the Banking Group must pay to the Scheme such amounts as the Scheme Actuary determines are necessary to pay those benefits.

Notes to the Financial Statements

41. Business Combinations

On 30 November 2009, the Banking Group purchased ING Groep's 51% interest in ING NZ, which was the holding company for the ANZ-ING wealth management and life insurance joint venture in New Zealand. The acquisition took the Banking Group's ownership interest in ING NZ to 100%. The transaction was undertaken to strengthen the Banking Group's position in wealth management and more closely integrate its retail banking and wealth businesses. As a result of the change in ownership, the name of these businesses was changed to OnePath in November 2010.

As part of the transaction the Banking Group also purchased ING Groep's 51% interests in two fixed income unit trusts, the ING Diversified Yield Fund and the ING Regular Income Fund ("the Funds"), taking its ownership interest to over 99% of the Funds.

$ millions	Banking Group
Fair values of assets acquired and liabilities assumed as at acquisition date	
Due from financial institutions	142
Available-for-sale assets	173
Investments relating to insurance business	40
Insurance policy assets	67
Shares in associates	1
Other assets[1]	24
Deferred tax assets	35
Premises and equipment	4
Intangible assets	210
Total assets	696
Due to financial institutions	30
Payables and other liabilities	27
Current tax liabilities	27
Provisions[2]	95
Total liabilities	179
Net assets	517
Non-controlling interests in the Funds[3]	1
Net assets attributable to the Banking Group	516
Book value of existing equity interests	351
Loss on re-measuring existing equity interests to fair value[4]	(82)
Acquisition date fair value of existing equity interests	269
Cash consideration transferred	247
Total consideration	516
Total consideration less net assets acquired	-

1 Includes receivables with a fair value of $16m and a gross contractual amount receivable of $17m. The best estimate at the acquisition date of the contractual cash flows not expected to be collected on these receivables is $1m.

2 Includes employee related provisions and the fair value of contingent liabilities, which related to possible claims by investors in the Funds, investigations by regulatory bodies and other actual and potential claims and proceedings (refer Note 37). The expected timing and ultimate cost of contingent liabilities to the Banking Group depends on the assessment and outcome of customer complaints, and the results of any litigation and regulatory investigations or proceedings that may be brought.

3 Non-controlling interests are measured at their proportionate share of the identifiable net assets of the Funds.

4 The loss on re-measuring equity interests of $82 million has been recognised in Other Operating Income in the Income Statement.

Included in the Banking Group's Income Statement and Statement of Comprehensive Income since 30 November 2009 is net operating income of $147 million and a profit before tax of $57 million, excluding integration costs, contributed by ING NZ and the Funds. Had ING NZ and the Funds been consolidated from 1 October 2009, the Banking Group's Income Statement and Statement of Comprehensive Income would have included, for the year ended 30 September 2010, net operating income of $173 million and a profit before tax of $67 million. Acquisition costs were paid by the Ultimate Parent Bank.

42. Subsequent Events

There have been no material subsequent events.

Directorate and Auditors

The address to which any document or communication may be sent to any Director is ANZ National Bank Limited, Level 6, 1 Victoria Street, Wellington, New Zealand. The document or communication should be marked for the attention of that Director.

Directors' interests

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the following procedures are adopted:

a. At least once in each year, Directors are requested to complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.

b. Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

In addition to the written disclosures referred to in paragraphs (a) and (b) above, Directors disclose relevant interests which they have before discussion of particular business items.

The Companies Act 1993 (subject to any different provision in the Bank's Constitution) allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. The Bank's Constitution does not alter that situation. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

Transactions with Directors

No Director has disclosed that he/she or any immediate relative or professional associate has any dealing with the Banking Group which has been either entered into on terms other than those which would in the ordinary course of business be given to any other person of like circumstances or means or which could otherwise be reasonably likely to influence materially the exercise of the Director's duties as a Director of the Bank.

Changes in Directors

Since the authorisation date of the previous General Short Form Disclosure Statement on 13 August 2010, Jennifer Anne Fagg resigned as a Director of the Bank on 1 September 2010 and David Duncan Hisco was appointed a Director.

Board Members as at 22 November 2010

Independent Non-Executive Director and Chairman

Sir Dryden Spring

DSc
Company Director
Matamata, New Zealand

Sir Dryden is the Chair of the Remuneration Committee and a Member of the Audit Committee and the Risk Committee.

Other directorships: SkyCity Entertainment Group Limited, SkyCity Investments Australia Limited, Port of Tauranga Limited

Executive Director

David Duncan Hisco

B Bus (Acctg); MBA (exec)
Chief Executive, ANZ National Bank Limited
Auckland, New Zealand

Other directorships: ANZ Holdings (New Zealand) Limited

Non-Executive Directors

Michael Roger Pearson Smith, OBE

BSc (Hons)
Chief Executive Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Mr Smith is a Member of the Remuneration Committee.

Other directorships: Australia and New Zealand Banking Group Limited, The Financial Markets Foundation for Children, The Institute of International Finance Inc

Directorate and Auditors

Peter Ralph Marriott

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

Mr Marriott is a Member of the Audit Committee and the Risk Committee.

Other directorships: ANZ Capital Hedging Pty Limited, ANZ (Delaware) Inc., ANZ Holdings (New Zealand) Limited, ANZ Orchard Investments Pty Ltd, Esanda Finance Corporation Limited, ANZEST Pty Limited, ANZ Funds Pty Limited, ANZ Investments Pty Limited, ASX Limited, LFD Pty Limited, RFDL Pty Limited, ASX Clearing Corporation Limited, ASX Clear Pty Limited (previously Australian Clearing House Pty Limited), ASX Clear (Futures) Pty Limited (previously SFE Clearing Corporation Pty Limited), ASX Settlement Pty Limited (previously ASX Settlement & Transfer Corporation Pty Limited), Australia Limited, ASX Settlement Pty Limited

Shayne Cary Elliott

B Com
Group Managing Director, Institutional, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Other directorships: ANZ Securities Limited

Independent Non-Executive Directors

Norman Michael Thomas Geary, CBE

B Com, FACA, FNZIM, FCIT
Company Director
Auckland, New Zealand

Mr Geary is the Chair of the Risk Committee and a Member of the Audit Committee and the Remuneration Committee.

Other directorships: Otago Innovation Limited

John Frederick Judge

B Com, FICA
Company Director
Auckland, New Zealand

Mr Judge is the chair of the Audit Committee and a Member of the Risk Committee and the Remuneration Committee.

Other directorships: Fletcher Building Limited, Fletcher Building Finance Limited, Aquatx Holdings Limited, Aquatx Limited, Janohn Limited, Sebca Limited, John Judge Limited, Health TV Limited, Sails Friday Limited, Crop Solutions 09 Limited, Formerly Fuel Equipment Limited, Greentide Limited, Greentide K4B3 Limited

Dr Donald Thomas Brash

PhD, MA (Econ)
Company Director
Auckland, New Zealand

Dr Brash is a Member of the Audit Committee, Risk Committee and the Remuneration Committee.

Other directorships: Brash Forestry Limited, Eljeans Orchard Limited, Brash Consultancy Services Limited, Oceania Dairy Group Limited, Oceania Milk Limited, Oceania Dairy Limited, Transpower New Zealand Limited, Troika Family Trust Nominees Limited

---

Auditors

KPMG

Chartered Accountants
10 Customhouse Quay
PO Box 996
Wellington, New Zealand

Conditions of Registration

Conditions of Registration, applicable as at 22 November 2010. These Conditions of Registration have applied from 15 October 2010.

There have been no changes in the Bank's conditions of registration since the issuance of the last General Short Form Disclosure Statement dated 13 August 2010, other than changes to conditions 1 and 4 to update references to RBNZ documents.

The registration of ANZ National Bank Limited ("the Bank") as a registered bank is subject to the following conditions:

1. That the Banking Group complies with the following requirements:

   (a) the total capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is not less than 8%;

   (b) the tier one capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is not less than 4%; and

   (c) the capital of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is not less than $30 million.

   For the purposes of this condition of registration the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is 1.06.

   For the purposes of this condition of registration, the supervisory adjustment referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is the sum of:

   (a) 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010; and

   (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where

      (i) "adjusted Basel I capital" means 8% of total risk-weighted exposures, plus deductions from tier one capital, plus deductions from total capital, all calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated October 2010;

      (ii) "adjusted Basel II capital" means 8% of total Basel II risk-weighted exposures plus deductions from tier one capital, plus deductions from total capital, less any amount included in tier two capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010; and

      (iii) "total Basel II risk-weighted exposures" means scalar x (risk-weighted on and off balance sheet credit exposures) + 12.5 x total capital charge for market risk exposure + 12.5 x total capital requirement for operational risk + 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010.

1A. That-

   (a) the Bank has an internal capital adequacy assessment process ("ICAAP"); that with effect from 31 August 2008 the Bank's ICAAP accords with the requirements set out in the document "Guidelines on a Bank's internal capital adequacy process ("ICAAP")" (BS12) dated December 2007;

   (b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010; and

   (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010.

1C. That the Bank complies with the following requirements:

   - The total capital ratio of the Bank is not less than 8%.
   - The tier one capital ratio of the Bank is not less than 4%.

   For the purposes of this condition of registration:

   - the total capital ratio is defined as capital as a percentage of risk-weighted exposures where capital and risk-weighted exposures are as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated October 2010; and
   - the tier one capital ratio is defined as tier one capital as a percentage of risk-weighted exposures where tier one capital and risk-weighted exposures are as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated October 2010.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

Conditions of Registration

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:

   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

   (ii) In measuring the size of the Banking Group's insurance business:

      (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
         - The total consolidated assets of the group headed by that entity;
         - Or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;

      (b) otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;

      (c) the amounts measured in relation to parts a) and b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts a) and b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;

      (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit Rating of the registered bank[1]	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's)

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the Banking Group's Tier One capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled 'Connected Exposures Policy' (BS8) dated October 2010.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the board of the Bank contains at least two independent directors and that alternates for those directors, if any, are also independent. In this context an independent director (or alternate) is a director (or alternate) who is not an employee of the Bank, and who is not a director, trustee, or employee of any holding company (as that term is defined in section 5 of the Companies Act 1993) of the Bank, or any other entity capable of controlling or significantly influencing the Bank.

7. That the chairperson of the Bank's board is not an employee of the Bank.

8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

9. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

10. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made in respect of the Bank unless:

    (i) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee, and

    (ii) The Reserve Bank has advised that it has no objection to that appointment.

Conditions of Registration

11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:

    (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;

    (b) that the Bank's financial risk positions on a day can be identified on that day;

    (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

    (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

    For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled 'Outsourcing Policy' (BS11) dated January 2006.

12. (a) That the business and affairs of the Bank are managed by, or under the direction and supervision of, the board of the Bank.

    (b) That the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decision relating to the employment or termination of employment of the CEO are made by, the board of the Bank.

    (c) That all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.

13. That the Banking Group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:

    (a) the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;

    (b) the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and

    (c) the one-year core funding ratio of the Banking Group is not less than 65 percent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2010 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

14. That, with effect from 1 April 2010, the Registered Bank has an internal framework for liquidity risk management that is adequate in the Registered Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:

    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

    (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and

    (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

    For the purposes of these conditions of registration, the term "Banking Group" means ANZ National Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

Directors' Statement

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

(i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008;

(ii) The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2010, after due enquiry, each Director believes that:

(i) ANZ National Bank Limited has complied with the Conditions of Registration;

(ii) Credit exposures to connected persons were not contrary to the interests of the Banking Group;

(iii) ANZ National Bank Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This General Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on 22 November 2010. On that date, the Directors of the Bank were:

Dr D T Brash

S C Elliott

N M T Geary, CBE

D D Hisco

J F Judge

P R Marriott

M R P Smith, OBE

Sir Dryden Spring

KPMG

Independent Auditor's Report

To the Shareholder of ANZ National Bank Limited

Report on the Bank and Banking Group General Disclosure Statement

We have audited the accompanying General Disclosure Statement and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed in note 31) of ANZ National Bank Limited (the "Bank'') and its subsidiaries (the "Banking Group") on pages 5 to 103. The General Disclosure Statement comprises the balance sheets as at 30 September 2010, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Bank and the Banking Group. The supplementary information comprises the information that is required to be disclosed under the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008, as amended (the "Order") and is presented in notes 28, 31, 33 and 38 of the General Disclosure Statement.

Directors' Responsibility for the General Disclosure Statement

The directors are responsible for the preparation of the General Disclosure Statement in accordance with Clause 22 of the Order, generally accepted accounting practice in New Zealand, and International Financial Reporting Standards and that gives a true and fair view of the matters to which they relate. The directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the General Disclosure Statement that is free from material misstatement whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order, and which is prepared in accordance with the guidelines issued pursuant to Section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration.

Auditor's Responsibility

Our responsibility is to express an opinion on the General Disclosure Statement, including the supplementary information presented in notes 28, 31, 33 and 38, based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the General Disclosure Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the General Disclosure Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the General Disclosure Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank and Banking Group's preparation of the General Disclosure Statement that gives a true and fair view of the matters to which they relate 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 Bank and Banking Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the General Disclosure Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion the General Disclosure Statement of ANZ National Bank Limited and its subsidiaries (''the Bank and Banking Group'') on pages 5 to 103 (excluding the supplementary information included in notes 28, 31, 33 and 38):

- complies with generally accepted accounting practice in New Zealand;
- complies with International Financial Reporting Standards; and
- gives a true and fair view of the financial position as at 30 September 2010 and of their financial performance and cash flows for the year ended on that date.

In our opinion, the supplementary information that is required to be disclosed under Schedules 4 and 6 to 9 and clause 17 of Schedule 3 of the Order, and is included within notes 28, 31, 33 and 38 of the General Disclosure Statement:

- has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration;
- is in accordance with the books and records of the Bank and Banking Group; and
- presents fairly, in all material respects, the matters to which it relates, in accordance with those Schedules.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, and clauses 2(d) and 2(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Bank and Banking Group, as far as appears from our examination of those records.

Report on the Supplementary Information Relating to Capital Adequacy

We have reviewed the supplementary information relating to Capital Adequacy, as disclosed in note 31 of the General Disclosure Statement.

Directors' Responsibility for the Supplementary Information Relating to Capital Adequacy

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 5B of the Order and prepared in accordance with the Bank's Conditions of Registration and with the Bank's internal models for credit risk and operational risk, as accredited by the Reserve Bank of New Zealand and described in note 31 of the General Disclosure Statement.

Auditor's Responsibility

Our responsibility is to express an opinion on the supplementary information relating to Capital Adequacy based on our review. We conducted our review in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. Those standards require that we comply with ethical requirements and plan and perform the review to obtain limited assurance about whether the supplementary information relating to Capital Adequacy is free from material misstatement.

A review is limited primarily to enquiries of Bank and Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the Capital Adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, disclosed in note 31 of the General Disclosure Statement, is not prepared and disclosed, in all material respects, in accordance with:

- the Bank's Conditions of Registration;
- the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- Schedule 5B of the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008, as amended.

KPMG

22 November 2010
KPMG
Wellington

Index

ANZ National Bank Limited ANZACC1776 11/10