General Disclosure Statement

Australia and New Zealand Banking Group Limited
– New Zealand Branch

For the six months ended 31 March 2009

No 2. Issued June 2009

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Contents

GENERAL DISCLOSURES

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

In this Disclosure Statement unless the context otherwise requires:

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

b) "Overseas Bank" or "Ultimate Parent Bank" means the worldwide operations of Australia and New Zealand Banking Group Limited excluding its controlled entities;

c) "NZ Banking Group" means the aggregated NZ operations of Australia and New Zealand Banking Group Limited, including those operations conducted through the NZ branch and controlled entities of the Overseas Bank registered in New Zealand;

d) "NZ Branch" or "Registered Bank" means the New Zealand operations of Australia and New Zealand Banking Group Limited, as conducted through the NZ Branch;

e) any term or expression which is defined in, or in the manner prescribed by, the Registered Bank Disclosure Statement (Full and Half-Year - Overseas Incorporated Registered Banks) Order 2008 shall have the meaning given in or prescribed by that Order.

General Matters

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

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

Nature of Business

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

Ranking of local creditors in liquidation

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

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

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

(a) first, the ADI's liabilities to the Australian Prudential Regulation Authority ("APRA") (if any), because of the rights APRA has against the ADI because APRA has made, or is required to make, payments to depositors under the Financial Claims Scheme (defined below);

(b) second, the ADI's debts to APRA for costs incurred by APRA in administration of the Financial Claims Scheme in respect of the ADI;

(c) third, in payment of the ADI's deposit liabilities in Australia (other than liabilities covered under paragraph (a)); and

(d) fourth, the ADI's other liabilities (in order of priority apart from section 13A(3)).

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

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

Section 13A(3) affects all of the unsecured deposit liabilities of the NZ Branch which as at 31 March 2009 amounted to $nil. (31/03/2008 $nil; 30/09/2008 $nil).

Requirement to hold excess assets over deposit liabilities

Section 13A(4) of the Banking Act (the "Act") states that it is an offence for an ADI not to hold assets (other than goodwill) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the six months ended 31 March 2009, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia. The requirements of this section of the Act have the potential to impact on the management of the liquidity of the NZ Banking Group.

Guarantees

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

(a) in the case of deposits and certain other accounts up to A$1 million, a scheme (The "Financial Claims Scheme") pursuant to the Financial System Legislation Amendment (Financial Claims Scheme and Other Measures) Act 2008 of the Commonwealth of Australia (The "Financial Claims Scheme Act");

(b) in the case of wholesale funding, by a Deed of Guarantee executed by the Treasurer (and related scheme rules) (the "Wholesale Funding Guarantee").

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

Financial Claims Scheme

Under the Financial Claims Scheme (the "scheme") if:

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

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

A protected account (a "Protected Account") is:

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

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

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

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

Wholesale Funding Guarantee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The most recent Supplemental Disclosure Statement is available at no charge.

Copies of eligibility certificates issued by the Reserve Bank of Australia under the

Wholesale Funding Guarantee are available at www.guaranteescheme.gov.au.

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

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

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

New Zealand Guarantee Arrangements

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

Pending Proceedings or Arbitration

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

The NZ Banking Group has received amended tax assessments from the New Zealand Inland Revenue Department ('IRD') in respect of its review of certain structured finance transactions. The Banking Group has received independent tax and legal advice. It is confident that its tax treatment of these transactions is correct and disagrees with the IRD's position.

The Commerce Commission has brought proceedings under the Commerce Act 1986 against Visa, MasterCard and all New Zealand issuers of Visa and MasterCard credit cards, including the NZ Banking Group regarding credit card interchange fees. Several major New Zealand retailers have also issued proceedings. The NZ Banking Group has received independent legal advice. This matter is complex and difficult. The NZ Banking Group is defending the proceedings. This matter is scheduled for trial in October 2009.

The NZ Banking Group markets and distributes a range of wealth management products which are managed by ING (NZ) Limited (of which the NZ Banking Group holds 49%). Trading in the ING Diversified Yield Fund and the ING Regular Income Fund ('the Funds') was suspended on 13 March 2008 by the fund manager, ING (NZ) Limited, due to the deterioration in liquidity in credit markets.

On 25 February 2009, ING (NZ) Limited announced that investors in the Funds will be receiving a proposal which allows the ability to exit the Funds. The estimated cost of this proposal to the NZ Banking Group is $167m and this amount has been recognised in 'other operating income' in the Income Statement.

Further details on pending proceedings or arbitration are set out in Note 42 Contingent Liabilities and Credit Related Commitments of this General Disclosure Statement.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 31 March 2009 Interim Financial Report.

Other Material Matters

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

Supplemental Disclosure Statement

A copy of the most recent Supplemental Disclosure Statement for the six months ended 31 March 2009 can be obtained immediately where request is made within normal banking hours at the NZ Branch head office, Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington. It is also available at no charge:

a) on the NZ Banking Group's website at www.anz.com;
b) immediately if request is made at the NZ Banking Group's head office; and
c) within five working days of a request, if a request is made at any branch of the ANZ or National Bank of New Zealand.

The NZ Banking Group's most recent Supplemental Disclosure Statement contains a copy of the 31 March 2009 Interim Financial Report for the Overseas Banking Group and a copy of the Deed of Guarantee for the Guarantee Scheme.

SUMMARY OF FINANCIAL STATEMENTS

	NZ Banking Group						
	NZ IFRS Unaudited 6 months to 31/03/2009 $m	NZ IFRS Audited Year to 30/09/2008 $m	NZ IFRS[1] Audited Year to 30/09/2007 $m	NZ IFRS[1, 2] Audited Year to 30/09/2006 $m	NZ IFRS[1, 2] Audited Year to 30/09/2005 $m	Previous GAAP Audited Year to 30/09/2005 $m	Previous GAAP[3] Audited Year to 30/09/2004 $m
Continuing operations							
Interest income	**4,233**	9,858	8,296	7,195	6,023	5,999	4,533
Interest expense	**3,047**	7,829	6,239	5,246	4,325	4,325	3,036
Net interest income	**1,186**	2,029	2,057	1,949	1,698	1,674	1,497
Other operating income	**439**	1,126	864	801	794	851	758
Operating income	**1,625**	3,155	2,921	2,750	2,492	2,525	2,255
Operating expenses	**739**	1,445	1,331	1,323	1,312	1,506	1,269
Profit before provision for credit impairment and income tax	**886**	1,710	1,590	1,427	1,180	1,019	986
Collective provision charge (credit)	**76**	112	20	(10)	121	122	133
Individual provision charge[3]	**212**	190	54	28	-	-	-
Provision for credit impairment	**288**	302	74	18	121	122	133
Profit before income tax	**598**	1,408	1,516	1,409	1,059	897	853
Income tax expense	**176**	418	551	463	318	324	296
Profit after income tax from continuing operations	**422**	990	965	946	741	573	557
Discontinued operations							
Profit from discontinued operations (net of income tax)	**-**	-	76	5	14	-	-
Profit after income tax	**422**	990	1,041	951	755	573	557
Retained profits at beginning of the year	**1,667**	1,869	1,580	1,350	746	746	264
Adjustment on adoption of NZ IFRS on 1 October 2004	**-**	-	-	-	4	-	-
Adjustment on adoption of NZ IAS 39 on 1 October 2005	**-**	-	-	60	-	-	-
Total available for appropriation	**2,089**	2,859	2,621	2,361	1,505	1,319	821
Actuarial (loss) gain on defined benefit schemes after tax	**(28)**	(23)	2	(1)	4	-	-
Foreign exchange (loss)/gain on redemption of redeemable preference shares	**-**	-	(154)	-	41	41	-
Interim ordinary dividends paid	**(1,000)**	(1,169)	(600)	(780)	(200)	(200)	(75)
Retained profits at end of the year	**1,061**	1,667	1,869	1,580	1,350	1,160	746

	NZ Banking Group						
	NZ IFRS Unaudited 6 months to 31/03/2009 $m	NZ IFRS Audited Year to 30/09/2008 $m	NZ IFRS[1] Audited Year to 30/09/2007 $m	NZ IFRS[1, 2] Audited Year to 30/09/2006 $m	NZ IFRS[1, 2] Audited Year to 30/09/2005 $m	Previous GAAP Audited Year to 30/09/2005 $m	Previous GAAP Audited Year to 30/09/2004 $m
Total impaired assets (on-balance sheet and off-balance sheet)	**620**	333	121	159	220	220	123
Total assets	**132,972**	123,078	107,606	95,929	85,491	85,291	74,099
Total liabilities	**125,455**	115,951	100,751	89,543	79,390	79,380	69,690
Equity	**7,517**	7,127	6,855	6,386	6,101	5,911	4,409

The amounts included in this summary have been taken from the audited financial statements of the Australia and New Zealand Banking Group Limited (New Zealand Geographic Activities and Subsidiary Companies in New Zealand).

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

[2]On 1 October 2005, the NZ Banking Group adopted New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'). In accordance with NZ IFRS, comparative information was restated using the new accounting standards from 1 October 2004. As permitted by the transitional provisions set out in NZ IFRS 1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, management elected not to restate comparative information for the adoption of NZ IAS 32 Financial Instruments: Disclosure and Presentation ('NZ IAS 32') and NZ IAS 39 Financial Instruments: Recognition and Measurement ('NZ IAS 39'). Refer to Note 52 Explanation of Transition to NZ IFRS in the 30 September 2006 ANZ National Bank Limited and Subsidiary Companies' General Disclosure Statement for an explanation of the NZ Banking Group's transition to NZ IFRS and the adjustments required to comply with NZ IFRS.

[3]The RBNZ's guidelines require the NZ Banking Group to show the individual provision charge to profit as the 'impaired asset expense'. Prior to adopting NZ IFRS on 1 October 2005, under the NZ Banking Group's Bad and Doubtful Debts policy, the required individual provision was not charged to profit, but was transferred from the collective provision balance. The NZ Banking Group's provision for credit impairment, which represented the expected average annual loss on principal over the economic cycle for the lending portfolio, was credited to the collective provision. Under NZ IFRS, there is no longer a transfer between the collective and individual provisions. Further detail on the provision for credit impairment is set out in Note 14 Provision for Credit Impairment.

INCOME STATEMENTS for the six months ended 31 March 2009

		NZ Banking Group			NZ Branch		
	Note	**Unaudited 6 months to 31/03/2009 $m**	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m	**Unaudited 6 months to 31/03/2009 $m**	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m
Interest income	**4**	**4,233**	4,810	9,858	**28**	-	-
Interest expense	**5**	**3,047**	3,792	7,829	**23**	-	-
Net interest income		**1,186**	1,018	2,029	**5**	-	-
Other operating income	**4**	**431**	490	1,015	**(8)**	-	-
Share of profit of equity accounted associates and jointly controlled entities	**15**	**8**	96	111	**-**	-	-
Operating income		**1,625**	1,604	3,155	**(3)**	-	-
Operating expenses	**5**	**739**	673	1,445	**1**	-	-
Profit/(loss) before provision for credit impairment and income tax		**886**	931	1,710	**(4)**	-	-
Provision for credit impairment	**14**	**288**	93	302	**3**	-	-
Profit/(loss) before income tax		**598**	838	1,408	**(7)**	-	-
Income tax expense/(benefit)	**6**	**176**	229	418	**(2)**	-	-
Profit/(loss) after income tax		**422**	609	990	**(5)**	-	-

The notes on pages 10 to 101 form part of and should be read in conjunction with these financial statements.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE for the six months ended 31 March 2009

	Note	NZ Banking Group			NZ Branch		
		Unaudited 6 months to 31/03/2009 $m	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m	**Unaudited 6 months to 31/03/2009 $m**	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m
Available-for-sale revaluation reserve:							
- Valuation gain taken to equity		**4**	16	26	**-**	-	-
- Cumulative gain transferred to the income statement on sale of financial assets		**-**	-	-	**-**	-	-
Cash flow hedging reserve:							
- Valuation loss taken to equity	**10**	**(9)**	(17)	(47)	**-**	-	-
- Transferred to income statement	**10**	**(19)**	(16)	(37)	**-**	-	-
Actuarial loss on defined benefit schemes	**44**	**(38)**	(12)	(33)	**-**	-	-
Income tax credit on items recognised directly in equity		**20**	15	34	**-**	-	-
Net (expense) income recognised directly in equity		**(42)**	(14)	(57)	**-**	-	-
Profit/(loss) after income tax		**422**	609	990	**(5)**	-	-
Total recognised income and expense for the period		**380**	595	933	**(5)**	-	-

The notes on pages 10 to 101 form part of and should be read in conjunction with these financial statements.

BALANCE SHEETS as at 31 March 2009

		NZ Banking Group			NZ Branch		
	Note	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Assets							
Liquid assets	**7**	**3,390**	3,863	4,839	**-**	-	-
Due from other financial institutions	**8**	**7,631**	3,890	5,032	**-**	-	-
Trading securities	**9**	**2,565**	2,149	2,624	**-**	-	-
Derivative financial instruments	**10**	**15,072**	4,901	7,603	**30**	-	-
Available-for-sale assets	**11**	**597**	96	109	**-**	-	-
Net loans and advances	**12, 13, 14**	**98,490**	92,579	97,679	**4,754**	-	-
Due from related entities		**-**	-	1	**204**	-	-
Shares in controlled entities, associates and jointly controlled entities	**15**	**396**	350	363	**-**	-	-
Current tax assets		**189**	248	154	**1**	-	-
Other assets	**16**	**878**	913	1,000	**25**	-	-
Deferred tax assets	**17**	**193**	52	118	**1**	-	-
Premises and equipment	**18**	**250**	238	242	**-**	-	-
Goodwill and other intangible assets	**19**	**3,321**	3,296	3,314	**-**	-	-
Total assets		**132,972**	112,575	123,078	**5,015**	-	-
Liabilities							
Due to other financial institutions	**20**	**8,911**	2,383	3,311	**4,751**	-	-
Deposits and other borrowings	**21**	**72,760**	74,080	77,136	**-**	-	-
Due to subsidiary companies		**-**	-	-	**-**	-	-
Derivative financial instruments	**10**	**13,080**	4,472	6,472	**250**	-	-
Payables and other liabilities	**22**	**2,143**	1,684	1,874	**8**	-	-
Deferred tax liabilities	**23**	**-**	-	-	**-**	-	-
Provisions	**24**	**340**	154	190	**-**	-	-
Bonds and notes	**25**	**23,620**	19,192	22,382	**-**	-	-
Term funding	**26**	**1,766**	1,766	1,766	**-**	-	-
Loan capital	**27**	**2,835**	2,053	2,820	**-**	-	-
Total liabilities (excluding Head Office Account)		**125,455**	105,784	115,951	**5,009**	-	-
Net assets (excluding Head Office Account)		**7,517**	6,791	7,127	**6**	-	-
Represented By:							
Ordinary share capital & Head Office Account	**28**	**6,424**	5,413	5,413	**11**	-	-
Reserves	**29**	**32**	77	47	**-**	-	-
Retained earnings	**29**	**1,061**	1,301	1,667	**(5)**	-	-
Total equity & Head Office Account		**7,517**	6,791	7,127	**6**	-	-

The notes on pages 10 to 101 form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENTS for the six months ended 31 March 2009

		NZ Banking Group			NZ Branch		
	Note	**Unaudited 6 months to 31/03/2009 $m**	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m	**Unaudited 6 months to 31/03/2009 $m**	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m
Cash flows from operating activities							
Interest received		**4,152**	4,646	9,503	**3**	-	-
Dividends received		**-**	-	4	**-**	-	-
Fees and other income received		**619**	512	1,062	**-**	-	-
Interest paid		**(3,094)**	(3,580)	(7,216)	**(16)**	-	-
Operating expenses paid		**(736)**	(663)	(1,313)	**-**	-	-
Income taxes paid		**(265)**	(320)	(461)	**-**	-	-
Cash flows from operating profits before changes in operating assets and liabilities		**676**	595	1,579	**(13)**	-	-
Net changes in operating assets and liabilities:							
(Increase) in due from other financial institutions - term		**159**	(861)	(630)	**-**	-	-
Decrease (increase) in trading securities		**90**	(206)	(617)	**-**	-	-
(Increase) decrease in derivative financial instruments		**(204)**	(1,313)	1,361	**(36)**	-	-
Increase in available-for-sale assets		**(485)**	(28)	(36)	**-**	-	-
Increase in loans and advances		**(383)**	(4,756)	(9,522)	**(4,974)**	-	-
Decrease in due to subsidiary companies		**-**	-	-	**(1)**	-	-
Decrease in other assets		**53**	112	28	**-**	-	-
Increase (decrease) in due to other financial institutions		**5,945**	(825)	141	**5,023**	-	-
(Decrease) increase in deposits and other borrowings		**(3,692)**	3,860	5,417	**-**	-	-
Increase in payables and other liabilities		**502**	233	159	**-**	-	-
Net cash flows provided by (used in) operating activities	37	**2,661**	(3,189)	(2,120)	**(1)**	-	-
Cash flows from investing activities							
Proceeds from sale of premises and equipment		**34**	1	2	**-**	-	-
Purchase of shares in associates and jointly controlled entities		**(25)**	(46)	(48)	**-**	-	-
Purchase of intangible assets		**(13)**	(6)	(30)	**-**	-	-
Purchase of premises and equipment		**(42)**	(25)	(51)	**-**	-	-
Net cash flows used in investing activities		**(46)**	(76)	(127)	**-**	-	-
Cash flows from financing activities							
Proceeds from bonds and notes		**135**	3,553	9,263	**-**	-	-
Redemptions of bonds and notes		**(3,323)**	(1,210)	(6,433)	**-**	-	-
Proceeds from loan capital		**-**	-	835	**-**	-	-
Redemptions of loan capital		**-**	-	(100)	**-**	-	-
Issue of redeemable preference shares		**1,001**	510	510	**1**	-	-
Dividends paid		**(1,000)**	(1,169)	(1,169)	**-**	-	-
Net cash flows (used in) provided by financing activities		**(3,187)**	1,684	2,906	**1**	-	-
Net cash flows provided by (used in) operating activities		**2,661**	(3,189)	(2,120)	**(1)**	-	-
Net cash flows used in investing activities		**(46)**	(76)	(127)	**-**	-	-
Net cash flows (used in) provided by financing activities		**(3,187)**	1,684	2,906	**1**	-	-
Net (decrease) increase in cash and cash equivalents		**(572)**	(1,581)	659	**-**	-	-
Cash and cash equivalents at beginning of the period		**7,790**	7,131	7,131	**-**	-	-
Cash and cash equivalents at end of the period		**7,218**	5,550	7,790	**-**	-	-
Reconciliation of cash and cash equivalents to the balance sheets[1]							
Liquid assets		**3,390**	3,863	4,839	**-**	-	-
Due from other financial institutions - less than 90 days		**3,828**	1,687	2,951	**-**	-	-
Total cash and cash equivalents	37	**7,218**	5,550	7,790	**-**	-	-

[1] A reconciliation of cash and cash equivalents to the NZ Banking Group's core liquidity portfolio is included in Note 37 Notes to the Cash Flow Statements. An analysis of the balance sheet items that make up the NZ Banking Group's core liquidity portfolio is included in Note 31 Financial Risk Management.

1. ACCOUNTING POLICIES

A) BASIS OF PREPARATION

i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Registered Bank Disclosure Statement (Full and Half-Year - Overseas Incorporated Banks) Order 2008 (the 'Order'). The parent financial statements are for the New Zealand operations of Australia and New Zealand Banking Group Limited as conducted through the NZ Branch ("the Registered Bank" or "NZ Branch") and the aggregated financial statements are for the New Zealand operations of Australia and New Zealand Banking Group Limited (the 'NZ Banking Group'), which includes the NZ Branch and all New Zealand geographic operations, subsidiaries, associate companies and jointly controlled entities as disclosed in Note 38.

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

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

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

These financial statements were authorised for issue by the overseas Banking Group's Board of Directors on 26 May 2009.

ii) Use of estimates and assumptions

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

For further discussion on the judgements and estimates made by the NZ Banking Group, in the process of applying its accounting policies, that have the most effect on the amounts recognised in the financial statements refer to Note 2 Critical Estimates and Judgements Used in Applying Accounting Policies. Such estimates will require review in future periods.

iii) Basis of measurement

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

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

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

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 does not intend to apply any of these pronouncements until their application date which is 1 October 2009 in all instances.

NZ IFRS 8 Operating Segments

This standard requires the 'management approach' to identifying and disclosing information about reportable segments. This standard is concerned with disclosure only and will have no impact on the financial results of the Bank or the Banking Group.

NZ IAS 1 Presentation of Financial Statements (amended)

This standard requires the presentation of a Statement of Comprehensive Income and a Statement of Changes in Equity. These amendments are concerned with disclosure only and will have no impact on the financial results of the Bank or the Banking Group.

NZ IAS 23 Borrowing Costs (amended)

This standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. This amendment will not have a material impact on the financial statements of the Bank or the Banking Group.

NZ IAS 27 Consolidated and Separate Financial Statements (amended)

This standard changes aspects of accounting for non-controlling interests and clarifies the accounting for changes in a parent's ownership interest in a subsidiary. These amendments are not expected to have a material impact on the financial statements of the Bank or the Banking Group.

NZ IFRS 3 Business Combinations (amended)

This standard will change certain aspects of accounting for business combinations occurring after the application date. These amendments apply prospectively so the initial application is expected to have no impact on the financial statements of the Bank or the Banking Group.

NZ IFRS 2 Share-based Payment (amended). Definition of vesting conditions.
NZ IFRS 7 Financial Instruments: Disclosures (amended). Fair value measurement and liquidity risk disclosures.
NZ IAS 32 Financial Instruments: Presentation (amended). Definition and accounting for puttable instruments.
NZ IAS 39 Financial Instruments: Recognition and Measurement (amended). Options as hedging instruments and hedging inflation risk.

We have yet to assess the impact of these changes on the financial statements of the Bank or the Banking Group.

1. ACCOUNTING POLICIES (continued)

v) Presentation currency and rounding
The amounts contained in the financial statements are presented in millions of New Zealand dollars, unless otherwise stated.

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

vii) Basis of aggregation
These financial statements aggregate the financial statements of the New Zealand geographic activities of Australia and New Zealand Banking Group Limited as conducted through the NZ Branch (the "NZ Branch") and its controlled entities in New Zealand (the "NZ Banking Group").

Subsidiaries
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, decision making in relation to the financial and operating policies of an entity so as to obtain benefits from its activities. All the facts of a particular situation are considered when determining whether control exists. Control is usually present when an entity has:

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

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the NZ Banking Group.

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

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

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

The NZ Banking Group's share of the post acquisition results of associates and jointly controlled entities is included in the consolidated income statement and its share of post-acquisition movements in reserves recognised in reserves. Shares in associates and jointly controlled entities are stated in the consolidated balance sheet at cost plus the NZ Banking Group's share of post acquisition net assets. Unrealised gains on transactions between the NZ Banking Group and its associates and jointly controlled entities are eliminated to the extent of the NZ Banking Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. If an associate or jointly controlled entity uses accounting policies other than those used by the NZ Banking Group for like transactions and similar events, adjustments are made to conform the associate or jointly controlled entity's policy to those of the NZ Banking Group in applying the equity method.

Interests in associates and jointly controlled entities are reviewed at each reporting date for indicators of impairment. Any impairment is recognised in the income statement.

All significant activities of the NZ Banking Group, with the exception of the ING New Zealand joint venture, are operated through wholly owned entities.

Special purpose and off-balance sheet entities
The NZ Banking Group may invest in or establish special purpose entities (SPEs) to enable it to undertake specific types of transactions. The main types of these SPEs are securitisation vehicles, structured finance entities, and entities used to sell credit protection.

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

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

1. ACCOUNTING POLICIES (continued)

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

viii) Foreign currency translation

Functional and presentation currency

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

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. 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 previously financial report, are recognised in the income statement in the period in which they arise.

Translation differences on non-monetary items measured at fair value through profit or loss, are reported as part of the fair value gain or loss on these items. Translation differences on non-monetary items measured at fair value through equity, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

B) INCOME RECOGNITION

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

i) Interest income

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

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, 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. Income and expense on the financial asset or financial liability is recognised on an effective yield basis in proportion to the amount outstanding over the period to maturity or repayment.

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 that are integral to the effective rate of a financial asset or liability 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, placement fees and underwriting fees) are recognised when the significant act has been completed.

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

iii) Dividend income

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

iv) Leasing income

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

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

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

1. ACCOUNTING POLICIES (continued)

C) EXPENSE RECOGNITION

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

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

ii) Loan origination expenses
Certain loan origination expenses are an integral part of the effective interest rate of a financial asset and are 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 ove its expected life using the effective interest method.

iii) Share-based compensation expense
The NZ Banking Group participates in various equity settled share-based compensation plans. These are described in note 43 and largely comprise the Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ Ordinary Shares
The fair value of ANZ ordinary shares granted under the Employee Share Acquisition Plan is measured at grant date, using the one-day volume weighted average market price of ANZ shares. The fair value is expensed immediately when shares vest immediately. Where shares are subject to a vesting period, the NZ Banking Group initially recognises a net share compensation asset reflecting the fair value of unvested shares issued to employees of the NZ Banking Group. The fair value of unvested shares is amortised to profit and loss on a straight-line basis over the vesting period (normally three years) as employee services are received.

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

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

Performance Rights

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

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

iv) Lease payments

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

D) INCOME TAX

i) Income tax expense
Income tax on earnings for the period comprises current and deferred tax. 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. Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

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

Deferred tax liabilities are recognised for all taxable temporary differences, other than those in relation to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in controlled entities, branches, associates and joint ventures, except where the NZ Banking Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

1. ACCOUNTING POLICIES (continued)

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

Deferred tax related to fair value re-measurement of available-for-sale financial assets and cash flow hedges, which are charged or credited directly to equity, is also charged or credited directly to equity and subsequently recognised in the income statement together with the deferred gain or loss on the related asset or liability.

iv) Offsetting

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

E) ASSETS

Financial assets

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

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. They comprise debt and equity securities and treasury notes purchased with the intent of being actively traded. Trading securities are initially recognised at fair value on trade date with transaction costs taken to the income statement. Changes in the fair value (gains or losses) of these securities are recognised in the income statement in the period in which they occur. The assets are derecognised when the rights to receive cash flows have expired, or the NZ Banking Group has transferred substantially all of the risks and rewards of ownership. Fair value for listed and unlisted securities is determined by the price displayed by a willing buyer in a liquid market at the reporting date. Where a market price in a liquid market is not readily available, the fair value is determined by reference to the market price available for a security with similar credit, maturity and yield characteristics or by using industry standard pricing models.

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

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

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

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

ii) Derivative financial instruments

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

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

Derivative financial instruments are recognised initially at fair value on trade date 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. Fair values are obtained from quoted prices in active markets (including recent transactions) and valuation techniques including discounted cash flow models and option pricing models, as appropriate.

Where the derivative financial instrument is designated as, and 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:

<u>Fair value hedge</u>

Where the NZ Banking Group hedges the change in fair value of a recognised asset or liability or firm commitment, any change in the fair value of derivatives designated as fair value hedges 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.

<u>Cash flow hedge</u>

The NZ Banking Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges are deferred to the cash flow hedging reserve, which forms part of shareholders' equity. Any ineffective portion is immediately recognised 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. Where the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gain or loss previously deferred in equity is transferred from equity and included in the initial measurement of the cost of the asset or liability.

1. ACCOUNTING POLICIES (continued)

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

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

Embedded derivatives
Derivatives embedded in financial instruments or other host contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contracts, and the host contracts are not measured at fair value. The embedded derivative is reported at fair value with changes in fair value immediately recognised in the income statement.

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

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

iii) Available-for-sale assets
Available-for-sale assets comprise non-derivative financial assets which the NZ Banking Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments, certain loans and advances, and quoted debt securities. They are initially recorded 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, 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 asset decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss previously recognised in the income statement is reversed through the income statement through the impairment expense line. Impairment losses recognised in the income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the income statement.

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

iv) Net loans and advances
Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the NZ Banking Group has no intention of trading on 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, less any impairment loss, or when in an effective hedging relationship, 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, and also recognised in the income statement. Loans and advances are derecognised when the rights to receive cash flows have expired or the NZ Banking Group has transferred substantially all the risks and rewards of ownership.

Net loans and advances include direct finance provided to customers such as bank overdrafts, credit cards, term loans, finance lease receivables and commercial bills. Overdrafts, credit cards and term loans are carried at amortised cost. Customer financing through redeemable preference shares is included within net loans and advances. Dividends received on redeemable preference shares are taken to the income statement as part of interest income.

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

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

Restructured assets are those assets where the counterparty had difficulty complying with the original terms of the contract and the original terms have been modified to grant the counterparty concessional terms below those applicable to a customer of equal credit standing.

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

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

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

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, which will impact the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

1. ACCOUNTING POLICIES (continued)

Impairment is assessed initially 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.

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

The estimated individual impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value at the original effective interest rate. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in the income statement. 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 by comparing the actual behaviour of the portfolio to initial expected life assumptions.

The provision for credit impairment (individual and collective) is deducted from loans and advances in the balance sheet and the movement in the provision 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 the proceeds are insufficient.

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

A provision is also raised for off balance sheet items such as commitments that are considered to be onerous.

v) Lease receivables

Finance leases

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

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

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

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

Operating leases

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

vi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the NZ Banking Group, and a counterparty liability is disclosed under the classifications of due to other financial institutions or payables and other liabilities, depending on the term of the agreement and the counterparty.

The difference between the sale price and the repurchase price is amortised over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the NZ Banking Group does not acquire the risks and rewards of ownership, are recorded as 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.

vii) Derecognition

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

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

Non-financial assets

viii) Goodwill

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

1. ACCOUNTING POLICIES (continued)

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

ix) Other intangible assets

Other intangible assets include costs incurred in acquiring and building software and computer systems (referred to as software) and an intangible asset relating to the ING New Zealand Joint Venture acquisition.

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

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

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

x) Premises and equipment

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

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

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 included in the income statement in the year in which the significant risks and rewards of ownership are transferred to the buyer.

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

Buildings	1%
Building integrals	10%
Furniture & equipment	10%
Computer & office equipment	12.5% - 33%
Motor vehicles	20%

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 indications of impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the asset's existing carrying value exceeds its recoverable amount the difference is charged to the income statement. If it is not possible to estimate the recoverable amount of an individual asset, the NZ Banking Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

F) LIABILITIES

Financial liabilities

i) Deposits and other borrowings

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

ii) Bonds, notes and loan capital

Bonds, notes and loan capital are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss, or when in an effective hedging relationship, 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, and also recognised in the income statement. Interest expense is recognised in the income statement using the effective interest method.

iii) Financial guarantee contracts

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

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

iv) Derecognition

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

1. ACCOUNTING POLICIES (continued)

Non-financial liabilities

vi) Employee benefits

Leave benefits

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

Superannuation schemes

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

The NZ Banking Group operates two defined benefit superannuation schemes. The liability and expense related to providing benefits to employees under each of the defined benefit schemes are calculated by independent actuaries. A defined benefit liability is recognised to the extent that the present value of the defined benefit obligation of each scheme, calculated using the Projected Unit Credit Method, is greater than the fair value of each scheme's assets. Where this calculation results in a benefit to the NZ Banking Group, a defined benefit asset is recognised and capped at the recoverable amount. The present value of the defined benefit obligation is determined by discounting the estimated future outflows by reference to New Zealand 10-year government bond rates.

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

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

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

vii) Provisions

The NZ Banking Group recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation at reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. 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) 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. When 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;
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses;

ii) Offsetting of assets and liabilities

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

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

iii) Statement of cash flows

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

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, highl liquid investments with original terms to maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

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

1. ACCOUNTING POLICIES (continued)

iv) Segment reporting

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

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

v) Goods and services tax

Revenues, 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 net 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 42 Contingent Liabilities and Credit Related Commitments, where the above requirements are not met, but there is a possible obligation that is higher than remote. Specific details of the nature of the contingent liability are provided and, where practicable, an estimate of its financial effect. Alternatively, where no disclosure is made of its financial effect because it is not practicable to do so, a statement to that effect is provided.

ii) Securitisation, funds under management and other fiduciary activities

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

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

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

iii) Discontinued operations

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

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

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

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

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

Critical accounting estimates and assumptions

Credit provisioning

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

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

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

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

As at 31 March 2009 for the NZ Banking Group, total provision for credit impairment was $879 million representing 0.89% of total net loans and advances (31/03/2008 $522 million or 0.56%; 30/09/2008 $666 million or 0.68%). Of the total provision for 31 March 2009, $610 million represented collective provisions and $269 million represented individual 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 NZ Banking Group’s accounting policies

Derivatives and hedging

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

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

Hedging

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

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

- *Designation and Documentation:* The hedging relationship must be formally designated and documented at the inception of the hedge.
- *Prospective Effectiveness:* This is a forward-looking test of whether a hedging relationship is expected to be highly effective in future periods. The hedge must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship for hedge accounting to be achievable.

  The effectiveness of the hedge must be capable of being reliably measured, that is, the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured. Prospective hedge effectiveness testing is required at least quarterly.

- *Retrospective Effectiveness:* This is a backward-looking test of whether a hedging relationship has actually been highly effective throughout the reporting periods for which the hedge was designated (i.e. retrospectively). The actual results of the hedge must be within a range of 80 - 125 per cent.

  Hedge accounting is only achieved where both prospective and retrospective effectiveness is achieved.
- *External Counterparty:* For hedge accounting purposes, only instruments that involve a party external to the NZ Banking Group can be designated as hedging instruments.

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

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

Fair values of financial instruments including derivatives

A significant portion of financial instruments, including derivatives which are entered into for trading and hedging purposes, are measured at fair value. Where liquid markets exist, fair value is based on quoted market prices. Where there is no active market, fair value is determined by the use of various valuation techniques including discounted cash flow models and option pricing models. To the extent possible models use only observable data, however such areas as counterparty risk, volatilities and correlations require management to make judgements and estimates. Changes in assumptions used in these models and projections of future cash flows could affect the reported fair value of financial instruments and have an impact on the income statement. The extent of usage of valuation techniques for financial instruments carried at fair value is disclosed in note 35.

Goodwill

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

As at 31 March 2009, the balance of goodwill recorded as an asset on the NZ Banking Group's consolidated balance sheet as a result of acquisitions was $3,262 million (31/03/2008 $3,262 million; 30/09/2008 $3,262 million) of which $3,230 million relates to the acquisition of NBNZ Group in December 2003 (31/03/2008 $3,230 million; 30/09/2008 $3,230 million).

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

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

The NZ Banking Group obtained an independent valuation of the ANZ National Bank Limited Group as at 31 March 2009. The recoverable amount was based on a value in use calculation using forecasts covering a 4 year period. Forecast cashflows beyond 4 years assume a historical growth rate. The discount rate used was the pre-tax rate that reflects the time value of money and risks specific to the Bank.

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

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

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

The NZ Banking Group adopts the equity method of accounting for its 49% interest in its jointly controlled entity, ING NZ. As at 31 March 2009, the carrying value of the NZ Banking Group's investment in ING NZ was $242 million (31/03/2008 $201 million; 30/09/2008 $212 million).

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

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

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

ING New Zealand Funds

Trading in the ING Diversified Yield Fund and the ING Regular Income Fund ('the Funds') was suspended on 13 March 2008 due to deterioration in the liquidity and credit markets. These funds are managed by the joint venture partner ING (NZ) Limited. Some of these funds were sold to ANZ National customers.

On 25 February 2009, ING (NZ) Limited announced that investors in the Funds will be receiving a proposal which allows them the ability to exit the investment for a cash amount.

The estimated cost of this proposal to the Bank is approximately $166m and this amount has been recognised in 'other operating income' in the Income Statement.

The ultimate cost to the bank will depend on unit prices of the underlying funds, the discount rate applied and recoveries under insurance cover. In addition the Commerce Commission has sought information regarding the two Funds and is investigating this matter, although at this stage, it is not possible to determine the outcome of any investigation.

3. RISK MANAGEMENT POLICIES

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

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

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

The NZ Banking Group manages risk through an approval, delegation and limits structure. Regular reviews of the policies, systems and risk reports, including the effectiveness of the risk management systems, are conducted within the NZ Banking Group and also by the Ultimate Parent Bank. The Boards have responsibility for reviewing all aspects of risk management.

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

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

Financial risk management

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

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

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

Refer to Note 31 Financial Risk Management for detailed disclosures on the NZ Banking Group's financial risk management policies.

Operational risk

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

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

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

3. RISK MANAGEMENT POLICIES (continued)

Compliance

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

Where appropriate, Risk Management, in conjunction with Business Unit staff, ensures the key operating entities within the NZ Banking Group operate within a compliance infrastructure and framework that incorporates new and changing business obligations and processes.

The compliance policies and their supporting framework seek to minimise material risks to the NZ Banking Group's reputation and value that could arise from non-compliance with laws, regulations, industry codes and internal standards and policies. The Board of each entity has primary responsibility for the identification and management of compliance and may be assisted by Risk Management providing policy and framework, measurement, monitoring and reporting, as well as leadership in areas such as anti-money laundering procedures and matters of prudential compliance. The Board and the Risk Committee of the Ultimate Parent Bank Board conduct Board and executive oversight.

Internal audit

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

Internal Audit reports directly to the Chairman of the ANZ National Bank Limited Audit Committee and through to the Group General Manager Internal Audit . Under its Charter, Internal Audit conducts independent appraisals of:

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

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

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

4. INCOME

	NZ Banking Group			NZ Branch		
	Unaudited 6 months 31/03/2009 $m	Unaudited 6 months 31/03/2008 $m	Audited Year to 30/09/2008 $m	**Unaudited 6 months 31/03/2009 $m**	Unaudited 6 months 31/03/2008 $m	Audited Year to 30/09/2008 $m
Interest income						
Financial assets at fair value through profit or loss						
Trading securities	**95**	104	220	**-**	-	-
	95	104	220	**-**	-	-
Financial assets not at fair value through profit or loss						
Liquid assets	**86**	165	313	**-**	-	-
Other financial institutions	**178**	155	321	**-**	-	-
Available-for-sale assets	**2**	1	3	**-**	-	-
Lending on productive loans	**3,875**	4,358	8,979	**28**	-	-
Lending on impaired assets (Note 13)	**2**	3	6	**-**	-	-
Related Parties	**-**	-	-	**-**		
Other	**(5)**	24	16	**-**	-	-
	4,138	4,706	9,638	**28**	-	-
Total interest income	**4,233**	4,810	9,858	**28**	-	-
Other operating income						
Net fee income[1]	**329**	323	646	**-**	-	-
Dividends received	**-**	-	4	**-**	-	-
Net gain on foreign exchange trading	**111**	69	166	**-**	-	-
Net gain on trading securities	**71**	4	45	**-**	-	-
Net (loss) gain on trading derivatives	**(63)**	72	60	**-**	-	-
Net gain on available-for-sale assets	**-**	-	-	**-**	-	-
Net gain (loss) on hedges not qualifying for hedge accounting	**131**	(5)	70	**(13)**	-	-
Net ineffectiveness on qualifying cash flow hedges	**-**	-	-	**-**	-	-
Net ineffectiveness on qualifying fair value hedges	**(14)**	(1)	(67)	**5**	-	-
Net cash flow hedge gains transferred to income statement	**19**	16	37	**-**	-	-
Net gain (loss) on financial liabilities designated at fair value through profit or loss	**(26)**	(7)	15	**-**	-	-
ING New Zealand Funds[2]	**(166)**	-	-	**-**	-	-
Other income	**39**	19	39	**-**	-	-
Total other operating income	**431**	490	1,015	**(8)**	-	-
[1]Net fee income comprises:						
Lending and credit facility fee income	**76**	64	134	**-**	-	-
Fee income on trust and other fiduciary activities	**24**	23	47	**-**	-	-
Other fee income	**316**	321	632	**-**	-	-
Total fee income	**416**	408	813	**-**	-	-
Direct fee expense	**87**	85	167	**-**	-	-
Net fee income	**329**	323	646	**-**	-	-

[2]ING New Zealand Funds

Trading in the ING Diversified Yield Fund and the ING Regular Income Fund ('the Funds') was suspended on 13 March 2008 due to deterioration in the liquidity and credit markets. These funds are managed by the joint venture partner ING (NZ) Limited. Some of these funds were sold to ANZ National customers.

On 25 February 2009, ING (NZ) Limited announced that investors in the Funds will be receiving a proposal which allows them the ability to exit the investment for a cash amount. We understand further details on the proposal will be released shortly.

The estimated cost of this proposal to the Bank is approximately $166m and this amount has been recognised in 'other operating income' in the Income Statement.

The ultimate cost to the Bank will depend on the value of units in the underlying funds, the discount rate applied and recoveries under insurance cover. In addition the Commerce Commission has sought information regarding the two Funds and is investigating this matter, although at this stage, it is not possible to determine the outcome of any investigation.

5. EXPENSES

	NZ Banking Group			NZ Branch		
	Unaudited 6 months 31/03/2009 $m	Unaudited 6 months 31/03/2008 $m	Audited Year to 30/09/2008 $m	**Unaudited 6 months 31/03/2009 $m**	Unaudited 6 months 31/03/2008 $m	Audited Year to 30/09/2008 $m
Interest expense						
Financial assets at fair value through profit or loss						
Commercial paper	**306**	493	997	**-**	-	-
	306	493	997	**-**	-	-
Deposits at amortised cost						
Other financial institutions	**198**	198	195	**23**	-	-
Deposits and other borrowings	**1,804**	2,136	4,397	**-**	-	-
Subsidiary companies	**-**	-	-	**-**	-	-
Bonds and notes	**546**	707	1,781	**-**	-	-
Term funding	**55**	79	159	**-**	-	-
Loan capital	**112**	86	207	**-**	-	-
Other	**26**	93	93	**-**	-	-
	2,741	3,299	6,832	**23**		
Total interest expense	**3,047**	3,792	7,829	**23**	-	-
Operating expenses						
Personnel costs	**374**	336	724	**-**	-	-
Employee entitlements	**36**	37	75	**-**	-	-
Pension costs						
- Defined contribution schemes	**18**	18	37	**-**	-	-
- Defined benefit schemes	**3**	3	7	**-**	-	-
Share-based payments expense	**9**	7	13	**-**	-	-
Building occupancy costs	**22**	20	38	**-**	-	-
Depreciation of premises and equipment	**18**	17	38	**-**	-	-
Leasing and rental costs	**40**	39	80	**-**	-	-
Related parties (Note 45)	**41**	39	82	**-**	-	-
Computer expenses	**57**	53	117	**-**	-	-
Administrative expenses	**85**	87	180	**-**	-	-
Other costs	**36**	17	54	**1**	-	-
Total operating expenses	**739**	673	1,445	**1**	-	-

	NZ Banking Group			NZ Branch		
	Unaudited 6 months 31/03/2009 $'000	Unaudited 6 months 31/03/2008 $'000	Audited Year to 30/09/2008 $'000	**Unaudited 6 months 31/03/2009 $'000**	Unaudited 6 months 31/03/2008 $'000	Audited Year to 30/09/2008 $'000
Auditors' remuneration to KPMG comprises:						
Audit or review of financial statements	**1,209**	-	1,942	**15**	-	-
Other audit-related services	**155**	931	500	**-**	-	-
Total auditors' remuneration	**1,364**	931	2,442	**15**	-	-

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

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

6. INCOME TAX EXPENSE

	NZ Banking Group			NZ Branch		
	Unaudited 6 months 31/03/2009 $m	Unaudited 6 months 31/03/2008 $m	Audited Year to 30/09/2008 $m	**Unaudited 6 months 31/03/2009 $m**	Unaudited 6 months 31/03/2008 $m	Audited Year to 30/09/2008 $m
Reconciliation of the prima facie income tax payable on profit with the income tax expense charged in the income statement						
Continuing operations						
Profit before income tax	**598**	838	1,408	**(7)**	-	-
Prima facie income tax at 30%	**179**	277	465	**(2)**	-	-
Rebateable and non-assessable dividends	**(4)**	(4)	(10)	**-**	-	-
Non-assessable income/non-deductible expenses	**1**	(36)	(36)	**-**	-	-
	176	237	419	**(2)**	-	-
Tax effect of change in domestic tax rate[1]	**-**	(8)	(1)	**-**	-	-
Income tax under provided in prior periods	**-**	-	-	**-**	-	-
Total income tax expense from continuing operations	**176**	229	418	**(2)**	-	-
Effective tax rate (%)	**29.4%**	27.3%	29.7%	**28.6%**	0.0%	0.0%
The major components of the income tax expense comprise:						
Amounts recognised in the income statement						
Current income tax charge						
Current income tax charge	**259**	267	525	**(1)**	-	-
Adjustments recognised in the current year in relation to current tax of prior periods	**-**	-	-	**-**	-	-
Deferred income tax						
Deferred tax (income) expense relating to the origination and reversal of temporary differences	**(83)**	(38)	(107)	**(1)**	-	-
Total income tax expense recognised in income statement - continuing operations	**176**	229	418	**(2)**	-	-
The following amounts were (credited) charged directly to equity:						
Current income tax						
Actuarial (loss) gain on defined benefit schemes	**(12)**	(4)	(12)	**-**	-	-
Deferred income tax						
Net (loss) gain on revaluation of cash flow hedges	**8**	(11)	(4)	**-**	-	-
Total income tax (credit) expense recognised directly in equity	**(4)**	(15)	(16)	**-**	-	-
Imputation Credit Account						
Balance at beginning of the year	**696**	831	831	**-**	-	-
Imputation credits attached to dividends received	**41**	22	33	**-**	-	-
Taxation paid	**67**	101	211	**-**	-	-
Imputation credits attached to dividends paid	**(252)**	(369)	(370)	**-**	-	-
Other	**-**	(2)	(9)	**-**	-	-
Balance at end of the year	**552**	583	696	**-**	-	-

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. LIQUID ASSETS

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Cash and balances with central banks	**2,606**	2,386	3,950	**-**	-	-
Securities purchased under agreement to resell	**9**	-	-	**-**	-	-
Money at call	**672**	1,391	807	**-**	-	-
Bills receivable and remittances in transit	**103**	86	82	**-**	-	-
Total liquid assets	**3,390**	3,863	4,839	**-**	-	-
Included within liquid assets is the following balance:						
Overnight balances with central banks	**2,418**	2,171	3,779	**-**	-	-
The NZ Banking Group's total core liquidity portfolio held for managing liquidity risk (Note 31)	**9,375**	6,591	8,736	**-**	-	-

8. DUE FROM OTHER FINANCIAL INSTITUTIONS

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Able to be withdrawn without prior notice	**167**	418	437	**-**	-	-
Securities purchased under agreement to resell	**558**	308	304	**-**	-	-
Securities purchased under agreement to resell with central banks	**38**	69	-	**-**	-	-
Security settlements[1]	**1,760**	-	1,328	**-**	-	-
Certificates of deposit	**4,269**	2,609	2,447	**-**	-	-
Term loans and advances	**839**	486	516	**-**	-	-
Total due from other financial institutions	**7,631**	3,890	5,032	**-**	-	-

There are no assets used to secure deposit obligations or assets encumbered through repurchase agreements at 31 March 2009 (31/03/2008 nil; 30/09/2008 nil).

[1]There are no related party balances with subsidiaries of the Ultimate Parent Bank at 31 March 2009 (31/03/2008 $nil; 30/09/2008 $1,328 million). There is a related party balance with a subsidiary of the Bank at 31 March 2009 of $1,760 million (31/03/2008 $nil; 30/09/2008 $1,328 million).

9. TRADING SECURITIES

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Government, Local Body stock and bonds	**677**	134	252	**-**	-	-
Certificates of deposit	**317**	728	926	**-**	-	-
Promissory notes	**88**	177	39	**-**	-	-
Other bank bonds	**1,366**	1,039	1,331	**-**	-	-
Other	**117**	71	76	**-**	-	-
Total trading securities	**2,565**	2,149	2,624	**-**	-	-
Included within trading securities is the following balance:						
Assets encumbered through repurchase agreements	**104**	198	**97**	**-**	-	**-**

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Types of derivative instruments

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

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

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

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

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

Trading positions

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

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

Balance sheet risk management

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

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

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

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

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	NZ Banking Group			NZ Branch		
	Notional Principal Amount	Fair values Assets	Fair values Liabilities	Notional Principal Amount	Fair values Assets	Fair values Liabilities
Unaudited 31/03/2009	$m	$m	$m	$m	$m	$m
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	29,860	1,217	1,199	186	-	6
Swap agreements	72,880	3,545	3,713	4,572	-	242
Options purchased	1,255	72	-	-	-	-
Options sold	1,234	-	65	-	-	-
Collateral received / paid	n/a	(328)	(2,824)	-	-	-
	105,229	4,506	2,153	4,758	-	248
Interest rate derivatives						
Forward rate agreements	38,598	47	20	523	-	-
Swap agreements	355,381	9,657	9,367	1,009	1	2
Futures contracts	16,021	96	11	-	-	-
Options purchased	1,941	31	-	-	-	-
Options sold	1,941	-	31	-	-	-
	413,882	9,831	9,429	1,532	1	2
Commodity derivatives						
Fuel derivatives	32	7	6	-	-	-
Electricity derivatives	25	2	2	-	-	-
Total derivatives held for trading	519,168	14,346	11,590	6,290	1	250
Derivatives held for hedging						
(a) Designated as cash flow hedges						
Interest rate derivatives						
Swap agreements	9,661	189	113	-	-	-
Total derivatives designated as cash flow hedges	9,661	189	113	-	-	-
(b) Designated as fair value hedges						
Foreign exchange derivatives						
Swap agreements	68	3	-	-	-	-
Interest rate derivatives						
Swap agreements	27,263	534	1,377	3,498	29	-
Total derivatives designated as fair value hedges	27,331	537	1,377	3,498	29	-
Total derivatives held for hedging	36,992	726	1,490	3,498	29	-
Total derivative financial instruments	556,160	15,072	13,080	9,788	30	250

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	NZ Banking Group			NZ Branch		
	Notional Principal Amount	Fair values Assets	Fair values Liabilities	Notional Principal Amount	Fair values Assets	Fair values Liabilities
Unaudited 31/03/2008	$m	$m	$m	$m	$m	$m
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	42,232	645	567	-	-	-
Swap agreements	56,802	1,367	1,648	-	-	-
Options purchased	1,806	70	-	-	-	-
Options sold	1,761	-	66	-	-	-
Collateral received / paid	n/a	(95)	(528)	-	-	-
	102,601	1,987	1,753	-	-	-
Interest rate derivatives						
Forward rate agreements	96,661	1	3	-	-	-
Swap agreements	342,044	2,421	2,419	-	-	-
Futures contracts	17,463	5	36	-	-	-
Options purchased	1,687	11	-	-	-	-
Options sold	1,645	-	11	-	-	-
	459,500	2,438	2,469	-	-	-
Commodity derivatives						
Fuel derivatives	-	-	-	-	-	-
Electricity derivatives	9	1	1	-	-	-
Total derivatives held for trading	562,110	4,426	4,223	-	-	-
Derivatives held for hedging						
(a) Designated as cash flow hedges						
Foreign exchange derivatives						
Spot and forward contracts	38	1	-			-
Interest rate derivatives						
Swap agreements	13,940	114	41	-	-	-
Total derivatives designated as cash flow hedges	13,978	115	41	-	-	-
(b) Designated as fair value hedges						
Foreign exchange derivatives						
Swap agreements	49	3	-	-	-	-
Interest rate derivatives						
Swap agreements	34,664	357	208	-	-	-
Total derivatives designated as fair value hedges	34,713	360	208	-	-	-
Total derivatives held for hedging	48,691	475	249	-	-	-
Total derivative financial instruments	610,801	4,901	4,472	-	-	-

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	NZ Banking Group			NZ Branch		
	Notional Principal Amount	Fair values Assets	Fair values Liabilities	Notional Principal Amount	Fair values Assets	Fair values Liabilities
Audited 30/09/2008	$m	$m	$m	$m	$m	$m
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	37,914	1,079	684	-	-	-
Swap agreements	66,759	3,129	1,564	-	-	-
Options purchased	1,828	58	-	-	-	-
Options sold	1,813	-	61	-	-	-
Collateral received / paid	n/a	(586)	(270)	-	-	-
	108,314	3,680	2,039	-	-	-
Interest rate derivatives						
Forward rate agreements	121,966	22	17	-	-	-
Swap agreements	347,394	3,565	3,631	-	-	-
Futures contracts	20,328	15	6	-	-	-
Options purchased	2,158	11	-	-	-	-
Options sold	2,164	-	11	-	-	-
	494,010	3,613	3,665	-	-	-
Commodity derivatives						
Fuel derivatives	-	-	-	-	-	-
Electricity derivatives	36	4	4	-	-	-
Total derivatives held for trading	602,360	7,297	5,708	-	-	-
Derivatives held for hedging						
(a) Designated as cash flow hedges						
Foreign exchange derivatives						
Spot and forward contracts	-	-	-	-	-	-
Interest rate derivatives						
Swap agreements	12,160	161	142	-	-	-
Total derivatives designated as cash flow hedges	12,160	161	142	-	-	-
(b) Designated as fair value hedges						
Foreign exchange derivatives						
Swap agreements	58	1	-	-	-	-
Interest rate derivatives						
Swap agreements	32,941	144	622	-	-	-
Total derivatives designated as fair value hedges	32,999	145	622	-	-	-
Total derivatives held for hedging	45,159	306	764	-	-	-
Total derivative financial instruments	647,519	7,603	6,472	-	-	-

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedging relationships

The NZ Banking Group has two types of allowable hedging relationships which it enters into: fair value hedges and cash flow hedges. Each has specific requirements when accounting for the fair value changes in the hedging relationship. For details on the accounting treatment of each type of hedging relationship refer to Note 1 Accounting Policy E (ii).

Fair value hedges

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

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

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Gain or (loss) arising from fair value hedges:						
- hedged item	**390**	43	661	**(24)**	-	-
- hedging instrument	**(404)**	(44)	(728)	**29**	-	-
Net ineffectiveness on qualifying fair value hedges	**(14)**	(1)	(67)	**5**	-	-

Cash flow hedges

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

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

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Balance at beginning of the period	**24**	84	84	**-**	-	-
Transferred to income statement	**(19)**	(16)	(37)	**-**	-	-
Tax effect of items transferred to income statement	**7**	5	11	**-**	-	-
Valuation loss taken to equity	**(9)**	(17)	(47)	**-**	-	-
Tax effect of net loss taken to equity	**3**	6	13	**-**	-	-
Balance at end of the period	**6**	62	24	**-**	-	-

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

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Variable rate loan assets	**214**	(5)	70	**-**	-	-
Variable rate liabilities	**(60)**	51	(1)	**-**	-	-
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	**(148)**	16	(45)	**-**	-	-
Total cash flow hedging reserve	**6**	62	24	**-**	-	-

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur which is anticipated to take place over the next 0 - 10 years (31/03/2008 0-10 years; 30/09/2008 0-10 years).

All gains and losses associated with the ineffective portion of the hedging derivatives are recognised immediately as ‘other operating income’ in the income statement. The ineffectiveness recognised in the income statement in respect of cash flow hedges was less than $1 million in the NZ Banking Group (31/03/2008 less than $1 million; 30/09/2008 less than $1 million) and $nil in the NZ Branch (31/03/2008 $nil; 30/09/2008 $nil).

There were no transactions where cash flow hedge accounting ceased in the period ended 31 March 2009 as a result of highly probable cash flows that were no longer expected to occur (31/03/2008 no transactions; 30/09/2008 no transactions).

11. AVAILABLE-FOR-SALE ASSETS

Government, Local Body stock and bonds	**496**	3	3	**-**	-	-
Other debt securities	**30**	38	41	**-**	-	-
Equity securities	**71**	55	65	**-**	-	-
Total available-for-sale assets	**597**	96	109	**-**	-	-

12. NET LOANS AND ADVANCES

Overdrafts	**2,094**	2,238	2,140	**-**	-	-
Credit card outstandings	**1,429**	1,412	1,434	**-**	-	-
Term loans - housing[1]	**53,537**	52,700	53,350	**4,773**	-	-
Term loans - non-housing	**40,696**	36,503	40,583	**-**	-	-
Finance lease receivables	**741**	786	777	**-**	-	-
Gross loans and advances	**98,497**	93,639	98,284	**4,773**	-	-
Provision for credit impairment (Note 14)	**(879)**	(522)	(666)	**(3)**	-	-
Unearned finance income	**(295)**	(337)	(346)	**-**	-	-
Fair value hedge adjustment	**1,127**	(263)	353	**(24)**	-	-
Deferred fee revenue and expenses	**(54)**	(58)	(55)	**(1)**	-	-
Capitalised brokerage/ mortgage origination fees	**94**	120	109	**9**	-	-
Total net loans and advances	**98,490**	92,579	97,679	**4,754**	-	-

[1]On 27 February 2009, ANZ National Bank Limited sold $4,877 million of residential mortgages to the NZ Branch. The NZ Banking Group's consolidated financial statements do not change as a result of transferring these assets.

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

Individually impaired assets	**NZ Banking Group**				**NZ Branch**			
	Retail mortgages	**Other retail exposures**	**Corporate exposures**	**Total**	**Retail mortgages**	**Other retail exposures**	**Corporate exposures**	**Total**
Unaudited 31/03/2009	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Balance at beginning of the period	**83**	**30**	**214**	**327**	**-**	**-**	**-**	**-**
Transfers from productive	**200**	**127**	**186**	**513**	**-**	**-**	**-**	**-**
Transfers to productive	**(10)**	**(20)**	**(14)**	**(44)**	**-**	**-**	**-**	**-**
Assets realised or loans repaid	**(64)**	**(15)**	**(28)**	**(107)**	**-**	**-**	**-**	**-**
Write offs	**(9)**	**(66)**	**(5)**	**(80)**	**-**	**-**	**-**	**-**
Balance at end of the period	**200**	**56**	**353**	**609**	**-**	**-**	**-**	**-**
Unaudited 31/03/2008								
Balance at beginning of the period	7	20	88	115	-	-	-	-
Transfers from productive	8	45	68	121	-	-	-	-
Transfers to productive	-	-	(5)	(5)	-	-	-	-
Assets realised or loans repaid	(1)	-	(26)	(27)	-	-	-	-
Write offs	-	(44)	(1)	(45)	-	-	-	-
Balance at end of the period	14	21	124	159	-	-	-	-
Audited 30/09/2008								
Balance at beginning of the year	7	20	88	115	-	-	-	-
Transfers from productive	103	122	228	453	-	-	-	-
Transfers to productive	(2)	-	(8)	(10)	-	-	-	-
Assets realised or loans repaid	(18)	(14)	(86)	(118)	-	-	-	-
Write offs	(7)	(98)	(8)	(113)	-	-	-	-
Balance at end of the year	83	30	214	327	-	-	-	-

	NZ Banking Group			**NZ Branch**		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Past due assets (90 days past due assets) [1]						
Balance at beginning of the period	**309**	102	102	**-**	-	-
Transfers to past due assets	**744**	350	856	**-**	-	-
Transfers from past due assets	**(506)**	(226)	(649)	**-**	-	-
Balance at end of the period	**547**	226	309	**-**	-	-
Restructured Items						
Balance at beginning of the period	**-**	-	-	**-**	-	-
Transfers to Restructured Items	**20**	-	-	**-**	-	-
Transfers from Restructured Items	**-**	-	-	**-**	-	-
Balance at end of the period	**20**	-	-	**-**	-	-
Other assets under administration						
Balance at beginning of the period	**1**	-	-	**-**	-	-
Transfers to other assets under administration	**10**	-	1	**-**	-	-
Transfers from other assets under administration	**(7)**	-	-	**-**	-	-
Balance at end of the period	**4**	-	1	**-**	-	-
Undrawn facilities with impaired customers						
Balance at beginning of the period	**6**	6	6	**-**	-	-
Transfers to (from) undrawn facilities with impaired customers	**5**	12	-	**-**	-	-
Balance at end of the period	**11**	18	6	**-**	-	-
Interest foregone on impaired assets						
Gross interest receivable on impaired loans	**18**	7	24	**-**	-	-
Interest recognised	**(2)**	(3)	(6)	**-**	-	-
Net interest foregone on impaired loans	**16**	4	18	**-**	-	-

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

Other assets under administration and undrawn facilities with impaired customers are predominantly corporate exposures.

There are no undrawn facilities with 90 day past due customers category as at 31 March 2009 (31/03/2008 nil; 30/09/2008 nil).

The NZ Banking Group had $20 million of restructured assets (31/03/2008 nil; 30/09/2008 nil). The NZ Banking Group did not have any material assets acquired through enforcement of security (31/03/2008 nil; 30/09/2008 nil).

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

14. PROVISION FOR CREDIT IMPAIRMENT

	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures	Total	Retail mortgages	Other retail exposures	Corporate exposures	Total
Unaudited 31/03/2009	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Collective provision								
Balance at beginning of the period	**81**	**164**	**289**	**534**	**-**	**-**	**-**	**-**
Charge to income statement	**15**	**(16)**	**77**	**76**	**3**	**-**	**-**	**3**
Balance at end of the period	**96**	**148**	**366**	**610**	**3**	**-**	**-**	**3**
Individual provision (individually impaired assets)								
Balance at beginning of the period	**28**	**10**	**94**	**132**	**-**	**-**	**-**	**-**
Charge to income statement	**35**	**78**	**99**	**212**	**-**	**-**	**-**	**-**
Recoveries of amounts previously written off	**-**	**9**	**1**	**10**	**-**	**-**	**-**	**-**
Bad debts written off	**(9)**	**(66)**	**(5)**	**(80)**	**-**	**-**	**-**	**-**
Discount unwind[1]	**-**	**-**	**(5)**	**(5)**	**-**	**-**	**-**	**-**
Balance at end of the period	**54**	**31**	**184**	**269**	**-**	**-**	**-**	**-**
Total provision for credit impairment	**150**	**179**	**550**	**879**	**3**	**-**	**-**	**3**
Unaudited 31/03/2008								
Collective provision								
Balance at beginning of the period	58	130	234	422	-	-	-	-
Charge to income statement	4	15	27	46	-	-	-	-
Other	-	-	3	3	-	-	-	-
Balance at end of the period	62	145	264	471	-	-	-	-
Individual provision (individually impaired assets)								
Balance at beginning of the period	4	13	27	44	-	-	-	-
Charge to income statement	(2)	34	15	47	-	-	-	-
Recoveries of amounts previously written off	-	7	1	8	-	-	-	-
Bad debts written off	-	(44)	(1)	(45)	-	-	-	-
Discount unwind[1]	-	-	(3)	(3)	-	-	-	-
Balance at end of the period	2	10	39	51	-	-	-	-
Total provision for credit impairment	64	155	303	522	-	-	-	-
Audited 30/09/2008								
Collective provision								
Balance at beginning of the year	58	130	234	422	-	-	-	-
Charge to income statement	23	34	55	112	-	-	-	-
Balance at end of the year	81	164	289	534	-	-	-	-
Individual provision (individually impaired assets)								
Balance at beginning of the year	4	13	27	44	-	-	-	-
Charge to income statement	31	80	79	190	-	-	-	-
Recoveries of amounts previously written off	-	15	2	17	-	-	-	-
Bad debts written off	(7)	(98)	(8)	(113)	-	-	-	-
Discount unwind[1]	-	-	(6)	(6)	-	-	-	-
Balance at end of the year	28	10	94	132	-	-	-	-
Total provision for credit impairment	109	174	383	666	-	-	-	-

Provision movement analysis

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
New and increased provisions	**226**	62	223	**-**	-	-
Provision releases	**(4)**	(7)	(16)	**-**	-	-
	222	55	207	**-**	-	-
Recoveries of amounts previously written off	**(10)**	(8)	(17)	**-**	-	-
Individual provision charge	**212**	47	190	**-**	-	-
Collective provision charge	**76**	46	112	**3**	-	-
Charge to income statement	**288**	93	302	**3**	-	-

[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 their present value. As this discount unwinds during the period it is recognised as interest income.

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

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Shares in controlled entities						
Unquoted at cost	**-**	-	-	**-**	-	-
Shares in associates						
Unquoted at cost plus equity accounted adjustments	**148**	142	144	**-**	-	-
Shares in jointly controlled entities						
Unquoted at cost plus equity accounted adjustments	**248**	208	219	-	-	-
Total shares in controlled entities, associates and jointly controlled entities	**396**	350	363	**-**	-	-
Shares in associates comprise:						
Balance at beginning of the period	**144**	10	10	**-**	-	-
Acquisitions	**2**	46	48	**-**	-	-
Disposals	**-**	-	-	**-**	-	-
Fair value adjustment	**-**	2	(2)	**-**	-	-
Share of profit of equity accounted associates[1]	**2**	84	88	**-**	-	-
Balance at end of the period	**148**	142	144	**-**	-	-

Shares in associates at 31 March 2009 includes goodwill of $59 million (31/03/2008 $54 million; 30/09/2008 $57 million) for the NZ Banking Group and $nil million (31/03/2008 $nil; 30/09/2008 $nil) for the NZ Branch.

Shares in jointly controlled entities comprise:						
Balance at beginning of the period	**219**	196	196	**-**	**-**	-
Acquisitions	**23**	**-**	**-**	**-**	**-**	-
Share of profit of equity accounted jointly controlled entities	**6**	12	23	**-**	**-**	-
Balance at end of the period	**248**	208	219	**-**	-	-

Shares in jointly controlled entities at 31 March 2009 includes goodwill of $97 million (31/03/2008 $97 million; 30/09/2008 $97 million) for the Group and $nil million (31/03/2008 $nil; 30/09/2007 $nil) for the NZ Branch.

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

16. OTHER ASSETS

Accrued interest and prepaid discounts	**458**	526	535	**25**	-	-
Accrued commission	**25**	18	20	**-**	-	-
Defined benefit schemes surplus	**-**	-	-	**-**	-	-
Share-based payments asset	**51**	51	50	**-**	-	-
Prepaid expenses	**58**	53	57	**-**	-	-
Security settlements	**55**	9	85	**-**	-	-
Other assets	**231**	256	253	**-**	-	-
Total other assets	**878**	913	1,000	**25**	-	-

17. DEFERRED TAX ASSETS

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Deferred tax assets						
Balance at beginning of the period	**118**	7	7	**-**	-	-
Credited (charged) to income statement	**103**	5	59	**1**	-	-
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	**(28)**	40	52	**-**	-	-
Balance at end of the period	**193**	52	118	**1**	-	-
Deferred tax assets comprise the following temporary differences:						
Provision for credit impairment	**251**	158	200	**1**	-	-
Deferred fee revenue and expenses	**4**	2	3	**-**	-	-
Premises and equipment	**1**	(1)	-	**-**	-	-
Software	**6**	31	11	**-**	-	-
Provisions and accruals	**168**	98	125	**-**	-	-
Derivative financial instruments	**4**	4	3	**-**	-	-
Defined benefit schemes	**20**	2	8	**-**	-	-
Other	**2**	1	3	**-**	-	-
	456	295	353	**1**	-	-
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	**(263)**	(243)	(235)	**-**	-	-
Net deferred tax assets	**193**	52	118	**1**	-	-
The deferred tax credited to the income statement comprises the following temporary differences:						
Provision for credit impairment	**51**	18	60	**1**	-	-
Deferred fee revenue and expenses	**1**	(1)	-	**-**	-	-
Premises and equipment	**1**	(3)	(2)	**-**	-	-
Software	**(5)**	(1)	(21)	**-**	-	-
Provisions and accruals	**43**	(5)	22	**-**	-	-
Derivative financial instruments	**1**	1	-	**-**	-	-
Defined benefit schemes	**12**	2	8	**-**	-	-
Other	**(1)**	(6)	(8)	**-**	-	-
Total deferred tax credited to the income statement	**103**	5	59	**1**	-	-

There was no deferred tax asset charged or credited to equity as at 31 March 2009 (31/03/2008 $nil; 30/09/2008 $nil). There were no unrecognised deferred tax assets as at 31 March 2009 (31/03/2008 $nil; 30/09/2008 $nil).

The reduction in the corporate tax rate from 33% to 30% from the 2009 tax year has been taken into account in calculating the value of deferred tax assets as at 31 March 2008 and 30 September 2008.

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

18. PREMISES AND EQUIPMENT

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Freehold and leasehold land and buildings						
At cost	**63**	69	69	**-**	-	-
Accumulated depreciation	**(11)**	(12)	(12)	**-**	-	-
Total carrying amount	**52**	57	57	**-**	-	-
Leasehold improvements						
At cost	**100**	97	98	**-**	-	-
Accumulated depreciation	**(77)**	(75)	(75)	**-**	-	-
Total carrying amount	**23**	22	23	**-**	-	-
Furniture and equipment						
At cost	**264**	244	255	**-**	-	-
Accumulated depreciation	**(184)**	(172)	(176)	**-**	-	-
Total carrying amount	**80**	72	79	**-**	-	-
Computer and office equipment						
At cost	**252**	52	246	**-**	-	-
Accumulated depreciation	**(204)**	-	(196)	**-**	-	-
Total carrying amount	**48**	52	50	**-**	-	-
Work in progress	**47**	35	33	**-**	-	-
Total premises and equipment	**250**	238	242	**-**	-	-

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

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Freehold and leasehold land and buildings						
Balance at beginning of the period	**57**	57	57	**-**	-	-
Additions	**10**	-	1	**-**	-	-
Disposals	**(15)**	-	-	**-**	-	-
Depreciation	**-**	-	(1)	**-**	-	-
Balance at end of the period	**52**	57	57	**-**	-	-
Leasehold improvements						
Balance at beginning of the period	**23**	24	24	**-**	-	-
Additions	**2**	-	3	**-**	-	-
Disposals	**-**	-	-	**-**	-	-
Depreciation	**(2)**	(2)	(4)	**-**	-	-
Balance at end of the period	**23**	22	23	**-**	-	-
Furniture and equipment						
Balance at beginning of the period	**79**	78	78	**-**	-	-
Additions	**8**	1	16	**-**	-	-
Disposals	**-**	-	-	**-**	-	-
Depreciation	**(7)**	(7)	(15)	**-**	-	-
Balance at end of the period	**80**	72	79	**-**	-	-
Computer and office equipment						
Balance at beginning of the period	**50**	50	50	**-**	-	-
Additions	**9**	11	18	**-**	-	-
Disposals	**(2)**	-	(1)	**-**	-	-
Depreciation	**(9)**	(9)	(17)	**-**	-	-
Balance at end of the period	**48**	52	50	**-**	-	-
Work in progress						
Balance at beginning of the period	**33**	23	23	**-**	-	-
Additions	**14**	12	10	**-**	-	-
Disposals	**-**	-	-	**-**	-	-
Depreciation	**-**	-	-	**-**	-	-
Balance at end of the period	**47**	35	33	**-**	-	-
Total premises and equipment	**250**	238	242	**-**	-	-

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009	Unaudited 31/03/2008	Audited 30/09/2008	**Unaudited 31/03/2009**	Unaudited 31/03/2008	Audited 30/09/2008
Goodwill	**$m**	$m	$m	**$m**	$m	$m
Gross carrying amount						
Balance at beginning and end of the year	**3,262**	3,262	3,262	**-**	-	-
Software						
Gross carrying amount						
Balance at beginning of the year	**96**	68	68	**-**	-	-
Additions	**4**	6	28	**-**	-	-
Balance at end of the year	**100**	74	96	**-**	-	-
Accumulated amortisation						
Balance at beginning of the year	**(47)**	(39)	(39)	**-**	-	-
Amortisation expense[1]	**(6)**	(4)	(8)	**-**	-	-
Balance at end of the year	**(53)**	(43)	(47)	**-**	-	-
Total software	**47**	31	49	**-**	-	-
Other intangible assets	**12**	3	3	**-**	-	-
Total goodwill and other intangible assets	**3,321**	3,296	3,314	**-**	-	-

No impairment losses have been recognised against the gross carrying amount of goodwill, software and other intangible assets for the year ended 31 March 2009 (31/03/2008 $nil; 30/09/2008 $nil).

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

20. DUE TO OTHER FINANCIAL INSTITUTIONS

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009	Unaudited 31/03/2008	Audited 30/09/2008	**Unaudited 31/03/2009**	Unaudited 31/03/2008	Audited 30/09/2008
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	**5,280**	592	1,001	**4,751**	-	-
Securities sold under agreements to repurchase from other financial institutions	**45**	198	97	**-**	-	-
Securities sold under agreements to repurchase from central banks	**1,856**	-	-	**-**	-	-
Other financial institutions	**1,730**	1,593	2,213	**-**	-	-
Total due to other financial institutions	**8,911**	2,383	3,311	**4,751**	-	-
Included within due to other financial institutions is the following balance:						
Balances owing to the Ultimate Parent Bank by						
ANZ National (Int'l) Limited guaranteed by the ANZ National Bank	**528**	592	1,001	-	-	-
Australia and New Zealand Banking Group Limited - NZ Branch	**4,751**	-	-	**4,751**	-	-

Balances owing to the Ultimate Parent Bank are due as detailed in Note 31. Interest is paid at variable bank rates.

The Banking Group has entered into repurchase agreements for residential mortgage-backed securities with the RBNZ with a book value of $1,806 million (31/03/2008 $nil; 30/09/2008 $nil). The underlying collateral accepted by the Reserve Bank under this transaction are mortgages to the value of $2,250 million (31/03/2008 $nil; 30/09/2008 $nil).

21. DEPOSITS AND OTHER BORROWINGS

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Amortised cost						
Certificates of deposit	**7,054**	5,517	5,527	**-**	-	-
Term deposits	**30,020**	30,348	31,260	**-**	-	-
Demand deposits bearing interest	**23,583**	21,209	22,085	**-**	-	-
Deposits not bearing interest	**4,248**	4,305	3,928	**-**	-	-
Secured debenture stock	**1,702**	1,763	1,683	**-**	-	-
Securities sold under agreement to repurchase	**9**	-	-	**-**	-	-
Total deposits and other borrowings recognised at amortised cost	**66,616**	63,142	64,483	**-**	-	-
Fair value through the profit or loss						
Commercial paper	**6,144**	10,938	12,653	**-**	-	-
Total deposits and other borrowings recognised at fair value	**6,144**	10,938	12,653	**-**	-	-
Total deposits and other borrowings	**72,760**	74,080	77,136	**-**	-	-

The principal at maturity of commercial paper at fair value through the profit and loss is $6,153 million (31/03/2008 $11,014; 30/09/2008 $12,755 million).

The NZ Banking Group has not defaulted on any principal, interest or redemption amounts on its borrowed funds during the year ended 31 March 2009 (31/03/2008 nil; 30/09/2008 nil). Deposits from customers are unsecured and rank equally with other unsecured liabilities of the NZ Banking Group. In the unlikely event that a company in the NZ Banking Group was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

Included within deposits and other borrowings are the following balances:						
Commercial paper issued by ANZ National (Int'l) Limited guaranteed by ANZ National Bank Limited at amortised cost	**6,135**	**10,933**	12,670	-	-	-
UDC Finance Limited secured debentures						
Carrying value of total tangible assets	**2,006**	**2,064**	2,032	-	-	-

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.

22. PAYABLES AND OTHER LIABILITIES

Creditors	**61**	42	77	**-**	-	-
Accrued interest and unearned discounts	**734**	794	991	**7**	-	-
Defined benefit schemes deficit	**66**	5	27	**-**	-	-
Share-based payments liability	**18**	24	29	**-**	-	-
Accrued charges	**201**	162	216	**1**	-	-
Security settlements	**552**	270	235	**-**	-	-
Equitable assignment of mortgages[1]	**22**	28	25	**-**	-	-
Other liabilities	**489**	359	274	**-**	-	-
Total payables and other liabilities	**2,143**	1,684	1,874	**8**	-	-

[1]The ANZ FlexiMortgage Income Trust holds mortgages under an equitable assignment with the subsidiary, ANZ National Bank Limited (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.

23. DEFERRED TAX LIABILITIES

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Provision for deferred income tax						
Balance at beginning of the period	**-**	-	-	**-**	-	-
Charged (credited) to income statement	**20**	(33)	(48)	**-**	-	-
Charged (credited) directly to equity	**8**	(11)	(4)	**-**	-	-
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	**(28)**	44	52	**-**	-	-
Balance at end of the period	**-**	-	-	**-**	-	-
Deferred tax liabilities comprise the following temporary differences:						
Lease finance	**101**	76	90	**-**	-	-
Defined benefit schemes	**-**	-	-	**-**	-	-
Other	**162**	167	145	**-**	-	-
	263	243	235	**-**	-	-
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	**(263)**	(243)	(235)	**-**	-	-
Net deferred tax liabilities	**-**	-	-	**-**	-	-
The deferred tax (credited) charged to the income statement comprises the following temporary differences:						
Lease finance	**11**	(34)	(20)	**-**	-	-
Share compensation	**-**	-	-	**-**	-	-
Defined benefit schemes	**-**	(2)	(2)	**-**	-	-
Other	**9**	3	(26)	**-**	-	-
Total deferred tax (credited) charged to the income statement	**20**	(33)	(48)	**-**	-	-
The deferred tax (credited) charged to equity comprises the following temporary differences:						
Cash flow hedges	**8**	(11)	(4)	**-**	-	-
Total deferred tax (credited) charged directly to equity	**8**	(11)	(4)	**-**	-	-

The reduction in the corporate tax rate from 33% to 30% from the 2009 tax year has been taken into account in calculating the value of deferred tax liabilities as at 31 March 2008 and 30 September 2008.

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

24. PROVISIONS

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Non-lending losses, frauds and forgeries	**4**	3	11	**-**	-	-
Employee entitlements[1]						
Balance at beginning of the period	**117**	110	110	**-**	-	-
New provisions	**31**	32	62	**-**	-	-
Provisions utilised	**(35)**	(30)	(55)	**-**	-	-
Balance at end of the period	**113**	112	117	**-**	-	-
Personnel restructuring costs[2]						
Balance at beginning of the period	**32**	2	2	**-**	-	-
New provisions	**17**	-	30	-	-	-
Provisions utilised	**(22)**	(1)	-	**-**	-	-
Balance at end of the period	**27**	1	32	**-**	-	-
Redundant assets restructuring costs[2]						
Balance at beginning of the period	**1**	2	2	**-**	-	-
Provisions utilised	**4**	(1)	(1)	**-**	-	-
Balance at end of the period	**1**	1	1	**-**	-	-
Other provisions[3]						
Balance at beginning of the period	**29**	48	48	**-**	-	-
New provisions	**179**	8	11	**-**	-	-
Provisions utilised	**(13)**	(19)	(30)	**-**	-	-
Balance at end of the period	**195**	37	29	**-**	-	-
Total provisions	**340**	154	190	**-**	-	-

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

[2]Personnel restructuring costs and redundant assets restructuring costs
Restructuring cost provisions arise from exit activities relating to material changes in the scope or manner of business undertaken by the NZ Banking Group and includes termination benefits. Provisions are made when the NZ Banking Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated. The majority of provisions recognised at 31 March 2009 are expected to be settled over the 2009 financial year, with the exception that provisions for losses arising from rental commitments on leased premises which have become vacant as a result of restructuring will be settled over the remaining term of the leases.

[3]ING New Zealand Funds
Trading in the ING Diversified Yield Fund and the ING Regular Income Fund ('the Funds') was suspended on 13 March 2008 due to deterioration in the liquidity and credit markets. These funds are managed by the joint venture partner ING (NZ) Limited. Some of these funds were sold to ANZ National customers.

On 25 February 2009, ING (NZ) Limited announced that investors in the Funds will be receiving a proposal which allows them the ability to exit the investment for a cash amount. We understand further details on the proposal will be released shortly.

The estimated cost of this proposal to the Bank is approximately $166m and this amount has been recognised in 'other operating income' in the Income Statement.

The ultimate cost to the Bank will depend on the value of units in the underlying funds, the discount rate applied and recoveries under insurance cover. In addition the Commerce Commission has sought information regarding the two Funds and is investigating this matter, although at this stage, it is not possible to determine the outcome of any investigation.

25. BONDS AND NOTES

					NZ Banking Group		
					Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Issued by ANZ National Bank Limited							
Denomination	**Face value ($m)**		**Maturity**	**Interest rate %**			
NZD	150m	fixed rate notes	2009	6.82%	**-**	150	150
NZD	50m	floating rate notes	2009	3 month BKBM + 0.30%	**50**	-	50
NZD	70m	floating rate notes	2010	3 month BKBM + 0.35%	**70**	70	70
NZD	100m	fixed rate notes	2010	8.50%	**100**	-	100
NZD	75m	fixed rate notes	2010	8.50%	**75**	-	-
NZD	150m	fixed rate notes	2011	6.80%	**150**	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	175m	fixed rate notes	2014	8.50%	**175**	-	175
NZD	60m	fixed rate notes	2014	8.50%	**60**	-	-
Other bonds and notes[1]					**81**	174	146
Fair value hedge adjustment					**334**	35	62
					1,315	579	1,123
Issued by ANZ National (Int'l) Limited							
Denomination	**Face value ($m)**		**Maturity**	**Interest rate %**			
EUR	100m	floating rate notes	2008	3 month EURIBOR + 0.02%	**-**	199	-
GBP	300m	floating rate notes	2008	3 month GBP LIBOR + 0.01%	**-**	755	806
HKD	80m	fixed rate notes	2008	3.93%	**-**	13	-
USD	27m	fixed rate notes[2]	2008	5.00%	**-**	34	-
USD	120m	floating rate notes	2008	3 month LIBOR - 0.06%	**-**	151	179
USD	250m	fixed rate notes	2008	4.265%	**-**	315	-
USD	750m	floating rate notes	2008	3 month LIBOR + 0.07%	**-**	946	-
USD	170m	floating rate notes[3]	2008	1 month LIBOR + 0.01%	**-**	-	254
USD	1,500m	floating rate notes[3]	2008	1 month LIBOR + 0.01%	**-**	1,881	-
NZD	200m	fixed rate notes	2008	9.20%	**-**	200	200
JPY	15,000m	floating rate notes	2008	3 month JPY LIBOR	**-**	189	215
EUR	750m	floating rate notes	2009	3 month EURIBOR + 0.12%	**1,748**	1,495	1,607
HKD	1,000m	fixed rate notes	2009	4.40%	**227**	162	193
NZD	150m	floating rate notes	2009	3 month BKBM + 0.10%	**150**	150	150
HKD	300m	fixed rate notes	2009	4.93%	**68**	49	58
HKD	280m	fixed rate notes	2009	4.44%	**-**	45	54
USD	750m	floating rate notes	2009	3 month LIBOR + 0.04%	**1,320**	946	1,120
USD	250m	floating rate notes	2009	3 month Prime - 2.9125%	**-**	315	373
USD	300m	floating rate notes	2009	1 month LIBOR + 0.04%	**528**	378	448
NZD	20m	floating rate notes	2009	3 month BKBM + 0.05%	**20**	20	20
EUR	300m	floating rate notes	2009	3 month EUR LIBOR + 0.15%	**-**	598	643
JPY	17,770m	fixed rate notes	2009	0.055%	**-**	224	254
JPY	17,500m	floating rate notes	2009	3 month JPY LIBOR	**-**	221	250
USD	1m	floating rate notes[3]	2009	1 month LIBOR + 0.01%	**2**	1	1
USD	2,000m	floating rate notes[4]	2009	3 month LIBOR + 0.22%	**3,521**	2,523	2,985
JPY	8,640m	fixed rate notes	2009	0.114%	**155**	-	124
JPY	1,000m	fixed rate notes	2009	0.01%	**-**	-	14
JPY	6,000m	floating rate notes	2009	3 month JPY LIBOR	**108**	-	86
USD	8m	floating rate notes[3]	2010	1 month LIBOR + 0.01%	**14**	10	12
HKD	150m	floating rate notes[5]	2010	6 month HIBOR + 0.60%	**-**	24	-
HKD	190m	floating rate notes[6]	2010	6 month HIBOR + 0.60%	**-**	31	-
USD	750m	floating rate notes	2010	3 month LIBOR + 0.11%	**1,320**	946	1,120
NZD	100m	floating rate notes	2010	3 month BKBM + 0.05%	**100**	100	100
CHF	275m	floating rate notes	2010	3 month CHF LIBOR + 0.75%	**422**	-	375
SGD	200m	fixed rate notes	2010	3.22%	**232**	-	209
USD	100m	floating rate notes	2010	3 month LIBOR + 0.55%	**176**	-	149
AUD	50m	floating rate notes	2010	3 month BBSW + 0.61%	**60**	-	60
USD	890m	floating rate notes[8]	2010	3 month LIBOR + 1.03%	**1,567**	-	1,328
USD	300m	fixed rate notes	2011	5.50%	**528**	378	448
GBP	435m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	**1,094**	1,095	1,169
GBP	450m	floating rate notes[8]	2012	6 month GBP LIBOR + 0.08%	**1,132**	1,133	1,210
USD	1,000m	fixed rate notes[9]	2012.00	3.25%	**1,760**	-	-
USD	2,000m	fixed rate notes	2013.00	6.20%	**3,521**	-	2,985
USD	250m	floating rate notes	2015.00	3 month LIBOR + 0.90%	**440**	-	373
					20,213	15,527	19,572

25. BONDS AND NOTES (continued)

					NZ Banking Group		
					Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Issued by NBNZ Holdings Limited							
Denomination	**Face value**		**Maturity**	**Interest rate %**			
NZD	480m	floating rate notes[7]	2008	3 month BKBM	**-**	480	-
Issued by ANZ Holdings (New Zealand) Limited							
Denomination	**Face value**		**Maturity**	**Interest rate %**			
AUD	1,000m	floating rate notes[10]	2053	BBSW + 1.00% p.a.	**-**	1,155	-
Issued by Samson Funding Limited							
Denomination	**Face value**		**Maturity**	**Interest rate %**			
USD	350m	fixed rate notes[11]	2053	4.484%	**666**	461	527
USD	750m	fixed rate notes[11]	2053	5.36%	**1,426**	990	1,160
					2,092	1,451	1,687
Total bonds and notes					**23,620**	19,192	22,382
Included within bonds and notes is the following related party balance:							
Subsidiaries of the Australia and New Zealand Banking Group Limited					**2,699**	1,133	2,538

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

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

[1] Other bonds and notes includes index linked notes and other fixed rate and fixed term bonds.

[2] The interest rate payable on these notes is stepped as follows: Year 1 3.00%, Year 2 3.25%, Year 3 3.50%, Year 4 4.25% and Year 5 5.00%. The issuer may elect to redeem the notes annually from May 2004. These notes matured in May 2008.

[3] The interest rate payable on these notes is stepped as follows: Year 1 1 month LIBOR - 0.02%, Year 2 1 month LIBOR, Year 3 1 month LIBOR + 0.01%, Year 4 1 month LIBOR + 0.02% and Year 5 1 month LIBOR + 0.03%. The investor may elect to extend the maturity of the notes for a year on a monthly basis. These notes were orginally for USD1.5billion, but between 7 August 2007 and 6 March 2009, investors elected not to extend some of these bonds. As a result these bonds carrying a fixed maturity as follows: 7 August 2008 USD 89 million; 5 September 2008 USD 1,232 million; 7 October 2008 USD 164 million; 5 December 2008 USD 6 million; 7 May 2009 USD 1 million; and 5 March 2010 USD 8 million.

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

[5] The interest rate payable on these notes is stepped as follows: Year 1 3.77%, Years 2 - 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 3.75% after Year 1 and stepping up 0.25% every 6 months. The issuer has the right to redeem the notes on every semi-annual coupon date from 28 April 2006. The issuer exercised their option to call the note on 28 April 2008.

[6] The interest rate payable on these notes is stepped as follows: Year 1 3.77%, Years 2 - 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 3.75% after Year 1 and stepping up 0.25% every 6 months. The issuer has the right to redeem the notes on every semi-annual coupon date from 28 April 2006. The issuer exercised their option to call the note on 28 April 2008.

[7] These notes can be redeemed by the noteholder giving not less than 30 days notice. The bonds matured in August 2008.

[8] These notes were issued to subsidiaries of ANZ Group.

[9] These notes are guaranteed by the Bank and benefit from a supporting guarantee from the NZ Crown.

[10] These notes were issued on 23 September 2003 by ANZ Holdings (New Zealand) Limited. The notes were 'stapled' to preference shares issued by Australia and New Zealand Banking Group Limited (the Ultimate Parent Bank) and could not be traded separately from them. All interest was payable quarterly based on BBSW + 1.00% p.a., with interest payments due 15 March, 15 June, 15 September and 15 December. On 15 September 2008, the preference shares were converted to ordinary shares and ANZ Holdings (New Zealand) Limited opted to collapse these notes.

[11] These notes were issued in two tranches of USD 350,000,000 and USD 750,000,000 by Samson Funding Limited on 26 November 2003 and mature in 2053. The notes are 'stapled' to preference shares issued by the Ultimate Parent Bank and may not be traded separately from them. They can be repaid on 15 January 2010 (USD 350,000,000,000) and 15 December 2013 (USD 750,000,000,000). Interest is payable half yearly in arrears at a fixed rate of 4.484% p.a. (USD 350,000,000,000) and 5.36% p.a. (USD 750,000,000), with interest payments due 15 June and 15 December.

26. TERM FUNDING

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
ANZ Funds Pty Limited	**1,766**	1,766	1,766	**-**		-

ANZ Funds Pty Limited (Related Company)

This New Zealand dollar loan was made on 1 December 2003 and is repayable upon demand being made by the ANZ Funds Pty Limited, where 12 months prior written notice is given, unless a shorter notice period is agreed upon. Interest is payable quarterly in arrears based on BKBM + 0.20% p.a., with interest payments due 1 March, 1 June, 1 September and 1 December. As part of the annual review of terms and conditions of the loan the margin was increased to + 0.32% p.a., effective from 1 December 2007.

27. LOAN CAPITAL

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
AUD 207,450,000 term subordinated floating rate loan	**249**	239	248	**-**	-	-
AUD 265,740,000 perpetual subordinated floating rate loan	**321**	307	317	**-**	-	-
AUD 186,100,000 term subordinated floating rate loan	**225**	215	222	**-**	-	-
AUD 43,767,507 term subordinated floating rate loan	**53**	51	52	**-**	-	-
AUD 169,520,000 term subordinated floating rate loan	**205**	196	202	**-**	-	-
Term subordinated fixed rate bonds	**950**	1,050	950	**-**	-	-
Perpetual subordinated bond	**835**	-	835	**-**	-	-
Total loan capital issued	**2,838**	2,058	2,826	**-**	-	-
Less loan capital instruments held by the NZ Banking Group	**(3)**	(5)	(6)			
Total loan capital	**2,835**	2,053	2,820	**-**	-	-
Included within loan capital is the following related party balance:						
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	**1,053**	1,008	1,041	**-**	-	-

AUD 207,450,000 loan
This loan was drawn down on 31 August 2004 and has an ultimate maturity date of 31 August 2014. ANZ National Bank Limited (the 'Bank') may elect to repay the loan on 31 August each year commencing from 2009 through to 2013. All interest is payable half yearly in arrears, with interest payments due 28 February and 31 August. Interest is based on BBSW + 0.40% p.a. up until, and including, 31 August 2009 and increases to BBSW + 0.90% p.a. thereafter.

AUD 265,740,000 loan
This loan was drawn down on 27 September 1996 and has no fixed maturity. Interest is payable half yearly in arrears based on BBSW + 0.95% p.a., with interest payments due 15 March and 15 September.

AUD 186,100,000 loan
This loan was drawn down on 19 April 2005 with an ultimate maturity date of 20 April 2015. The Bank may elect to repay the loan on 19 April each year commencing from 2010 through to 2015. All interest is payable half yearly in arrears, with interest payments due 19 April and 19 October. Interest is based on BBSW + 0.32% p.a. to 19 April 2010 and increases to BBSW + 0.82% p.a. thereafter.

AUD 43,767,507 loan
This loan was drawn down on 15 September 2006 with an ultimate maturity date of 15 September 2016. The Bank may elect to repay the loan on 15 September each year commencing from 2011 through to 2016. All interest is payable half yearly in arrears, with interest payments due 15 March and 15 September. Interest is based on BBSW + 0.29% p.a. to 15 September 2011 and increases to BBSW + 0.79% p.a. thereafter.

AUD 169,520,000 loan
This loan was drawn down on 17 September 2007 with an ultimate maturity date of 17 September 2017. The 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 fixed rate bonds
The terms and conditions of these fixed rate and fixed term bonds are as follows:

Term subordinated fixed rate bonds

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

As at 31 March 2009, these bonds carried an AA- rating by Standard & Poor's.

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

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

Perpetual Subordinated Bond

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

As at 31 March 2009, these bonds carried an A+ rating by Standard and Poor's.

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

27. LOAN CAPITAL (continued)

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

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

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

28. ORDINARY SHARE CAPITAL

	NZ Banking Group			NZ Branch		
	Unaudited	Unaudited	Audited	**Unaudited**	Unaudited	Audited
	31/03/2009	31/03/2008	30/09/2008	**31/03/2009**	31/03/2008	30/09/2008
Issued share capital	**Number of Issued Shares**	Number of Issued Shares	Number of Issued Shares	**Number of Issued Shares**		Number of Issued Shares
Ordinary shares at beginning and end of the period	**382,238,236**	382,238,236	382,238,236	**-**	-	-
Redeemable preference shares at beginning of the period	**3,210,066,601**	2,700,066,601	2,700,066,601	**-**	-	-
Issue of redeemable preference shares during period	**795,228,628**	510,000,000	510,000,000	**-**	-	-
Redemption of redeemable preference shares during period	**-**	-	-	**-**	-	-
Redeemable preference shares at end of the period	**4,005,295,229**	3,210,066,601	3,210,066,601	**-**	-	-
Issued share capital at end of the period	**4,387,533,465**	3,592,304,837	3,592,304,837	**-**	-	-

	NZ Banking Group			NZ Branch		
	Unaudited	Unaudited	Audited	**Unaudited**	Unaudited	Audited
	31/03/2009	31/03/2008	30/09/2008	**31/03/2009**	31/03/2008	30/09/2008
Paid in share capital & Head Office Account	**$m**	$m	$m	**$m**	$m	$m
Ordinary shares fully paid at beginning and end of the period	**1,453**	1,453	1,453	**-**	-	-
Redeemable preference shares at beginning of the period	**3,960**	3,450	3,450	**-**	-	-
Issue of redeemable preference shares during period	**1,000**	510	510	**-**	-	-
Redemption of redeemable preference shares during period	**-**	-	-	**-**	-	-
Redeemable preference shares at end of the period	**4,960**	3,960	3,960	**-**	-	-
Paid in share capital at end of period	**6,413**	5,413	5,413	**-**	-	-
Head Office Account	**11**	-	-	**11**	-	-
Total capital & Head Office Account at end of period	**6,424**	5,413	5,413	**11**	-	-

Voting rights

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

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

29. RESERVES AND RETAINED EARNINGS

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Available-for-sale revaluation reserve						
Balance at beginning of the period	**23**	(1)	(1)	**-**	-	-
Valuation gain recognised after tax	**3**	16	24	**-**	-	-
Cumulative gain transferred to the income statement on sale of financial assets	**-**	-	-	**-**	-	-
Balance at end of the period	**26**	15	23	**-**	-	-
Cash flow hedging reserve						
Balance at beginning of the period	**24**	84	84	**-**	-	-
Valuation loss recognised after tax	**(6)**	(11)	(34)	**-**	-	-
Transferred to income statement	**(12)**	(11)	(26)	**-**	-	-
Balance at end of the period	**6**	62	24	**-**	-	-
Total reserves	**32**	77	47	**-**	-	-
Retained earnings						
Balance at beginning of the period	**1,667**	1,869	1,869	**-**	-	-
Profit (loss) after income tax	**422**	609	990	**(5)**	-	-
Total available for appropriation	**2,089**	2,478	2,859	**(5)**	-	-
Actuarial loss on defined benefit schemes after tax	**(28)**	(8)	(23)	**-**	-	-
Interim ordinary dividends paid	**(1,000)**	(1,169)	(1,169)	**-**	-	-
Foreign exchange loss on redemption of redeemable preference shares	**-**	-	-	**-**	-	-
Supplementary dividend	**-**	-	-	**-**	-	-
Foreign investor tax credits	**-**	-	-	**-**	-	-
Balance at end of the period	**1,061**	1,301	1,667	**(5)**	-	-

The paid dividend on ordinary shares was $2.64 per share (31/03/2008 $nil per share; 30/09/2008 $nil per share).

30. CAPITAL ADEQUACY

OVERSEAS BANKING GROUP CAPITAL ADEQUACY RATIO

Overseas Banking Group	Unaudited 31/03/2009 Basel II	Unaudited 31/03/2008 Basel II	Unaudited 30/09/2008 Basel II
Tier One Capital	**8.2%**	**6.9%**	**7.7%**
Total Capital	**11.0%**	**10.1%**	**11.1%**

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

The Overseas Banking Group is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB methodology. The Overseas Banking Group exceeded the minimum capital adequacy requirements as specified by APRA as at 30 March 2009.

Further details of the Overseas Banking Group's capital adequacy requirements and credit risk management processes can be found in its 2008 Annual Report. This report can be accessed at the following website address: www.anz.com.

RISK WEIGHTED CREDIT RISK EXPOSURES

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

Total Risk Weighted Exposures of the NZ Banking Group as at 31 March 2009 unaudited:

On-balance sheet exposures	Principal amount $m	Risk weight	Risk weighted exposure $m
Cash and short term claims on Government	**3,853**	**0%**	**-**
Long term claims on Government	**236**	**10%**	**24**
Claims on banks	**9,040**	**20%**	**1,808**
Claims on public sector entities	**733**	**20%**	**147**
Residential Mortgages	**54,680**	**50%**	**27,340**
Other	**45,975**	**100%**	**45,975**
Non risk weighted assets	**18,455**	**n/a**	**-**
	132,972		**75,294**

Off-balance sheet exposures	Principal amount $m	Credit conversion factor	Credit equivalent amount $m	Average counterparty risk weight	Risk weighted exposure $m
Direct credit substitutes	**2,287**	**100%**	**2,287**	**34%**	**780**
Commitments with certain drawdown	**732**	**100%**	**732**	**75%**	**546**
Transaction related contingent items	**1,083**	**50%**	**542**	**70%**	**378**
Short term, self liquidating trade related contingencies	**65**	**20%**	**13**	**62%**	**8**
Other commitments to provide financial services which have an original maturity of 1 year or more	**4,770**	**50%**	**2,385**	**100%**	**2,385**
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	**17,839**	**0%**	**-**	**100%**	**-**
Market related contracts [1]					
- Foreign exchange	**105,297**		**7,528**	**22%**	**1,654**
- Interest rate	**450,806**		**11,808**	**23%**	**2,770**
- Other	**57**		**15**	**73%**	**11**
	582,936		**25,310**		**8,532**

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

30. CAPITAL ADEQUACY (continued)

Total Risk Weighted Exposures of the NZ Banking Group as at 31 March 2008 unaudited:

On-balance sheet exposures	Principal amount $m	Risk weight	Risk weighted exposure $m
Cash and short term claims on Government	2,371	0%	-
Long term claims on Government	346	10%	35
Claims on banks	5,796	20%	1,159
Claims on public sector entities	390	20%	78
Residential Mortgages	52,656	50%	26,328
Other	42,845	100%	42,845
Non risk weighted assets	8,171	n/a	-
	112,575		70,445

Off-balance sheet exposures	Principal amount $m	Credit conversion factor	Credit equivalent amount $m	Average counterparty risk weight	Risk weighted exposure $m
Direct credit substitutes	2,487	100%	2,487	44%	1,100
Commitments with certain drawdown	1,385	100%	1,385	69%	956
Transaction related contingent items	567	50%	284	80%	226
Short term, self liquidating trade related contingencies	315	20%	63	49%	31
Other commitments to provide financial services which have an original maturity of 1 year or more	4,191	50%	2,096	100%	2,096
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	20,389	0%	0	100%	-
Market related contracts [2]					
- Foreign exchange	102,688		4,571	25%	1,133
- Interest rate	508,104		4,122	22%	889
- Other	9		-	0%	-
	640,135		15,008		6,431

Total Risk Weighted Exposures of the NZ Banking Group as at 30 September 2008 audited:

On-balance sheet exposures	Principal amount $m	Risk weight	Risk weighted exposure $m
Cash and short term claims on Government	3,940	0%	-
Long term claims on Government	297	10%	30
Claims on banks	7,465	20%	1,493
Claims on public sector entities	668	20%	134
Residential Mortgages	53,891	50%	26,946
Other	45,663	100%	45,663
Non risk weighted assets	11,154	n/a	-
	123,078		74,266

Off-balance sheet exposures	Principal amount $m	Credit conversion factor	Credit equivalent amount $m	Average counterparty risk weight	Risk weighted exposure $m
Direct credit substitutes	2,418	100%	2,418	37%	899
Commitments with certain drawdown	659	100%	659	73%	481
Transaction related contingent items	1,090	50%	545	91%	495
Short term, self liquidating trade related contingencies	118	20%	24	71%	17
Other commitments to provide financial services which have an original maturity of 1 year or more	4,081	50%	2,041	100%	2,041
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	19,069	0%	0	100%	-
Market related contracts [2]					
- Foreign exchange	108,372		7,051	22%	1,584
- Interest rate	539,111		5,094	23%	1,159
- Other	36		7	57%	4
	674,954		17,839		6,680

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

30. CAPITAL ADEQUACY (continued)

Total Risk Weighted Exposures of the NZ Branch as at 31 March 2009 unaudited:

On-balance sheet exposures	Principal amount $m	Risk weight	Risk weighted exposure $m
Cash and short term claims on Government	-	0%	-
Long term claims on Government	-	10%	-
Claims on banks	204	20%	41
Claims on public sector entities	-	20%	-
Residential Mortgages	4,770	50%	2,385
Other	10	100%	10
Non risk weighted assets	31	n/a	-
	5,015		2,436

Off-balance sheet exposures	Principal amount $m	Credit conversion factor	Credit equivalent amount $m	Average counterparty risk weight	Risk weighted exposure $m
Direct credit substitutes	-	100%	-	0%	-
Commitments with certain drawdown	-	100%	-	0%	-
Transaction related contingent items	-	50%	-	0%	-
Short term, self liquidating trade related contingencies	-	20%	-	0%	-
Other commitments to provide financial services which have an original maturity of 1 year or more	-	50%	-	0%	-
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	-	0%	-	0%	-
Market related contracts [3]					
- Foreign exchange	4,758		25	20%	5
- Interest rate	5,030		18	20%	4
- Other	-		-	0%	-
	9,788		43		9

Total Risk Weighted Exposures of the NZ Branch as at 31 March 2008 unaudited:

On-balance sheet exposures	Prinicipal amount $m	Risk weight	Risk weighted exposure $m
Cash and short term claims on Government	-	0%	-
Long term claims on Government	-	10%	-
Claims on banks	-	20%	-
Claims on public sector entities	-	20%	-
Residential Mortgages	-	50%	-
Other	-	100%	-
Non risk weighted assets	-	n/a	-
	-		-

Off-balance sheet exposures	Principal amount $m	Credit conversion factor	Credit equivalent amount $m	Average counterparty risk weight	Risk weighted exposure $m
Direct credit substitutes	-	100%	-	0%	-
Commitments with certain drawdown	-	100%	-	0%	-
Transaction related contingent items	-	50%	-	0%	-
Short term, self liquidating trade related contingencies	-	20%	-	0%	-
Other commitments to provide financial services which have an original maturity of 1 year or more	-	50%	-	0%	-
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	-	0%	-	0%	-
Market related contracts [3]					
- Foreign exchange	-		-	0%	-
- Interest rate	-		-	0%	-
- Other	-		-	0%	-
	-		-		-

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

30. CAPITAL ADEQUACY (continued)

Total Risk Weighted Exposures of the NZ Branch as at 30 September 2008 audited:

On-balance sheet exposures	Principal amount	Risk weight	Risk weighted exposure
	$m		$m
Cash and short term claims on Government	-	0%	-
Long term claims on Government	-	10%	-
Claims on banks	-	20%	-
Claims on public sector entities	-	20%	-
Residential Mortgages	-	50%	-
Other	-	100%	-
Non risk weighted assets	-	n/a	-

Off-balance sheet exposures	Principal amount	Credit conversion factor	Credit equivalent amount	Average counterparty risk weight	Risk weighted exposure
	$m		$m		$m
Direct credit substitutes	-	100%	-	0%	-
Commitments with certain drawdown	-	100%	-	0%	-
Transaction related contingent items	-	50%	-	0%	-
Short term, self liquidating trade related contingencies	-	20%	-	0%	-
Other commitments to provide financial services which have an original maturity of 1 year or more	-	50%	-	0%	-
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	-	0%	-	0%	-
Market related contracts [4]					
- Foreign exchange	-		-	0%	-
- Interest rate	-		-	0%	-
- Equity	-		-	0%	-
	-		-		-

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

ADDITIONAL MORTGAGE INFORMATION

The following information sets out loan-to value ratios in respect of total residential mortgage loans and is derived in accordance with the definition of loan-to-valuation ratio specified in RBNZ's document entitled 'Capital Adequacy Framework (The Standardised Approach)' (BS2A) dated November 2007.

Residential mortgages by loan-to-valuation ratio for the NZ Banking Group as at 31 March 2009

	Exposure Amount [5]
	$m
LVR range	
0% - 80%	**39,713**
80% - 90%	**7,417**
Over 90%	**6,218**
	53,348

[5] Loan value includes undrawn commitments where the drawn amount is secured by residential mortgage.

31. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

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

CREDIT RISK

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

The NZ Banking Group has a common overall lending objective of sound growth for appropriate returns. The credit risk objectives of the entities within the NZ Banking Group are set by each Board and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk. This may include asset writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations as appropriate. A credit risk management framework exists to provide a structured and disciplined process to support those objectives. The integrity of the credit risk function is maintained by independent credit chains and is supported by comprehensive risk analysis, risk tools, monitoring processes and policies.

CREDIT RISK MANAGEMENT

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

An independent Risk Management function, staffed by specialists, assists with credit risk management across each entity as required. In addition to providing independent credit assessment on lending decisions, Risk Management also performs key roles in portfolio management by development and validation of credit risk measurement systems, loan asset quality reporting, and development of credit standards and policies.

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

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

Credit Risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent upon the level of risk. For the key operating entities within the NZ Banking Group credit risk policy and management is executed through the Chief Risk Officer who has various dedicated areas within the Risk Management division. A formal outsourcing agreement provides for credit risk functions to be provided to a number of NZ Banking Group entities by staff of ANZ National Bank Limited.

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

Country risk management

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

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

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

31. FINANCIAL RISK MANAGEMENT (continued)

Portfolio stress testing

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

The Overseas Bank has a dedicated stress testing team within Risk Management that assists business and risk executives in the NZ Banking Group to model and report on a range of scenarios and stress tests.

Portfolio analysis and reporting

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

Businesses incurring credit risk undertake regular and comprehensive analysis of their credit portfolios. Issue identification and adherence to performance benchmarks are reported to risk and business executives through a series of reporting processes, which include a monthly 'asset quality' reporting function closely supported and overseen by the NZ Banking Group Risk function ensuring an efficient and independent conduit exists to quickly identify and communicate emerging credit issues to NZ Banking Group executives and each Board.

Collateral management

ANZ Group-wide credit principles specify to only lend what the counterparty has the capacity and ability to repay. The entities within the NZ Banking Group set limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (i.e. interest and capital repayments). Obtaining collateral is only used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured. Credit policies for each entity set out the types of acceptable collateral, including:

- cash;
- mortgages over property;
- charges over business assets, e.g. premises, stock and debtors;
- charges over financial instruments, e.g. debt securities and equities in support of trading facilities; and
- financial guarantees.

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

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

31. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

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

Concentrations of credit risk analysis:

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

	NZ Banking Group						
Unaudited 31/03/2009	**Liquid assets and due from other financial institutions $m**	**Trading securities and available for-sale assets $m**	**Derivative financial instruments $m**	**Net loans and advances $m**	**Other financial assets $m**	**Credit related commitments[3] $m**	**Total $m**
Industry							
Agriculture, forestry, fishing	214	-	225	18,708	146	6,885	26,178
Business services	-	-	9	1,484	12	546	2,051
Construction	-	-	5	901	7	332	1,245
Entertainment, leisure and tourism	-	30	47	976	8	359	1,420
Finance and insurance	7,711	2,380	13,505	1,618	13	595	25,822
Government and local authority[1]	2,670	680	486	1,099	9	404	5,348
Manufacturing	141	14	358	3,261	26	1,200	5,000
Personal lending	-	-	-	54,781	428	10,781	65,990
Property services	4	-	68	9,157	72	3,371	12,672
Retail trade	211	-	54	1,712	13	630	2,620
Transport and storage	23	2	77	1,448	11	533	2,094
Wholesale trade	22	-	16	1,634	13	601	2,286
Other[2]	25	56	222	1,463	11	539	2,316
	11,021	3,162	15,072	98,242	769	26,776	155,042
Individual provision for credit impairment	-	-	-	(269)	-	-	(269)
Collective provision for credit impairment	-	-	-	(610)	-	-	(610)
	-	-	-	(879)	-	-	(879)
Fair value hedge adjustment	-	-	-	1,127	-	-	1,127
Total financial assets	11,021	3,162	15,072	98,490	769	26,776	155,290
Geography							
New Zealand	10,120	1,678	4,162	97,291	769	26,776	140,796
Overseas	901	1,484	10,910	1,199	-	-	14,494
Total financial assets	11,021	3,162	15,072	98,490	769	26,776	155,290

[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.

31. FINANCIAL RISK MANAGEMENT (continued)

NZ Banking Group Unaudited 31/03/2008	Liquid assets and due from other financial institutions $m	Trading securities and available for-sale assets $m	Derivative financial instruments $m	Net loans and advances $m	Other financial assets $m	Credit related commitments[3] $m	Total $m
Industry							
Agriculture, forestry, fishing	310	-	19	15,431	134	7,080	22,974
Business services	-	-	10	931	8	427	1,376
Construction	-	-	1	977	8	448	1,434
Entertainment, leisure and tourism	-	28	8	1,047	9	480	1,572
Finance and insurance	4,057	1,896	4,459	1,531	13	702	12,658
Government and local authority[1]	2,513	142	50	1,081	9	496	4,291
Manufacturing	286	104	126	2,673	23	1,226	4,438
Personal lending	-	-	-	54,262	472	11,393	66,127
Property services	-	-	-	9,126	79	4,189	13,394
Retail trade	410	-	46	1,632	14	749	2,851
Transport and storage	44	14	37	1,410	12	647	2,164
Wholesale trade	36	-	16	1,506	13	691	2,262
Other[2]	97	61	129	1,757	15	806	2,865
	7,753	2,245	4,901	93,364	809	29,334	138,406
Individual provision for credit impairment	-	-	-	(51)	-	-	(51)
Collective provision for credit impairment	-	-	-	(471)	-	-	(471)
	-	-	-	(522)	-	-	(522)
Fair value hedge adjustment	-	-	-	(263)	-	-	(263)
Total financial assets	7,753	2,245	4,901	92,579	809	29,334	137,621
Geography							
New Zealand	6,881	1,310	1,177	90,908	809	29,334	130,419
Overseas	872	935	3,724	1,671	-	-	7,202
Total financial assets	7,753	2,245	4,901	92,579	809	29,334	137,621

NZ Banking Group Audited 30/09/2008	Liquid assets and due from other financial institutions $m	Trading securities and available for-sale assets $m	Derivative financial instruments $m	Net loans and advances $m	Other financial assets $m	Credit related commitments[3] $m	Total $m
Industry							
Agriculture, forestry, fishing	105	-	74	17,925	163	5,018	23,285
Business services	-	-	9	1,201	11	559	1,780
Construction	-	-	1	921	8	427	1,357
Entertainment, leisure and tourism	-	28	7	1,051	10	488	1,584
Finance and insurance	5,105	2,423	6,879	1,817	17	843	17,084
Government and local authority[1]	3,966	255	277	642	6	298	5,444
Manufacturing	209	8	208	3,129	29	1,452	5,035
Personal lending	-	-	-	54,831	499	10,704	66,034
Property services	-	-	20	9,271	84	4,303	13,678
Retail trade	392	-	13	1,903	17	883	3,208
Transport and storage	31	4	20	1,392	13	646	2,106
Wholesale trade	23	-	11	1,849	17	858	2,758
Other[2]	40	15	84	2,060	19	956	3,174
	9,871	2,733	7,603	97,992	893	27,435	146,527
Individual provision for credit impairment	-	-	-	(132)	-	-	(132)
Collective provision for credit impairment	-	-	-	(534)	-	-	(534)
	-	-	-	(666)	-	-	(666)
Fair value hedge adjustment	-	-	-	353	-	-	353
Total financial assets	9,871	2,733	7,603	97,679	893	27,435	146,214
Geography							
New Zealand	7,582	1,229	1,839	96,452	893	27,435	135,430
Overseas	2,289	1,504	5,764	1,227	-	-	10,784
Total financial assets	9,871	2,733	7,603	97,679	893	27,435	146,214

[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.

31. FINANCIAL RISK MANAGEMENT (continued)

NZ Branch Unaudited 31/03/2009	Liquid assets and due from other financial institutions $m	Trading securities and available for-sale assets $m	Derivative financial instruments $m	Net loans and advances $m	Due from related entities $m	Other financial assets $m	Credit related commitments[3] $m	Total $m
Industry								
Agriculture, forestry, fishing	-	-	-	-	-	-	-	-
Business services	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-
Entertainment, leisure and tourism	-	-	-	-	-	-	-	-
Finance and insurance	-	-	30	-	204	-	-	234
Government and local authority[1]	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-
Personal lending	-	-	-	4,781	-	25	-	4,806
Property services	-	-	-	-	-	-	-	-
Retail trade	-	-	-	-	-	-	-	-
Transport and storage	-	-	-	-	-	-	-	-
Wholesale trade	-	-	-	-	-	-	-	-
Other[2]	-	-	-	-	-	-	-	-
	-	-	30	4,781	204	25	-	5,040
Individual provision for credit impairment	-	-	-	-	-	-	-	-
Collective provision for credit impairment	-	-	-	(3)	-	-	-	(3)
	-	-	-	(3)	-	-	-	(3)
Fair value hedge adjustment	-	-	-	(24)	-	-	-	(24)
Total financial assets	-	-	30	4,754	204	25	-	5,013
Geography								
New Zealand	-	-	30	4,754	11	25	-	4,820
Overseas	-	-	-	-	-	-	-	-
Total financial assets	-	-	30	4,754	11	25	-	4,820

NZ Branch Unaudited 31/03/2008	Liquid assets and due from other financial institutions $m	Trading securities and available for-sale assets $m	Derivative financial instruments $m	Net loans and advances $m	Due from related entities $m	Other financial assets $m	Credit related commitments[3] $m	Total $m
Industry								
Agriculture, forestry, fishing	-	-	-	-	-	-	-	-
Business services	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-
Entertainment, leisure and tourism	-	-	-	-	-	-	-	-
Finance and insurance	-	-	-	-	-	-	-	-
Government and local authority[1]	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-
Personal lending	-	-	-	-	-	-	-	-
Property services	-	-	-	-	-	-	-	-
Retail trade	-	-	-	-	-	-	-	-
Transport and storage	-	-	-	-	-	-	-	-
Wholesale trade	-	-	-	-	-	-	-	-
Other[2]	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Individual provision for credit impairment	-	-	-	-	-	-	-	-
Collective provision for credit impairment	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Fair value hedge adjustment	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-
Geography								
New Zealand	-	-	-	-	-	-	-	-
Overseas	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-

[1]Government and local authority includes exposures to government administration and defence, education and health and community services.

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

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

31. FINANCIAL RISK MANAGEMENT (continued)

	NZ Branch							
Audited 30/09/2008	**Liquid assets and due from other financial institutions $m**	**Trading securities and available for-sale assets $m**	**Derivative financial instruments $m**	**Net loans and advances $m**	**Due from related entities $m**	**Other financial assets $m**	**Credit related commitments[3] $m**	**Total $m**
Industry								
Agriculture, forestry, fishing	-	-	-	-	-	-	-	-
Business services	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-
Entertainment, leisure and tourism	-	-	-	-	-	-	-	-
Finance and insurance	-	-	-	-	-	-	-	-
Government and local authority[1]	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-
Personal lending	-	-	-	-	-	-	-	-
Property services	-	-	-	-	-	-	-	-
Retail trade	-	-	-	-	-	-	-	-
Transport and storage	-	-	-	-	-	-	-	-
Wholesale trade	-	-	-	-	-	-	-	-
Other[2]	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Individual provision for credit impairment	-	-	-	-	-	-	-	-
Collective provision for credit impairment	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Fair value hedge adjustment	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-
Geography								
New Zealand	-	-	-	-	-	-	-	-
Overseas	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-

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

31. FINANCIAL RISK MANAGEMENT (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

	NZ Banking Group				NZ Branch			
Unaudited 31/03/2009	**Retail mortgages $m**	**Other retail exposures $m**	**Corporate exposures[1] $m**	**Total maximum exposure to credit risk $m**	**Retail mortgages $m**	**Other retail exposures $m**	**Corporate exposures[1] $m**	**Total maximum exposure to credit risk $m**
On and off-balance sheet positions								
Liquid assets	**-**	**-**	**3,390**	**3,390**	**-**	**-**	**-**	**-**
Due from other financial institutions	**-**	**-**	**7,631**	**7,631**	**-**	**-**	**-**	**-**
Trading securities	**-**	**-**	**2,565**	**2,565**	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**-**	**15,072**	**15,072**	**-**	**-**	**30**	**30**
Available-for-sale assets	**-**	**-**	**597**	**597**	**-**	**-**	**-**	**-**
Net loans and advances	**50,824**	**5,172**	**42,494**	**98,490**	**4,712**	**-**	**42**	**4,754**
Due from subsidiary companies	**-**	**-**	**-**	**-**	**-**	**-**	**204**	**204**
Other financial assets	**-**	**-**	**769**	**769**	**-**	**-**	**25**	**25**
Credit related commitments	**5,666**	**5,115**	**15,995**	**26,776**	**-**	**-**	**-**	**-**
Total exposure to credit risk	**56,490**	**10,287**	**88,513**	**155,290**	**4,712**	**-**	**301**	**5,013**
Unaudited 31/03/2008								
On and off-balance sheet positions								
Liquid assets	-	-	3,863	3,863	-	-	-	-
Due from other financial institutions	-	-	3,890	3,890	-	-	-	-
Trading securities	-	-	2,149	2,149	-	-	-	-
Derivative financial instruments	-	-	4,901	4,901	-	-	-	-
Available-for-sale assets	-	-	96	96	-	-	-	-
Net loans and advances	48,784	5,249	38,546	92,579	-	-	-	-
Other financial assets	-	-	809	809	-	-	-	-
Credit related commitments	5,840	5,553	17,941	29,334	-	-	-	-
Total exposure to credit risk	54,624	10,802	72,195	137,621	-	-	-	-
Audited 30/09/2008								
On and off-balance sheet positions								
Liquid assets	-	-	4,839	4,839	-	-	-	-
Due from other financial institutions	-	-	5,032	5,032	-	-	-	-
Trading securities	-	-	2,624	2,624	-	-	-	-
Derivative financial instruments	-	-	7,603	7,603	-	-	-	-
Available-for-sale assets	-	-	109	109	-	-	-	-
Net loans and advances	49,867	5,207	42,605	97,679	-	-	-	-
Other financial assets	-	-	893	893	-	-	-	-
Credit related commitments	5,397	5,307	16,731	27,435	-	-	-	-
Total exposure to credit risk	55,264	10,514	80,436	146,214	-	-	-	-

[1] Includes corporate, sovereign and bank

31. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

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

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

Impairment and past due financial assets

Loans are classified as either performing or impaired. Impaired assets are credit exposures where there is doubt as to whether the full contractual amount (including interest) will be received, and/or where a material credit obligation is 90 days past due but not well secured, or is a portfolio managed facility that can be held for up to 180 days past due, or where concessional terms have been provided due to the financial difficulties of the customer. Where applicable the policies relating to impaired assets conform to RBNZ's guidelines.

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

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

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

Distribution of gross loans and advances assets by credit quality

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

	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total
Unaudited 31/03/2009	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Neither past due nor impaired	**47,248**	**4,723**	**41,661**	**93,632**	**4,596**	**-**	**4**	**4,600**
Past due but not impaired (1 to 89 days)	**1,993**	**501**	**959**	**3,453**	**95**	**-**	**-**	**95**
Past due but not impaired (over 90 days)	**406**	**71**	**70**	**547**	**-**	**-**	**-**	**-**
Impaired	**200**	**56**	**353**	**609**	**-**	**-**	**-**	**-**
	49,847	**5,351**	**43,043**	**98,241**	**4,691**	**-**	**4**	**4,695**
Unaudited 31/03/2008								
Neither past due nor impaired	47,587	5,044	37,507	90,138	-	-	-	-
Past due but not impaired (1 to 89 days)	1,388	302	1,151	2,841	-	-	-	-
Past due but not impaired (over 90 days)	122	37	67	226	-	-	-	-
Impaired	14	21	124	159	-	-	-	-
	49,111	5,404	38,849	93,364	-	-	-	-
Audited 30/09/2008								
Neither past due nor impaired	47,520	4,912	41,886	94,318	-	-	-	-
Past due but not impaired (1 to 89 days)	1,776	385	877	3,038	-	-	-	-
Past due but not impaired (over 90 days)	244	54	11	309	-	-	-	-
Impaired	83	30	214	327	-	-	-	-
	49,623	5,381	42,988	97,992	-	-	-	-

[1] Includes corporate, sovereign and bank

31. FINANCIAL RISK MANAGEMENT (continued)

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

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

Internal rating

Strong risk rating

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

Satisfactory risk rating

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

Substandard but not past due or impaired

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

Movements in the rating categories between balance dates are due to both changes in the underlying internal ratings applied to customers and to new loans written or loans rolling off.

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

	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total
Unaudited 31/03/2009	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Strong risk rating	**43,983**	**1,687**	**18,797**	**64,467**	**4,179**	**-**	**-**	**4,179**
Satisfactory risk rating	**2,525**	**2,745**	**19,793**	**25,063**	**380**	**-**	**3**	**383**
Substandard but not past due or impaired	**740**	**291**	**3,071**	**4,102**	**37**	**-**	**1**	**38**
	47,248	**4,723**	**41,661**	**93,632**	**4,596**	**-**	**4**	**4,600**
Unaudited 31/03/2008								
Strong risk rating	42,973	1,603	16,135	60,711	-	-	-	-
Satisfactory risk rating	3,834	2,940	19,516	26,290	-	-	-	-
Substandard but not past due or impaired	780	501	1,856	3,137	-	-	-	-
	47,587	5,044	37,507	90,138	-	-	-	-
Audited 30/09/2008								
Strong risk rating	43,866	1,849	19,827	65,542	-	-	-	-
Satisfactory risk rating	3,041	2,800	19,987	25,828	-	-	-	-
Substandard but not past due or impaired	613	263	2,072	2,948	-	-	-	-
	47,520	4,912	41,886	94,318	-	-	-	-

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

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

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

	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures	Total	Retail mortgages	Other retail exposures	Corporate exposures	Total
Unaudited 31/03/2009	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
1 to 5 days	**527**	**145**	**605**	**1,277**	**17**	**-**	**-**	**17**
6 to 29 days	**863**	**250**	**162**	**1,275**	**51**	**-**	**-**	**51**
30 to 59 days	**459**	**71**	**129**	**659**	**24**	**-**	**-**	**24**
60 to 89 days	**144**	**35**	**63**	**242**	**3**	**-**	**-**	**3**
90 days or over	**406**	**71**	**70**	**547**	**-**	**-**	**-**	**-**
	2,399	**572**	**1,029**	**4,000**	**95**	**-**	**-**	**95**
Unaudited 31/03/2008								
1 to 5 days	509	86	673	1,268	-	-	-	-
6 to 29 days	558	141	326	1,025	-	-	-	-
30 to 59 days	224	51	113	388	-	-	-	-
60 to 89 days	97	24	39	160	-	-	-	-
90 days or over	122	37	67	226	-	-	-	-
	1,510	339	1,218	3,067	-	-	-	-
Audited 30/09/2008								
1 to 5 days	544	137	534	1,215	-	-	-	-
6 to 29 days	798	155	193	1,146	-	-	-	-
30 to 59 days	304	63	106	473	-	-	-	-
60 to 89 days	130	30	44	204	-	-	-	-
90 days or over	244	54	11	309	-	-	-	-
	2,020	439	888	3,347	-	-	-	-

[1] Includes corporate, sovereign and bank

31. FINANCIAL RISK MANAGEMENT (continued)

Credit quality of financial assets that are individually impaired

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

	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total
Unaudited 31/03/2009		$m	$m	$m		$m	$m	$m
Impaired financial assets	**200**	**56**	**353**	**609**	**-**	**-**	**-**	**-**
Undrawn facilities with impaired customers	**-**	**-**	**11**	**11**	**-**	**-**	**-**	**-**
Individual provision balance	**54**	**31**	**184**	**269**	**-**	**-**	**-**	**-**
Net impaired financial assets	**146**	**25**	**180**	**351**	**-**	**-**	**-**	**-**
Collective provision balance	**96**	**148**	**366**	**610**	**3**	**-**	**-**	**3**
Unaudited 31/03/2008								
Impaired financial assets	14	21	124	159	-	-	-	-
Undrawn facilities with impaired customers	-	-	18	18	-	-	-	-
Individual provision balance	2	10	39	51	-	-	-	-
Net impaired financial assets	12	11	103	126	-	-	-	-
Collective provision balance	62	145	264	471	-	-	-	-
Audited 30/09/2008								
Impaired financial assets	83	30	214	327	-	-	-	-
Undrawn facilities with impaired customers	-	-	6	6	-	-	-	-
Individual provision balance	28	10	94	132	-	-	-	-
Net impaired financial assets	55	20	126	201	-	-	-	-
Collective provision balance	81	164	289	534	-	-	-	-

[1] Includes corporate, sovereign and bank

Security held by the NZ Banking Group in respect of individually impaired financial assets in the analysis above has an estimated fair value of $339 million (31/03/2008 $108 million; 30/09/2008 $195 million). In addition, security held in respect of impaired off-balance sheet facilities amounts to $11 million (31/03/2008 $18 million; 30/09/2008 $6 million).

Restructured items

The key operating entities within the NZ Banking Group distinguish between facilities renegotiated on a commercial basis, on terms similar to those offered to new clients with similar risk, and those restructured on non commercial terms as a result of a client's inability to meet original contractual obligations.

In the course of restructuring facilities due to financial difficulty, these entities may consider modifying credit terms to include concessions such as a reduction in the principal amount, a deferral of repayments, and/or an reduction in interest rates or an extension of the maturity date materially beyond those typically offered to new facilities with similar risk.

Restructured facilities must demonstrate sound prospects of being able to adhere to the modified contractual terms. Where doubt exists as to the capacity to sustain the modified terms, the facilities remain impaired and an appropriate level of individual provision is held.

The NZ Banking Group held $20 million of restructured loans as at 31 March 2009 (31/3/2008 $nil, 30/09/2008 $nil)).

31. FINANCIAL RISK MANAGEMENT (continued)

Estimated value of collateral and other charges related to financial assets that are individually impaired

	NZ Banking Group						
Unaudited 31/03/2009	**Liquid assets and due from other financial institutions $m**	**Trading securities and available for-sale assets $m**	**Derivative financial instruments $m**	**Net loans and advances $m**	**Other financial assets $m**	**Credit related commitments $m**	**Total $m**
Cash and securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	**-**	**-**	**-**	**182**	**-**	**-**	**182**
Other	**-**	**-**	**-**	**157**	**-**	**11**	**168**
Total value of collateral	**-**	**-**	**-**	**339**	**-**	**11**	**350**
Credit exposure	**-**	**-**	**-**	**608**	**-**	**11**	**619**
Unsecured portion of credit	**-**	**-**	**-**	**269**	**-**	**-**	**269**

	NZ Banking Group						
Unaudited 31/03/2008	**Liquid assets and due from other financial institutions $m**	**Trading securities and available for-sale assets $m**	**Derivative financial instruments $m**	**Net loans and advances $m**	**Other financial assets $m**	**Credit related commitments $m**	**Total $m**
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	12	-	-	12
Other	-	-	-	96	-	18	114
Total value of collateral	-	-	-	108	-	18	126
Credit exposure	-	-	-	159	-	18	177
Unsecured portion of credit	-	-	-	51	-	-	51

	NZ Banking Group						
Audited 30/09/2008	**Liquid assets and due from other financial institutions $m**	**Trading securities and available for-sale assets $m**	**Derivative financial instruments $m**	**Net loans and advances $m**	**Other financial assets $m**	**Credit related commitments $m**	**Total $m**
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	112	-	-	112
Other	-	-	-	83	-	6	89
Total value of collateral	-	-	-	195	-	6	201
Credit exposure	-	-	-	327	-	6	333
Unsecured portion of credit	-	-	-	132	-	-	132

31. FINANCIAL RISK MANAGEMENT (continued)

	NZ Branch						
Unaudited 31/03/2009	**Liquid assets and due from other financial institutions $m**	**Trading securities and available for-sale assets $m**	**Derivative financial instruments $m**	**Net loans and advances $m**	**Other financial assets $m**	**Credit related commitments $m**	**Total $m**
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total value of collateral	-	-	-	-	-	-	-
Credit exposure	-	-	-	-	-	-	-
Unsecured portion of credit	-	-	-	-	-	-	-

	NZ Branch						
Unaudited 31/03/2008	**Liquid assets and due from other financial institutions $m**	**Trading securities and available for-sale assets $m**	**Derivative financial instruments $m**	**Net loans and advances $m**	**Other financial assets $m**	**Credit related commitments $m**	**Total $m**
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total value of collateral	-	-	-	-	-	-	-
Credit exposure	-	-	-	-	-	-	-
Unsecured portion of credit	-	-	-	-	-	-	-

	NZ Branch						
Audited 30/09/2008	**Liquid assets and due from other financial institutions $m**	**Trading securities and available for-sale assets $m**	**Derivative financial instruments $m**	**Net loans and advances $m**	**Other financial assets $m**	**Credit related commitments $m**	**Total $m**
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total value of collateral	-	-	-	-	-	-	-
Credit exposure	-	-	-	-	-	-	-
Unsecured portion of credit	-	-	-	-	-	-	-

31. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

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

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

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

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

Market risk management and control responsibilities

NZ Banking Group-wide responsibility for the strategies and policies relating to the management of market risk lies with each Board Risk Committee. Responsibility for day to day management of both market risks and compliance with market risk policy is delegated by the Risk Committee to the Credit and Market Risk Committee (CMRC) and the ANZ National Limited Asset & Liability Committee (ALCO). The CMRC, chaired by the ANZ Group Chief Risk Officer, is responsible for traded market risk, while the ALCO, chaired by the NZ Group Chief Exctutive 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 at the Group level is the joint responsibility of Business Units and Risk Management, with the delegation of market risk limits from each Board and CMRC allocated to both Risk Management and the Business Units.

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

The NZ Banking Group has a detailed market risk management and control framework, to support trading and non-trading activities, which incorporates an independent risk measurement approach to quantify the magnitude of market risk within the trading and non-trading books. This approach, along with related analysis, identifies the range of possible outcomes that can be expected over a given period of time, and establishes the relative likelihood of those outcomes.

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

a) Traded market risk

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

• *Currency risk* is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.

• *Interest rate risk* is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.

• *Credit spread risk* is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a bench mark.

• *Commodity risk* is the potential loss arising from the decline in the value of a financial instrument due to changes in commodity prices, or their implied volatilities.

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

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

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

The traded market risk function provides specific oversight of each of the main trading areas and is responsible for the establishment of a Value at Risk (VaR) framework and detailed control limits. In all trading areas the NZ Banking Group has implemented models that calculate VaR exposures, monitor risk exposures against defined limits on a daily basis, and 'stress test' trading portfolios. The Asset and Liability Committees of both the ANZ National Bank Limited and the ANZ Banking Group provide monthly oversight of market risk.

The ANZ National Bank Limited Chief Risk Officer is responsible for daily review and oversight of traded market risk reports via a service level agreement with the Ultimate Parent Bank. The Chief Risk Officers have the authority for instructing the business to close exposures and withdraw limits where appropriate.

Value at Risk (VaR) measure

A key measure of market risk is Value at Risk. VaR is a statistical estimate of the likely daily loss and is based on historical market movements. VaR calculations and limits are prepared separately for ANZ National Bank Limited and the NZ Branch.

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

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

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

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

31. FINANCIAL RISK MANAGEMENT (continued)

Traded market risks

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

Below are aggregate VaR exposures covering both derivative and non-derivative trading positions for the NZ Banking Group's product classes.

	NZ Banking Group Value at risk at 97.5% confidence				NZ Banking Group Value at risk at 99% confidence			
Unaudited 31/03/2009	**As at $m**	**High for period $m**	**Low for period $m**	**Average for period $m**	**As at $m**	**High for period $m**	**Low for period $m**	**Average for period $m**
Foreign exchange	**0.5**	**1.4**	**0.2**	**0.5**	**0.8**	**1.9**	**0.3**	**0.7**
Interest rate	**2.4**	**2.8**	**1.1**	**1.9**	**2.8**	**4.3**	**1.7**	**2.9**
Credit spread	**0.4**	**0.4**	**0.2**	**0.3**	**0.6**	**0.6**	**0.4**	**0.5**
Diversification benefit	**(1.0)**	**n/a**	**n/a**	**(0.8)**	**(1.4)**	**n/a**	**n/a**	**(1.2)**
Total VaR	**2.3**	**3.4**	**1.1**	**1.9**	**2.8**	**4.4**	**1.7**	**2.9**
Unaudited 31/03/2008								
Foreign exchange	0.3	0.8	0.2	0.3	0.3	1.0	0.2	0.4
Interest rate	1.2	1.8	0.5	0.8	1.4	2.3	0.6	1.1
Credit spread	0.1	0.2	0.1	0.1	0.2	0.3	0.2	0.2
Diversification benefit	(0.4)	n/a	n/a	(0.4)	(0.4)	n/a	n/a	(0.6)
Total VaR	1.2	1.7	0.3	0.8	1.5	2.2	0.5	1.1
Audited 30/09/2008								
Foreign exchange	0.2	1.3	0.1	0.3	0.2	1.6	0.2	0.5
Interest rate	1.6	1.9	0.5	0.9	2.7	2.7	0.6	1.3
Credit spread	0.2	0.3	0.1	0.1	0.4	0.4	0.2	0.2
Diversification benefit	(0.3)	n/a	n/a	(0.5)	(0.6)	n/a	n/a	(0.7)
Total VaR	1.7	2.0	0.3	0.8	2.7	2.8	0.5	1.3

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

To supplement the VaR methodology, the NZ Banking Group applies a wide range of stress tests, both on individual portfolios and for the overall trading activities of each relevant entity within the NZ Banking Group. The NZ Banking Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of the NZ Banking Group.

Non-traded market risks (balance sheet risk)

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

Interest rate risk

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long term. Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the NZ Banking Group’s future net interest income. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. The marjority of the NZ Banking Group's non-traded interest exposure exists in New Zealand and 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.

a) VaR non-traded interest rate risk

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

	NZ Banking Group			
Unaudited 31/03/2009	**As at $m**	**High for period $m**	**Low for period $m**	**Average for period $m**
Value at risk at 97.5% confidence	**21.0**	**21.0**	**12.4**	**14.6**
Unaudited 31/03/2008				
Value at risk at 97.5% confidence	11.6	11.6	10.4	11.1
Audited 30/09/2008				
Value at risk at 97.5% confidence	12.8	13.0	10.4	11.9

To supplement the VaR methodology, the NZ Banking Group applies a wide range of stress tests, both on individual portfolios and for the overall trading activities of each material entity within the NZ Banking Group. The NZ Banking Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of the NZ Banking Group.

31. FINANCIAL RISK MANAGEMENT (continued)

b) Scenario Analysis – A 1% Shock on the Next 12 Months' Net Interest Income

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

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

	NZ Banking Group		
	Unaudited 31/03/2009	Unaudited 31/03/2008	Audited 30/09/2008
Impact of 1% Rate Shock			
As at	**0.1%**	1.4%	0.0%
Maximum exposure	**0.7%**	1.8%	1.8%
Minimum exposure	**0.0%**	1.1%	0.0%
Average exposure (in absolute terms)	**0.3%**	1.4%	0.8%

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

The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the NZ Banking Group's discretion), a profile based on historically observed and/or anticipated rate sensitivity is used. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing. For example, when wholesale market rates are anticipating an official rate increase, the NZ Banking Group does not reprice certain customer business until the first repricing date after the official rate rise.

A separate balance sheet simulation process supplements the static gap information. This allows the net interest income outcomes of a number of different scenarios – with different market interest rate environments and future balance sheet structures – to be identified. This better enables the NZ Banking Group to quantify the interest rate risks associated with the balance sheet and to formulate strategies to manage current and future risk profiles.

Interest rate sensitivity gap

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

Repricing gaps are based upon contractual repricing information except where the contractual terms are not considered to be reflective of actual interest rate sensitivity, for example, those assets and liabilities priced at the NZ Banking Group's discretion. In such cases, the rate sensitivity is based upon historically observed and/or anticipated rate sensitivity.

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

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

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

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

31. FINANCIAL RISK MANAGEMENT (continued)

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

	NZ Banking Group						
Unaudited 31/03/2009	**Total $m**	**Less than 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**Not bearing interest $m**
Assets							
Liquid assets	**3,390**	**3,201**	**-**	**-**	**-**	**-**	**189**
Due from other financial institutions	**7,631**	**3,364**	**2,000**	**300**	**92**	**-**	**1,875**
Trading securities	**2,565**	**511**	**384**	**5**	**1,497**	**168**	**-**
Derivative financial instruments	**15,072**	**-**	**-**	**-**	**-**	**-**	**15,072**
Available-for-sale assets	**597**	**-**	**395**	**121**	**10**	**-**	**71**
Net loans and advances	**98,490**	**53,225**	**7,565**	**11,759**	**26,157**	**57**	**(273)**
Other financial assets	**769**	**-**	**-**	**-**	**-**	**-**	**769**
Total financial assets	**128,514**	**60,301**	**10,344**	**12,185**	**27,756**	**225**	**17,703**
Non-financial assets	**4,458**	**-**	**-**	**-**	**-**	**-**	**4,458**
Total assets	**132,972**	**60,301**	**10,344**	**12,185**	**27,756**	**225**	**22,161**
Liabilities							
Due to other financial institutions	**8,911**	**6,627**	**-**	**1,805**	**408**	**25**	**46**
Deposits and other borrowings	**72,760**	**51,135**	**8,349**	**6,544**	**2,484**	**-**	**4,248**
Derivative financial instruments	**13,080**	**-**	**-**	**-**	**-**	**-**	**13,080**
Payables and other financial liabilities	**1,606**	**220**	**92**	**-**	**85**	**6**	**1,203**
Bonds and notes	**23,620**	**15,034**	**-**	**616**	**7,735**	**235**	**-**
Term funding	**1,766**	**1,766**	**-**	**-**	**-**	**-**	**-**
Loan capital	**2,835**	**225**	**828**	**-**	**1,782**	**-**	**-**
Total financial liabilities	**124,578**	**75,007**	**9,269**	**8,965**	**12,494**	**266**	**18,577**
Non-financial liabilities	**877**	**-**	**-**	**-**	**-**	**-**	**877**
Equity	**7,517**	**-**	**-**	**-**	**-**	**-**	**7,517**
Total liabilities and equity	**132,972**	**75,007**	**9,269**	**8,965**	**12,494**	**266**	**26,971**
On-balance sheet interest sensitivity gap	**-**	**(14,706)**	**1,075**	**3,220**	**15,262**	**(41)**	**(4,810)**
Hedging instruments	**-**	**7,057**	**6,875**	**(9,586)**	**(3,922)**	**(424)**	**-**
Interest sensitivity gap - net	**-**	**(7,649)**	**7,950**	**(6,366)**	**11,340**	**(465)**	**(4,810)**
Interest sensitivity gap - cumulative	**-**	**(7,649)**	**301**	**(6,065)**	**5,275**	**4,810**	**-**

	NZ Banking Group						
Unaudited 31/03/2008	**Total $m**	**Less than 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**Not bearing interest $m**
Assets							
Liquid assets	3,863	3,648	-	-	-	-	215
Due from other financial institutions	3,890	3,067	570	-	147	-	106
Trading securities	2,149	892	150	8	847	252	-
Derivative financial instruments	4,901	-	-	-	-	-	4,901
Available-for-sale assets	96	-	-	29	12	-	55
Net loans and advances	92,579	38,922	6,762	10,592	36,639	27	(363)
Other financial assets	809	-	-	-	-	-	809
Total financial assets	108,287	46,529	7,482	10,629	37,645	279	5,723
Non-financial assets	4,288	-	-	-	-	-	4,288
Total assets	112,575	46,529	7,482	10,629	37,645	279	10,011
Liabilities							
Due to other financial institutions	2,383	1,285	239	280	382	20	177
Deposits and other borrowings	74,080	52,490	8,405	7,734	1,146	-	4,305
Derivative financial instruments	4,472	-	-	-	-	-	4,472
Payables and other financial liabilities	1,299	248	15	-	24	-	1,012
Bonds and notes	19,192	14,082	1,155	1,773	1,236	946	-
Term funding	1,766	1,766	-	-	-	-	-
Loan capital	2,053	1,003	100	-	950	-	-
Total financial liabilities	105,245	70,874	9,914	9,787	3,738	966	9,966
Non-financial liabilities	539	-	-	-	-	-	539
Equity	6,791	-	-	-	-	-	6,791
Total liabilities and equity	112,575	70,874	9,914	9,787	3,738	966	17,296
On-balance sheet interest sensitivity gap	-	(24,345)	(2,432)	842	33,907	(687)	(7,285)
Hedging instruments	-	23,319	7,686	(5,975)	(26,659)	1,629	-
Interest sensitivity gap - net	-	(1,026)	5,254	(5,133)	7,248	942	(7,285)
Interest sensitivity gap - cumulative	-	(1,026)	4,228	(905)	6,343	7,285	-

31. FINANCIAL RISK MANAGEMENT (continued)

	NZ Banking Group						
Audited 30/09/2008	**Total $m**	**Less than 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**Not bearing interest $m**
Assets							
Liquid assets	4,839	4,668	-	-	-	-	171
Due from other financial institutions	5,032	3,080	450	-	134	-	1,368
Trading securities	2,624	1,043	10	-	1,332	239	-
Derivative financial instruments	7,603	-	-	-	-	-	7,603
Available-for-sale assets	109	30	-	-	14	-	65
Net loans and advances	97,679	44,105	6,682	13,308	33,877	46	(339)
Other financial assets	893	-	-	-	-	-	893
Total financial assets	118,779	52,926	7,142	13,308	35,357	285	9,761
Non-financial assets	4,299	-	-	-	-	-	4,299
Total assets	123,078	52,926	7,142	13,308	35,357	285	14,060
Liabilities							
Due to other financial institutions	3,311	2,379	114	378	381	40	19
Deposits and other borrowings	77,136	54,827	10,671	6,813	896	1	3,928
Derivative financial instruments	6,472	-	-	-	-	-	6,472
Payables and other financial liabilities	1,499	93	-	-	60	7	1,339
Bonds and notes	22,382	15,732	472	374	4,464	1,295	45
Term funding	1,766	1,766	-	-	-	-	-
Loan capital	2,820	216	819	-	1,785	-	-
Total financial liabilities	115,386	75,013	12,076	7,565	7,586	1,343	11,803
Non-financial liabilities	565	-	-	-	-	-	565
Equity	7,127	-	-	-	-	-	7,127
Total liabilities and equity	123,078	75,013	12,076	7,565	7,586	1,343	19,495
On-balance sheet interest sensitivity gap	-	(22,087)	(4,934)	5,743	27,771	(1,058)	(5,435)
Hedging instruments	-	18,597	5,578	(6,078)	(18,964)	867	-
Interest sensitivity gap - net	-	(3,490)	644	(335)	8,807	(191)	(5,435)
Interest sensitivity gap - cumulative	-	(3,490)	(2,846)	(3,181)	5,626	5,435	-

	NZ Branch						
Unaudited 31/03/2009	**Total $m**	**Less than 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**Not bearing interest $m**
Assets							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments	30	-	-	-	-	-	30
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances	4,754	1,377	488	910	1,982	-	(3)
Due from related entities	204	11	-	-	-	-	193
Other financial assets	25	-	-	-	-	-	25
Total financial assets	5,013	1,388	488	910	1,982	-	245
Non-financial assets	2	-	-	-	-	-	2
Total assets	5,015	1,388	488	910	1,982	-	247
Liabilities							
Due to other financial institutions	4,751	4,751	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-
Derivative financial instruments	250	-	-	-	-	-	250
Payables and other financial liabilities	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-
Term funding	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-
Total financial liabilities	5,001	4,751	-	-	-	-	250
Non-financial liabilities	8	-	-	-	-	-	8
Equity	6	-	-	-	-	-	6
Total liabilities and equity	5,015	4,751	-	-	-	-	264
On-balance sheet interest sensitivity gap	-	(3,363)	488	910	1,982	-	(17)
Hedging instruments	-	3,271	(352)	(776)	(2,113)	(30)	-
Interest sensitivity gap - net	-	(92)	136	134	(131)	(30)	(17)
Interest sensitivity gap - cumulative	-	(92)	44	178	47	17	-

31. FINANCIAL RISK MANAGEMENT (continued)

	NZ Branch						
Unaudited 31/03/2008	**Total $m**	**Less than 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**Not bearing interest $m**
Assets							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-
Non-financial assets	-	-	-	-	-	-	-
Total assets	-	-	-	-	-	-	-
Liabilities							
Due to other financial institutions	-	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Payables and other financial liabilities	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-
Due to parent company	-	-	-	-	-	-	-
Term funding	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-	-
Non-financial liabilities	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Total liabilities and equity	-	-	-	-	-	-	-
On-balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Hedging instruments	-	-	-	-	-	-	-
Interest sensitivity gap - net	-	-	-	-	-	-	-
Interest sensitivity gap - cumulative	-	-	-	-	-	-	-

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

31. FINANCIAL RISK MANAGEMENT (continued)

Equity securities classified as available-for-sale

Market risk arises on equity securities classified as available-for-sale. The fair value of these securities as at 31 March 2009 was $71 million (31/03/2008 $55 million; 30/09/2008 $65 million) and private equity holdings of $nil included in other assets (31/03/2008 $nil; 30/09/2008 $nil). Regular reviews are performed to substantiate valuation of the investments within the portfolio. The fair value of the equity securities classified as available-for-sale can fluctuate considerably. A 10 per cent reduction in the value of the available-for-sale equity securities at 31 March 2009 would have reduced equity by $7.1 million (31/03/2008 $5 million; 30/09/2008 $6.5 million).

Foreign currency related risks

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

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

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

	NZ Banking Group			**NZ Branch**		
	Unaudited	Unaudited	Audited	**Unaudited**	Unaudited	Audited
	31/03/2009	31/03/2008	30/09/2008	**31/03/2009**	31/03/2008	30/09/2008
Net open position	**$m**	$m	$m	**$m**	$m	$m
Australian dollar	**27**	15	9	**-**	-	-
Canadian dollar	**3**	2	(2)	**-**	-	-
Swiss Franc	**(4)**	-	-	**-**	-	-
Euro	**9**	1	9	**-**	-	-
Pound sterling	**1**	1	-	**-**	-	-
US dollar	**(4)**	(26)	14	**-**	-	-
Other	**-**	4	2	**-**	-	-
Total net open position	**32**	(3)	32	**-**	-	-

LIQUIDITY RISK

Liquidity risk is the risk that the NZ Banking Group has insufficient capacity to fund increases in assets, or is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt. Entities within the NZ Banking Group maintain sufficient liquid funds to meet their commitments based on historical and forecasted cash flow requirements. Liquidity risk is measured through cash flow modelling, with profiles produced for both normal business and short-term crisis conditions.

The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations, and may result from internal and/or external events, including: credit or operational risks, bank-specific events, market disruptions, or systemic shocks. The following outlines the NZ Banking Group's approach to liquidity and funding risk management. Principles include:

- ensuring the liquidity management framework is compatible with local regulatory requirements;
- daily liquidity reporting and scenario analysis, where appropriate, to quantify the positions;
- monitoring wholesale and customer liability composition;
- maintaining 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; and
- establishing detailed contingency plans to cover liquidity crisis events.

Scenario Modelling

A key component of the NZ Banking Group's liquidity management framework is scenario modelling. Scenario modelling is carried out separately for each entity within the NZ Banking Group where material. This requires assessing liquidity under at least two specific scenarios for each:

1). 'Normal Business conditions': the normal behaviour of cash flows in the ordinary course of business. The relevant entities must be able to meet all commitments and obligations under a going concern scenario, within their normal funding capacity, over at least the next 30 calendar days. In estimating the funding requirement the models use econometric regression equations which are a function of historical volume and seasonal impacts derived from the last 2 years of historical data.

2). 'Short term crisis': refers to a potential name-specific liquidity crisis in which the entities comprising the entity may have significant difficulty rolling over or replacing liabilities. Each entity needs to be cash flow positive over a 5 business day period under a short term crisis scenario. The models incorporate expected cash flow behaviour under such a scenario based on the type of customer and their level of sophistication, and the type of asset/ liability.

In addition, a number of other stress tests and liquidity scenarios are modelled over a variety of time horizons, including the impact of credit rating downgrades, and reduced access to wholesale debt in domestic and offshore markets.

31. FINANCIAL RISK MANAGEMENT (continued)

Customer and wholesale funding composition

The NZ Banking Group employs actual cash flow based funding metrics to determine appropriate balance sheet liquidity and funding risk strategies. These metrics are used to measure and manage the proportion of the Group's external assets which are funded by customer liabilities, wholesale debt, equity and loan capital.

Managing these metrics assists in ensuring that an appropriate proportion of the NZ Banking Group's assets are funded by either 'sticky' customer liabilities; or long-term wholesale debt funding (with a remaining term exceeding 1 year). This approach recognises that long-term wholesale debt and other 'sticky' liabilities have favourable liquidity characteristics thereby assisting in reducing any adverse impact or volatility caused by short-term funding, and in monitoring the impact of deposit-gathering strategies.

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

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009	Unaudited 31/03/2008	Audited 30/09/2008	**Unaudited 31/03/2009**	Unaudited 31/03/2008	Audited 30/09/2008
Funding composition	**$m**	$m	$m	**$m**	$m	$m
Customer deposits[1]						
New Zealand	**52,127**	51,426	52,199	**-**	-	-
Overseas	**7,435**	6,199	6,757	**-**	-	-
Total customer deposits	**59,562**	57,625	58,956	**-**	-	-
Wholesale funding						
Bonds and notes	**23,620**	19,192	22,382	**-**	-	-
Loan capital	**2,835**	2,053	2,820	**-**	-	-
Certificates of deposit	**7,054**	5,517	5,527	**-**	-	-
Commercial paper	**6,144**	10,938	12,653	**-**	-	-
Term funding	**1,766**	1,766	1,766	**-**	-	-
Due to other financial institutions	**8,911**	2,383	3,311	**4,751**	-	-
Total wholesale funding	**50,330**	41,849	48,459	**4,751**	-	-
Total funding	**109,892**	99,474	107,415	**4,751**	-	-
Concentrations of funding by industry						
Households	**37,491**	35,702	36,239	**-**	-	-
Agriculture, forestry, fishing and mining	**4,186**	4,037	4,517	**-**	-	-
Manufacturing	**1,419**	1,544	1,465	**-**	-	-
Entertainment, leisure and tourism	**625**	617	611	**-**	-	-
Finance and insurance	**56,698**	47,504	54,546	**4,751**	-	-
Retail trade	**768**	735	752	**-**	-	-
Wholesale trade	**690**	644	626	**-**	-	-
Business and property services	**4,082**	4,696	4,686	**-**	-	-
Transport and storage	**480**	714	594	**-**	-	-
Construction	**743**	643	722	**-**	-	-
Government and local authority	**1,752**	1,614	1,585	**-**	-	-
Other[2]	**958**	1,024	1,072	**-**	-	-
Total concentrations of funding by industry	**109,892**	99,474	107,415	**4,751**	-	-
Concentrations of funding by geography[3]						
New Zealand	**65,356**	60,351	60,660	**-**	-	-
United States	**21,440**	15,459	24,178	**-**	-	-
Europe	**7,476**	14,307	11,484	**-**	-	-
Other countries	**15,620**	9,357	11,093	**4,751**	-	-
Total concentrations of funding by geography	**109,892**	99,474	107,415	**4,751**	-	-

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

[1] Represents: term deposits, other deposits bearing interest, deposits not bearing interest and secured debenture stock.
[2] Other includes exposures to electricity, gas and water, communications, and personal services.
[3] Funding of the NZ Banking Group via ANZ National (Int'l) Limited is classified as either from the United States or Europe, as the company conducts overseas funding activities through its London branch.

Wholesale funding

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

The NZ Banking Group also uses maturity concentration limits under the wholesale funding and liquidity management framework. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

Funding capacity and debt issuance planning

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

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

31. FINANCIAL RISK MANAGEMENT (continued)

Liquidity portfolio management

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

The size of the NZ Banking Group's liquidity portfolio is based on the amount of liquidity required to meet: day-to-day operational requirements; a potential name crisis; or potential wholesale 'funding stress' requirements.

In addition, the ratio of cover provided by the liquidity portfolio to fund both domestic and offshore wholesale debt maturities is monitored.

Supplementing its liquidity position, the NZ Banking Group holds additional cash and liquid asset balances. The Markets business holds secondary sources of liquidity in the form of highly liquid instruments in its trading portfolios.

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

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

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Cash and balances with central banks	**2,418**	2,171	3,779	**-**	-	-
Securities purchased under agreement to resell	**448**	185	134	**-**	-	-
Certificates of deposit	**4,314**	3,299	3,343	**-**	-	-
Government, Local Body stock and bonds	**477**	1	180	**-**	-	-
Available-for-sale assets	**394**	-	-	**-**	-	-
Other bank bonds	**1,324**	935	1,300	**-**	-	-
Total liquidity portfolio	**9,375**	6,591	8,736	**-**	-	-

In addition, the RBNZ accepts as collateral for lending (subject to meeting their criteria), residential mortgages securitised by the NZ Banking Group. As at 31 March 2009, $7,368 million of eligible securities were on issue, of which $2,250 million had been pledged as collateral with the RBNZ (see Note 40).

Liquidity crisis contingency planning

The NZ Banking Group maintains liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity threatening event at a 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;
- 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.

31. FINANCIAL RISK MANAGEMENT (continued)

Contractual maturity analysis of financial assets and liabilities

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

The management of liquidity risk is detailed on pages 72 to 74. The analysis presented below has been made on an undiscounted basis, but it should be noted that this is not how the NZ Banking Group manages its liquidity risk.

Contractual maturity analysis for on-balance sheet financial assets and financial liabilities:

	NZ Banking Group							
Unaudited 31/03/2009	**Carrying Value $m**	**Total $m**	**At call $m**	**Less than 3 months $m**	**3 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**No maturity specified $m**
Assets								
Liquid assets	**3,390**	**3,414**	**3,390**	**24**	**-**	**-**	**-**	**-**
Due from other financial institutions	**7,631**	**7,742**	**158**	**4,425**	**2,433**	**726**	**-**	**-**
Trading securities	**2,565**	**2,969**	**-**	**528**	**497**	**1,763**	**181**	
Derivative financial instruments	**15,072**	**15,072**	**-**	**-**	**-**	**-**	**-**	**15,072**
Available-for-sale assets	**597**	**614**	**-**	**3**	**495**	**18**	**27**	**71**
Net loans and advances	**98,490**	**142,161**	**-**	**11,605**	**16,301**	**44,719**	**69,806**	**(270)**
Other financial assets	**769**	**769**	**-**	**769**	**-**	**-**	**-**	**-**
Total financial assets	**128,514**	**172,741**	**3,548**	**17,354**	**19,726**	**47,226**	**70,014**	**14,873**
Liabilities								
Due to other financial institutions	**8,911**	**9,824**	**1,200**	**1,378**	**2,724**	**4,497**	**25**	**-**
Deposits and other borrowings	**72,760**	**74,081**	**28,079**	**27,353**	**15,932**	**2,717**	**-**	**-**
Derivative financial instruments	**13,080**	**13,080**	**-**	**-**	**-**	**-**	**-**	**13,080**
Other financial liabilities	**1,606**	**1,610**	**-**	**1,415**	**94**	**94**	**7**	**-**
Bonds and notes	**23,620**	**25,137**	**-**	**2,419**	**7,237**	**14,789**	**692**	**-**
Term funding	**1,766**	**1,830**	**15**	**20**	**1,795**	**-**	**-**	**-**
Loan capital	**2,835**	**4,398**	**-**	**56**	**168**	**1,116**	**1,902**	**1,156**
Total financial liabilities	**124,578**	**129,960**	**29,294**	**32,641**	**27,950**	**23,213**	**2,626**	**14,236**
Unaudited 31/03/2008								
Assets								
Liquid assets	3,863	3,916	3,863	53	495	18	27	71
Due from other financial institutions	3,890	4,072	418	2,476	604	574	69,777	(269)
Trading securities	2,149	2,504	-	881	225	1,114	284	-
Derivative financial instruments	4,901	4,901	-	-	-	-	-	4,901
Available-for-sale assets	96	120	-	-	-	24	41	55
Net loans and advances	92,579	165,702	3,557	11,525	15,712	45,968	92,860	(363)
Other financial assets	809	809	-	809	-	-	-	-
Total financial assets	108,287	182,024	7,838	15,744	17,036	47,698	162,989	4,395
Liabilities								
Due to other financial institutions	2,383	3,689	1,104	1,498	568	495	24	-
Deposits and other borrowings	74,080	76,589	26,421	31,595	17,049	1,524	-	-
Derivative financial instruments	4,472	4,472	-	56	168	1,116	1,902	4,472
Other financial liabilities	1,299	1,354	-	1,225	21	108	-	-
Bonds and notes	19,192	23,017	-	3,169	5,934	11,526	2,388	-
Term Funding	1,766	1,920	18	28	1,874	-	-	14,024
Loan capital	2,053	3,064	-	36	108	578	2,035	307
Total financial liabilities	105,245	114,105	27,543	37,607	25,722	15,347	6,349	18,803
Audited 30/09/2008								
Assets								
Liquid assets	4,839	4,923	4,838	85	-	-	-	-
Due from other financial institutions	5,032	5,173	436	3,640	579	518	-	-
Trading securities	2,624	3,097	-	1,028	103	1,688	278	-
Derivative financial instruments	7,603	7,603	-	-	-	-	-	7,603
Available-for-sale assets	109	136	-	-	-	32	39	65
Net loans and advances	97,679	163,788	-	11,047	18,580	47,374	87,120	(333)
Other financial assets	893	893	-	893	-	-	-	-
Total financial assets	118,779	185,613	5,274	16,693	19,262	49,612	87,437	7,335
Liabilities								
Due to other financial institutions	3,311	3,528	1,713	734	538	497	46	-
Deposits and other borrowings	77,136	79,497	26,946	33,068	18,292	1,189	2	-
Derivative financial instruments	6,472	6,472	-	-	-	-	-	6,472
Other financial liabilities	1,499	1,499	-	1,432	-	60	7	-
Bonds and notes	22,382	26,881	78	2,183	7,511	15,160	1,904	45
Term Funding	1,766	1,902	34	51	1,817	-	-	-
Loan capital	2,820	4,502	-	60	178	959	2,153	1,152
Total financial liabilities	115,386	124,281	28,771	37,528	28,336	17,865	4,112	7,669

31. FINANCIAL RISK MANAGEMENT (continued)

					NZ Branch			
Unaudited 31/03/2009	**Carrying Value $m**	**Total $m**	**At call $m**	**Less than 3 months $m**	**3 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**No maturity specified $m**
Assets								
Liquid assets	-	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-	-
Derivative financial instruments	30	30	-	-	-	-	-	30
Available-for-sale assets	-	-	-	-	-	-	-	-
Net loans and advances	4,754	5,230	-	750	216	4,264	-	-
Due from subsidiary companies	204	11	11	-	-	-	-	-
Other financial assets	25	218	-	218	-	-	-	-
Total financial assets	5,013	5,489	11	968	216	4,264	-	30
Liabilities								
Due to other financial institutions	4,751	5,233	-	457	853	3,923	-	-
Deposits and other borrowings	-	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-	-
Derivative financial instruments	250	250	-	-	-	-	-	250
Other financial liabilities	-	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-	-
Due to parent company	-	-	-	-	-	-	-	-
Term Funding	-							
Loan capital	-	-	-	-	-	-	-	-
Total financial liabilities	5,001	5,483	-	457	853	3,923	-	250
Unaudited 31/03/2008								
Assets								
Liquid assets	-	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-	-
Net loans and advances	-	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-
Liabilities								
Due to other financial institutions	-	-	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-	-
Due to parent company	-	-	-	-	-	-	-	-
Term Funding	-	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-	-	-
Audited 30/09/2008								
Assets								
Liquid assets	-	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-	-
Net loans and advances	-	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-
Liabilities								
Due to other financial institutions	-	-	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-	-
Due to parent company	-	-	-	-	-	-	-	-
Term Funding	-	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-	-	-

32. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

The NZ Banking Group has no credit exposures, on the basis of limits, to individual counterparties or groups of closely related counterparties (whether bank or non-bank exposures) which equal or exceed 10% of the Overseas Banking Group's equity as at 31 March 2009, 31 March 2008 or 30 September 2008, or in respect of peak end-of-day aggregate credit exposures for the quarter ended 31 March 2009. The peak end-of-day exposures have been calculated using the Overseas Banking Group equity as at 31 March 2009. These calculations exclude credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent.

33. MARKET RISK

RBNZ Market Risk Disclosure

The aggregate market risk exposures below have been calculated in accordance with the Reserve Bank of New Zealand document entitled 'Capital Adequacy Framework (Standardised Approach)' (BS2A) dated November 2007.

The peak end-of-day market risk exposures for the quarter are measured as a percentage of the Overseas Banking Group's equity as at 31 March 2009.

	NZ Banking Group					
	Implied risk weighted exposure		**Aggregate capital charge**		**Aggregate capital charge as a percentage of the Overseas Banking Group's Equity**	
	As at $m	**Peak $m**	**As at $m**	**Peak $m**	**As at $m**	**Peak $m**
Unaudited 31/03/2009						
Interest rate risk	**3,519**	**4,018**	**282**	**321**	**0.8%**	**0.9%**
Foreign currency risk	**38**	**113**	**3**	**9**	**0.0%**	**0.0%**
Equity risk	**68**	**78**	**5**	**6**	**0.0%**	**0.0%**
Unaudited 31/03/2008						
Interest rate risk	3,400	3,745	272	300	1.0%	1.1%
Foreign currency risk	23	83	2	7	0.0%	0.0%
Equity risk	55	89	4	7	0.0%	0.0%
Audited 30/09/2008						
Interest rate risk	3,696	4,000	296	320	0.9%	1.0%
Foreign currency risk	35	160	3	13	0.0%	0.0%
Equity risk	64	75	5	6	0.0%	0.0%

34. INTEREST EARNING AND DISCOUNT BEARING ASSETS AND LIABILITIES

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Interest earning and discount bearing assets	**110,811**	102,564	109,017	**4,768**	-	-
Interest and discount bearing liabilities	**106,001**	95,279	103,583	**4,751**	-	-

35. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

A significant number of financial instruments are carried at fair value in the balance sheet. Below is a comparison of the carrying amounts, as reported on the balance sheet, and fair values of all financial assets and liabilities. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective such as income tax and intangible assets. In our view, the aggregate fair value amounts do not represent the underlying value of the NZ Banking Group.

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

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

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

FINANCIAL ASSETS

Liquid assets and due from other financial institutions

The carrying values of these financial instruments where there has been no significant change in credit risk is considered to approximate their net fair values as they are short-term in nature, defined as those which reprice or mature in 90 days or less, or are receivable on demand.

Trading securities

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

Derivative financial instruments

Derivative financial instruments are carried at fair value. Exchange traded derivative financial instruments are valued using quoted prices. Over-the-counter derivative financial instruments are valued using accepted valuation models (including discounted cash flow models) based on current market yields for similar types of instruments and the maturity of each instrument and an adjustment reflecting the credit worthiness of the counterparty.

Available-for-sale assets

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

The carrying value of loans and advances includes deferred fees and expenses, and is net of provision for credit impairment and income yet to mature.

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

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

Other financial assets

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

35. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial assets designated at fair value through profit or loss
The NZ Banking Group has not reclassified any financial assets previously measured at amortised cost to fair value, or previously measured at fair value to amortised cost, during the period ended 31 March 2009 (30 September 2008 nil).

FINANCIAL LIABILITIES
Due to other financial institutions
The carrying values of these financial instruments are considered to approximate their net fair values as they are short-term in nature or are receivable on demand, or when longer term in nature, fair value is based on quoted market prices.

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

Certain deposits and other borrowings have been designated at fair value through profit or loss and are carried at fair value.

At balance date, the carrying amount of deposits and other borrowings designated by the NZ Banking Group at fair value through profit or loss was $6,144 million (31/03/2008 $10,938 million; 30/09/2008 $12,653 million). This is $9 million higher (31/03/2008 $5 million higher; 30/09/2008 $17 million lower) than their amortised cost.

The accumulated amount of the change in fair value attributable to changes in credit risk on these liabilities was less than $3 million (31/03/2008 less than $1 million; 30/09/2008 less than $3 million). The change in fair value attributable to changes in credit risk has been determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risks (benchmark interest rate, and foreign exchange rates).

Bonds and notes, term funding and loan capital
The aggregate fair value of bonds and notes, term funding and loan capital is calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument is used. The carrying value of the due to parent company balance is considered to approximate the fair value as it is repayable on demand.

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

Commitments and contingencies
As outlined in Note 42 Contingent Liabilities and Credit Related Commitments, the NZ Banking Group has various credit related commitments. Based upon the level of fees currently charged for granting such commitments, taking into account maturity and interest rates, together with any changes in the creditworthiness of counterparties since origination of the commitments, their estimated replacement or net fair value is not material.

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

VALUATION METHODOLOGY

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

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

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

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

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

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

35. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	NZ Banking Group						
	At amortised cost			**At fair value though profit or loss**	**Hedging**	**Available-for-sale assets**	
Carrying amount	**Loans and receivables $m**	**Other financial assets at amortised cost $m**	**Sub-total $m**	**Held for trading $m**	**$m**	**$m**	**Total $m**
Financial assets							
Unaudited 31/03/2009							
Liquid assets	**-**	**3,390**	**3,390**	**-**	**-**	**-**	**3,390**
Due from other financial institutions	**-**	**3,362**	**3,362**	**-**	**-**	**4,269**	**7,631**
Trading securities	**-**	**-**	**-**	**2,565**	**-**	**-**	**2,565**
Derivative financial instruments[1]	**-**	**-**	**-**	**14,346**	**726**	**-**	**15,072**
Available-for-sale assets	**-**	**-**	**-**	**-**	**-**	**597**	**597**
Net loans and advances[2]	**98,490**	**-**	**98,490**	**-**	**-**	**-**	**98,490**
Other financial assets	**-**	**769**	**769**	**-**	**-**	**-**	**769**
Total financial assets	**98,490**	**7,521**	**106,011**	**16,911**	**726**	**4,866**	**128,514**
Unaudited 31/03/2008							
Liquid assets	-	3,863	3,863	-	-	-	3,863
Due from other financial institutions	-	1,281	1,281	-	-	2,609	3,890
Trading securities	-	-	-	2,149	-	-	2,149
Derivative financial instruments[1]	-	-	-	4,426	475	-	4,901
Available-for-sale assets	-	-	-	-	-	96	96
Net loans and advances[2]	92,579	-	92,579	-	-	-	92,579
Other financial assets	-	809	809	-	-	-	809
Total financial assets	92,579	5,953	98,532	6,575	475	2,705	108,287
Audited 30/09/2008							
Liquid assets	-	4,839	4,839	-	-	-	4,839
Due from other financial institutions	-	2,585	2,585	-	-	2,447	5,032
Trading securities	-	-	-	2,624	-	-	2,624
Derivative financial instruments[1]	-	-	-	7,297	306	-	7,603
Available-for-sale assets	-	-	-	-	-	109	109
Net loans and advances[2]	97,679	-	97,679	-	-	-	97,679
Other financial assets	-	893	893	-	-	-	893
Total financial assets	97,679	8,317	105,996	9,921	306	2,556	118,779

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

	NZ Banking Group					
	Unaudited 31/03/2009		Unaudited 31/03/2008		Audited 30/09/2008	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Liquid assets	**3,390**	**3,381**	3,863	3,863	4,839	4,839
Due from other financial institutions	**3,362**	**3,371**	1,281	1,281	2,585	2,585
Net loans and advances[2]	**98,490**	**98,364**	92,579	92,377	97,679	97,429
Other financial assets	**769**	**769**	809	809	893	893
Total financial assets at amortised cost	**106,011**	**105,885**	98,532	98,330	105,996	105,746

[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.

35. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	NZ Banking Group					
	At amortised cost	At fair value through profit or loss			Hedging	
Carrying amount	$m	Designated on initial recognition $m	Held for trading $m	Sub-total $m	$m	Total $m
Financial liabilities						
Unaudited 31/03/2009						
Due to other financial institutions	**8,911**	**-**	**-**	**-**	**-**	**8,911**
Deposits and other borrowings	**66,616**	**6,144**	**-**	**6,144**	**-**	**72,760**
Derivative financial instruments[1]	**-**	**-**	**11,590**	**11,590**	**1,490**	**13,080**
Other financial liabilities	**1,606**	**-**	**-**	**-**	**-**	**1,606**
Bonds and notes[2]	**23,620**	**-**	**-**	**-**	**-**	**23,620**
Term funding	**1,766**	**-**	**-**	**-**	**-**	**1,766**
Loan capital	**2,835**	**-**	**-**	**-**	**-**	**2,835**
Total financial liabilities	**105,354**	**6,144**	**11,590**	**17,734**	**1,490**	**124,578**
Unaudited 31/03/2008						
Due to other financial institutions	2,383	-	-	-	-	2,383
Deposits and other borrowings	63,142	10,938	-	10,938	-	74,080
Derivative financial instruments[1]	-	-	4,223	4,223	249	4,472
Other financial liabilities	1,299	-	-	-	-	1,299
Bonds and notes[2]	19,192	-	-	-	-	19,192
Term Funding	1,766	-	-	-	-	1,766
Loan capital	2,053	-	-	-	-	2,053
Total financial liabilities	89,835	10,938	4,223	15,161	249	105,245
Audited 30/09/2008						
Due to other financial institutions	3,311	-	-	-	-	3,311
Deposits and other borrowings	64,483	12,653	-	12,653	-	77,136
Derivative financial instruments[1]	-	-	5,708	5,708	764	6,472
Other financial liabilities	1,499	-	-	-	-	1,499
Bonds and notes[2]	22,382	-	-	-	-	22,382
Term Funding	1,766	-	-	-	-	1,766
Loan capital	2,820	-	-	-	-	2,820
Total financial liabilities	96,261	12,653	5,708	18,361	764	115,386

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

	NZ Banking Group					
	Unaudited 31/03/2009		Unaudited 31/03/2008		Audited 30/09/2008	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Due to other financial institutions	**8,911**	**8,750**	2,383	2,395	3,311	3,295
Deposits and other borrowings	**66,616**	**66,743**	63,142	63,127	64,483	64,532
Other financial liabilities	**1,606**	**1,743**	1,299	1,361	1,499	1,499
Bonds and notes[2]	**23,620**	**22,918**	19,192	19,125	22,382	21,897
Term Funding	**1,766**	**1,754**	1,766	1,765	1,766	1,764
Loan capital	**2,835**	**2,642**	2,053	2,020	2,820	2,687
Total financial liabilities at amortised cost	**105,354**	**104,550**	89,835	89,793	96,261	95,674

[1]Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.

[2]Fair value hedging is applied to financial liabilities within bonds and notes and loan capital. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

35. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	NZ Branch						
	At amortised cost			At fair value though profit or loss	Hedging	Available-for-sale assets	
Carrying amount	**Loans and receivables $m**	**Other financial assets at amortised cost $m**	**Sub-total $m**	**Held for trading $m**	**$m**	**$m**	**Total $m**
Financial assets							
Unaudited 31/03/2009							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments[1]	-	-	-	1	29	-	30
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances[2]	4,754	-	4,754	-	-	-	4,754
Due from subsidiary companies	-	204	204	-	-	-	204
Other financial assets	-	25	25	-	-	-	25
Total financial assets	4,754	229	4,983	1	29	-	5,013
Unaudited 31/03/2008							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments[1]	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances[2]	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-
Audited 30/09/2008							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments[1]	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances[2]	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-

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

	NZ Branch					
	Unaudited 31/03/2009		Unaudited 31/03/2008		Audited 30/09/2008	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Liquid assets	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-
Net loans and advances[2]	4,754	4,877	-	-	-	-
Due from subsidiary companies	204	204	-	-	-	-
Other financial assets	25	25	-	-	-	-
Total financial assets at amortised cost	4,983	5,106	-	-	-	-

[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.

35. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	NZ Branch					
	At amortised cost	At fair value through profit or loss			Hedging	
Carrying amount	$m	Designated on initial recognition $m	Held for trading $m	Sub-total $m	$m	Total $m
Financial liabilities						
Unaudited 31/03/2009						
Due to other financial institutions	**4,751**	**-**	**-**	**-**	**-**	**4,751**
Deposits and other borrowings	**-**	**-**	**-**	**-**	**-**	**-**
Due to subsidiary companies	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments[1]	**-**	**-**	**250**	**250**	**-**	**250**
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Bonds and notes[2]	**-**	**-**	**-**	**-**	**-**	**-**
Term funding	**-**	**-**	**-**	**-**	**-**	**-**
Loan capital	**-**	**-**	**-**	**-**	**-**	**-**
Total financial liabilities	**4,751**	**-**	**250**	**250**	**-**	**5,001**
Unaudited 31/03/2008						
Due to other financial institutions	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-
Derivative financial instruments[1]	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Bonds and notes[2]	-	-	-	-	-	-
Term Funding	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-
Audited 30/09/2008						
Due to other financial institutions	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-
Derivative financial instruments[1]	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Bonds and notes[2]	-	-	-	-	-	-
Term Funding	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-

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

	NZ Branch					
	Unaudited 31/03/2009		Unaudited 31/03/2008		Audited 30/09/2008	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Due to other financial institutions	**4,751**	**4,590**	-	-	-	-
Deposits and other borrowings	**-**	**-**	-	-	-	-
Due to subsidiary companies	**-**	**-**	-	-	-	-
Other financial liabilities	**-**	**-**	-	-	-	-
Bonds and notes[2]	**-**	**-**	-	-	-	-
Term Funding	**-**	**-**	-	-	-	-
Loan capital	**-**	**-**	-	-	-	-
Total financial liabilities at amortised cost	**4,751**	**4,590**	-	-	-	-

[1]Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.

[2]Fair value hedging is applied to financial liabilities within bonds and notes and loan capital. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

36. SEGMENTAL ANALYSIS

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

A summarised description of each business segment is shown below:

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

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

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

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

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

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

	NZ Banking Group				
Unaudited 6 months to 31/03/2009	**Retail Banking[4] $m**	**Relationship Banking $m**	**Institutional $m**	**Other $m**	**Total $m**
Continuing operations[1, 2]					
External interest income	2,332	1,514	415	(28)	4,233
External interest expense	(1,051)	(322)	(520)	(1,154)	(3,047)
Net intersegment interest	(716)	(824)	342	1,198	-
Net interest income	565	368	237	16	1,186
Other external operating income	79	49	196	107	431
Share of profit of equity accounted associates and jointly controlled entities	7	-	-	1	8
Operating income	651	417	433	124	1,625
Other external expenses	312	82	54	250	698
Net intersegment and related party expenses[3]	164	57	33	(213)	41
Operating expenses	476	139	87	37	739
Profit before provision for credit impairment and income tax	175	278	346	87	886
Provision for credit impairment	136	120	32	-	288
Profit before income tax	39	158	314	87	598
Income tax expense	12	47	94	23	176
Profit after income tax	27	111	220	64	422
Non-cash expenses					
Depreciation and amortisation	9	1	1	13	24
Balance sheet					
Total external assets	54,550	36,618	34,885	6,919	132,972
Share in associates and jointly controlled entities	242	-	65	89	396
Total external liabilities	43,482	11,291	34,593	36,089	125,455

[1]Results are equity standardised
[2]Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis
[3]Net intersegment expenses are eliminated at the Overseas Bank level.
[4]Other operating income includes an adjustment for $166m in relation to ING New Zealand Funds. Refer to notes 4 and 24 for further details

36. SEGMENTAL ANALYSIS (continued)

	NZ Banking Group				
Unaudited 6 months to 31/03/2008	**Retail Banking $m**	**Relationship Banking $m**	**Institutional $m**	**Other $m**	**Total $m**
Continuing operations[1, 2]					
External interest income	2,299	1,528	967	16	4,810
External interest expense	(1,194)	(389)	(642)	(1,567)	(3,792)
Net intersegment interest	(476)	(789)	(279)	1,544	-
Net interest income	629	350	46	(7)	1,018
Other external operating income	249	37	217	(13)	490
Share of profit of equity accounted associates and jointly controlled entities	12	-	1	83	96
Operating income	890	387	264	63	1,604
Other external expenses	308	73	47	206	634
Net intersegment and related party expenses[3]	164	58	28	(211)	39
Operating expenses	472	131	75	(5)	673
Profit before provision for credit impairment and income tax	418	256	189	68	931
Provision for credit impairment	54	25	14	-	93
Profit before income tax	364	231	175	68	838
Income tax expense	117	75	50	(13)	229
Profit after income tax	247	156	125	81	609
Non-cash expenses					
Depreciation and amortisation	7	1	1	13	22
Balance sheet					
Total external assets	53,786	33,411	21,150	4,228	112,575
Share in associates and jointly controlled entities	201	-	61	88	350
Total external liabilities	36,696	11,170	23,153	34,765	105,784

[1] Results are equity standardised
[2] Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis
[3] Net intersegment expenses are eliminated at the Overseas Bank level.

36. SEGMENTAL ANALYSIS (continued)

	NZ Banking Group				
Audited year to 30/09/2008	**Retail Banking $m**	**Relationship Banking $m**	**Institutional $m**	**Other $m**	**Total $m**
Continuing operations[1, 2]					
External interest income	4,729	3,219	1,874	36	9,858
External interest expense	(2,498)	(819)	(1,247)	(3,265)	(7,829)
Net intersegment interest	(1,000)	(1,687)	(502)	3,189	-
Net interest income	1,231	713	125	(40)	2,029
Other external operating income	499	82	420	14	1,015
Share of profit of equity accounted associates and jointly controlled entities	23	-	1	87	111
Operating income	1,753	795	546	61	3,155
Other external expenses	629	156	103	475	1,363
Net intersegment and related party expenses[3]	335	116	58	(427)	82
Operating expenses	964	272	161	48	1,445
Profit before provision for credit impairment and income tax	789	523	385	13	1,710
Provision for credit impairment	178	108	16	-	302
Profit before income tax	611	415	369	13	1,408
Income tax expense	194	134	109	(19)	418
Profit after income tax	417	281	260	32	990
Non-cash expenses					
Depreciation and amortisation	15	1	2	29	47
Balance sheet					
Total external assets	54,272	36,153	26,793	5,860	123,078
Share in associates and jointly controlled entities	212	-	64	87	363
Total external liabilities	37,682	11,717	28,945	37,607	115,951

Geographic segment analysis

The NZ Banking Group operates predominantly in New Zealand. No other geographic segments are reportable secondary segments.

[1]Results are equity standardised

[2]Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.

[3]Net intersegment expenses are eliminated at the Overseas Bank level.

37. NOTES TO THE CASH FLOW STATEMENTS

	NZ Banking Group			NZ Branch		
	Unaudited 6 months to 31/03/2009 $m	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m	**Unaudited 6 months to 31/03/2009 $m**	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m
Reconciliation of profit/(loss) after income tax to net cash flows provided by (used in) operating activities						
Profit/(loss) after income tax	**422**	609	990	**(5)**	-	-
Non-cash items:						
Depreciation and amortisation	**24**	22	46	**-**		-
Provision for credit impairment	**288**	93	302	**3**		-
Deferred fee revenue and expenses	**3**	3	(3)	**-**		-
Share-based payments expense	**9**	7	13	**-**		-
MtM derivatives through P&L	**8**	-	-	**8**		-
Amortisation of capitalised brokerage/ mortgage origination fees	**27**	28	57	**-**		-
Deferrals or accruals of past or future operating cash receipts or payments:						
Increase (decrease) in operating assets and liabilities	**1,985**	(3,785)	(3,699)	**12**	-	-
Decrease (increase) in interest receivable	**77**	11	2	**(25)**		-
(Decrease) increase in interest payable	**(257)**	9	206	**7**		-
Increase in accrued income	**(5)**	(6)	(8)	**-**		-
(Decrease) increase in accrued expenses	**(15)**	(8)	46	**1**		-
Increase (decrease) in provisions	**150**	(11)	25	**-**		-
Amortisation of premiums and discounts	**59**	25	56	**-**		-
Increase in income tax assets	**(89)**	(91)	(43)	**(2)**		-
Items classified as investing/financing:						
Share of profit of equity accounted associates and jointly controlled entities	**(8)**	(96)	(111)	**-**		-
(Gain) loss on disposal of premises and equipment	**(17)**	1	1	**-**		-
Net cash flows provided by (used in) operating activities	**2,661**	(3,189)	(2,120)	**(1)**	-	-

Reconciliation of core liquidity portfolio to cash and cash equivalents

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

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Total liquidity portfolio[1]	**9,375**	6,591	8,736	**-**	-	-
Add back items not included in liquidity portfolio:						
Liquid assets	**964**	1,692	1,060	**-**	-	-
Due from other financial institutions - less than 90 days	**2,726**	663	1,948	**-**	-	-
Deduct items not included in cash and cash equivalents:						
Trading securities	**(1,846)**	(1,626)	(2,376)	**-**	-	-
Available-for-sale assets	**(394)**	-	-	**-**	-	-
Due from other financial institutions - greater than 90 days	**(3,607)**	(1,770)	(1,578)	**-**	-	-
Total cash and cash equivalents	**7,218**	5,550	7,790	**-**	-	-

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

38. SIGNIFICANT NZ CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES OF ANZ BANKING GROUP LIMITED

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

38. SIGNIFICANT CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES AS AT 30 SEPTEMBER 2008

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

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

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

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

On 9 April 2009, Technical Solutions Limited was amalgamated with Direct Broking Limited.

Movements in controlled entities

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

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

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

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

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

On 5 March 2008, the NZ Banking Group purchased a 100% interest in Technical Solutions Limited.

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

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

Associates	Book Value $m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Cards NZ Limited	87	25	14	30 September	Card services
Electronic Transaction Services Limited	2	25	25	31 March	Eftpos settlements
EXCCL Limited (in receivership)	0	45	81	30 September	Plastics manufacturing and recycling
Mondex New Zealand Limited	0	40	40	31 December	Card services
NZ Poultry Enterprises Limited	41	20	20	30 April	Poultry processor
UCG Investments Limited	15	40	40	31 March	Rest home operator
Wyma Engineering (NZ) Limited	3	31	31	31 March	Agricultural machinery supplier
Total investment in associates	148				

All associates are incorporated in New Zealand.

Movements in associates

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

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

Jointly controlled entities	Book Value $m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Argenta Limited	2	21	21	31 July	Manufacture and marketing of animal remedies
BCS Group Limited	3	40	40	30 June	Manufacturer of baggage handling systems
ING (NZ) Holdings Limited	242	50	49	31 December	Funds management and insurance
JMI Aerospace Limited	1	33	33	31 March	Airline maintenance and service provider
Total investment in jointly controlled entities	248				

All jointly controlled entities are incorporated in New Zealand.

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

38. CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

	NZ Banking Group		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Share of assets and liabilities			
Investments	**179**	82	78
Other assets	**67**	159	160
Total assets	**246**	241	238
Life insurance policy liabilities	**(36)**	12	(3)
Other liabilities	**46**	9	11
Total liabilities	**10**	21	8
Net assets	**236**	220	230
Share of revenue, expenses and results			
Net underwriting result	**43**	30	66
Other revenue	**7**	14	25
Total revenue	**50**	44	91
Expenses	**46**	34	75
Profit before income tax	**4**	10	16
Income tax expense	**(2)**	(2)	(6)
Profit after tax	**6**	12	22
Share of commitments			
Lease commitments	**17**	4	8

There are no unrecognised losses in respect of any of the NZ Banking Group's jointly controlled entities. The NZ Banking Group's share of the contingent liabilities of its joint ventures are incurred jointly with other investors. There were no contingent liabilities as at 31 March 2009 (31/03/2008 $nil; 30/09/2008 $nil).

39. ULTIMATE PARENT BANK

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

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

Securitisation

The NZ Banking Group enters into transactions in the normal course of business by which it transfers financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of those financial assets.

Full derecognition occurs when the NZ Banking Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. These risks include credit, interest rate, currency, prepayment and other price risks.

Partial derecognition occurs when the NZ Banking Group sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of the NZ Banking Group's continuing involvement.

In May 2008, the RBNZ expanded the range of acceptable collateral that banks can pledge and borrow against as part of changes to its liquidity management arrangement designed to help ensure adequate liquidity for New Zealand financial institutions in the event that global market disruption was to intensify. From 31 July 2008, acceptable collateral includes residential mortgage backed securities ("RMBS") that satisfy RBNZ criteria.

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

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

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

On 27 February 2009, $4,877 million of residential mortgage assets were sold to the Australia and New Zealand Banking Group Limited - New Zealand Branch. These assets qualify for derecognition as the Banking Group does not retain a continuing involvement in the transferred assets. The Consolidated NZ Banking Group's financial statements have reduced as a result of transferring these assets.

Funds management

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

As funds under management are not owned by the NZ Banking Group, they are not included in these financial statements. The NZ Banking Group derives fee and/or 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.

Some funds under management are invested in products owned or securities issued by the NZ Banking Group and are recorded as liabilities in the balance sheet. At 31 March 2009, $2,735 million of funds under management were invested in the NZ Banking Group's own products or securities (31/08/2008 $1,140 million; 30/09/2008 $2,229 million).

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

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

	NZ Banking Group		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Bonus Bonds	**2,611**	2,459	2,417
Discretionary funds	**4,251**	2,033	3,440
Totals funds under management	**6,862**	4,492	5,857

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

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

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

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

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

Custodial services

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

Marketing and distribution of insurance products

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

Insurance business

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

40. SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (continued)

Provision of financial services

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

The NZ Banking Group has not provided any funding to entities except standard lending facilities provided in the normal course of business on arm's length terms which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the NZ Banking Group for the period ended 31 March 2009 (31/03/2008 $nil; 30/09/2008 $nil).

Risk management

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

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

Investment statements, prospectuses and brochures for insurance products include disclosures that the registered bank nor any member of the NZ Banking Group does not guarantee the insurer, nor the insurer's subsidiaries, nor any of the products issued by the insurer or the insurer's subsidiaries.

Where the insurance products are subject to the Securities Act 1978, investment statements, prospectuses and brochures additionally include disclosures that:
- the policies do not represent deposits or other liabilities of the NZ Banking Group;
- the policies are subject to investment risk, including possible loss of income and principal; and
- the NZ Banking Group does not guarantee the capital value or performance of the policies.

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

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

Prospectuses, investment statements and brochures for funds management products include disclosures:
- that the securities do not represent deposits or other liabilities of the NZ Banking Group;
- that the securities are subject to investment risk including possible loss of income and principal invested; and
- that the NZ Banking Group does not guarantee the capital value or performance of the securities.

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

41. COMMITMENTS

	NZ Banking Group			NZ Branch		
	Unaudited 31/03/2009 $m	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Capital expenditure						
Contracts for outstanding capital expenditure:						
Premises and equipment						
Not later than 1 year	**22**	20	26	**-**	-	-
Total capital expenditure commitments	**22**	20	26	**-**	-	-
Lease rentals						
Future minimum lease payments under non-cancellable operating leases:						
Premises and equipment						
Not later than 1 year	**86**	83	86	**-**	-	-
Later than 1 year but not later than 5 years	**156**	164	167	**-**	-	-
Later than 5 years	**31**	27	27	**-**	-	-
Total lease rental commitments	**273**	274	280	**-**	-	-
Total commitments	**295**	294	306	**-**	-	-

42. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS

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

	NZ Banking Group Face or contract value			NZ Branch Face or contract value		
Credit related commitments	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m	**Unaudited 31/03/2009 $m**	Unaudited 31/03/2008 $m	Audited 30/09/2008 $m
Commitments with certain drawdown due within one year	**732**	1,385	659	**-**	-	-
Commitments to provide financial services	**22,609**	24,580	23,150	**-**	-	-
Total credit related commitments	**23,341**	25,965	23,809	**-**	-	-
Contingent liabilities						
Financial guarantees	**1,913**	2,107	2,017	**-**	-	-
Standby letters of credit	**374**	380	401	**-**	-	-
Transaction related contingent items	**1,083**	567	1,090	**-**	-	-
Trade related contingent liabilities	**65**	315	118	**-**	-	-
Total contingent liabilities	**3,435**	3,369	3,626	**-**	-	-

42. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS (continued)

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

The detailed and estimated maximum amount of contingent liabilities that may become payable are set out below.

Contingent tax liability

As previously disclosed, the New Zealand Inland Revenue Department ('IRD') is reviewing a number of structured finance transactions as part of an audit of the 2000 to 2005 tax years. This is part of an industry-wide review by the IRD of these transactions undertaken in New Zealand.

The NZ Banking Group has received Notices of Proposed Adjustment (the 'Notices') in respect of some of these transactions. The Notices are formal advice that the IRD is proposing to amend tax assessments. The Notices are not tax assessments and do not establish a tax liability but are the first step in a formal disputes process.

In November 2008 the IRD issued amended tax assessments as a follow up to the Notices in respect of six of these transactions for the 2004 income year (prior to that tax year becoming statute-barred) and a further two in respect of the 2003 income year. The IRD has previously issued tax assessments as a follow up to the Notices in respect of two transactions for the 2000 tax year, four transactions for the 2001 tax year, five transactions in respect of the 2002 income year and four in respect of the 2003 income year (in each case prior to that tax year becoming statute-barred). Proceedings disputing the amended tax assessments with respect to the 2000-2004 income years have been commenced.

Based on the independent tax and legal advice obtained, the NZ Banking Group is confident that the tax treatment it has adopted for these transactions and all similar transactions is correct.

The tax adjustments proposed so far by the IRD cover the 2000 to 2005 tax years and imply a maximum potential liability of $313 million ($486 million with interest tax effected).

The IRD is also investigating other transactions undertaken by the NZ Banking Group, which have been subject to the same tax treatment. Should the same position be taken by the IRD for all years on all these transactions, including those that the Notices cover, the maximum potential liability would be approximately $365 million ($562 million with interest tax effected) as at 31 March 2009.

Of the maximum potential tax liability, it has been estimated that approximately $99 million ($157 million with interest tax effected) is subject to indemnities given by Lloyds TSB Bank plc under the agreement by which the NZ Banking Group acquired the NBNZ Holdings Limited Group, and which relate to transactions undertaken by NBNZ Group before December 2003.

This leaves a net potential tax liability as at 31 March 2009 of $266 million ($405 million with interest tax effected).

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

Commerce Commission

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

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

ANZ National Bank Limited (the 'Bank') is defending the proceedings. The Bank has received independent legal advice. At this stage the risks and any potential liabilities cannot be assessed. The court has now allocated a 10 week fixture for the proceedings beginning in October 2009.

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

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

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

ING New Zealand Funds

Trading in the ING Diversified Yield Fund and the ING Regular Income Fund ('the Funds') was suspended on 13 March 2008 due to deterioration in the liquidity and credit markets. These funds are managed by the joint venture partner ING (NZ) Limited. Some of these funds were sold to ANZ National customers.

On 25 February 2009, ING (NZ) Limited announced that investors in the Funds will be receiving a proposal which allows them the ability to exit the investment for a cash amount. We understand further details on the proposal will be released shortly.

The estimated cost of this proposal to the Bank is approximately $166m and this amount has been recognised in 'other operating income' in the Income Statement and as a provision in the Balance Sheet.

The ultimate cost to the Bank will depend on the value of units in the underlying funds, the discount rate applied and recoveries under insurance cover. In addition the Commerce Commission has sought information regarding the two Funds and is investigating this matter, although at this stage, it is not possible to determine the outcome of any investigation.

Other contingent liabilities

The NZ Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the NZ Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where appropriate. As at 31 March 2009, there were no other contingent assets or liabilities required to be disclosed (31/03/2008 nil; 30/09/2008 nil).

43. EMPLOYEE SHARE AND OPTION PLANS

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

The closing market price of one ordinary share of ANZ quoted on the ASX (Australian Stock Exchange) at 31 March 2009 was A$15.75 (31/03/2008 A$22.55; 30/09/2008 A$18.75).

ANZ EMPLOYEE SHARE ACQUISITION PLAN

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

A$1,000 share plan

Each permanent employee who has had continuous service for one year with the NZ Banking Group is eligible to participate in a scheme enabling the issue of up to A$1,000 of shares of ANZ in each financial year, subject to the approval of the Ultimate Parent Bank Board. The shares vest subject to satisfaction of a three year service period but may be forfeited in the event of resignation or termination for serious misconduct. On expiration of that period, an employee may sell the shares, transfer them into their name, or have them retained in trust. The issue price is based on the one-day volume weighted average price ('VWAP') of the shares traded on the ASX on the date of issue.

The NZ Banking Group's employees are required to pay NZ 1 cent per share at the time the shares are transferred to them. During the six months to 31 March 2009, 540,305 shares with an average issue price of A$14.94 were issued under the A$1,000 Share Plan (31/03/2008 267,523 shares with an average issue price of A$27.96 were issued; 30/09/2008 267,523 shares with an average issue price of A$27.96 were issued).

Deferred share plan

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

Restricted share plan

Restricted Shares are available to selected employees and are issued under the ANZ Employee Share Acquisition Plan. Selected employees have the option to take some (or all) of their incentive payment as Restricted Shares. The shares are held in trust and may not be traded until the conclusion of the one-year restriction period, after which they may be transferred into the employees name. Until they are transferred into the employees name, they continue to be subject to forfeiture on termination for serious misconduct.

Shares valuations

The fair value of services received in return for shares in the ANZ Employee Share Acquisition Plan are measured by referring to the fair value of ANZ shares granted. The fair value of shares granted in the current period, measured at the date of grant of the shares, is NZ $9.8 million based on 540,305 shares at a weighted average price of A$14.94 converted at the exchange rate of 0.8232 (31/03/2008 NZ $8.5 million based on 267,523 shares at a weighted average price of A$27.96 converted at the exchange rate of 0.8809 were issued; 30/09/2008 NZ $8.5 million based on 267,523 shares at a weighted average price of A$27.96 converted at the exchange rate of 0.8809 were issued).

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

ANZ SHARE OPTION PLAN

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

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

Current option plans

Performance rights plan

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

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

Deferred share rights

This scheme is a short term incentive program available to certain NZ Banking Group employees since November 2004 and grants the right to acquire ANZ shares at nil cost after a specified vesting period ranging from one to three years. Deferred share rights must be exercised by the seventh anniversary of grant date. In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of termination on notice, retrenchment, retirement, death or total and permanent disablement, a grace period is provided in which to exercise all deferred share rights.

43. EMPLOYEE SHARE AND OPTION PLANS (continued)

Legacy Option Plans

Performance options plan

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

Zero-price options (ZPO)

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

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

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

	NZ Banking Group					
	Unaudited 31/03/2009		Unaudited 31/03/2008		Audited 30/09/2008	
	Number of shares	**Weighted average exercise price[1] A$**	Number of shares	Weighted average exercise price[1]	Number of shares	Weighted average exercise price[1] A$
Share options at beginning of the period	**1,741,771**	**10.86**	1,616,716	13.93	1,616,716	13.93
Share options granted	**709,805**	**2.51**	354,082	-	376,715	-
Share options exercised	**(66,823)**	**1.28**	(99,489)	19.59	(130,988)	16.13
Share options forfeited and expired	**(150,781)**	**3.68**	(52,865)	15.92	(120,672)	12.27
Share options at end of the period	**2,233,972**	**8.98**	1,818,444	10.99	1,741,771	10.86
Weighted average share price during the period		**14.86**		26.02		21.37
Range of exercise prices on share options at end of the period		**0.00 - 23.49**		0.00 - 23.49		0.00-23.49
Weighted average remaining contractual life on share options at end of the period		**39 months**		43 months		36 months

Options valuations

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

(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 period. All prices are quoted in Australian dollars:

Option type	Deferred share rights	Performance rights	LTI deferred share rights	STI deferred share rights	STI restricted share rights	STI deferred share rights
Grant date	9-Dec-2008	31-Oct-2008	31-Oct-2008	31-Oct-2008	31-Oct-2008	31-Oct-2008
Number of Options	18,210	50,050	364,112	89,121	601	84,058
Option value	$11.84	$9.99	$14.58	$15.45	$16.38	$16.38
Exercise price (5 day VWAP)	$nil	$nil	$nil	$nil	$nil	$nil
Share price at grant	$14.10	$17.36	$17.36	$17.36	$17.36	$17.36
ANZ expected volatility [2]	34%	30%	30%	30%	30%	30%
Option term	5 years	5 years	5 years	5 years	5 years	5 years
Vesting period	3 years	3 years	3 years	2 years	1 year	1 year
Expected life	3 years	3 years	3 years	2 years	1 year	1 year
Expected dividends	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Risk free interest rate	3.49%	4.25%	4.48%	4.48%	4.28%	4.28%

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

[2]Expected volatility is based on ANZ's historic volatility.

43. EMPLOYEE SHARE AND OPTION PLANS (continued)

Options valuations (continued)

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

Option type	STI restricted share options	STI deferred share options	STI deferred share options
Grant date	31-Oct-2008	31-Oct-2008	31-Oct-2008
Number of Options	28,851	37,400	37,402
Option value	$2.80	$2.94	$2.80
Exercise price (5 day VWAP)	$17.18	$17.18	$17.18
Share price at grant	$17.36	$17.36	$17.36
ANZ expected volatility 2	30%	30%	30%
Option term	5 years	5 years	5 years
Vesting period	1 year	2 years	1 year
Expected life	1 year	2 years	1 year
Expected dividends	6.00%	6.00%	6.00%
Risk free interest rate	4.48%	4.64%	4.48%

[2]Expected volatility is based on ANZ's historic volatility.

44. RETIREMENT BENEFIT OBLIGATIONS

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

		Contribution levels	
Scheme	**Scheme type**	**Employee**	**Employer**
ANZ National Bank Staff Superannuation Scheme[1]	Defined Benefit Scheme[2]	Nil	Balance of cost[4]
	or		
	Defined Contribution Scheme	2.5% minimum of salary	7.5% of salary[6]
The National Bank Staff Superannuation Fund[1]	Defined Benefit Scheme[3]	5% of salary	Balance of cost[5]
	or		
	Defined Contribution Scheme	2.0% minimum of salary	11.2% of salary[7]

Details of the defined benefit schemes are as follows:

Actuarial valuations for financial reporting purposes are undertaken every six months. The latest valuations were carried out as at 31 March 2009.

	NZ Banking Group		
	Unaudited	Unaudited	Audited
	31/03/2009	31/03/2008	30/09/2008
	$m	$m	$m
The amounts recognised in the balance sheet arising from the NZ Banking Group's obligation in respect of its defined benefit schemes are determined as follows:			
Defined benefit obligation at beginning of the year	**179**	181	181
Current service cost	**1**	2	3
Interest cost	**5**	6	12
Contributions by scheme participants	**1**	-	1
Actuarial (gains) losses	**(1)**	(5)	3
Benefits paid	**(8)**	(7)	(21)
Present value of funded defined benefit obligations	**177**	177	179
Fair value of scheme assets at beginning of the year	**152**	189	189
Expected return on scheme assets (net of tax)	**4**	5	10
Actuarial (losses) gains	**(38)**	(17)	(30)
Contributions by employer	**1**	2	3
Contributions by scheme participants	**-**	-	1
Benefits paid	**(8)**	(7)	(21)
Fair value of scheme assets	**111**	172	152
Net defined benefit (liability) asset recognised on balance sheet	**(66)**	(5)	(27)

The fair value of scheme assets include cash deposits and fixed interest investments of $5.5 million with the NZ Banking Group as at 31 March 2009 (31/03/2008 $2 million; 30/09/2008 $5 million).

The amounts recognised in the income statement in respect of defined benefit schemes are as follows:

Current service cost	**1**	2	3
Interest cost	**5**	6	12
Expected return on scheme assets (net of tax)	**(4)**	(5)	(10)
Contribution withholding tax	**1**	-	2
Total pension costs recognised in the income statement - defined benefit superannuation schemes	**3**	3	8

[1] These schemes provide for pension benefits and provide for lump sum benefits.

[2] Closed to new members on 31 March 1990. Operates to make pension payments to retirees who were members of that section of the scheme or to dependents of the members.

[3] Closed to new members on 1 October 1991.

[4] 31/03/2009: $nil (31/03/2008 $nil; 30/09/2008 $nil).

[5] 31/03/2009: 24.8% (31/03/2008 24.8%; 30/09/2008 24.8%) of members' salaries.

[6] 31/03/2009: 7.5% (31/03/2008 7.5%; 30/09/2008 7.5%) of members' salaries.

[7] 31/03/2009: 11.5% (31/03/2008 11.5%; 30/09/2008 11.5%) of members' salaries.

44. RETIREMENT BENEFIT OBLIGATIONS (continued)

The actuarial gains and losses recognised directly in equity via the statement of recognised income and expense are as follows:

	NZ Banking Group		
	Unaudited 31/03/2009	Unaudited 31/03/2008	Audited 30/09/2008
Actuarial gains (pre-tax) at beginning of the period	**(25)**	7	8
Actuarial (loss) gain (pre-tax) incurred during the period	**(38)**	(12)	(33)
Balance of actuarial (losses) gains (pre-tax) at end of the period	**(63)**	(5)	(25)
Income tax credit (expense) recognised directly in equity	**19**	2	8
Balance of actuarial (losses) gains at end of the period (net of tax)	**(44)**	(3)	(17)

The principal actuarial assumptions used were as follows:

	The National Bank Staff Superannuation Fund			ANZ National Bank Staff Superannuation Scheme		
	Unaudited 31/03/2009	Unaudited 31/03/2008	Audited 30/09/2008	**Unaudited 31/03/2009**	Unaudited 31/03/2008	Audited 30/09/2008
Defined benefits calculation						
Discount rate (gross of tax)	**6.0%**	6.4%	6.5%	**6.0%**	6.4%	6.0%
Future price inflation	**2.5%**	2.5%	2.5%	**2.5%**	2.5%	2.5%
Future pension increases	**2.5%**	2.5%	2.5%	**2.5%**	2.5%	2.5%
Future salary increases	**3.7%**	3.7%	3.7%	**n/a**	n/a	n/a
Scheme assets calculation						
Expected return on scheme assets (net of tax)	**5.5%**	5.5%	5.5%	**4.5%**	4.5%	4.5%

The overall expected return on scheme assets is determined by reference to market expectations, at 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 -10.57**%** for the six months ended 31 March 2009 (31/03/2008 -6.0%; 30/09/2008 -9.0%). The actual return on scheme assets (net of tax) for the ANZ National Bank Staff Superannuation Scheme was -7.25% for the six months ended 31 March 2009 (31/03/2008 -5.0%; 30/09/2008 -6.0%).

The investment return on scheme assets is taxed at 30% (31/03/2008 33%; 30/09/2008 33%).

The major categories of scheme assets as a percentage of the fair value of scheme plan assets are as follows:

	The National Bank Staff Superannuation Fund			ANZ National Bank Staff Superannuation Scheme		
	Unaudited 31/03/2009	Unaudited 31/03/2008	Audited 30/09/2008	**Unaudited 31/03/2009**	Unaudited 31/03/2008	Audited 30/09/2008
Cash and short term debt instruments	**24.0%**	16.3%	19.9%	**13.0%**	14.0%	17.1%
New Zealand fixed interest	**13.7%**	22.1%	14.5%	**28.0%**	22.9%	23.2%
Overseas fixed interest	**20.2%**	16.6%	16.1%	**26.6%**	23.1%	20.8%
Australasian shares	**9.9%**	8.8%	9.7%	**9.2%**	7.5%	9.3%
Overseas shares	**32.2%**	36.2%	39.8%	**19.4%**	26.7%	23.9%
Property fund units	**0.0%**	0.0%	0.0%	**3.8%**	5.8%	5.7%
	100.0%	100.0%	100.0%	**100.0%**	100.0%	100.0%

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

44. RETIREMENT BENEFIT OBLIGATIONS (continued)

Historical summary

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

	NZ Banking Group				
	Unaudited 31/03/2009 $m	Audited 30/09/2008 $m	Audited 30/09/2007 $m	Audited 30/09/2006 $m	Audited 30/09/2005 $m
Defined benefit obligation	**(177)**	(179)	(181)	(190)	(187)
Fair value of scheme assets	**111**	152	189	196	195
Net benefit (liability)/asset	**(66)**	(27)	8	6	8
Experience adjustments on scheme liabilities	**-**	5	(1)	3	-
Experience adjustment on scheme assets	**(28)**	(21)	(7)	5	11

Employer contributions

To ensure the defined benefit schemes remain solvent, the schemes' independent actuaries recommend an employer contribution rate to the NZ Banking Group, annually for The National Bank Staff Superannuation Fund and every three years for the ANZ National Bank Staff Superannuation Scheme. The funding methods and current contribution rates of the individual schemes are determined in accordance with NZ IAS 19 Employee Benefits ('NZ IAS 19') for annual periods beginning on or after 1 January 2007.

The National Bank Staff Superannuation Fund deficit for funding purposes was valued at $18.8m in the most recent actuarial review at 1 April 2008 determined in accordance with NZ IAS 19. The ANZ National Bank Staff Superannuation Scheme surplus was valued at $0.2 million in the most recent actuarial valuation at 31 Dec 2007 determined in accordance with NZ IAS 19.

The NZ Banking Group expects to contribute $2.1 million (net of contributions withholding tax) to its defined benefit schemes in the period to 31 March 2009 (31/03/2008 $2 million; 30/09/2008 $4 million). Employer contributions are taxed at a rate of 30% (31/03/2008 33%; 30/09/2008 33%).

Contingent liabilities

The National Bank Staff Superannuation Fund

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

ANZ National Bank Staff Superannuation Scheme

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

45. RELATED PARTY TRANSACTIONS

	NZ Banking Group			NZ Branch		
	Unaudited 6 months to 31/03/2009 $'000	Unaudited 6 months to 31/03/2008 $'000	Audited Year to 30/09/2008 $'000	**Unaudited 6 months to 31/03/2009 $'000**	Unaudited 6 months to 31/03/2008 $'000	Audited Year to 30/09/2008 $'000
Key management personnel						
Key management personnel compensation						
Salaries and short-term employee benefits	**5,850**	5,584	11,919	**-**	-	-
Post-employment benefits	**249**	180	786	**-**	-	-
Other long-term benefits	**40**	96	127	**-**	-	-
Share-based payments	**1,408**	1,409	2,665	**-**	-	-
Total compensation of key management personnel	**7,547**	7,269	15,497	**-**	-	-
Loans to key management personnel	**3,936**	6,362	7,272	**-**	-	-
Deposits from key management personnel	**5,871**	5,355	3,594	**-**	-	-

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

Loans made to and deposits held by key management personnel (including personally related parties) are made in the course of ordinary business on normal commercial terms and conditions no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed, variable and interest only, all of which have been made in accordance with the NZ Banking Group's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (31/03/2008 $nil; 30/09/2008 $nil).

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

Transactions with the Ultimate Parent Bank and subsidiaries

Details of amounts provided by/to the Ultimate Parent Bank and subsidiaries of the NZ Banking Group during the ordinary course of business are set out in the relevant notes to these financial statements. No provision for credit impairment has been recognised during the six months ended 31 March 2009 (31/03/2008 $nil; 30/09/2008 $nil).

On 27 February 2009, $4,877 million of residential mortgage assets were sold to the NZ Branch. These assets qualify for derecognition as the Bank does not retain the risks and rewards associated with these mortgages. The Consolidated Group's financial statements have reduced as a result of transferring these assets.

	NZ Banking Group			NZ Branch		
	Unaudited 6 months to 31/03/2009 $m	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m	**Unaudited 6 months to 31/03/2009 $m**	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m
Interest income						
- Ultimate Parent Bank	**-**	-	4	**-**	-	-
Interest expense						
- ANZ Funds Pty Ltd	**55**	79	159	**-**	-	-
- Ultimate Parent Bank	**158**	72	193	**18**	-	-
Operating expenses						
- Ultimate Parent Bank	**41**	39	82	**-**	-	-

45. RELATED PARTY TRANSACTIONS (continued)

Transactions with associates and joint venture entities

During the period the NZ Banking Group conducted transactions with associates and joint venture entities on normal commercial terms and conditions as shown below:

	NZ Banking Group			NZ Branch		
	Unaudited 6 months to 31/03/2009 $m	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m	**Unaudited 6 months to 31/03/2009 $m**	Unaudited 6 months to 31/03/2008 $m	Audited Year to 30/09/2008 $m
Amounts receivable						
- associates	**27**	188	28	**-**	-	-
- joint venture entities	**40**	49	36	**-**	-	-
Amounts payable						
- associates	**85**	87	85	**-**	-	-
Interest income						
- associates	**1**	2	2	**-**	-	-
- joint venture entities	**2**	2	4	**-**	-	-
Commission received from ING NZ joint venture	**13**	12	23	**-**	-	-
Costs recovered from ING NZ joint venture	**-**	1	1	**-**	-	-

The NZ Banking Group provides general administrative, strategic and governance services to ING (NZ) Limited under a Technical Services Agreement.

The NZ Banking Group provided registry services to the ING NZ joint venture in connection with the business of ING Managed Funds (NZ) Limited until 31 December 2006. The Group provided payroll, tax accounting and compliance services, and premises in connection with and for the purpose of ING Insurance Services (NZ) Limited and ING Managed Funds (NZ) Limited. All provision of these services ceased from 5 March 2007.

A provision for credit impairment of $6 million is recognised for amounts outstanding from associates as at 31 March 2009 (31/03/2008 $6million; 30/09/2008 $5 million). A credit impairment loss of $nil was charged during the six months ended 31 March 2009 (31/03/2008 $1 million recovered; 30/09/2008 $nil charged).

46. SUBSEQUENT EVENTS

The financial statements were authorised for issue by the Directors on 26 May 2009. No subsequent events occurred between 31 March 2009 and the date of issue.

Directorate and Auditors

The address to which any document or communication may be sent to any Director or the Chief Executive Officer, NZ Branch is Australia and New Zealand Banking Group Limited - New Zealand Branch, Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington, New Zealand. The document or communication should be marked for the attention of that Director or the Chief Executive Officer.

Directors' Interests

The Board of the Overseas Bank has adopted procedures to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Overseas Bank and their own interests are avoided or dealt with. Pursuant to these procedures:

a) each Director should disclose to all Directors any material personal interest they have in any matter which relates to the affairs of the Overseas Bank and any other interest which the Director believes is appropriate to disclose in order to avoid an actual conflict of interest or the perception of a conflict of interest. This disclosure should be made as soon as practicable after the Director becomes aware of their interest or the need to make a disclosure; and

b) a Director who has an interest of the type referred to in a) above in a matter that is to be considered at a Directors' meeting, must not vote on the matter nor be present while the matter is considered at the meeting, unless a majority of Directors who do not have such an interest in the matter agree that the interest should not disqualify such Director from being present while the matter is being considered and from voting on the matter. The minutes of the meeting should record the decision taken by the Directors who do not have an interest in the matter.

In addition, Standing Notices about interests are maintained for each Director. If the Director's interests change, the Director shall disclose the change as soon as practicable and an updated Standing Notice shall be tabled at the next Board meeting and recorded in the minutes of that meeting.

Transactions with Directors and the Chief Executive Officer, NZ Branch

There are no transactions entered into by any Director, the Chief Executive Officer, NZ Branch or any immediate relative or close business associate of any Director or the Chief Executive Officer, NZ Branch, with the NZ Branch or any member of the NZ Banking Group which has been either entered into on terms other than those which would in the ordinary course of business be given to any other person of like circumstances or means or which could otherwise be reasonably likely to influence materially the exercise of the Directors' or Chief Executive Officer, NZ Branch, duties as Director or Chief Executive Officer of the NZ Branch and NZ Banking Group.

Directors as at 26 May 2009

The name, qualifications, occupation, country of residence and material external directorships of each director of the Overseas Bank as at the date this General Disclosure Statement was signed were:

Independent Non-Executive Director, Chairman

Charles Barrington Goode, AC
BCom (Hons), MBA, Hon LLD (Melb), Hon LLD (Monash)
Company Director
Melbourne, Australia

External Directorships

Chairman: Australian United Investment Company Limited, Diversified United Investment Limited, Grosvenor Australia Properties Pty Ltd, The Ian Potter Foundation Ltd
Member: International Council of the Asia Society, Asia Society Australasia Centre, AsiaLink Council, The Global Foundation.

Chief Executive Officer - Australia and New Zealand Banking Group Limited

Michael Roger Pearson Smith, OBE
BSc (Hons)
Chief Executive Officer
Melbourne, Australia

External Directorships
Director : The Financial Markets Foundation for Children, ANZ National Bank Limited
Member: Chongqing Mayor's International Economic Advisory Council, Australian Bankers' Association Incorporated, Asia Business Council, Financial Literacy Advisory Board

Fellow: The Hong Kong Management Association.

DIRECTORATE AND AUDITORS (continued)

Non-Executive Directors

Dr Gregory John Clark
BSc (Hons), PhD, FAPS, FTSE
Company Director
Based in New York, United States of America but also resides in Sydney, Australia

External Directorships
Chairman: GPM Classified Directories
Director: Babcock & Brown Capital Limited, KaComm Communications Pty Limited
Principal: Clark Capital Partners

Jeremy Kitson Ellis
MA, FAICD, Hon FIE AUST, FAus IMM, FTSE, Hon DR ENG (CQU)
Company Director
Melbourne, Australia

External Directorships
Chairman: MBD Biodiesel Limited, Landcare Australia Limited, Future Eye Pty Ltd Advisory Board, Pacific Road Corporate Finance Pty Limited Advisory Board, Earth Resources Development Council
Director: Future Directions International Pty Limited
Member: The Sentient Group Advisory Council, Anglo American plc's Australian Advisory Board

Peter Algernon Franc Hay
LLB (Melb)
Company Director
Melbourne, Australia

External Directorships
Chairman: Advisory Board of Lazard Carnegie Wylie Pty Ltd
Director: Alumina Limited, Landcare Australia Limited

Lee Hsien Yang
MSc, BA
Company Director
Singapore

External Directorships
Chairman: Fraser & Neave Limited, Republic Polytechnic, New Civil Aviation Authority (Chairman-Designate from 2008 and Chairman with effect from July 2009)
Director: Singapore Exchange Limited, The Islamic Bank of Asia Limited, Kwa Geok Choo Pte Ltd, Asia Pacific Investments Pte Ltd
Member: Governing Board of Lee Kuan Yew School of Public Policy, Rolls Royce International Advisory Council, Merrill Lynch PacRim Advisory Council

Ian John Macfarlane, AC
BEc (Hons), MEc, Hon DSc (Syd), Hon DSc (UNSW), Hon DCom (Melb), Hon DLitt (Macq), Hon LLD (Monash)
Company Director
Sydney, Australia

External Directorships
Director: Woolworths Limited, Leighton Holdings Limited, Lowy Institute for International Policy
Member: International Advisory Board of Goldman Sachs JB Were, International Advisory Board of CHAMP Private Equity

David Edward Meiklejohn
BCom, Dip Ed, FCPA, FAICD, FAIM
Company Director
Melbourne, Australia

External Directorships
Chairman: PaperlinX Limited
Director: Coca Cola Amatil Limited, Mirrabooka Investments Limited
President: Melbourne Cricket Club

John Powell Morschel
DipQS, FAIM
Company Director
Sydney, Australia

External Directorships
Director: Singapore Telecommunications Limited, Tenix Group Pty Limited, Gifford Communications Pty Limited

Alison Mary Watkins
BCom, ICAA, FSIA, AICD
Chief Executive Officer - Bennelong Group
Melbourne, Australia

External Directorships
Director: Bennelong Group & related entities; Woolworths Limited, Yarra Capital Partners Pty Ltd. Yarra Investment Group Pty Ltd

Chief Executive Officer, Australia and New Zealand Banking Group - New Zealand Branch
Susan Ruth Peterson
BCom, LLB
Chief Executive Officer & Managing Director, NZ Branch
Auckland, New Zealand

External Directorships
Director: IHC New Zealand

Audit Committee
The following were members of the Audit Committee of the Overseas Bank as at 26 May 2009:

D E Meiklejohn
Non-Executive Director

AM Watkins
Non-executive Director

J K Ellis
Non-Executive Director

C B Goode (ex Officio)
Chairman of the Board

Auditors

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

CREDIT RATING INFORMATION

Credit Ratings applicable as at 26 May 2009

The Overseas Bank has three current credit ratings, which are applicable to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars. The credit ratings are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	**AA**	Outlook Stable
Moody's Investors Service	**Aa1**	Outlook Negative
Fitch Ratings	**AA-**	Outlook Stable

During the two-year period ended 31 March 2009, the Standard and Poor's credit rating and qualification remained at AA and Outlook Stable.

During the two-year period ended 31 March 2009, the Moody's Investors Service credit rating and qualification changed from Aa3 Outlook Stable to Aa1 Outlook Stable on 4 May 2007. On 2 March 2009 the Outlook changed from Stable to Negative.

During the two-year period ended 31 March 2009, the Fitch Ratings credit rating and qualification remained at AA- and Outlook Stable. Fitch Ratings were formally engaged by the Overseas Bank on 18 March 2008 to provide credit rating services. Previously Fitch Ratings had rated the Overseas Bank on an unsolicited basis as AA-.

	Standard & Poor's	Moody's Investors Service	Fitch Ratings
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 categor

FINANCIAL STATEMENTS OF THE OVERSEAS BANK AND OVERSEAS BANKING GROUP

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

Directors' and New Zealand Chief Executive Officer's Statement

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed:

(i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half-Year - Overseas Incorporated Registered Banks) Order 2008;

(ii) The Disclosure Statement is not false or misleading.

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, over the six months ended 31 March 2009 :

(i) The NZ Banking Group has complied with all the conditions of registration;

(ii) the NZ Banking Group had systems in place to monitor and control adequately the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were being properly applied.

This General Disclosure Statement is dated this 26 May 2009, and has been signed by one Director of the Overseas Bank as agent for all Directors and by the Chief Executive Officer, NZ Branch.

C B Goode

S R Peterson

For M R P Smith

For I J Macfarlane

For G J Clark

For D E Meiklejohn

For J K Ellis

For J P Morschel

For L H Yang

For A M Watkins

For P A F Hay

Conditions of Registration, applicable as at date of registration.

The Conditions of Registration imposed on the NZ Branch, which will apply from the date of registration are:

1. That the New Zealand banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

2. That the New Zealand banking group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:
   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is 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 New Zealand banking group's insurance business:
      (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
         - The total consolidated assets of the group headed by that entity;
         - Or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
      (b) otherwise, the size of each insurance business conducted by any entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
      (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the banking group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
      (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the business of the Australia and New Zealand Banking Group Limited.

4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:
   (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (ii) the Reserve Bank has advised that it has no objection to that appointment.

5. That Australia and New Zealand Banking Group Limited complies with the requirements imposed on it by the Australian Prudential Regulation Authority.

6. That Australia and New Zealand Banking Group Limited complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
   - tier one capital of the Australia and New Zealand Banking Group Limited is not less than 4 percent of risk weighted exposures;
   - capital of Australia and New Zealand Banking Group Limited is not less than 8 percent of risk weighted exposures.

7. That the business of the registered bank in New Zealand is restricted to:
   (i) acquiring for fair value, and holding, mortgages originated by ANZ National Bank Limited; and
   (ii) any other business for which the prior written approval of the Reserve Bank of New Zealand has been obtained; and
   (iii) activities that are necessarily incidental to the business specified in paragraphs (i) and (ii).

8. That the value of the mortgages held by the registered bank in New Zealand must not exceed $15 billion in aggregate.

9. That the registered bank in New Zealand may not incur any liabilities except:
   (i) to the government of New Zealand in respect of taxation and other charges; and
   (ii) to other branches or the head office of the registered bank; and
   (iii) to trade creditors and staff; and
   (iv) to ANZ National Bank Limited in respect of activities, other than borrowing, that are necessarily incidental to the business specified in paragraphs (i) and (ii) of condition 7; and
   (v) any other liabilities for which the prior written approval of the Reserve Bank has been obtained.

For the purposes of these Conditions of Registration, the term "banking group" means the New Zealand operations of Australia and New Zealand Banking Group Limited whose business is required to be reported in the financial statements for the group's New Zealand business, prepared in accordance with section 9(2) of the Financial Reporting Act 1993.

Independent Review Report to the Directors of Australia and New Zealand Banking Group Limited New Zealand Branch

We have reviewed the interim financial statements on pages 6 to 99 prepared and disclosed in accordance with Clause 23 of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2008 (the 'Order') and the supplementary information prescribed in Schedules 3 to 8 of the Order. The interim financial statements, and supplementary information, provide information about the past financial performance and cash flows of Australia and New Zealand Banking Group Limited New Zealand Branch (the 'NZ Branch') and its related entities (the 'NZ Banking Group') and their financial position as at 31 March 2009. This information is stated in accordance with the accounting policies set out on pages 10 to 19.

Directors' responsibilities

The Directors of Australia and New Zealand Banking Group Limited New Zealand Branch are responsible for the preparation and presentation of interim financial statements in accordance with Clause 23(2) of the Order which give a true and fair view of the financial position of the NZ Branch and NZ Banking Group as at 31 March 2009 and their financial performance and cash flows for the six months ended on that date.

They are also responsible for the preparation of supplementary information which gives a fair view in accordance with the Order, of the matters to which it relates; and complies with Schedules 3 to 8 of the Order.

Reviewers' responsibilities

We are responsible for reviewing the interim financial statements, including the supplementary information disclosed in accordance with Schedules 4, 6 to 8, and Clauses 19 and 20 of Schedule 3 of the Order presented to us by the Directors and reporting our findings to you.

It is also our responsibility to express a review opinion to state whether, the supplementary information relating to credit and market risk exposures and capital adequacy that is required to be disclosed under Schedule 5 of the Order, is in all material respects prepared and disclosed in accordance with Capital Adequacy Framework (Basel 1 Approach) and Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 5 and for reporting our findings to you.

Basis of review opinion

We have performed our review in accordance with the review engagement standard RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of NZ Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our firm has also provided other services to the NZ Branch and NZ Banking Group in relation to other audit related services. Partners and employees of our firm may also deal with the NZ Branch and NZ Banking Group on normal terms within the ordinary course of trading activities of the business of the NZ Branch and NZ Banking Group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the NZ Branch and NZ Banking Group. These matters have not impaired our independence as auditors of the NZ Branch and NZ Banking Group. The firm has no other relationship with, or interest in, the NZ Branch and NZ Banking Group.

Review Opinion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

a. the interim financial statements (excluding the supplementary information disclosed in Notes 30, 32, 33, 34 and 40) do not present a true and fair view of the financial position of the NZ Branch and NZ Banking Group as at 31 March 2009 and their financial performance and cash flows for the six months ended on that date;

b. the supplementary information disclosed in Notes 32, 33, 34 and 40 prescribed by Schedules 4 and 6 to 9 and Clauses 19 and 20 of Schedule 3 of the Order is not fairly stated in accordance with those Schedules; and

c. the supplementary information relating to Capital Adequacy disclosed in Note 30 of the interim financial statements, as required by Schedule 5 of the Order, is not in all material respects derived in accordance with Capital Adequacy Framework (Basel 1 Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A), and disclosed in accordance with Schedule 5 of the Order.

Our review was completed on 26 May 2009 and our review opinion is expressed as at that date.

KPMG

Wellington

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