

ANZ National Bank Limited General Short Form Disclosure Statement

FOR THE THREE MONTHS ENDED 31 DECEMBER 2009 | NUMBER 56 ISSUED FEBRUARY 2010

General Short Form Disclosure Statement

For the three months ended 31 December 2009

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General Disclosures

This Short Form Disclosure Statement has been issued in accordance with the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008 (“the Order”).

In this Disclosure Statement unless the context otherwise requires:

- a) “Banking Group” means ANZ National Bank Limited and all its subsidiaries; and
- b) any term or expression which is defined in, or in the manner prescribed by, the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008 shall have the meaning given in or prescribed by that Order.

General Matters

The full name of the registered bank is ANZ National Bank Limited (“the Bank”) and its address for service is Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington, New Zealand. From 1 March 2010, the address for service will be Level 6, 1 Victoria Street, Wellington, New Zealand.

The Bank was incorporated under the Companies Act 1955 by virtue of the ANZ Banking Group (New Zealand) Act 1979 on 23 October 1979, and was reregistered under the Companies Act 1993 on 13 June 1997.

The immediate parent company of the Bank is ANZ Holdings (New Zealand) Limited (incorporated in New Zealand). The immediate parent company is owned by ANZ Funds Pty Limited and Australia and New Zealand Banking Group Limited (both incorporated in Australia).

The Ultimate Parent Bank is Australia and New Zealand Banking Group Limited (“ANZ”), which is incorporated in Australia, and its address for service is Level 14, 100 Queen Street, Melbourne, Australia.

The Bank is wholly owned by its immediate parent company and ultimately the Ultimate Parent Bank. The immediate parent company has the power under the Bank’s Constitution to appoint any person as a Director of the Bank either to fill a casual vacancy or as an additional Director or to remove any person from the office of Director, from time to time by giving written notice to the Bank. No appointment of a new Director may occur unless the Reserve Bank of New Zealand (“RBNZ”) confirms that it does not object to the appointment.

A New Zealand Branch (“NZ Branch”) of the Australia and New Zealand Banking Group Limited 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 (Level 6, 1 Victoria Street, Wellington, New Zealand effective 1 March 2010).

General Disclosures (continued)

Nature Of Business

The principal activities of the Banking Group during the period were retail, corporate and rural banking, mortgage lending, asset and general finance, and international and investment banking.

Material Financial Support

In accordance with the requirements issued by the Australian Prudential Regulation Authority (“APRA”) pursuant to the Prudential Standards, Australia and New Zealand Banking Group Limited, as the Ultimate Parent Bank, may not provide material financial support to the Bank contrary to the following:

- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank;
- the Ultimate Parent Bank should not hold unlimited exposures (should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank’s obligations);
- the Ultimate Parent Bank should not enter into cross default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations;
- the Board of the Ultimate Parent Bank in determining limits on acceptable levels of exposure to the Bank should have regard to:
 - the level of exposure that would be approved to third parties of broadly equivalent credit status. In this regard, prior consultation (and in some cases approval) is required before entering exceptionally large exposures; and
 - the impact on the Ultimate Parent Bank’s capital and liquidity position and its ability to continue operating in the event of a failure by the Bank;
- the level of exposure to the Bank not exceeding:
 - 50% on an individual exposure basis; and
 - 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank)

of the Ultimate Parent Bank’s capital base.

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

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

Pending Proceedings or Arbitration

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

Further details on pending proceedings or arbitration are set out in Note 25 Contingent Liabilities, Credit Related Commitments and Market Related Contracts.

Other Material Matters

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

Guarantors

The Bank has guarantees under the:

- a) New Zealand Deposit Guarantee Scheme (“Crown Retail Guarantee”); and
- b) New Zealand Wholesale Funding Guarantee Facility (“Crown Wholesale Guarantee”).

This section provides a brief description of the Crown Retail Guarantee and Crown Wholesale Guarantee and also sets out from where further information may be obtained. As at the date of this General Short Form Disclosure Statement the only material obligations of the Bank that are guaranteed are the debt securities (as defined in the Retail Deed) guaranteed under the Crown Retail Guarantee and debt securities for which the Crown has issued a Guarantee Eligibility Certificate under the Crown Wholesale Guarantee (copies of which are available on the Treasury website www.treasury.govt.nz).

Crown Retail Guarantee

Prior to 1 January 2009 the Crown Retail Guarantee was provided under a Deed entered into by the Bank and the Crown on 14 November 2008 and supplemented on 9 December 2008. From 1 January 2010 the Crown Retail Guarantee was provided under a Deed entered into by the Bank and the Crown on 18 December 2009 (“Retail Deed”).

The Crown Retail Guarantee does not extend to subordinated debt securities issued by the Bank or debt securities that are issued by the Bank to Related Parties (as defined in the Retail Deed) of the Bank or to Financial Institutions.

As defined in the Retail Deed, “Financial Institutions” means a financial institution, as defined in section 2 of the Reserve Bank of New Zealand Act 1989, which carries on the business of borrowing and lending money, such as a life insurance company, a building society or a registered bank, and, without limiting the generality of the foregoing, includes:

General Disclosures (continued)

- a) a "collective investment scheme" as that term is defined in section 157B of the Reserve Bank of New Zealand Act 1989 (including any "superannuation fund" or "superannuation scheme");
- b) an "insurer" as that term is defined in section 2 of the Insurance Companies (Rating and Inspections) Act 1994 or any other person carrying on the business of providing insurance cover (of whatever nature);
- c) a person carrying on business as a sharebroker, an investment adviser or a fund manager (to the extent that person is acting in that capacity); or
- d) a person who is a subsidiary of, or who is controlled by a financial institution within a), b), or c) above.

The Crown Retail Guarantee applies for a period commencing on 12 October 2008 and expiring on 12 October 2010 ("Guarantee Period").

Under the Crown Retail Guarantee the Crown absolutely and irrevocably guarantees:

- a) all obligations of the Bank to pay money to a creditor under Debt Securities ("Indebtedness") that become due and payable during the Guarantee Period; and
- b) if a Default Event, as defined in the Retail Deed, occurs during the Guarantee Period, all Indebtedness that exists on the date of that Default Event (whether or not that Indebtedness is due and payable during the Guarantee Period); and
- c) all interest accruing on the amounts referred to in b) after the occurrence of the Default Event.

The Crown undertakes that if the Bank does not pay an amount referred to in a), b) or c) above, the Crown will pay that amount to the creditor when it is due and payable (except to the extent that that Indebtedness or interest is not paid solely as a result of an administrative error or technical error and is subsequently paid within 7 days of its due date).

The Crown's obligation to pay any amount under the Crown Retail Guarantee is subject to the Crown receiving a notice of claim from the creditor in respect of the relevant Indebtedness and to the Crown satisfying itself as to the amount of the relevant Indebtedness and such other matters as the Crown reasonably considers appropriate in order to ascertain the extent of its liability under the Crown Retail Guarantee in respect of that Indebtedness. Notice may be served on the Crown in respect of the Crown Retail Guarantee by service on The Treasury at 1 The Terrace, Wellington.

The maximum liability of the Crown to each creditor under the Crown Retail Guarantee is one million New Zealand dollars (\$1,000,000). For this purpose amounts owed to creditors by the Bank under any debt security will be aggregated with other amounts owed to the same creditor by the Bank which are supported by the Crown Retail Guarantee.

Crown Wholesale Guarantee

The Crown Wholesale Guarantee is provided under the Crown Wholesale Funding Guarantee in respect of the Bank entered into by the Crown on 23 December 2008 and supplemented on 19 February 2009 ("Wholesale Deed").

Newly issued senior unsecured (except for covered bonds, which are also eligible) negotiable or transferable debt securities issued by the Bank, or issued by a subsidiary of the Bank and guaranteed by the Bank, may be eligible to benefit from the Crown Wholesale Guarantee. For the Crown Wholesale Guarantee to apply, the Bank will need to apply to the Crown for a Guarantee Eligibility Certificate (as defined in the Wholesale Deed) in respect of the issue of debt securities. The decision to issue a Guarantee Eligibility Certificate in respect of any issue of debt securities is at the sole and absolute discretion of the Crown.

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

- a) guarantees the payment by the Bank of any liability of the Bank to pay principal and interest (excluding any penalty interest or other amount only payable following a default) in respect of the debt securities for which the Crown has issued a Guarantee Eligibility Certificate; and
- b) undertakes that if the Bank does not pay any such liability on the date on which it becomes due and payable, the Crown shall, within five Business Days of a demand being made in accordance with the Wholesale Deed and following the expiry of any applicable grace period, pay such liability.

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

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

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

- a) the scheduled maturity date for the debt security under which the guaranteed liability arises; and
- b) the date falling five years after the date of issue of the debt security under which the guaranteed liability arises, unless valid demand has been made on the Crown prior to that time.

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

No Guarantee Eligibility Certificate shall be issued by the Crown in respect of any proposed debt security unless the aggregate amount of the proposed debt security and all of the Bank's outstanding liabilities to pay principal and interest in respect of the debt securities for which the Crown has issued a Guarantee Eligibility Certificate will not exceed the maximum amount as the Crown may from time to time determine and notify in writing to the Bank (which, at the date of this General Short Form Disclosure Statement, is set at \$65 billion).

General Disclosures (continued)

Further information

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

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

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

Foreign Currency

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

Domestic Currency

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

Credit ratings are assigned to sovereigns and businesses by the international credit rating agencies. Credit ratings provide investors with an indication of the credit-worthiness of an entity in which they are considering investing. There are three major internationally recognised credit rating agencies: Standard & Poor's, Moody's Investors Service and Fitch Ratings. AAA is the highest rating level while a rating in the AA range is also seen as a very high level of credit-worthiness. Refer to "Credit Rating Information" for a full description of credit rating scales.

Supplemental Disclosure Statement

The most recent Supplemental Disclosure Statement for the three months ended 31 December 2009 is available at no charge:

- a) on the Bank's website www.anz.com;
- b) immediately if request is made at the Bank's head office, located at Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington, New Zealand (at Level 6, 1 Victoria Street, Wellington, New Zealand effective 1 March 2010); and
- c) within five working days of a request, if a request is made at any branch of the ANZ or The National Bank of New Zealand.

The Bank's most recent Supplemental Disclosure Statement contains a copy of the bilateral netting agreement (refer Note 17) and a copy of the Crown Retail Guarantee and Crown Wholesale Guarantee.

Directorate

Since the authorisation date of the previous General Disclosure Statement on 13 November 2009, there have been no changes to Directors of the Bank.

Income Statement

For the three months ended 31 December 2009

	Note	Consolidated		
		Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Interest income		1,381	2,323	7,246
Interest expense		836	1,722	4,892
Net interest income		545	601	2,354
Net trading gains		19	70	187
Funds management and insurance income		36	24	97
Other operating income		186	69	465
Share of profit of equity accounted associates and jointly controlled entities		36	6	13
Operating income		822	770	3,116
Operating expenses		374	380	1,477
Profit before provision for credit impairment and income tax		448	390	1,639
Provision for credit impairment	10	145	94	874
Profit before income tax		303	296	765
Income tax expense	3	60	86	467
Profit after income tax		243	210	298

Statement of Comprehensive Income

For the three months ended 31 December 2009

	Note	Consolidated		
		Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Profit after income tax		243	210	298
Available-for-sale revaluation reserve:				
– Valuation gain taken to equity		22	10	2
Cash flow hedging reserve:				
– Valuation gain (loss) taken to equity		4	25	(1)
– Transferred to income statement		13	(9)	(3)
Actuarial loss on defined benefit schemes		-	-	(25)
Income tax (expense) credit on items recognised directly in equity		(5)	(7)	10
Net income (expense) recognised directly in equity		34	19	(17)
Total comprehensive income for the period		277	229	281

Statement of Changes In Equity

For the three months ended 31 December 2009

	Note	Consolidated		
		Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Ordinary share capital				
Balance at beginning of the period		6,943	5,943	5,943
Ordinary share capital issued during the period		-	-	1,000
Balance at end of the period	15	6,943	5,943	6,943
Available-for-sale revaluation reserve				
Balance at beginning of the period		25	23	23
Valuation gain recognised after tax		22	7	2
Balance at end of the period		47	30	25
Cash flow hedging reserve				
Balance at beginning of the period		23	24	24
Valuation gain recognised after tax		3	18	-
Transferred to income statement		9	(6)	(1)
Balance at end of the period		35	36	23
Total reserves		82	66	48
Retained earnings				
Balance at beginning of the period		3,097	3,817	3,817
Profit after income tax attributable to parent		243	210	298
Total available for appropriation		3,340	4,027	4,115
Actuarial loss on defined benefit schemes after tax		-	-	(18)
Interim ordinary dividend paid		-	-	(1,000)
Balance at end of the period		3,340	4,027	3,097
Minority interests				
Balance at beginning of the period		-	-	-
Minority interests in acquired subsidiaries	26	1	-	-
Balance at end of the period		1	-	-
Total equity				
Balance at beginning of the period		10,088	9,807	9,807
Total comprehensive income for the period		277	229	281
Transactions with shareholders		-	-	-
Other transactions	26	1	-	-
Balance at end of the period		10,366	10,036	10,088

Balance Sheet

As at 31 December 2009

	Note	Consolidated		
		Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Assets				
Liquid assets	4	2,869	3,049	2,762
Due from other financial institutions	5	4,562	7,127	4,514
Trading securities	6	5,910	2,484	4,166
Derivative financial instruments		7,891	15,102	11,408
Available-for-sale assets	7	2,458	101	1,513
Net loans and advances	8	85,978	99,268	88,259
Investments relating to insurance business		40	-	-
Insurance policy assets		81	-	-
Shares in associates and jointly controlled entities		148	370	464
Current tax assets		-	-	65
Other assets		895	884	1,137
Deferred tax assets		427	167	-
Premises and equipment		298	247	278
Goodwill and other intangible assets		3,546	3,328	3,325
Total assets		115,103	132,127	117,891
Liabilities				
Due to other financial institutions	11	1,678	6,395	3,725
Deposits and other borrowings	12	72,970	74,145	71,764
Due to parent company		388	964	930
Derivative financial instruments		8,787	13,917	10,762
Payables and other liabilities		1,844	1,692	1,809
Current tax liabilities		17	91	-
Deferred tax liabilities		-	-	17
Provisions		375	355	283
Bonds and notes	13	16,073	21,706	15,917
Loan capital	14	2,605	2,826	2,596
Total liabilities		104,737	122,091	107,803
Net assets		10,366	10,036	10,088
Equity				
Ordinary share capital	15	6,943	5,943	6,943
Reserves		82	66	48
Retained earnings		3,340	4,027	3,097
Share capital and reserves attributable to shareholders		10,365	10,036	10,088
Minority interests		1	-	-
Total equity		10,366	10,036	10,088

Cash Flow Statement

For the three months ended 31 December 2009

	Note	Consolidated		
		Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Cash Flows from Operating Activities				
Interest received		1,331	2,210	7,131
Dividends received		-	-	3
Fees and other income received		342	325	1,017
Interest paid		(857)	(1,616)	(4,884)
Operating expenses paid		(375)	(366)	(1,480)
Income taxes (paid) received		(368)	8	(425)
Cash flows from operating profits before changes in operating assets and liabilities		73	561	1,362
Net changes in operating assets and liabilities:				
Decrease (increase) in due from other financial institutions – term		1,795	(1,420)	(246)
(Increase) decrease in trading securities		(1,746)	162	(1,505)
Decrease (increase) in derivative financial instruments		1,717	2,456	(3,936)
(Increase) decrease in available-for-sale assets		(738)	17	(1,388)
Decrease (increase) in loans and advances		243	(872)	(1,108)
Proceeds from sale of loans and advances to NZ Branch		1,740	-	9,863
Decrease (increase) in other assets		276	115	(164)
(Decrease) increase in due to other financial institutions		(2,120)	3,083	509
(Decrease) increase in deposits		(455)	1,188	672
Increase (decrease) in other borrowings		1,350	(5,178)	(4,637)
Increase (decrease) in payables and other liabilities		49	(122)	165
Net cash flows from (used in) operating activities	21	2,184	(10)	(413)
Cash Flows from Investing Activities				
Proceeds from sale of shares in associates and jointly controlled entities		1	-	-
Proceeds from sale of premises and equipment		1	33	33
Proceeds from sale of software		-	-	1
Purchase of shares in associates and jointly controlled entities		-	(1)	(92)
Purchase of shares in subsidiary entities		(247)	-	-
Purchase of intangible assets		(2)	(19)	(20)
Purchase of premises and equipment		(32)	(30)	(95)
Net cash flows used in investing activities		(279)	(17)	(173)
Cash Flows from Financing Activities				
Proceeds from bonds and notes		2,121	135	5,012
Redemptions of bonds and notes		(1,692)	(1,868)	(7,751)
Redemptions of loan capital		-	-	(225)
(Decrease) increase in due to parent company		(542)	560	526
Proceeds from share issue		-	-	1,000
Dividends paid		-	-	(1,000)
Net cash flows used in financing activities		(113)	(1,173)	(2,438)
Net cash flows from (used in) operating activities		2,184	(10)	(413)
Net cash flows used in investing activities		(279)	(17)	(173)
Net cash flows used in financing activities		(113)	(1,173)	(2,438)
Net increase (decrease) in cash and cash equivalents		1,792	(1,200)	(3,024)
Cash and cash equivalents at beginning of the period		4,765	7,789	7,789
Cash and cash equivalents at end of the period¹		6,557	6,589	4,765

¹ A reconciliation of cash and cash equivalents to the Banking Group's core liquidity portfolio is included in Note 21 Notes to the Cash Flow Statement. The notes on pages 9 to 37 form part of and should be read in conjunction with these financial statements

Notes to the Financial Statements

1. Accounting Policies

(i) Basis of preparation

These financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008. These financial statements should be read in conjunction with the consolidated financial statements for the year ended 30 September 2009.

(ii) Basis of measurement

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

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

(iii) Changes in accounting policies

NZ IFRS 8 Operating Segments ("NZ IFRS 8"), NZ IAS 1 Presentation of Financial Statements (revised) ("NZ IAS 1") and NZ IFRS 3 Business Combinations (revised) have been applied by the Banking Group for the three months ended 31 December 2009.

NZ IFRS 8 replaces NZ IAS 14 Segment Reporting and requires the use of a "management approach" to segment reporting. Segment information is therefore presented on the same basis as that used for internal reporting purposes. Goodwill associated with the acquisition of NBNZ Holdings Limited Group is allocated to the reportable segments in accordance with NZ IFRS 8. The Banking Group's reportable operating segments did not change on adoption of NZ IFRS 8.

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

The application of these standards has not resulted in a material impact on the financial results or position of the Banking Group.

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

(iv) Presentation currency and rounding

The amounts contained in the financial statements are presented in millions of New Zealand dollars, unless otherwise stated.

(v) Consolidation

These financial statements consolidate the financial statements of ANZ National Bank Limited (the "Bank") and its subsidiaries (the "Banking Group").

(vi) Comparatives

To ensure consistency with the current period, comparative figures have been reclassified where appropriate.

2. Risk Management Policies

A number of new and existing types of risk have been recognised following the consolidation of the ING (NZ) Holdings Limited group ("ING NZ") into the Banking Group. The new risks relate to ING NZ's insurance, real estate management and funds management business. The new risks identified are not considered material to the Banking Group. At 31 December 2009 the ING NZ risk management approaches have not been aligned or integrated with the rest of the Banking Group. However, ING NZ identifies, controls and monitors these risks through a set of policies and a risk management framework which is broadly in line with that in place across the Banking Group.

Notes to the Financial Statements (continued)

3. Income Tax Expense

	Consolidated		
	Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Income tax expense before tax provisions	108	86	227
(Release of)/additional tax provisions	(48)	-	240
Income tax expense	60	86	467
Effective tax rate (%) before release of tax provisions	35.6%	29.1%	29.7%
Effective tax rate (%)	19.8%	29.1%	61.0%

4. Liquid Assets

	Consolidated		
	Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Cash and balances with central banks	2,424	2,386	2,373
Money at call	363	586	341
Bills receivable and remittances in transit	82	77	48
Total liquid assets	2,869	3,049	2,762
Included within liquid assets is the following balance:			
Overnight balances with central banks	2,141	2,112	2,207

5. Due from Other Financial Institutions

	Consolidated		
	Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Able to be withdrawn without prior notice	164	254	172
Securities purchased under agreement to resell	339	592	1,083
Security settlements	128	-	370
Certificates of deposit	1,122	4,891	2,338
Reserve Bank bills	100	-	398
Term loans and advances	2,709	1,390	153
Total due from other financial institutions	4,562	7,127	4,514
Included within due from other financial institutions is the following related party balance:			
Ultimate Parent Bank	929	-	-

6. Trading Securities

	Consolidated		
	Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Government, Local Body stock and bonds	2,599	430	1,389
Certificates of deposit	587	392	191
Promissory notes	56	177	28
Other bank bonds	2,592	1,369	2,475
Other	76	116	83
Total trading securities	5,910	2,484	4,166
Included within trading securities is the following balance:			
Assets encumbered through repurchase agreements	101	131	159

Notes to the Financial Statements (continued)

7. Available-for-Sale Assets

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Government, Local Body stock and bonds	2,159	3	1,394
Other debt securities	213	34	48
Equity securities	86	64	71
Total available-for-sale assets	2,458	101	1,513

8. Net Loans and Advances

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Overdrafts	1,954	1,855	2,087
Credit card outstandings	1,457	1,488	1,402
Term loans – housing ¹	43,965	53,498	44,763
Term loans – non-housing	39,070	41,506	40,231
Finance lease receivables	690	769	683
Gross loans and advances	87,136	99,116	89,166
Provision for credit impairment (Note 10)	(1,356)	(725)	(1,272)
Unearned finance income	(258)	(330)	(262)
Fair value hedge adjustment	453	1,163	615
Deferred fee revenue and expenses	(54)	(58)	(51)
Capitalised brokerage/mortgage origination fees	57	102	63
Total net loans and advances	85,978	99,268	88,259

On 27 February 2009 and 28 July 2009, \$4,877 million and \$4,986 million, respectively, of residential mortgage assets were sold to the NZ Branch. These existing tranches of residential mortgages are regularly topped up with additional mortgages. Further sales of \$1,740m of residential mortgages occurred during the three months ended 31 December 2009. These assets qualify for de-recognition as the Banking Group does not retain a continuing involvement in the transferred assets. Net loans and advances in the Banking Group have decreased as a result of selling these assets.

¹ The Banking Group has entered into repurchase agreements for residential mortgage-backed securities with the RBNZ with a book value of \$200 million (31/12/2008 \$1,370 million; 30/09/2009 \$1,806 million). The underlying collateral accepted by the RBNZ under this transaction are mortgages to the value of \$246 million (31/12/2008 \$1,711 million; 30/09/2009 \$2,250 million).

Notes to the Financial Statements (continued)

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

	Consolidated			Total \$m
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	
Unaudited 31/12/2009				
Balance at beginning of the period	377	59	740	1,176
Transfers from productive	151	56	226	433
Transfers to productive	(5)	-	(28)	(33)
Assets realised or loans repaid	(96)	(11)	(98)	(205)
Write offs	(14)	(31)	(11)	(56)
Individually impaired asset balance at end of the period	413	73	829	1,315
Restructured assets	7	-	-	7
Total impaired assets	420	73	829	1,322
Unaudited 31/12/2008				
Balance at beginning of the period	83	30	214	327
Transfers from productive	71	82	27	180
Transfers to productive	(5)	(14)	(15)	(34)
Assets realised or loans repaid	(17)	(22)	(12)	(51)
Write offs	(2)	(33)	(4)	(39)
Individually impaired asset balance at end of the period	130	43	210	383
Restructured assets	-	-	-	-
Total impaired assets	130	43	210	383
Audited 30/09/2009				
Balance at beginning of the year	83	30	214	327
Transfers from productive	576	243	882	1,701
Transfers to productive	(22)	(20)	(25)	(67)
Assets realised or loans repaid	(232)	(45)	(230)	(507)
Write offs	(28)	(149)	(101)	(278)
Individually impaired asset balance at end of the year	377	59	740	1,176
Restructured assets	-	2	-	2
Total impaired assets	377	61	740	1,178

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

At 31 December 2009, loans and advances of \$571 million were renegotiated in the Banking Group (31/12/2008 \$45 million; 30/09/2009 \$250 million).

Notes to the Financial Statements (continued)

9. Impaired Assets, Past Due Assets and Other Assets Under Administration (continued)

	Consolidated			Total \$m
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	
Unaudited 31/12/2009				
Balance at end of period				
Past due assets (90 days past due assets) ¹	215	57	106	378
Other assets under administration	1	-	8	9
Undrawn facilities with impaired customers	-	-	49	49
Interest not recognised on impaired assets	7	3	18	28
Unaudited 31/12/2008				
Balance at end of period				
Past due assets (90 days past due assets) ¹	312	61	57	430
Other assets under administration	-	-	7	7
Undrawn facilities with impaired customers	-	-	10	10
Interest not recognised on impaired assets	3	1	4	8
Audited 30/09/2009				
Balance at end of year				
Past due assets (90 days past due assets) ¹	265	59	111	435
Other assets under administration	-	-	-	-
Undrawn facilities with impaired customers	-	-	32	32
Interest not recognised on impaired assets	18	3	35	56

There are no undrawn facilities with 90 day past due customers or customers within the other assets under administration category as at 31 December 2009 (31/12/2008 \$nil; 30/09/2009 \$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.

Notes to the Financial Statements (continued)

10. Provision for Credit Impairment

	Consolidated			Total \$m
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	
Unaudited 31/12/2009				
Collective provision				
Balance at beginning of the period	121	159	518	798
(Credit) charge to income statement	(7)	(1)	4	(4)
Balance at end of the period	114	158	522	794
Individual provision (individually impaired assets)				
Balance at beginning of the period	153	40	281	474
Charge to income statement	56	28	65	149
Recoveries of amounts previously written off	1	4	-	5
Bad debts written off	(14)	(31)	(11)	(56)
Discount unwind ¹	(3)	(1)	(6)	(10)
Balance at end of the period	193	40	329	562
Total provision for credit impairment	307	198	851	1,356
Unaudited 31/12/2008				
Collective provision				
Balance at beginning of the period	81	164	289	534
Charge (credit) to income statement	1	(1)	22	22
Balance at end of the period	82	163	311	556
Individual provision (individually impaired assets)				
Balance at beginning of the period	28	10	94	132
Charge to income statement	12	37	23	72
Recoveries of amounts previously written off	-	5	-	5
Bad debts written off	(4)	(32)	(3)	(39)
Discount unwind ¹	-	-	(1)	(1)
Balance at end of the period	36	20	113	169
Total provision for credit impairment	118	183	424	725
Audited 30/09/2009				
Collective provision				
Balance at beginning of the year	81	164	289	534
Charge (credit) to income statement	40	(5)	229	264
Balance at end of the year	121	159	518	798
Individual provision (individually impaired assets)				
Balance at beginning of the year	28	10	94	132
Charge to income statement	152	161	297	610
Recoveries of amounts previously written off	1	18	1	20
Bad debts written off	(28)	(149)	(101)	(278)
Discount unwind ¹	-	-	(10)	(10)
Balance at end of the year	153	40	281	474
Total provision for credit impairment	274	199	799	1,272

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

Notes to the Financial Statements (continued)

10. Provision for Credit Impairment (continued)

	Consolidated			Total \$m
	Retail mortgages \$m	Other retail exposures \$m	Corporate exposures \$m	
Provision movement analysis				
Unaudited 31/12/2009				
New and increased provisions	63	32	93	188
Provision releases	(6)	-	(28)	(34)
	57	32	65	154
Recoveries of amounts previously written off	(1)	(4)	-	(5)
Individual provision charge	56	28	65	149
Collective provision charge	(7)	(1)	4	(4)
Charge to income statement	49	27	69	145
Unaudited 31/12/2008				
New and increased provisions	12	42	25	79
Provision releases	-	-	(2)	(2)
	12	42	23	77
Recoveries of amounts previously written off	-	(5)	-	(5)
Individual provision charge	12	37	23	72
Collective provision charge	1	(1)	22	22
Charge to income statement	13	36	45	94
Audited 30/09/2009				
New and increased provisions	162	182	316	660
Provision releases	(9)	(3)	(18)	(30)
	153	179	298	630
Recoveries of amounts previously written off	(1)	(18)	(1)	(20)
Individual provision charge	152	161	297	610
Collective provision charge	40	(5)	229	264
Charge to income statement	192	156	526	874

Notes to the Financial Statements (continued)

11. Due to Other Financial Institutions

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	492	3,125	497
Securities sold under agreements to repurchase from other financial institutions	101	31	159
Securities sold under agreements to repurchase from central banks ¹	200	1,720	1,806
Other financial institutions	885	1,519	1,263
Total due to other financial institutions	1,678	6,395	3,725
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 Bank	483	3,125	485

Balances owing to the Ultimate Parent Bank are due within twelve months. Interest is paid at variable bank rates.

¹ The Banking Group has entered into repurchase agreements for residential mortgage-backed securities with the RBNZ with a book value of \$200 million (31/12/2008 \$1,370 million; 30/09/2009 \$1,806 million). The underlying collateral accepted by the RBNZ under this transaction are mortgages to the value of \$246 million (31/12/2008 \$1,711 million; 30/09/2009 \$2,250 million).

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

Notes to the Financial Statements (continued)

12. Deposits and Other Borrowings

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Amortised cost			
Certificates of deposit	3,028	6,493	4,441
Term deposits	34,232	30,714	32,997
Demand deposits bearing interest	20,482	22,662	21,024
Deposits not bearing interest	4,821	4,127	4,373
Secured debenture stock	1,383	1,796	1,537
Total deposits and other borrowings recognised at amortised cost	63,946	65,792	64,372
Fair value through the profit or loss			
Commercial paper	9,024	8,353	7,392
Total deposits and other borrowings recognised at fair value	9,024	8,353	7,392
Total deposits and other borrowings	72,970	74,145	71,764

The Banking Group has not defaulted on any principal, interest or redemption amounts on its borrowed funds during the three months ended 31 December 2009 (31/12/2008 \$nil; 30/09/2009 \$nil). Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Included within deposits and other borrowings are the following balances:			
Commercial paper issued by ANZ National (Int'l) Limited guaranteed by the Bank at amortised cost	9,021	8,321	7,388
UDC Finance Limited secured debentures			
Carrying value of total tangible assets	1,912	2,102	1,877

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.

13. Bonds and Notes

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Total bonds and notes	16,073	21,706	15,917
Included within bonds and notes are the following related party balances:			
Subsidiaries of the Australia and New Zealand Banking Group Limited	2,221	2,658	2,233
Bonds and notes issued by ANZ National (Int'l) Limited guaranteed by the Bank	14,539	20,222	14,401

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

Notes to the Financial Statements (continued)

14. Loan Capital

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
AUD 207,450,000 term subordinated floating rate loan	-	248	-
AUD 265,740,000 perpetual subordinated floating rate loan	328	317	324
AUD 186,100,000 term subordinated floating rate loan	230	222	227
AUD 43,767,507 term subordinated floating rate loan	54	52	53
AUD 169,520,000 term subordinated floating rate loan	209	202	207
Term subordinated fixed rate bonds	950	950	950
Perpetual subordinated bond	835	835	835
Total loan capital issued	2,606	2,826	2,596
Less loan capital instruments held by the Banking Group	(1)	-	-
Total loan capital	2,605	2,826	2,596
Included within loan capital is the following related party balance:			
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	821	1,041	811

AUD 207,450,000 loan

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

AUD 265,740,000 loan

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

AUD 186,100,000 loan

This loan was drawn down on 19 April 2005 with an ultimate maturity date of 20 April 2015. The 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.

Notes to the Financial Statements (continued)

14. Loan Capital (continued)

NZD subordinated bonds

The terms and conditions of the term subordinated fixed rate bonds are as follows:

Term subordinated fixed rate bonds

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 December 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 December 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.

All of the NZD subordinated bonds are listed on the 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.

15. Ordinary Share Capital

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Ordinary share capital at beginning of the period	6,943	5,943	5,943
Ordinary share capital issued during the period	-	-	1,000
Ordinary share capital at end of the period	6,943	5,943	6,943

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.

Notes to the Financial Statements (continued)

16. Capital Adequacy

Capital Adequacy Ratios under the Basel II Internal Models Based Approach

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Unaudited 30/09/2009 \$m
Tier One Capital	9.62%	8.19%	9.03%
RBNZ minimum Tier One Capital ratio	4.00%	4.00%	4.00%
Minimum Tier One Capital ratio under Crown Wholesale Guarantee	6.00%	6.00%	6.00%
Total Capital	13.31%	11.68%	12.67%
RBNZ minimum Total Capital ratio	8.00%	8.00%	8.00%

Capital of The Banking Group as at 31 December 2009 (Unaudited)	\$m
Tier One Capital	
Ordinary share capital	6,943
Revenue and similar reserves	3,179
Current period's profit after tax	243
Minority interest	1
Less deductions from Tier One Capital	
– Goodwill	3,265
– Provisional value of goodwill and intangible assets relating to ING NZ (refer note 26)	221
– Software and other intangible assets	60
– Future income tax benefits	20
– Cash flow hedging reserve	35
– 50% of total expected loss to the extent greater than total eligible allowances for impairment	26
Total Tier One Capital	6,739
Tier Two Capital – Upper Level Tier Two Capital	
Perpetual subordinated debt	1,163
Tier Two Capital – Lower Level Tier Two Capital	
Term subordinated debt	1,442
	2,605
Less deductions from Tier Two Capital	
– 50% of total expected loss to the extent greater than total eligible allowances for impairment	26
Total Tier Two Capital	2,579
Total Capital	9,318

Total Required Capital of the Banking Group as at 31 December 2009 (unaudited)

	Exposure at default \$m	Risk weighted exposure or implied risk weighted exposure \$m	Total capital requirement \$m
Exposures subject to internal ratings based approach	121,951	49,956	3,996
Specialised lending exposures subject to slotting approach	6,660	6,840	547
Exposures subject to standardised approach	576	473	38
Equity exposures	236	911	73
Other exposures	3,187	809	65
Total credit risk	132,610	58,989	4,719
Operational risk	n/a	5,178	414
Market risk	n/a	4,253	340
Supervisory adjustment ¹	n/a	1,602	128
Total capital requirement	132,610	70,022	5,601

¹ The supervisory adjustment includes an adjustment of 15% of risk-weighted retail mortgages and an adjustment, if required, in order to maintain the Basel II minimum capital requirements at no less than 90% of the Basel I minimum capital requirements, in accordance with the Bank's Conditions of Registration. No adjustment was required to maintain the Basel II minimum capital requirements at no less than 90% of the Basel I minimum capital requirements at 31 December 2009.

Notes to the Financial Statements (continued)

16. Capital Adequacy (continued)

Capital Adequacy Ratios under the Basel I Approach

	Consolidated			Registered Bank		
	Unaudited 31/12/2009	Unaudited 31/12/2008	Unaudited 30/09/2009	Unaudited 31/12/2009	Unaudited 31/12/2008	Unaudited 30/09/2009
Tier One Capital	9.06%	7.71%	8.43%	8.96%	7.62%	8.34%
Total Capital	12.55%	11.09%	11.82%	12.37%	10.94%	11.66%
Total risk-weighted exposures (\$m)	74,627	83,718	76,467	73,021	81,793	74,665
RBNZ minimum ratios:						
Tier One Capital	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Total Capital	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Basel I capital adequacy in respect of the Banking Group and Registered Bank has been derived in accordance with the RBNZ document entitled 'Capital Adequacy Framework (Basel I Approach)' (BS2) dated March 2008.

Implementation of the Advanced Internal Ratings Based Approach to Credit Risk Measurement

The Banking Group adheres to the standards of risk grading and risk quantification as set out for Internal Ratings Based ("IRB") banks in the RBNZ document entitled 'Capital Adequacy Framework (Internal Models Based Approach)' ("BS2B"), dated March 2008.

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

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

Exposure at Default ("EAD") – the expected facility exposure at default; and

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

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

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

Refer to the Banking Group's 30 September 2009 General Disclosure Statement for a more detailed description of the Banking Group's implementation of the IRB approach.

Notes to the Financial Statements (continued)

16. Capital Adequacy (continued)

Credit Risk Exposures subject to the Internal Ratings Based Approach

The following tables analyse the capital requirements by asset class under the IRB approach:

	Consolidated as at 31/12/2009 (Unaudited)					
	Total exposure or principal amount \$m	Exposure at default \$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
On-balance sheet exposures						
Corporate	35,353	35,353	37	64	23,894	1,912
Sovereign	6,717	6,717	5	1	68	5
Bank	6,301	5,983	63	13	817	65
Retail mortgages	41,080	41,080	21	23	10,191	815
Other retail	4,246	4,246	57	68	3,075	246
Total on-balance sheet exposures	93,697	93,379	30	38	38,045	3,043
Off-balance sheet exposures						
Corporate	14,013	11,948	47	52	6,623	530
Sovereign	79	79	5	1	-	-
Bank	745	655	47	16	108	9
Retail mortgages	5,388	5,006	20	21	1,130	90
Other retail	4,472	4,487	69	46	2,201	176
Total off-balance sheet exposures	24,697	22,175	45	43	10,062	805
Market related contracts						
Corporate	59,365	1,463	55	56	862	69
Sovereign	8,542	423	5	1	5	-
Bank	578,458	4,511	65	21	982	79
Total market related contracts	646,365	6,397	59	27	1,849	148
Total credit risk exposures subject to the internal ratings based approach	764,759	121,951	34	39	49,956	3,996

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

Notes to the Financial Statements (continued)

16. Capital Adequacy (continued)

	Consolidated as at 31/12/2009 (Unaudited)					
	Probability of default %	Exposure at default \$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
Corporate CCR rating						
0 - 2	0.05	4,744	60	21	1,056	84
3 - 4	0.32	20,259	37	37	7,951	636
5	1.01	10,561	36	63	7,040	564
6	2.33	6,955	38	85	6,282	503
7 - 8	7.60	5,177	41	124	6,801	544
Default	100.00	1,068	50	199	2,249	180
Total corporate credit risk exposures	3.69	48,764	40	61	31,379	2,511
Sovereign CCR rating						
0	0.01	7,219	5	1	73	5
1	n/a	-	-	-	-	-
2	n/a	-	-	-	-	-
3	n/a	-	-	-	-	-
4 - 8	n/a	-	-	-	-	-
Default	n/a	-	-	-	-	-
Total sovereign credit risk exposures	0.01	7,219	5	1	73	5
Bank CCR rating						
0	0.01	8,357	65	15	1,342	108
1	0.02	2,306	58	17	423	34
2 - 4	0.11	420	42	24	105	8
5 - 6	1.02	30	65	106	34	3
7 - 8	5.52	2	65	198	3	-
Default	100.00	34	65	-	-	-
Total bank credit risk exposures	0.32	11,149	63	16	1,907	153
Retail mortgages CCR rating						
0 - 3	0.16	4,592	22	7	353	28
4	0.43	26,919	20	14	3,956	316
5	1.20	8,957	21	30	2,811	225
6	2.65	3,094	22	51	1,674	134
7 - 8	14.69	1,730	24	115	2,116	169
Default	100.00	794	29	49	411	33
Total residential mortgage credit risk exposures	2.95	46,086	21	23	11,321	905
Other retail CCR rating						
0 - 2	0.11	15	58	15	2	-
3 - 4	0.30	4,377	67	32	1,504	121
5	1.15	1,781	64	68	1,279	102
6	2.68	1,447	51	69	1,065	85
7 - 8	11.42	956	65	112	1,138	91
Default	100.00	157	59	173	288	23
Total other retail credit risk exposures	3.88	8,733	63	57	5,276	422

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

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

Notes to the Financial Statements (continued)

16. Capital Adequacy (continued)

Specialised Lending subject to the Slotting Approach

	Consolidated as at 31/12/2009 (Unaudited)			
	Exposure amount \$m	Risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
On-balance sheet exposures³				
Strong	1,474	70	1,093	87
Good	2,452	90	2,339	187
Satisfactory	1,769	115	2,157	173
Weak	291	250	772	62
Default	187	-	-	-
Total on-balance sheet exposures subject to the slotting approach	6,173	97	6,361	509

	Exposure amount \$m	Exposure at default \$m	Average risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	504	401	92	391	31
Market related contracts	2,057	86	97	88	7
Total off-balance sheet exposures subject to the slotting approach	2,561	487	93	479	38

Specialised lending exposures subject to the slotting approach have been derived in accordance with the RBNZ document BS2B.

Credit Risk Exposures subject to the Standardised Approach

	Consolidated as at 31/12/2009 (Unaudited)			
	Exposure amount \$m	Risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
On-balance sheet exposures				
Corporates	189	100	201	16
Sovereign	22	-	-	-
Banks	64	20	14	1
Residential mortgages	60	39	25	2
Other Retail	68	100	72	6
Past due assets	7	150	11	1
Total on-balance sheet exposures subject to the standardised approach	410	74	323	26

	Exposure amount \$m	Average credit conversion factor %	Credit equivalent amount \$m	Average risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
Off-balance sheet exposures						
Undrawn commitments and other off balance sheet exposures	586	28	166	85	150	12

Credit risk exposures subject to the standardised approach have been calculated in accordance with the RBNZ document BS2A.

Equity Exposures

	Consolidated as at 31/12/2009 (Unaudited)			
	Exposure amount \$m	Risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
All other equity holdings (not deducted from capital)	236	364	911	73

Equity exposures have been calculated in accordance with the RBNZ document BS2B.

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

³ The supervisory categories of Specialised Lending above are associated with a specific risk-weight. These categories broadly correspond to the following external credit assessments using the Standard & Poor's rating scale: Strong BBB- or better, Good BB+ or BB, Satisfactory BB- or B+ and Weak B to C-.

Notes to the Financial Statements (continued)

16. Capital Adequacy (continued)

Other Exposures

	Consolidated as at 31/12/2009 (Unaudited)			
	Exposure amount \$m	Risk weight %	Risk weighted exposure ² \$m	Total capital requirement \$m
Cash and gold bullion	283	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	2,141	-	-	-
Other assets	763	100	809	65
Total other IRB credit risk exposures	3,187	24	809	65

Other exposures have been calculated in accordance with the RBNZ document BS2B.

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

Operational Risk

	Implied risk weighted exposure \$m	Total operational risk capital requirement \$m
Operational risk capital requirement as at 31 December 2009 (Unaudited)		
Advanced Measurement Approach for operational risk	5,178	414

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with the RBNZ document BS2B.

Market Risk

	Implied risk weighted exposure \$m	Aggregate capital charge \$m
Market risk capital requirement as at 31 December 2009 (Unaudited)		
Interest rate risk	4,155	332
Foreign currency risk	12	1
Equity risk	86	7
	4,253	340

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

Credit Risk Mitigation

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

As at 31 December 2009, under the IRB approach, the Banking Group had \$1,424m of Corporate exposures covered by guarantees and \$nil of Corporate exposures covered by credit derivatives, where the presence of the guarantees or credit derivatives was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

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

Notes to the Financial Statements (continued)

16. Capital Adequacy (continued)

Retail Mortgages by Loan-to-Valuation Ratio

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

	Exposure amount Unaudited 31/12/2009 \$m
LVR range	
0% - 59%	21,072
60% - 69%	6,621
70% - 79%	7,883
80% - 89%	4,696
Over 90%	4,580
Total retail mortgage exposures subject to the internal ratings based approach	44,852

Pillar II Capital for Other Material Risks

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

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

The Banking Group's internal capital allocation for these other material risks is:

	Total capital requirement		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Unaudited 30/09/2009 \$m
Internal capital allocation for other material risks	147	143	148

Notes to the Financial Statements (continued)

17. Concentrations of Credit Risk

Concentrations of credit risk to individual counterparties

The number of individual counterparties other than banks or groups of closely related counterparties of which a bank is a parent (excluding OECD Governments and connected persons), where the quarter end and peak end-of-day credit exposure equals or exceeds 10% of equity (as at the end of the quarter) in ranges of 10% of equity, on the basis of limits:

	Unaudited 31/12/2009 Number of Counterparties		Unaudited 31/12/2008 Number of Counterparties		Audited 30/09/2009 Number of Counterparties	
	As at	Peak for the quarter	As at	Peak for the quarter	As at	Peak for the quarter
10% to 20% of equity	1	1	1	1	1	1

The number of individual counterparties disclosed within the various equity ranges is based on counterparty limits rather than actual exposures outstanding. No account is taken of security and/or guarantees which the Banking Group may hold in respect of the various counterparty limits.

The amount and percentage of quarter end credit exposures to individual counterparties other than banks or groups of closely related counterparties of which a bank is a parent (excluding OECD Governments and connected persons), where the quarter end credit exposure equals or exceeds 10% of equity (as at the end of the quarter), by credit rating:

	Unaudited 31/12/2009		Unaudited 31/12/2008		Audited 30/09/2009	
	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure
As at						
Investment grade credit rating ¹	1,192	100.0%	1,662	100.0%	1,194	100.0%

Concentrations of credit risk to bank counterparties

The number of bank counterparties or groups of closely related counterparties of which a bank is the parent (excluding OECD Governments and connected persons), where the quarter end and peak end-of-day credit exposure equals or exceeds 10% of equity (as at the end of the quarter) in ranges of 10% of equity, on the basis of actual exposures:

	Unaudited 31/12/2009 Number of Counterparties		Unaudited 31/12/2008 Number of Counterparties		Audited 30/09/2009 Number of Counterparties	
	As at	Peak for the quarter	As at	Peak for the quarter	As at	Peak for the quarter
10% to 20% of equity	1	2	2	3	3	2
20% to 30% of equity	-	1	2	1	1	2
30% to 40% of equity	-	-	-	1	-	-

The amount and percentage of quarter end credit exposures to bank counterparties or groups of closely related counterparties of which a bank is a parent (excluding OECD Governments and connected persons), where the quarter end credit exposures equals or exceeds 10% of equity (as at the end of the quarter), by credit rating:

	Unaudited 31/12/2009		Unaudited 31/12/2008		Audited 30/09/2009	
	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure	Amount \$m	% of Total Credit Exposure
As at						
Investment grade credit rating ¹	1,964	100.0%	7,609	100.0%	6,201	100.0%

The number of individual counterparties disclosed within the various equity ranges and the total exposure as at the end of the quarter are gross exposures. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures. The peak number is calculated separately for each individual counterparty and the peak for all counterparties may not have occurred at the same time.

¹ All of the individual and bank counterparties included in the above tables have an investment grade credit rating. An investment grade credit rating means a credit rating of BBB or Baa3 or above, or its equivalent. In the case of a group of closely related counterparties, the credit rating applicable is that of the entity heading the group of closely related counterparties. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars, or to an entity's long term senior unsecured foreign currency obligations.

Notes to the Financial Statements (continued)

17. Concentrations of Credit Risk (continued)

Concentrations of credit risk to connected persons

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis, and partially on a gross basis. With effect from 11 August 2008, netting has occurred in respect of certain transactions which are the subject of a bilateral netting agreement disclosed in the Bank's most recent Supplemental Disclosure Statement for the period ended 31 December 2009. The amount of gross credit exposures to connected persons netted off must not be greater than 125% of the Banking Group's Tier One Capital.

	Unaudited 31/12/2009		Unaudited 31/12/2008		Audited 30/09/2009	
	Amount \$m	% of Tier One Capital	Amount \$m	% of Tier One Capital	Amount \$m	% of Tier One Capital
Aggregate at end of period ⁴						
Other connected persons (on gross basis, before netting) ²	4,003	59.4%	4,657	73.6%	4,503	69.9%
Other connected persons (amount netted off) ²	2,666	39.6%	3,433	54.3%	3,010	46.7%
Other connected persons (on partial bilateral net basis) ²	1,337	19.8%	1,224	19.3%	1,493	23.2%
Non-bank connected persons ³	-	0.0%	-	0.0%	-	0.0%
Peak end-of-day for the quarter ⁴						
Other connected persons (on gross basis, before netting)	4,923	73.1%	5,889	93.1%	5,490	85.2%
Other connected persons (amount netted off)	2,787	41.4%	3,962	62.6%	2,693	41.8%
Other connected persons (on partial bilateral net basis)	2,136	31.7%	1,927	30.5%	2,797	43.4%
Non-bank connected persons	-	0.0%	-	0.0%	-	0.0%
Rating-contingent limit ⁵						
Other connected persons	n/a	70.0%	n/a	70.0%	n/a	70.0%
Non-bank connected persons	n/a	15.0%	n/a	15.0%	n/a	15.0%

The credit exposure concentrations disclosed for connected persons are on the basis of actual gross exposures and exclusive of exposures of a capital nature. The peak end-of-day credit exposures for the quarter to connected persons are measured over Tier One Capital as at the end of the quarter. There were no individual provisions provided against credit exposures to connected persons as at 31 December 2009 (31/12/2008 \$nil; 30/09/2009 \$nil). The Banking Group had no contingent exposures arising from risk lay-off arrangements to connected persons as at 31 December 2009 (31/12/2008 \$nil; 30/09/2009 \$nil).

² The Banking Group has amounts due from its Parent Company and Ultimate Parent Bank and other entities within the Ultimate Parent Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 31 December 2009, the gross exposures to the Bank's Parent Company were \$19 million (31/12/2008 \$nil; 30/09/2009 \$522 million). As at 31 December 2009, the gross exposures to the Bank's Ultimate Parent Bank were \$3,984 million (31/12/2008 \$4,657 million; 30/09/2009 \$3,981 million).

³ Non-bank connected persons exposures consist of loans to directors of the Bank. Any loans are made in the ordinary course of business of the Bank, on an arm's length basis and on normal commercial terms and conditions.

⁴ The Banking Group has complied with the limits on aggregate credit exposure (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, as set out in the Conditions of Registration, at all times during the quarter.

⁵ Represents the maximum peak end-of-day aggregate credit exposures limit (of a non-capital nature and net of individual provisions) to all connected persons. This limit is based on the ratings applicable to the Bank's long term senior unsecured obligations payable in New Zealand in New Zealand dollars. Within the overall limit a sub-limit of 15% of Tier One Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons.

Notes to the Financial Statements (continued)

18. Market Risk

The aggregate market risk exposures below have been calculated in accordance with the RBNZ document entitled "Market risk guidance notes" (BS6).

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

	Implied risk weighted exposure		Aggregate capital charge		Aggregate capital charge as a percentage of the Banking Group's Equity	
	As at \$m	Peak \$m	As at \$m	Peak \$m	As at	Peak
Unaudited 31/12/2009						
Interest rate risk	4,155	4,218	332	337	3.2%	3.3%
Foreign currency risk	12	89	1	7	0.0%	0.1%
Equity risk	86	86	7	7	0.1%	0.1%
Unaudited 31/12/2008						
Interest rate risk	3,959	3,975	317	318	3.2%	3.2%
Foreign currency risk	37	58	3	5	0.0%	0.0%
Equity risk	63	66	5	5	0.1%	0.1%
Audited 30/09/2009						
Interest rate risk	3,824	3,824	306	306	3.0%	3.0%
Foreign currency risk	5	301	0	24	0.0%	0.2%
Equity risk	69	82	6	7	0.1%	0.1%

19. Interest Earning and Discount Bearing Assets and Liabilities

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Interest earning and discount bearing assets	101,038	112,009	100,935
Interest and discount bearing liabilities	88,832	102,175	90,491

Notes to the Financial Statements (continued)

20. Segmental Analysis

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

A summarised description of each business segment is provided below:

Retail

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

Commercial

This segment provides services to Rural, Corporate, Commercial and UDC customers. A full range of banking products and services are provided to Rural customers. Corporate and Commercial customers consist of primarily privately owned medium to large businesses with annual revenues of \$2 million and greater. The 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

Comprises businesses that provide a full range of financial services to the Banking Group's client base. The Institutional business unit is made up of 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 and clearing services.
- Specialised Lending – provides origination, credit analysis, structuring and execution of specific customer transactions.

Other

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

As the composition of segments has changed over time, prior period comparatives have been adjusted to be consistent with the 31 December 2009 segment definitions.

Business Segment Analysis^{1,2}

	Consolidated				Total \$m
	Retail ³ \$m	Commercial \$m	Institutional \$m	Other \$m	
Unaudited 3 months to 31/12/2009					
Net operating income ³	319	217	171	115	822
Profit before income tax ³	2	58	142	101	303
Unaudited 3 months to 31/12/2008					
Net operating income ³	273	188	216	93	770
Profit before income tax ³	(41)	95	168	74	296
Audited year to 30/09/2009					
Net operating income ³	1,345	863	766	142	3,116
Profit before income tax ³	39	170	500	56	765

¹ Results are equity standardised.

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

³ Includes a loss of \$82 million (30/09/2009 nil; 31/12/2008 nil) on acquisition of ING NZ and a charge of \$nil (30/09/2009 \$211 million; 31/12/2008 \$161 million) in relation to ING NZ funds.

Notes to the Financial Statements (continued)

21. Notes to the Cash Flow Statement

	Consolidated		
	Unaudited 3 months to 31/12/2009 \$m	Unaudited 3 months to 31/12/2008 \$m	Audited Year to 30/09/2009 \$m
Reconciliation of profit after income tax to net cash flows used in operating activities			
Profit after income tax	243	210	298
Non-cash items:			
Depreciation and amortisation	12	12	50
Provision for credit impairment	145	94	874
Deferred fee revenue and expenses	-	1	(8)
Share-based payments expense	5	4	18
Amortisation of capitalised brokerage/ mortgage origination fees	9	14	50
Deferrals or accruals of past or future operating cash receipts or payments:			
Decrease (increase) in net operating assets and liabilities	2,111	(571)	(1,874)
(Increase) decrease in interest receivable	(10)	1	138
Decrease in interest payable	(50)	(15)	(295)
(Increase) decrease in accrued income	(4)	(3)	1
Increase (decrease) in accrued expenses	1	(11)	42
(Decrease) increase in provisions	(14)	165	100
Amortisation of premiums and discounts	3	13	76
(Increase) decrease in net income tax assets and liabilities	(318)	94	141
Items classified as investing/financing:			
Share of profit of equity accounted associates and jointly controlled entities	(36)	(6)	(11)
Loss on remeasuring existing equity interests to fair value	82	-	-
Loss (gain) on disposal of premises and equipment	5	(12)	(13)
Net cash flows from (used in) operating activities	2,184	(10)	(413)

Reconciliation of core liquidity portfolio to cash and cash equivalents

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

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Cash and balances with central banks	2,141	2,044	2,207
Securities purchased under agreement to resell	339	563	1,075
Certificates of deposit	1,430	4,975	2,736
Government, Local Body stock and bonds	2,401	284	1,102
Available-for-sale assets	2,134	-	1,435
Other bank bonds	2,636	1,335	2,522
Total liquidity portfolio¹	11,081	9,201	11,077
Reconciliation to cash and cash equivalents:			
Other cash items not included within liquidity portfolio:			
Liquid assets not with central banks	728	1,003	555
Due from other financial institutions – less than 90 days	2,964	897	550
Non-cash items included within liquidity portfolio			
Trading securities	(5,345)	(1,140)	(3,624)
Available-for-sale assets	(2,134)	-	(1,435)
Due from other financial institutions – greater than 90 days	(737)	(3,372)	(2,358)
Total cash and cash equivalents	6,557	6,589	4,765
Reconciliation of cash and cash equivalents to the balance sheets			
Liquid assets	2,869	3,049	2,762
Due from other financial institutions – less than 90 days	3,688	3,540	2,003
Total cash and cash equivalents	6,557	6,589	4,765

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.

Notes to the Financial Statements (continued)

22. Parent Company and Ultimate Parent Bank

The Parent Company is ANZ Holdings (New Zealand) Limited which is incorporated in New Zealand. The Ultimate Parent Bank is Australia and New Zealand Banking Group Limited which is incorporated in Australia.

23. Securitisation, Funds Management, other Fiduciary Activities and the Marketing and Distribution of Insurance Products

Securitisation

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

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

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

Funds management

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

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

Custodial services

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

Insurance business

The Banking Group conducts insurance business through subsidiaries of ING NZ – the assets, liabilities and operations of which are fully consolidated into the Banking Group since its acquisition. Previously the Banking Group did not conduct any insurance business directly, although it held a 49% ownership share in ING NZ. The Banking Group also markets and distributes a range of insurance products which are underwritten by subsidiaries of ING NZ, as well as, third party insurance companies.

The insurance business comprises risk transfer and investment contract life insurance products. The aggregate insurance business conducted by companies in the Banking Group comprises assets totalling \$297 million (31/12/2008 \$nil; 30/09/2009 \$nil) which is 0.3% (31/12/2008 0.0%; 30/09/2009 0.0%) of the total consolidated assets of the Banking Group.

Notes to the Financial Statements (continued)

23. Securitisation, Funds Management, other Fiduciary Activities and the Marketing and Distribution of Insurance Products (continued)

Provision of financial services

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

The 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 Banking Group (31/12/2008 \$nil; 30/09/2009 \$nil).

Risk management

The Bank and subsidiaries of the Banking Group participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the 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 Bank of marketing and distributing insurance products provided by third party insurance companies:

Investment statements, prospectuses and brochures for insurance products include disclosures that the Bank and its subsidiaries do 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 Bank or its subsidiaries;
- the policies are subject to investment risk, including possible loss of income and principal; and
- the Bank and its subsidiaries do not guarantee the capital value or performance of the policies.

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

In addition, the following measures have been taken to manage any risk to the 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 Bank;
- that the securities are subject to investment risk including possible loss of income and principal invested; and
- that the Bank 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.

Notes to the Financial Statements (continued)

24. Commitments

	Consolidated		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Capital expenditure			
Contracts for outstanding capital expenditure:			
Premises and equipment			
Not later than 1 year	11	27	19
Total capital expenditure commitments	11	27	19
Lease rentals			
Future minimum lease payments under non-cancellable operating leases:			
Premises and equipment			
Not later than 1 year	88	85	82
Later than 1 year but not later than 5 years	166	168	155
Later than 5 years	40	34	31
Total lease rental commitments	294	287	268
Total commitments	305	314	287

25. Contingent Liabilities, Credit Related Commitments and Market Related Contracts

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

	Consolidated Face or contract value		
	Unaudited 31/12/2009 \$m	Unaudited 31/12/2008 \$m	Audited 30/09/2009 \$m
Credit related commitments			
Commitments with certain drawdown due within one year	549	481	735
Commitments to provide financial services	22,018	22,882	22,094
Total credit related commitments	22,567	23,363	22,829
Contingent liabilities			
Financial guarantees	1,751	1,972	1,753
Standby letters of credit	384	413	341
Transaction related contingent items	1,015	1,031	982
Trade related contingent liabilities	70	74	89
Total contingent liabilities	3,220	3,490	3,165
Foreign exchange, interest rate and commodity contracts			
Exchange rate contracts	113,171	103,412	102,435
Interest rate contracts	535,218	451,472	485,664
Commodity contracts	33	76	36
Total foreign exchange, interest rate and commodity contracts	648,422	554,960	588,135

Notes to the Financial Statements (continued)

25. Contingent Liabilities, Credit Related Commitments and Market Related Contracts (continued)

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

A summary of contingent liabilities is set out below.

Settlement with Inland Revenue Department

The New Zealand Inland Revenue Department ("IRD") has been reviewing a number of structured finance transactions as part of an audit of the 2000 to 2005 tax years.

On 23 December 2009, the Bank announced that it had reached a settlement with the IRD in respect of six of the seven transactions in dispute. As part of an industry-wide settlement, the Bank paid the IRD \$414 million in primary tax and interest, with the parties agreeing to discontinue relevant legal proceedings. The settlement includes an amount of \$106 million related to three transactions for which the Bank holds an indemnity from Lloyds Banking Group plc associated with The National Bank of New Zealand acquisition. This liability, net of amounts receivable from Lloyds, was met from existing tax provisions.

Of seven transactions undertaken by the Bank and The National Bank of New Zealand which were in dispute, one residual transaction involving \$27 million in primary tax remains in dispute with the IRD. A provision is held for this remaining transaction.

Commerce Commission

The Bank is aware that the Commerce Commission is looking at credit contract fees under the Credit Contracts and Consumer Finance Act 2003 ("CCCFA"). In its 2009-2012 Statement of Intent the Commission stated that:

"Compliance with the Credit Contracts and Consumer Finance Act is a priority area for the Commission, given the deterioration in consumer confidence in the financial sector and the important role that a competitive lending market can play in strengthening the New Zealand economy."

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. The Commission is also investigating early repayment charges on fixed rate mortgages. At this stage the possible outcome of these investigations and any liability or impact on fees cannot be determined with any certainty.

ING NZ Funds

The Bank markets and distributes a range of wealth management products in New Zealand. The products are manufactured and managed by ING NZ, which is a wholly owned subsidiary of the Bank following the purchase of ING Groep's 51% interest in ING NZ on 30 November 2009. Trading in two of the products, the ING Diversified Yield Fund and the ING Regular Income Fund (together, "the Funds"), was suspended on 13 March 2008, due to deterioration in the liquidity and credit markets. Units in the Funds were sold by the Bank to its customers.

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

Although acceptance of this offer included a waiver of claims, Bank customers were offered an additional opportunity to access the Bank customer complaints team (and, where still unsatisfied, the New Zealand Banking Ombudsman) even where the investors had accepted the offer. This opportunity was available until 31 July 2009 and approximately 1,300 customers requested for their circumstances to be considered, and over half of these requests have been resolved. As a result of the offer and transactions concluded as part of the purchase of ING Groep's interest in ING NZ, the Banking Group now owns over 99% of the units in the Funds.

The Commerce Commission is separately investigating both the Bank and ING NZ in respect of their roles in manufacturing, managing and selling of the Funds. At this stage it is not possible to predict the outcome of either of the investigations.

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

Other contingent liabilities

The Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where appropriate. As at 31 December 2009, there were no other contingent assets or liabilities required to be disclosed (31/12/2008 nil; 30/09/2009 nil).

Notes to the Financial Statements (continued)

26. Business Combinations

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

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

	Consolidated Unaudited 31/12/2009 \$m
Fair values of assets acquired and liabilities assumed as at acquisition date (provisional)	
Due from financial institutions	142
Available-for-sale assets	173
Investments relating to insurance business	40
Insurance policy assets	81
Shares in associates	1
Other assets ¹	25
Deferred tax assets	28
Premises and equipment	4
Total assets	494
Due to financial institutions	30
Payables and other liabilities	25
Current tax liabilities	27
Provisions ²	116
Total liabilities	198
Net assets	296
Minority interests in the Funds ³	1
Net assets attributable to the Banking Group	295
Book value of existing equity interests	351
Loss on re-measuring existing equity interests to fair value ⁴	(82)
Acquisition date fair value of existing equity interests	269
Cash consideration transferred	247
Total consideration	516
Provisional value of goodwill and intangible assets⁵	221

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

² Includes employee related provisions and the fair value of contingent liabilities, which relate to possible claims by investors in the Funds and investigations by regulatory bodies and other actual and potential claims and proceedings (refer to Note 25). The expected timing and ultimate cost of contingent liabilities to the Banking Group will depend on the assessment and outcome of customer complaints, and the results of any litigation and regulatory investigations or proceedings that may be brought.

³ Minority interests are measured as their proportionate share of the identifiable net assets of the Funds.

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

⁵ Upon finalisation of fair value procedures, including recognition of intangible assets acquired, the remaining balance will be recognised as either goodwill or a discount on acquisition as appropriate. Goodwill, if recognised, is not expected to be deductible for income tax purposes.

Notes to the Financial Statements (continued)

26. Business Combinations (continued)

Included in the consolidated Income Statement and Statement of Comprehensive Income since 30 November 2009 is net operating income of \$12 million and a loss before tax of \$8 million, including integration costs, contributed by ING NZ and the Funds. Had ING NZ and the Funds been consolidated from 1 October 2009, the consolidated Income Statement and Statement of Comprehensive Income would have included, for the three months ended 31 December 2009, net operating income of \$39 million and a loss before tax of \$3 million. Acquisition costs were paid by the Ultimate Parent Bank.

The initial accounting for the business combination, including the fair values of the assets acquired and liabilities assumed and the calculation of goodwill, is provisional while valuations of the assets acquired and liabilities assumed are finalised.

27. Subsequent Events

On 29 January 2010, the Bank agreed to sell a further \$1,078 million of residential mortgage assets to the NZ Branch.

Conditions of Registration

Conditions of Registration, applicable as at 11 February 2010. These Conditions of Registration have applied from 22 October 2009.

The Bank's Conditions of Registration were revised on 22 October 2009 in order to implement a new set of liquidity risk management conditions. Condition 11 was amended and conditions 13 and 14 were added.

The registration of ANZ National Bank Limited ("the Bank") as a registered bank is subject to the following conditions:

1. That the Banking Group complies with the following requirements:

- (a) the total capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is not less than 8%;
- (b) the tier one capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is not less than 4%; and
- (c) the capital of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is not less than \$30 million.

For the purposes of this condition of registration the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is 1.06.

For the purposes of this condition of registration, the supervisory adjustment referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008 is the sum of:

- (a) 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008; and
- (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where
 - (i) "adjusted Basel I capital" means 8% of total risk-weighted exposures, plus deductions from tier one capital, plus deductions from total capital, all calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated March 2008;
 - (ii) "adjusted Basel II capital" means 8% of total Basel II risk-weighted exposures plus deductions from tier one capital, plus deductions from total capital, less any amount included in tier two capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008; and
 - (iii) "total Basel II risk-weighted exposures" means scalar x (risk-weighted on and off balance sheet credit exposures) + 12.5 x total capital charge for market risk exposure + 12.5 x total capital requirement for operational risk + 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008.

1A. That-

- (a) the Bank has an internal capital adequacy assessment process ("ICAAP"); that with effect from 31 August 2008 the Bank's ICAAP accords with the requirements set out in the document "Guidelines on a Bank's internal capital adequacy process ("ICAAP")" (BS12) dated December 2007;
- (b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008; and
- (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated March 2008.

1C. That the Bank complies with the following requirements:

The total capital ratio of the Bank is not less than 8%.

The tier one capital ratio of the Bank is not less than 4%.

For the purposes of this condition of registration:

- the total capital ratio is defined as capital as a percentage of risk-weighted exposures where capital and risk-weighted exposures are as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated March 2008; and
- the tier one capital ratio is defined as tier one capital as a percentage of risk-weighted exposures where tier one capital and risk-weighted exposures are as defined in the Reserve Bank of New Zealand document "Capital adequacy framework (Basel I approach)" (BS2) dated March 2008.

Conditions of Registration (continued)

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.
3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:
 - (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
 - (ii) In measuring the size of the Banking Group's insurance business:
 - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
 - The total consolidated assets of the group headed by that entity;
 - Or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
 - (b) otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
 - (c) the amounts measured in relation to parts a) and b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts a) and b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
 - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
4. That aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit Rating ¹	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the Banking Group's Tier One capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled 'Connected Exposure Policy' (BS8) dated March 2008.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the board of the Bank contains at least two independent directors and that alternates for those directors, if any, are also independent. In this context an independent director (or alternate) is a director (or alternate) who is not an employee of the Bank, and who is not a director, trustee, or employee of any holding company (as that term is defined in section 5 of the Companies Act 1993) of the Bank, or any other entity capable of controlling or significantly influencing the Bank.
7. That the chairperson of the Bank's board is not an employee of the Bank.
8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).
9. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
10. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made in respect of the Bank unless:
 - (i) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee, and
 - (ii) The Reserve Bank has advised that it has no objection to that appointment.

¹ This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

Conditions of Registration (continued)

11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
- (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;
 - (b) that the Bank's financial risk positions on a day can be identified on that day;
 - (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
 - (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled 'Outsourcing Policy' (BS11) dated January 2006.

12. (a) That the business and affairs of the Bank are managed by, or under the direction and supervision of, the board of the Bank.
- (b) That the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decision relating to the employment or termination of employment of the CEO are made by, the board of the Bank.
- (c) That all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.
13. That the Banking Group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
- (a) the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;
 - (b) the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and
 - (c) the one-year core funding ratio of the Banking Group is not less than 65 percent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled 'Liquidity Policy' (BS13) dated 20 October 2009 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated October 2009.

14. That, with effect from 1 April 2010, the Registered Bank has an internal framework for liquidity risk management that is adequate in the Registered Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
 - (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
 - (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
 - (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

For the purposes of these conditions of registration, the term 'Banking Group' means ANZ National Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

Credit Rating Information

Credit Ratings applicable as at 11 February 2010

The Bank has three current credit ratings, which are applicable to its long-term senior unsecured obligations which are 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	Aa2	Outlook Stable
Fitch Ratings	AA-	Outlook Stable

During the two-year period ended 31 December 2009, the Standard & Poor's credit rating and qualification remained at AA and Outlook Stable.

During the two-year period ended 31 December 2009, the Moody's Investors Service credit rating and qualification remained at Aa2 and Outlook Stable.

During the two-year period ended 31 December 2009, the Fitch Ratings credit rating and qualification remained at AA- and Outlook Stable. Fitch Ratings were formally engaged by the Bank on 18 March 2008 to provide credit rating services. Previously Fitch Ratings had rated the 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 category.

Directors' Statement

As at the date on which this General Short Form Disclosure Statement is signed, after due enquiry, each Director believes that:

- (i) The Short Form Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008;
- (ii) The Short Form Disclosure Statement is not false or misleading.

Over the three months ended 31 December 2009, after due enquiry, each Director believes that:

- (i) ANZ National Bank Limited has complied with the Conditions of Registration;
- (ii) Credit exposures to connected persons were not contrary to the interests of the Banking Group;
- (iii) ANZ National Bank Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This General Short Form Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on, 11 February 2010. On that date, the Directors of the Bank were:

Dr D T Brash



S C Elliott



J A Fagg



N M T Geary, CBE



J F Judge



P R Marriott



M R P Smith, OBE



Sir Dryden Spring





Independent Review Report for the Three Months Ended 31 December 2009

Independent Review Report to the Directors of ANZ National Bank Limited

We have reviewed the interim financial statements on pages 5 to 37 prepared and disclosed in accordance with Clause 19 of the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008 (the 'Order') and the supplementary information prescribed in Schedules 2 to 8. The interim financial statements, and supplementary information, provide information about the past financial performance and cash flows of ANZ National Bank Limited and its subsidiary companies (the 'Banking Group') and their financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out on page 9.

Directors' responsibilities

The Directors of ANZ National Bank Limited are responsible for the preparation and presentation of interim financial statements in accordance with Clause 19 of the Order which give a true and fair view of the financial position of the Banking Group as at 31 December 2009 and its financial performance and cash flows for the three 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 2 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 3, 5 to 8, and Clause 13 of Schedule 2 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 on the supplementary information as required by Schedule 4B of the Order in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the information disclosed in accordance with Schedule 4B is not in all material respects prepared in accordance with the Bank's Conditions of Registration and with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand and disclosed in accordance with Schedule 4B 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 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 Banking Group in relation to other audit related services. Partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the Banking Group. These matters have not impaired our independence as auditors of the Banking Group. The firm has no other relationship with, or interest in, the 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 16, 17, 18, 19 and 23) do not present a true and fair view of the financial position of the Banking Group as at 31 December 2009 and its financial performance and cash flows for the three months ended on that date;
- b. the supplementary information disclosed in Notes 17, 18, 19 and 23 prescribed by Schedules 3, 5 to 8 and Clause 13 of Schedule 2 of the Order is not fairly stated in accordance with those Schedules; and
- c. the supplementary information relating to Capital Adequacy disclosed in Note 16 of the interim financial statements, as required by Schedule 4B of the Order, derived from the Banking Group's interim financial statements and sources other than the Banking Group's accounting records, is not in all material respects derived in accordance with the Bank's Conditions of Registration, with the Reserve Bank of New Zealand document Capital Adequacy Framework (Internal Models Based Approach) (BS2B), and with the Banking Group's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand, and disclosed in accordance with Schedule 4B of the Order.

Our review was completed on 11 February 2010 and our review opinion is expressed as at that date.

Wellington

