AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
- NEW ZEALAND BRANCH

GENERAL DISCLOSURE STATEMENT

For the year ended 30 September 2008
No 1. Issued January 2009

Contents

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

In this Disclosure Statement unless the context otherwise requires:

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

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

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

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

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

General Matters

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 6, NBNZ House, 1 Victoria Street, Wellington, New Zealand.

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

Nature of Business

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

With the sale of Truck Leasing Limited, the NZ Banking Group no longer has significant operating lease activities.

Ranking of local creditors in liquidation

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

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

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

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

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

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

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

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

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

Section 13A(3) affects all of the unsecured deposit liabilities of the NZ Branch which as at 30 September 2008 amounted to $nil. (30 September 2007 : $nil).

Requirement to hold excess assets over deposit liabilities

Section 13A(4) of the Banking Act (the "Act") states that it is an offence for an ADI not to hold assets (other than goodwill) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the twelve months ended 30 September 2008, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia. The requirements of this section of the Act have the potential to impact on the management of the liquidity of the NZ Banking Group.

Guarantees

Material obligations of the Overseas Bank are guaranteed by the Commonwealth of Australia. On 12 October 2008 the Prime Minister of Australia announced the Australian Government's intention to guarantee deposits of ADI's such as the Overseas Bank and to provide a facility to guarantee term funding for ADIs. These have been implemented by:

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

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

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

Financial Claims Scheme

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

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

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

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

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

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

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

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

Wholesale Funding Guarantee

The Wholesale Funding Guarantee is a deed governed by the laws of the State of New South Wales and has been executed by the Australian Treasurer on behalf of the Australian Government. Australian institutions which are ADIs under the Banking Act, which includes the Overseas Bank, are entitled to apply for the Wholesale Funding Guarantee to apply to deposit accounts over A$1 million and certain funding liabilities. Foreign banks authorised to carry on banking business in Australia may also apply to have certain deposits and funding liabilities held by Australian residents guaranteed by the Australian Government. The Reserve Bank of Australia administers the Wholesale Funding Guarantee.

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

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

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

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

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

- **Deposit liabilities for amounts over A$1 million:** The deposit can be at call or with maturity of up to 60 months in excess of $1 million per customer per ADI, be in any currency and may pre-date the Wholesale Funding Guarantee. There are no restrictions on the types of depositors;

- **Deposits held in overseas branches**: Deposits held in overseas branches of Australian-owned ADIs can be covered by the Wholesale Funding Guarantee. There are no restrictions on the types of depositors;

- **Short Term Wholesale Funding Liabilities**: The liability (which may be in any currency) must be a senior and unsecured debt instrument with a maturity not exceeding 15 months. In addition, the instrument must be "not complex" and be either a bank bill, a certificate of deposit or transferable deposit, a debenture or commercial paper; and
- **Term Wholesale Funding Liabilities**: The liability (which may be in any currency) must be a senior and unsecured debt instrument with a maturity not exceeding 60 months but greater than 15 months. The instrument must also be "not complex" and be either a bond, a note or a debenture.

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

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

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

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

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

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

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

As at the date of this document, the Overseas Bank has the following material obligations guaranteed under the Wholesale Funding Guarantee:
Short term Wholesale Funding Liabilities
Negotiable Certificates of Deposit : A$1,652,491,635
Term Wholesale Funding Liabilities
US$1,250,000,000 3.20% Fixed Rate Notes due 15 December 2011
US$500,000,000 Floating Rate Notes due 17 November 2010

Copies of eligibility certificates are available at www.guaranteescheme.gov.au.

The name of the Guarantor and address for service is: The Scheme Administrator, Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding, c/- The Secretary, Reserve Bank of Australia, GPO Box 5367, Sydney, New South Wales 2001, Australia.

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

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

New Zealand Guarantee Arrangements

Also on 12 October 2008, the New Zealand Minister of Finance announced a Deposit Guarantee Scheme (the "Scheme"), under which the Crown guarantees retails deposits of participating financial institutions until 12 October 2010. The Registered Bank does not have a guarantee under the Scheme.

Pending Proceedings or Arbitration

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

The NZ Banking Group has received amended tax assessments from the New Zealand Inland Revenue Department ('IRD') in respect of its review of certain structured finance transactions. The NZ Banking Group is confident, based on independent tax and legal advice obtained, that its tax treatment of these

The Commerce Commission has brought proceedings under the Commerce Act 1986 against Visa, MasterCard and all New Zealand issuers of Visa and MasterCard credit cards, including the NZ Banking Group. Several major New Zealand retailers have also issued proceedings. The NZ Banking Group is defending the proceedings. At this stage any potential liabilities cannot be assessed.

The NZ Banking Group markets and distributes a range of wealth management products which are managed by ING (NZ) Limited (of which the NZ Banking Group holds 49%). Trading in the ING Diversified Yield Fund and the ING Regular Income Fund was suspended on 13 March 2008 by the fund manager, ING (NZ) Limited, due to the deterioration in liquidity in credit markets. The matter is being reviewed by both the NZ Banking Group and ING (NZ) Limited and it is too early to assess the nature or quantum of any potential liability.

Further details on pending proceedings or arbitration are set out in Note 43 Contingent Liabilities and Credit Related Commitments of this General Disclosure Statement.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 30 September 2008 Annual Financial Report.

Other Material Matters

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

Supplemental Disclosure Statement

A copy of the most recent Supplemental Disclosure Statement for the year ended 30 September 2008 can be obtained immediately where request is made within normal banking hours at the NZ Branch head office, Level 6, NBNZ House, 1 Victoria Street, Wellington. It is also available free of charge, on the NZ Banking Group's websites.

The NZ Banking Group's most recent Supplemental Disclosure Statement contains a copy of the 2008 Annual Report for the Overseas Banking Group and a copy of the Deed of Guarantee for the Guarantee Scheme.

SUMMARY OF FINANCIAL STATEMENTS

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

	NZ Banking Group					
	NZ IFRS Audited Year to 30/09/2008 $m	NZ IFRS[1] Audited Year to 30/09/2007 $m	NZ IFRS[1, 2] Audited Year to 30/09/2006 $m	NZ IFRS[1, 2] Audited Year to 30/09/2005 $m	Previous GAAP[3] Audited Year to 30/09/2005 $m	Previous GAAP[3] Audited Year to 30/09/2004 $m
Total impaired assets (on-balance sheet and off-balance sheet)	**333**	121	159	220	220	123
Total assets	**123,078**	107,606	95,929	85,491	85,291	74,099
Total liabilities	**115,951**	100,751	89,543	79,390	79,380	69,690
Equity	**7,127**	6,855	6,386	6,101	5,911	4,409

The amounts included in this summary for years 2004 to 2007 have been taken from the audited financial statements of the Australia and New Zealand Banking Group Limited (New Zealand Geographic Activities and Subsidiary Companies in New Zealand).

[1]Truck Leasing Limited has been classified as a discontinued operation for the comparative years ending 30 September 2007, 30 September 2006 and 30 September 2005. For further details, refer to Note 10 Discontinued Operations.

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

[3]On 1 December 2003, the NZ Banking Group acquired all of the shares of NBNZ Holdings Limited ('NBNZ Group'). The results and financial position of NBNZ Group have been included in the NZ Banking Group since that date. For further details, refer to Note 14 Acquisition of Subsidiaries in the 30 September 2004 ANZ National Bank Limited and Subsidiary Companies' General Disclosure Statement.

[4]The RBNZ's guidelines require the NZ Banking Group to show the individual provision charge to profit as the 'impaired asset expense'. Prior to adopting NZ IFRS on 1 October 2005, under the NZ Banking Group's Bad and Doubtful Debts policy, the required individual provision was not charged to profit, but was transferred from the collective provision balance. The NZ Banking Group's provision for credit impairment, which represented the expected average annual loss on principal over the economic cycle for the lending portfolio, was credited to the collective provision. Under NZ IFRS, there is no longer a transfer between the collective and individual provisions. Further detail on the provision for credit impairment is set out in Note 15 Provision for Credit Impairment.

INCOME STATEMENTS for the year ended 30 September 2008

	Note	NZ Banking Group Year to 30/09/2008 $m	NZ Banking Group Year to 30/09/2007 $m	NZ Branch Year to 30/09/2008 $m	NZ Branch Year to 30/09/2007 $m
Continuing operations					
Interest income	4	**9,858**	8,296	**-**	-
Interest expense	5	**7,829**	6,239	**-**	-
Net interest income		**2,029**	2,057	**-**	-
Other operating income	4	**1,015**	840	**-**	-
Share of profit of equity accounted associates and jointly controlled entities		**111**	24	**-**	-
Operating income		**3,155**	2,921	**-**	-
Operating expenses	5	**1,445**	1,331	**-**	-
Profit before provision for credit impairment and income tax		**1,710**	1,590	**-**	-
Provision for credit impairment	15	**302**	74	**-**	-
Profit before income tax		**1,408**	1,516	**-**	-
Income tax expense	6	**418**	551	**-**	-
Profit after income tax from continuing operations		**990**	965	**-**	-
Discontinued operations					
Profit from discontinued operations (net of income tax)	10	**-**	76	**-**	-
Profit after income tax		**990**	1,041	**-**	-

The notes on pages 10 to 93 form part of and should be read in conjunction with these financial statements.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE for the year ended 30 September 2008

	Note	NZ Banking Group Year to 30/09/2008 $m	NZ Banking Group Year to 30/09/2007 $m	NZ Branch Year to 30/09/2008 $m	NZ Branch Year to 30/09/2007 $m
Available-for-sale revaluation reserve:					
- Valuation gain (loss) taken to equity		**26**	(1)	**-**	-
- Cumulative gain transferred to the income statement on sale of financial assets	**30**	**-**	(3)	**-**	-
Cash flow hedging reserve:					
- Valuation (loss) gain taken to equity	**11**	**(47)**	78	**-**	-
- Transferred to income statement	**11**	**(37)**	(35)	**-**	-
Actuarial (loss) gain on defined benefit schemes	**45**	**(35)**	3	**-**	
Income tax credit (expense) on items recognised directly in equity		**34**	(12)	**-**	
Net (expense) income recognised directly in equity		**(59)**	30	**-**	-
Profit after income tax		**990**	1,041	**-**	-
Total recognised income and expense for the year		**931**	1,071	**-**	-

BALANCE SHEETS as at 30 September 2008

	Note	NZ Banking Group		NZ Branch	
		30/9/08	30/09/2007	**30/9/08**	30/09/2007
		$m	$m	**$m**	$m
Assets					
Liquid assets	**7**	**4,839**	4,807	-	-
Due from other financial institutions	**8**	**5,032**	3,563	-	-
Trading securities	**9**	**2,624**	1,877	-	-
Derivative financial instruments	**11**	**7,603**	4,551	-	-
Available-for-sale assets	**12**	**109**	48	-	-
Net loans and advances	**13, 14, 15**	**97,679**	87,789	-	-
Due from related entities		**1**	-	-	-
Shares in controlled entities, associates and jointly controlled entities	**16**	**363**	206	-	-
Current tax assets		**154**	187	-	-
Other assets	**17**	**1,000**	1,045	-	-
Deferred tax assets	**18**	**118**	7	-	-
Premises and equipment	**19**	**242**	232	-	-
Goodwill and other intangible assets	**20**	**3,314**	3,294	-	-
Total assets		**123,078**	107,606	-	-
Liabilities					
Due to other financial institutions	**21**	**3,311**	3,170	-	-
Deposits and other borrowings	**22**	**77,136**	70,030	-	-
Due to subsidiary companies		**-**	-	-	-
Derivative financial instruments	**11**	**6,472**	4,935	-	-
Payables and other liabilities	**23**	**1,875**	1,427	-	-
Deferred tax liabilities	**24**	**-**	-	-	-
Provisions	**25**	**190**	165	-	-
Bonds and notes	**26**	**22,382**	17,197	-	-
Term funding	**27**	**1,765**	1,765	-	-
Loan capital	**28**	**2,820**	2,062	-	-
Total liabilities		**115,951**	100,751	-	-
Net assets		**7,127**	6,855	-	-
Equity					
Ordinary share capital	**29**	**5,413**	4,903	-	-
Reserves	**30**	**47**	83	-	-
Retained earnings	**30**	**1,667**	1,869	-	-
Total equity		**7,127**	6,855	-	-

For and on behalf of the Board of Directors:

Director
18 December 2008

Director
18 December 2008

The notes on pages 10 to 93 form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENTS for the year ended 30 September 2008[1]

	Note	NZ Banking Group Year to 30/09/2008 $m	NZ Banking Group Year to 30/09/2007 $m	NZ Branch Year to 30/09/2008 $m	NZ Branch Year to 30/09/2007 $m
Cash flows from operating activities					
Interest received		**9,503**	7,879	**-**	-
Dividends received		**4**	3	**-**	-
Fees and other income received		**1,062**	928	**-**	-
Interest paid		**(7,216)**	(5,665)	**-**	-
Operating expenses paid		**(1,313)**	(1,254)	**-**	-
Income taxes paid		**(461)**	(453)	**-**	-
Cash flows from operating profits before changes in operating assets and liabilities		**1,579**	1,438	**-**	-
Net changes in operating assets and liabilities:					
(Increase) decrease in due from other financial institutions - term		**(630)**	469	**-**	-
Increase in trading securities		**(617)**	(73)	**-**	-
Increase/(decrease) in derivative financial instruments		**2,160**	(1,079)	**-**	-
(Increase) decrease in available-for-sale assets		**(36)**	312	**-**	-
Increase in loans and advances		**(9,522)**	(10,118)	**-**	-
Decrease (increase) in due from subsidiary companies		**-**	-	**-**	-
Increase in due to subsidiary companies		**-**	-	**-**	-
Decrease (increase) in other assets		**28**	(70)	**-**	-
(Decrease) increase in due to other financial institutions		**141**	3,151	**-**	-
Increase in deposits and other borrowings		**4,618**	6,857	**-**	-
Increase (decrease) in payables and other liabilities		**159**	(154)	**-**	-
Net cash flows used in operating activities	**38**	**(2,120)**	733	**-**	-
Cash flows from investing activities					
Proceeds from sale of shares in associates and jointly controlled entities		**-**	5	**-**	-
Proceeds from sale of subsidiary companies[2]	**10**	**-**	585	**-**	-
Proceeds from sale of premises and equipment		**2**	17	**-**	-
Purchase of shares in associates and jointly controlled entities		**(48)**	(8)	**-**	-
Purchase of shares in subsidiary companies		**-**	-	**-**	-
Purchase of intangible assets		**(30)**	(17)	**-**	-
Purchase of premises and equipment		**(51)**	(51)	**-**	-
Net cash flows (used in) provided by investing activities		**(127)**	531	**-**	-
Cash flows from financing activities					
Proceeds from bonds and notes		**9,283**	4,173	**-**	-
Redemptions of bonds and notes		**(6,453)**	(684)	**-**	-
Proceeds from loan capital		**835**	800	**-**	-
Redemptions of loan capital		**(100)**	(550)	**-**	-
Issue of redeemable preference shares		**510**	2,349	**-**	-
Redemption of redeemable preference shares		**-**	(2,349)	**-**	-
Increase in due to subsidiary companies - term		**-**	-	**-**	-
Dividends paid		**(1,169)**	(600)	**-**	-
Net cash flows provided by financing activities		**2,906**	3,139	**-**	-
Net cash flows used in operating activities		**(2,120)**	733	**-**	-
Net cash flows (used in) provided by investing activities		**(127)**	531	**-**	-
Net cash flows provided by financing activities		**2,906**	3,139	**-**	-
Net (decrease) increase in cash and cash equivalents		**659**	4,403	**-**	-
Cash and cash equivalents at beginning of the year		**7,131**	2,728	**-**	-
Cash and cash equivalents at end of the year		**7,790**	7,131	**-**	-
Reconciliation of cash and cash equivalents to the balance sheets[3]					
Liquid assets		**4,839**	4,807	**-**	-
Due from other financial institutions - less than 90 days		**2,951**	2,324	**-**	-
Due to other financial institutions - less than 90 days		**-**	-	**-**	-
Total cash and cash equivalents	**38**	**7,790**	7,131	**-**	-

[1]The comparative cash flow statements have not been restated for the classification of Truck Leasing Limited (TLL) as a discontinued operation. For a detailed explanation of the financial impacts of the sale of Truck Leasing Limited refer to Note 10 Discontinued Operations in the consolidated financial statements for the year ended 30 September 2007.

[2]The cash proceeds from the sale of controlled entities includes $438 million relating to the repayment of TLL's unsecured bank borrowings with UDC Finance Limited ('UDC') by the acquiree.

[3]Comparatives for cash and cash equivalents have been restated to remove due to other financial institutions - less than 90 days from the definition of cash and cash equivalents. A reconciliation of cash and cash equivalents to the NZ Banking Group's core liquidity portfolio is included in Note 38 Notes to the Cash Flow Statements. An analysis of the balance sheet items that make up the NZ Banking Group's core liquidity portfolio is included in Note 32 Financial Risk Management.

The notes on pages 10 to 93 form part of and should be read in conjunction with these financial statements.

1. ACCOUNTING POLICIES

A) BASIS OF PREPARATION

i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Registered Bank Disclosure Statement (Full and Half-Year - Overseas Incorporated Banks) Order 2008 (the 'Order'). The parent financial statements are for the New Zealand operations of Australia and New Zealand Banking Group Limited as conducted through the NZ Branch ("the Registered Bank" or "NZ Branch") and the aggregated financial statements are for the New Zealand operations of Australia and New Zealand Banking Group Limited (the 'NZ Banking Group'), which includes the NZ Branch and all New Zealand geographic operations, subsidiaries, associate companies and jointly controlled entities as disclosed in Note 39.

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

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

These financial statements were authorised for issue by the Board of Directors on 18 December 2008.

ii) Use of estimates and assumptions

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

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

iii) Basis of measurement

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

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

iv) Changes in accounting policies and early adoptions

There have been no material changes in accounting policies or early adoption of NZ IFRS in the preparation or presentation of this financial report.

The NZ Banking Group has adopted NZ IFRS 7: Financial Instruments: Disclosures ('NZ IFRS 7') and amendments to NZ IAS 1 Presentation of Financial Statements - Capital Disclosures from 1 October 2007. Application of these standards has resulted in modified financial disclosures, relating to risks arising from financial instruments and further qualitative disclosures on financial risk and capital management policies, but does not have any impact on reported profits or financial position.

The NZ Banking Group has not early adopted NZ IAS 1 : Presentation of Financial Statements (revised) issued in November 2007. This standard is effective for annual accounting periods beginning on or after 1 January 2009 and will not result in recognition or measurement changes in the financial statements.

The NZ Banking Group has not early adopted NZ IFRS 8: Operating Segments issued in December 2006. This standard is effective for annual accounting periods beginning on or after 1 January 2009. Adoption of this standard will not result in any measurement or recognition changes in the financial statements.

v) Presentation currency and rounding

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

vi) Comparatives

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

vii) Basis of aggregation

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

Subsidiaries

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

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

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

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

The NZ Banking Group may invest in or establish special purpose entities to enable it to undertake specific types of transactions. Where the NZ Banking Group controls such vehicles, they are consolidated into the NZ Banking Group's financial results.

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

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

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

viii) Foreign currency translation

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

Foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

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

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

1. ACCOUNTING POLICIES (continued)

B) INCOME RECOGNITION

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

i) Interest income

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

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. Income and expense on the financial asset or financial liability is recognised on an effective yield basis in proportion to the amount outstanding over the period to maturity or repayment.

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

ii) Fee and commission income

Fees and commissions that are integral to the effective rate of a financial asset or liability are included in the determination of the effective interest rate.

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

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

iii) Dividend income

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

iv) Leasing income

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

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

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

C) EXPENSE RECOGNITION

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

i) Interest expense

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

ii) Loan origination expenses

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

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

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

iii) Capitalised expenses

Direct external expenses, comprising direct and incremental costs related to the acquisition of interest earning assets, including structured institutional lending, mortgages and finance leases, are initially recognised as part of the cost of acquiring the asset and written off as an adjustment to its expected yield over its expected life using the effective interest method.

iv) Share-based compensation expense

The NZ Banking Group participates in various equity settled share-based compensation plans. These are described in note 44 and largely comprise the Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ Ordinary Shares

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

1. ACCOUNTING POLICIES (continued)

Share Options

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

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

Performance Rights

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

Other adjustments

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

D) INCOME TAX

i) Income tax expense

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

ii) Current tax

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

iii) Deferred tax

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

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

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

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

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

iv) Offsetting

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

E) ASSETS

Financial assets

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

Trading securities

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

1. ACCOUNTING POLICIES (continued)

ii) Derivative financial instruments

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

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

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

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

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

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

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement. Fair values are obtained from quoted prices in active markets (including recent transactions) and valuation techniques including discounted cash flow models and option pricing models, as appropriate.

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

<u>Fair value hedge</u>

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

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

<u>Cash flow hedge</u>

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

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

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

<u>Derivatives that do not qualify for hedge accounting</u>

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

<u>Embedded derivatives</u>

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

<u>Set-off arrangements</u>

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

iii) Available-for-sale assets

Available-for-sale assets comprise non-derivative financial assets which the NZ Banking Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments, certain loans and advances, and quoted debt securities. They are initially recorded at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the 'available-for-sale revaluation reserve'. When the asset is sold, the cumulative gain or loss relating to the asset is transferred to the income statement.

1. ACCOUNTING POLICIES (continued)

Where there is objective evidence of impairment, the cumulative loss related to that asset is removed from equity and recognised in the income statement as an impairment expense for debt instruments or as non-interest income for equity instruments. If, in a subsequent period, the amount of an impairment loss relating to an available-for-sale asset decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss previously recognised in the income statement is reversed through the income statement through the impairment expense line. Impairment losses recognised in the income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the income statement.

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

Premiums and discounts are included within the calculation of the fair value of the security. Interest is accrued and recognised in accordance with the effective yield basis.

iv) Net loans and advances

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the NZ Banking Group has no intention of trading on the loans and advances. The loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss, or when in an effective hedging relationship, changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, and also recognised in the income statement. Loans and advances are derecognised when the rights to receive cash flows have expired or the NZ Banking Group has transferred substantially all the risks and rewards of ownership.

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

<u>Credit assessment</u>

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

Impaired assets include other impaired assets, restructured assets and assets acquired through the enforcement of security.

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

Restructured assets are those assets where the counterparty had difficulty complying with the original terms of the contract and the original terms have been modified to grant the counterparty concessional terms where the yield of the loan is equal to or greater than the NZ Banking Group's average cost of funds and below the yield applicable to a customer of equal credit standing.

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

Cash receipts on other impaired assets are initially applied as a reduction in principal.

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

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

<u>Impairment of loans and advances</u>

Loans and advances are reviewed at least at each reporting date for impairment. Credit impairment provisions are raised for exposures that are known to be impaired. Loans are impaired and impairment losses incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the individual loan or the collective portfolio of loans.

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

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

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

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

1. ACCOUNTING POLICIES (continued)

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

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

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

v) Lease receivables

Finance leases

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

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

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

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

Operating leases

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

vi) Repurchase agreements

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

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

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

vii) Derecognition

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

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

Non-financial assets

viii) Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control, is recognised as an asset. Goodwill has an indefinite life. The carrying value of goodwill is reviewed for impairment at each reporting period and tested for impairment annually, or more frequently if there is an indication that the goodwill may be impaired. This involves, where required, using discounted cash flow or capitalisation of earnings methodology to determine the expected future benefits of the cash generating unit to which goodwill has been allocated. Where the assessment results in the current carrying value of goodwill exceeding the value of expected future benefits, the difference is charged to the income statement. Any impairment writedown of goodwill is not reversed in subsequent periods.

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

ix) Other intangible assets

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

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

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

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

1. ACCOUNTING POLICIES (continued)

x) Premises and equipment

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

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

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

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

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

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

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

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

F) LIABILITIES

Financial liabilities

i) Deposits and other borrowings

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

ii) Bonds, notes and loan capital

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

iii) Financial guarantee contracts

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

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

iv) Derecognition

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

Non-financial liabilities

vi) Employee benefits

Leave benefits

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

Superannuation schemes

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

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

1. ACCOUNTING POLICIES (continued)

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

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

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

vii) Provisions

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

G) EQUITY

i) Reserves

Available-for-sale revaluation reserve

This reserve includes changes in the fair value of available-for-sale financial assets, net of tax. These changes are transferred to the income statement in non-interest income when the asset is either derecognised or impaired.

Cash flow hedging reserve

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

H) PRESENTATION

i) Offsetting of income and expenses

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

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

ii) Offsetting of assets and liabilities

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

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

iii) Statement of cash flows

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

Cash and cash equivalents include liquid assets, amounts due from other financial institutions, trading securities and available-for-sale assets held for the purpose of meeting short-term cash commitments that are readily convertible to cash and subject to insignificant risk of changes in value.

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

iv) Segment reporting

Business segments are distinguishable components of the NZ Banking Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments.

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

v) Goods and services tax

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

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

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

1. ACCOUNTING POLICIES (continued)

I) OTHER

i) Contingent liabilities

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

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

Further disclosure is made within Note 43 Contingent Liabilities and Credit Related Commitments, where the above requirements are not met, but there is a possible obligation that is higher than remote. Specific details are provided together with an estimate of the range or a statement that such an estimate is not possible.

ii) Securitisation, funds under management and other fiduciary activities

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

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

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

iii) Discontinued operations

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

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

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

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

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

Critical accounting estimates and assumptions

Credit provisioning

Provisions for impairment in customer loans and advances are raised by management to cover incurred losses arising from past events. Losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on loans assessed collectively. Losses expected from future events, no matter how likely, are not recognised. The amount of the impairment loss is recognised as an expense in the income statement.

The calculation of impairment provisions includes consideration of all expected cash flows associated with the loan. This includes any expected cash flows from realisation of security and interest and takes into account any costs expected to be incurred, including security realisation costs, legal and administration costs.

Individual provisions

An individual provision is raised where there is an expectation of a loss of principal, interest and/or fees and there is objective evidence of impairment.

At each balance date, the NZ Banking Group reviews individually significant loans for evidence of impairment. All relevant information, including the economic situation, solvency of the customer/guarantor, enforceability of guarantees, current security values and the time value of future cash flows are taken into account in determining individual provisions. At a minimum, individual provisions are reassessed on a quarterly basis, upon receipt of a significant asset realisation or when there is a change in customer circumstances/business strategy.

Collective provisions

A collective provision is calculated for:

- Loans subject to individual assessment to cover losses which have been incurred but not yet identified; and
- For homogenous portfolios of loans that are not considered individually significant (e.g. retail portfolios such as mortgages, credit cards and some small business loans).

The collective provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is then adjusted for the impact of current observable data.

For individually significant loans, historical loss experience used to calculate the collective provision is determined by taking into account historical information on probability of default and loss given default by risk grade. The collective provision on homogeneous or portfolio managed exposures is calculated by applying an expected loss factor to the outstanding drawn and undrawn balances in each loan portfolio. The expected loss factor is determined from internal historical loss data.

The long-term historical loss experience is reviewed by management and adjustments made to reflect current economic and credit conditions as well as taking into account such factors as concentration risk in an individual portfolio. In addition, management recognise that a certain level of imprecision exists in any model used to generate risk grading and provisioning levels. As such an adjustment is applied for model risk.

As at 30 September 2008 for the NZ Banking Group, total provision for credit impairment was $666 million representing 0.68% of total net loans and advances (30/09/2007 $466 million or 0.53%). Of the total provision for 30 September 2008, $534 million represented collective provisions and $132 million represented individual provisions.

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

Critical judgements in applying the NZ Banking Group's accounting policies

Derivatives and hedging

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

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

The NZ Banking Group enters into derivatives for trading (including transactions entered into on behalf of customers) or for hedging purposes.

Hedging

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

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

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

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

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

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

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

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

<u>Fair value of derivatives</u>

Derivatives which are entered into as part of the NZ Banking Group's trading operations and those derivatives which are part of fair value hedges are measured at fair value, with any changes in fair value recognised in the income statement. Where liquid markets exist, fair value is based on quoted market prices. Where there is no active market fair value is determined by the use of various valuation techniques including discounted cash flow models and option pricing models. To the extent possible models use only observable data, however such areas as counterparty risk, volatilities and correlations require management to make judgements and estimates. Changes in assumptions used in these models and projections of future cash flows could affect the reported fair value of derivative financial instruments.

Goodwill

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

As at 30 September 2008, the balance of goodwill recorded as an asset on the NZ Banking Group's consolidated balance sheet as a result of acquisitions was $3,262 million (30/09/2007 $3,262 million) of which $3,230 million relates to the acquisition of NBNZ Group in December 2003 (30/09/2007 $3,230 million).

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

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

The NZ Banking Group obtained an independent valuation of the ANZ National Bank Limited Group as at 31 August 2008.

In determining the fair value of the NZ Banking Group, independent valuations based on fair value less costs to sell using a capitalisation of earnings approach and a discounted cash flow approach were used.

The results of the independent valuation resulted in a fair value less costs to sell in excess of current carrying value.

In determining an appropriate price multiple under the capitalisation of earnings approach, judgement is applied in assessing comparability of similar companies or transactions, particularly with respect to the mix of business, geographic location, growth prospects, riskiness of future earnings and size of the overall business.

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

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

The NZ Banking Group adopts the equity method of accounting for its 49% interest in its jointly controlled entity, ING NZ. As at 30 September 2008, the carrying value of the NZ Banking Group's investment in ING NZ was $212 million (30/09/2007 $189 million).

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

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

3. RISK MANAGEMENT POLICIES

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

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

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

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

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

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

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

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

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

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

Refer to Note 32 Financial Risk Management for detailed disclosures on the financial risk management policies the NZ Banking Group adheres to.

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

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

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

Where applicable, a Risk Drivers and Controls (or “Scorecards”) Approach to operational risk measurement is used to measure the operational risk profile of individual business units, and to allocate operational risk economic capital. This approach gives business managers a strong and clear incentive to reduce operational risk.

3. RISK MANAGEMENT POLICIES (continued)

Compliance

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

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

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

Internal audit

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

Internal Audit reports directly to the Chairman of the Overseas Banking Group (the "Group") Audit Committee. Under its Charter, Internal Audit conducts independent appraisals of:

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

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

The Internal Audit Plan is approved by the Group Audit Committee.

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

4. INCOME

	NZ Banking Group		NZ Branch	
	Year to 30/09/2008	Year to 30/09/2007	**Year to 30/09/2008**	Year to 30/09/2007
Continuing operations	**$m**	$m	**$m**	$m
Interest income				
Financial assets at fair value through profit or loss				
Trading securities	**220**	233	**-**	-
Derivative financial instruments	**507**	278	**-**	-
	727	511	**-**	-
Financial assets not at fair value through profit or loss				
Liquid assets	**313**	345	**-**	-
Other financial institutions	**321**	220	**-**	-
Available-for-sale assets	**3**	7	**-**	-
Lending on productive loans	**8,472**	7,190	**-**	-
Lending on impaired assets (Note 14)	**6**	4	**-**	-
Other	**16**	19	**-**	-
	9,131	7,785	**-**	-
Total interest income	**9,858**	8,296	**-**	-
Other operating income				
Net fee income[1]	**646**	594	**-**	-
Dividends received	**4**	3	**-**	-
Net gain on foreign exchange trading	**166**	128	**-**	-
Net gain on trading securities	**45**	2	**-**	-
Net gain on trading derivatives	**60**	39	**-**	-
Net gain on available-for-sale assets	**-**	10	**-**	-
Net (loss) gain on hedges not qualifying for hedge accounting	**70**	22	**-**	-
Net ineffectiveness on qualifying fair value hedges	**(67)**	(2)	**-**	-
Net cash flow hedge gains transferred to income statement	**37**	35	**-**	-
Net gain (loss) on financial liabilities designated at fair value through profit or loss	**15**	(2)	**-**	-
Other income	**39**	11	**-**	-
Total other operating income	**1,015**	840	**-**	-
[1]**Net fee income comprises:**				
Lending and credit facility fee income	**134**	109	**-**	-
Fee income on trust and other fiduciary activities	**47**	46	**-**	-
Other fee income	**632**	593	**-**	-
Total fee income	**813**	748	**-**	-
Direct fee expense	**167**	154	**-**	-
Net fee income	**646**	594	**-**	-

5. EXPENSES

	NZ Banking Group		NZ Branch	
	Year to	Year to	**Year to**	Year to
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
Continuing operations	**$m**	$m	**$m**	$m
Interest expense				
Financial assets at fair value through profit or loss				
Commercial paper	**997**	595	**-**	-
	997	595	**-**	-
Deposits at amortised cost				
Other financial institutions	**195**	206	**-**	-
Deposits and other borrowings	**4,397**	3,740	**-**	-
Subsidiary companies	**-**	-	**-**	-
Bonds and notes	**1,781**	1,322	**-**	-
Term funding	**159**	142	**-**	-
Loan capital	**207**	157	**-**	-
Other	**93**	77	**-**	-
Total interest expense	**7,829**	6,239	**-**	-
Operating expenses				
Personnel costs	**724**	650	**-**	-
Employee entitlements	**75**	67	**-**	-
Pension costs				
- Defined contribution schemes	**37**	35	**-**	-
- Defined benefit schemes	**7**	6	**-**	-
Share-based payments expense	**13**	12	**-**	-
Building occupancy costs	**38**	38	**-**	-
Depreciation of premises and equipment	**38**	39	**-**	-
Leasing and rental costs	**80**	72	**-**	-
Related parties (Note 46)	**82**	71	**-**	-
Computer expenses	**117**	112	**-**	-
Administrative expenses	**180**	181	**-**	-
Other costs	**54**	48	**-**	-
Total operating expenses	**1,445**	1,331	**-**	-

	NZ Banking Group		NZ Branch	
	Year to	Year to	**Year to**	Year to
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$'000	$'000	**$'000**	$'000
Auditors' remuneration to KPMG comprises:				
Audit or review of financial statements	**1,942**	1,549	**-**	-
Other audit-related services	**500**	357	**-**	-
Total auditors' remuneration	**2,442**	1,906	**-**	-

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

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

6. INCOME TAX EXPENSE

	NZ Banking Group		NZ Branch	
	Year to 30/09/2008 $m	Year to 30/09/2007 $m	**Year to 30/09/2008 $m**	Year to 30/09/2007 $m
Reconciliation of the prima facie income tax payable on profit with the income tax expense charged in the income statement				
Continuing operations				
Profit before income tax	**1,408**	1,516	**-**	-
Prima facie income tax at 33%	**465**	500	**-**	-
Rebateable and non-assessable dividends	**(10)**	(12)	**-**	-
Non-assessable income/non-deductible expenses	**(36)**	34	**-**	-
	419	522	**-**	-
Tax effect of change in domestic tax rate[1]	**(1)**	27	**-**	-
Income tax under provided in prior periods	**-**	2	**-**	-
Total income tax expense from continuing operations	**418**	551	**-**	-
Effective tax rate (%)	**29.7%**	36.3%	**0.0%**	0.0%
The major components of the income tax expense comprise:				
Amounts recognised in the income statement				
Current income tax charge				
Current income tax charge	**525**	448	**-**	-
Adjustments recognised in the current year in relation to current tax of prior periods	**-**	2	**-**	-
Deferred income tax				
Deferred tax (income) expense relating to the origination and reversal of temporary differences	**(107)**	101	**-**	-
Total income tax expense recognised in income statement - continuing operations	**418**	551	**-**	-
The following amounts were (credited) charged directly to equity:				
Current income tax				
Actuarial (loss) gain on defined benefit schemes	**(12)**	1	**-**	-
Deferred income tax				
Net (loss) gain on revaluation of cash flow hedges	**(4)**	11	**-**	-
Total income tax (credit) expense recognised directly in equity	**(16)**	12	**-**	-
Imputation Credit Account				
Balance at beginning of the year	**831**	642	**-**	-
Imputation credits attached to dividends received	**33**	14	**-**	-
Taxation paid	**211**	371	**-**	-
Imputation credits attached to dividends paid	**(370)**	(196)	**-**	-
Other	**(9)**	-	**-**	-
Balance at end of the year	**696**	831	**-**	-

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

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

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

7. LIQUID ASSETS

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Cash and balances with central banks	**3,950**	3,010	**-**	-
Securities purchased under agreement to resell	**-**	197	**-**	-
Money at call	**807**	1,467	**-**	-
Bills receivable and remittances in transit	**82**	133	**-**	-
Total liquid assets	**4,839**	4,807	**-**	-
Included within liquid assets is the following balance:				
Overnight balances with central banks	**3,779**	2,809	**-**	-
The NZ Banking Group's total core liquidity portfolio held for managing liquidity risk (Note 32)	**8,736**	6,168	**-**	-

8. DUE FROM OTHER FINANCIAL INSTITUTIONS

	NZ Banking Group 30/09/2008	NZ Banking Group 30/09/2007	NZ Branch 30/09/2008	NZ Branch 30/09/2007
Able to be withdrawn without prior notice	**437**	952	**-**	-
Securities purchased under agreement to resell	**304**	512	**-**	-
Security settlements	**1,328**	-	**-**	-
Certificates of deposit	**2,447**	1,634	**-**	-
Term loans and advances	**516**	465	**-**	-
Total due from other financial institutions	**5,032**	3,563	**-**	-

There are no assets used to secure deposit obligations or assets encumbered through repurchase agreements at 30 September 2008 (30 September 2007 nil).

There is a related party balance with a subsidiary of the Ultimate Parent Bank at 30 September 2008 of $1,328m (30 September 2007 nil)

9. TRADING SECURITIES

	NZ Banking Group 30/09/2008	NZ Banking Group 30/09/2007	NZ Branch 30/09/2008	NZ Branch 30/09/2007
Government, Local Body stock and bonds	**252**	144	**-**	-
Certificates of deposit	**926**	866	**-**	-
Promissory notes	**39**	177	**-**	-
Other bank bonds	**1,331**	638	**-**	-
Other	**76**	52	**-**	-
Total trading securities	**2,624**	1,877	**-**	-
Included within trading securities is the following balance:				
Assets encumbered through repurchase agreements	**97**	300	**-**	-

10. DISCONTINUED OPERATIONS

On 31 October 2006, UDC Finance Limited sold Truck Leasing Limited to Nikko Principal Investments Australia Limited, a private equity business of Nikko Cordial Corporation, for consideration of $147 million. A gain of $76 million was realised.

For a detailed explanation of the financial impacts of the sale of TLL refer to Note 10 Discontinued Operations in the NZ geographic consolidated financial statements for the year ended 30 September 2007.

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Types of derivative instruments

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

The principal commodity contracts used by the NZ Banking Group are forward commodity contracts and commodity swaps. Forward commodity contracts are agreements for the payment of the difference between a specified commodity price and a fixed rate on a notional volume of the commodity at a future date. A commodity swap generally involves the exchange of the return on the commodity for a fixed or floating interest payment without the exchange of the underlying commodity or principal amount.

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

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

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

Trading positions

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

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

Balance sheet risk management

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

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

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

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

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	NZ Banking Group			NZ Branch		
	Notional Principal Amount	Fair values Assets	Fair values Liabilities	Notional Principal Amount	Fair values Assets	Fair values Liabilities
30/09/2007	$m	$m	$m	$m	$m	$m
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	37,155	750	1,023	-	-	-
Swap agreements	48,478	1,441	1,360	-	-	-
Options purchased	2,890	113	-	-	-	-
Options sold	2,866	-	108	-	-	-
Collateral received / paid	-	(530)	(115)	-	-	-
	91,389	1,774	2,376	-	-	-
Interest rate derivatives						
Forward rate agreements	74,574	3	4	-	-	-
Swap agreements	318,899	2,240	2,321	-	-	-
Futures contracts	17,761	4	34	-	-	-
Options purchased	1,703	13	-	-	-	-
Options sold	1,651	-	13	-	-	-
	414,588	2,260	2,372	-	-	-
Equity derivatives						
Options purchased	20	20	-	-	-	-
Total derivatives held for trading	505,997	4,054	4,748	-	-	-
Derivatives held for hedging						
(a) Designated as cash flow hedges						
Foreign exchange derivatives						
Spot and forward contracts	49	2	-	-	-	-
Interest rate derivatives						
Swap agreements	12,568	108	50	-	-	-
Total derivatives designated as cash flow hedges	12,617	110	50	-	-	-
(b) Designated as fair value hedges						
Foreign exchange derivatives						
Swap agreements	74	1	7	-	-	-
Interest rate derivatives						
Swap agreements	37,088	386	130	-	-	-
Total derivatives designated as fair value hedges	37,162	387	137	-	-	-
Total derivatives held for hedging	49,779	497	187	-	-	-
Total derivative financial instruments	555,776	4,551	4,935	-	-	-

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedging relationships

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

Fair value hedges

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

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

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Gain or (loss) arising from fair value hedges:				
- hedged item	**661**	(392)	**-**	-
- hedging instrument	**(728)**	390	**-**	-
Net ineffectiveness on qualifying fair value hedges	**(67)**	(2)	**-**	-

Cash flow hedges

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

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

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Balance at beginning of the year	**84**	52	**-**	-
Transferred to income statement	**(37)**	(35)	**-**	-
Tax effect of items transferred to income statement	**11**	12	**-**	-
Valuation (loss) gain taken to equity	**(47)**	78	**-**	-
Tax effect of net loss (gain) taken to equity	**13**	(23)	**-**	-
Balance at end of the year	**24**	84	**-**	-

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

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Variable rate loan assets	**70**	(19)	**-**	-
Variable rate liabilities	**(1)**	69	**-**	-
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	**(45)**	34	**-**	-
Total cash flow hedging reserve	**24**	84	**-**	-

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur which is anticipated to take place over the next 0 - 10 years (30/09/2007 0-10 years).

All gains and losses associated with the ineffective portion of the hedging derivatives are recognised immediately as 'other operating income' in the income statement. The ineffectiveness recognised in the income statement in respect of cash flow hedges was nil in the NZ Banking Group (30/09/2007 less than $1 million) and nil in the NZ Branch (30/09/2007 $nil).

There were no transactions where cash flow hedge accounting ceased in the period ended 30 September 2008 as a result of highly probable cash flows that were no longer expected to occur (30/09/2007 no transactions).

12. AVAILABLE-FOR-SALE ASSETS

Government, Local Body stock and bonds	**3**	4	**-**	-
Other debt securities	**41**	43	**-**	-
Equity securities	**65**	1	**-**	-
Total available-for-sale assets	**109**	48	**-**	-

13. NET LOANS AND ADVANCES

Overdrafts	**2,140**	2,012	**-**	-
Credit card outstandings	**1,434**	1,338	**-**	-
Term loans - housing	**53,350**	49,751	**-**	-
Term loans - non-housing	**40,583**	35,067	**-**	-
Finance lease receivables	**777**	752	**-**	-
Gross loans and advances	**98,284**	88,920	**-**	-
Provision for credit impairment (Note 15)	**(666)**	(466)	**-**	-
Unearned finance income	**(346)**	(290)	**-**	-
Fair value hedge adjustment	**353**	(442)	**-**	-
Deferred fee revenue and expenses	**(55)**	(53)	**-**	-
Capitalised brokerage/ mortgage origination fees	**109**	120	**-**	-
Total net loans and advances	**97,679**	87,789	**-**	-

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

Individually impaired assets	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures	Total	Retail mortgages	Other retail exposures	Corporate exposures	Total
30/09/2008	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Balance at beginning of the year	**7**	**20**	**88**	**115**	**-**	**-**	**-**	**-**
Transfers from productive	**103**	**122**	**228**	**453**	**-**	**-**	**-**	**-**
Transfers to productive	**(2)**	**-**	**(8)**	**(10)**	**-**	**-**	**-**	**-**
Assets realised or loans repaid	**(18)**	**(14)**	**(86)**	**(118)**	**-**	**-**	**-**	**-**
Write offs	**(7)**	**(98)**	**(8)**	**(113)**	**-**	**-**	**-**	**-**
Balance at end of the year	**83**	**30**	**214**	**327**	**-**	**-**	**-**	**-**
30/09/2007								
Balance at beginning of the year	9	19	123	151	-	-	-	-
Transfers from productive	3	85	81	169	-	-	-	-
Transfers to productive	-	-	(15)	(15)	-	-	-	-
Assets realised or loans repaid	(5)	(9)	(92)	(106)	-	-	-	-
Write offs	-	(75)	(9)	(84)	-	-	-	-
Balance at end of the year	7	20	88	115	-	-	-	-

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Past due assets (90 days past due assets) [1]				
Balance at beginning of the year	**102**	86	**-**	-
Transfers to past due assets	**856**	360	**-**	-
Transfers from past due assets	**(649)**	(344)	**-**	-
Balance at end of the year	**309**	102	**-**	-
Other assets under administration				
Balance at beginning of the year	**-**	-	**-**	-
Transfers to other assets under administration	**1**	3	**-**	-
Transfers from other assets under administration	**-**	(3)	**-**	-
Balance at end of the year	**1**	-	**-**	-
Undrawn facilities with impaired customers				
Balance at beginning of the year	**6**	8	**-**	-
Transfers to (from) undrawn facilities with impaired customers	**-**	(2)	**-**	-
Balance at end of the year	**6**	6	**-**	-
Interest foregone on impaired assets				
Gross interest receivable on impaired loans	**24**	12	**-**	-
Interest recognised	**(6)**	(4)	**-**	-
Net interest foregone on impaired loans	**18**	8	**-**	-

Further analysis of past due assets can be found in Note 32 Financial Risk Management, including an ageing analysis of all past due assets 1 day and over where the counterparty has failed to make a payment when contractually due.

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

There are no undrawn facilities with 90 day past due customers or customers within the other assets under administration category as at 30 September 2008 (30 September 2007 nil).

As at 30 September 2008, the NZ Banking Group did not have any material restructured assets or assets acquired through enforcement of security (30 September 2007 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.

15. PROVISION FOR CREDIT IMPAIRMENT

	NZ Banking Group				NZ Branch			
	Retail mortgages	**Other retail exposures**	**Corporate exposures**	**Total**	**Retail mortgages**	**Other retail exposures**	**Corporate exposures**	**Total**
30/09/2008	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Collective provision								
Balance at beginning of the year	**58**	**130**	**234**	**422**	**-**	**-**	**-**	**-**
Charge to income statement	**23**	**34**	**55**	**112**	**-**	**-**	**-**	**-**
Balance at end of the year	**81**	**164**	**289**	**534**	**-**	**-**	**-**	**-**
Individual provision (individually impaired assets)								
Balance at beginning of the year	**4**	**13**	**27**	**44**	**-**	**-**	**-**	**-**
Charge to income statement	**31**	**80**	**79**	**190**	**-**	**-**	**-**	**-**
Recoveries of amounts previously written off	**-**	**15**	**2**	**17**	**-**	**-**	**-**	**-**
Bad debts written off	**(7)**	**(98)**	**(8)**	**(113)**	**-**	**-**	**-**	**-**
Discount unwind[1]	**-**	**-**	**(6)**	**(6)**	**-**	**-**	**-**	**-**
Balance at end of the year	**28**	**10**	**94**	**132**	**-**	**-**	**-**	**-**
Total provision for credit impairment	**109**	**174**	**383**	**666**	**-**	**-**	**-**	**-**
30/09/2007								
Collective provision								
Balance at beginning of the year	51	132	219	402	-	-	-	-
Charge to income statement	7	(2)	15	20	-	-	-	-
Balance at end of the year	58	130	234	422	-	-	-	-
Individual provision (individually impaired assets)								
Balance at beginning of the year	3	16	39	58	-	-	-	-
Charge to income statement	1	55	(2)	54	-	-	-	-
Recoveries of amounts previously written off	-	17	3	20	-	-	-	-
Bad debts written off	-	(75)	(9)	(84)	-	-	-	-
Discount unwind[1]	-	-	(4)	(4)	-	-	-	-
Balance at end of the year	4	13	27	44	-	-	-	-
Total provision for credit impairment	62	143	261	466	-	-	-	-

Provision movement analysis

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
New and increased provisions	**223**	92	**-**	-
Provision releases	**(16)**	(18)	**-**	-
	207	74	**-**	-
Recoveries of amounts previously written off	**(17)**	(20)	**-**	-
Individual provision charge	**190**	54	**-**	-
Collective provision charge	**112**	20	**-**	-
Charge to income statement	**302**	74	**-**	-

[1]The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value. As this discount unwinds during the period it is recognised as interest income.

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

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Shares in controlled entities				
Unquoted at cost	**-**	-	**-**	-
Shares in associates	**144**	10	**-**	-
Shares in jointly controlled entities				
Unquoted at cost plus equity accounted adjustments	**219**	196	**-**	-
Total shares in controlled entities, associates and jointly controlled entities	**363**	206	**-**	-
Shares in associates comprise:				
Balance at beginning of the year	**10**	3	**-**	-
Acquisitions	**48**	8	**-**	-
Disposals	**-**	(1)	**-**	-
Fair value adjustment	**(2)**	-	**-**	-
Share of profit of equity accounted associates[1]	**88**	-	**-**	-
Balance at end of the year	**144**	10	**-**	-

Shares in associates at 30 September 2008 includes goodwill of $57 million (30/09/2007 $8 million) for the NZ Banking Group and $nil million (30/09/2007 $nil) for the NZ Branch.

Shares in jointly controlled entities comprise:		
Balance at beginning of the year	**196**	174
Disposals	**-**	(2)
Share of profit of equity accounted jointly controlled entities	**23**	24
Balance at end of the year	**219**	196

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

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

17. OTHER ASSETS

Accrued interest and prepaid discounts	**535**	537	**-**	-
Accrued commission	**20**	12	**-**	-
Defined benefit schemes surplus	**-**	8	**-**	-
Share-based payments asset	**50**	37	**-**	-
Prepaid expenses	**57**	30	**-**	-
Security settlements	**85**	137	**-**	-
Other assets	**253**	284	**-**	-
Total other assets	**1,000**	1,045	**-**	-

18. DEFERRED TAX ASSETS

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Deferred tax assets				
Balance at beginning of the year	**7**	119	**-**	-
Credited (charged) to income statement	**59**	(38)	**-**	-
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	**52**	(74)	**-**	-
Balance at end of the year	**118**	7	**-**	-
Deferred tax assets comprise the following temporary differences:				
Provision for credit impairment	**200**	140	**-**	-
Deferred fee revenue and expenses	**3**	3	**-**	-
Premises and equipment	**-**	2	**-**	-
Software	**11**	32	**-**	-
Provisions and accruals	**125**	103	**-**	-
Derivative financial instruments	**3**	3	**-**	-
Defined benefit schemes	**8**	-	**-**	-
Other	**3**	11	**-**	-
	353	294	**-**	-
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	**(235)**	(287)	**-**	-
Net deferred tax assets	**118**	7	**-**	-
The deferred tax credited (charged) to the income statement comprises the following temporary differences:				
Provision for credit impairment	**60**	(12)	**-**	-
Deferred fee revenue and expenses	**-**	(2)	**-**	-
Premises and equipment	**(2)**	(2)	**-**	-
Software	**(21)**	-	**-**	-
Provisions and accruals	**22**	4	**-**	-
Derivative financial instruments	**-**	(6)	**-**	-
Defined benefit schemes	**8**	-	**-**	-
Other	**(8)**	(20)	**-**	-
Total deferred tax credited (charged) to the income statement	**59**	(38)	**-**	-

There was no deferred tax asset charged or credited to equity as at 30 September 2008 (30/09/2007 $nil). There were no unrecognised deferred tax assets as at 30 September 2008 (30/09/2007 $nil).

The reduction in the corporate tax rate from 33% to 30% from the 2009 tax year has been taken into account in calculating the value of deferred tax assets as at 30 September 2008 and 30 September 2007.

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

19. PREMISES AND EQUIPMENT

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Freehold and leasehold land and buildings				
At cost	**69**	69	**-**	-
Accumulated depreciation	**(12)**	(12)	**-**	-
Total carrying amount	**57**	57	**-**	-
Leasehold improvements				
At cost	**98**	97	**-**	-
Accumulated depreciation	**(75)**	(73)	**-**	-
Total carrying amount	**23**	24	**-**	-
Furniture and equipment				
At cost	**255**	244	**-**	-
Accumulated depreciation	**(176)**	(166)	**-**	-
Total carrying amount	**79**	78	**-**	-
Computer and office equipment				
At cost	**246**	239	**-**	-
Accumulated depreciation	**(196)**	(189)	**-**	-
Total carrying amount	**50**	50	**-**	-
Work in progress	**33**	23	**-**	-
Total premises and equipment	**242**	232	**-**	-

20. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill				
Gross carrying amount				
Balance at beginning and end of the year	**3,262**	3,262	**-**	-
Software				
Gross carrying amount				
Balance at beginning of the year	**68**	51	**-**	-
Additions	**28**	17	**-**	-
Balance at end of the year	**96**	68	**-**	-
Accumulated amortisation				
Balance at beginning of the year	**(39)**	(32)	**-**	-
Amortisation expense[1]	**(8)**	(7)	**-**	-
Balance at end of the year	**(47)**	(39)	**-**	-
Total software	**49**	29	**-**	-
Other intangible assets	**3**	3	**-**	-
Total goodwill and other intangible assets	**3,314**	3,294	**-**	-

No impairment losses have been recognised against the gross carrying amount of goodwill, software and other intangible assets for the year ended 30 September 2008 (30/09/2007 $nil).

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

21. DUE TO OTHER FINANCIAL INSTITUTIONS

Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	**1,001**	1,140	**-**	-
Securities sold under agreements to repurchase	**97**	300	**-**	-
Other financial institutions	**2,213**	1,730	**-**	-
Total due to other financial institutions	**3,311**	3,170	**-**	-
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	**1,001**	1,140	**-**	-

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

22. DEPOSITS AND OTHER BORROWINGS

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Amortised cost				
Certificates of deposit	**5,527**	4,447	**-**	-
Term deposits	**31,260**	28,998	**-**	-
Demand deposits bearing interest	**22,085**	21,128	**-**	-
Deposits not bearing interest	**3,928**	4,354	**-**	-
Secured debenture stock	**1,683**	1,786	**-**	-
Total deposits and other borrowings recognised at amortised cost	**64,483**	60,713	**-**	-
Fair value through the profit or loss				
Commercial paper	**12,653**	9,317	**-**	-
Total deposits and other borrowings recognised at fair value	**12,653**	9,317	**-**	-
Total deposits and other borrowings	**77,136**	70,030	**-**	-

The principal at maturity of commercial paper at fair value through the profit and loss is $12,755 million (30/09/2007 $9,404 million).

The NZ Banking Group has not defaulted on any principal, interest or redemption amounts on its borrowed funds during the year ended 30 September 2008 (30/09/2007 nil). Deposits from customers are unsecured and rank equally with other unsecured liabilities of the NZ Banking Group. In the unlikely event that a company in the NZ Banking Group was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Included within deposits and other borrowings are the following balances:				
Commercial paper issued by ANZ National (Int'l) Limited guaranteed by ANZ National Bank Limited at amortised cost	**12,670**	9,319	-	-
UDC Finance Limited secured debentures				
Carrying value of total tangible assets	**2,032**	2,065	-	-

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

23. PAYABLES AND OTHER LIABILITIES

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Creditors	**77**	55	**-**	-
Accrued interest and unearned discounts	**991**	775	**-**	-
Defined benefit schemes deficit	**27**	-	**-**	-
Share-based payments liability	**29**	20	**-**	-
Accrued charges	**216**	170	**-**	-
Security settlements	**236**	37	**-**	-
Equitable assignment of mortgages[1]	**25**	32	**-**	-
Other liabilities	**274**	338	**-**	-
Total payables and other liabilities	**1,875**	1,427	**-**	-

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

24. DEFERRED TAX LIABILITIES

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Provision for deferred income tax				
Balance at beginning of the year	**-**	-	**-**	-
(Credited) charged to income statement	**(48)**	63	**-**	-
(Credited) charged directly to equity	**(4)**	11	**-**	-
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	**52**	(74)	**-**	-
Balance at end of the year	**-**	-	**-**	-
Deferred tax liabilities comprise the following temporary differences:				
Lease finance	**90**	110	**-**	-
Defined benefit schemes	**-**	2	**-**	-
Other	**145**	175	**-**	-
	235	287	**-**	-
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	**(235)**	(287)	**-**	-
Net deferred tax liabilities	**-**	-	**-**	-
The deferred tax (credited) charged to the income statement comprises the following temporary differences:				
Lease finance	**(20)**	20	**-**	-
Share compensation	**-**	(4)	**-**	-
Defined benefit schemes	**(2)**	-	**-**	-
Other	**(26)**	47	**-**	-
Total deferred tax (credited) charged to the income statement	**(48)**	63	**-**	-
The deferred tax (credited) charged to equity comprises the following temporary differences:				
Cash flow hedges	**(4)**	11	**-**	-
Total deferred tax (credited) charged directly to equity	**(4)**	11	**-**	-

The reduction in the corporate tax rate from 33% to 30% from the 2009 tax year has been taken into account in calculating the value of deferred tax liabilities as at 30 September 2008 and 30 September 2007.

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

25. PROVISIONS

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Non-lending losses, frauds and forgeries	**11**	3	**-**	-
Employee entitlements[1]				
Balance at beginning of the year	**110**	107	**-**	-
New provisions	**62**	56	**-**	-
Provisions utilised	**(55)**	(53)	**-**	-
Balance at end of the year	**117**	110	**-**	-
Personnel restructuring costs[2]				
Balance at beginning of the year	**2**	9	**-**	-
Provisions utilised	**-**	(7)	-	-
New provisions	**30**	-	**-**	-
Balance at end of the year	**32**	2	**-**	-
Redundant assets restructuring costs[2]				
Balance at beginning of the year	**2**	5	**-**	-
Provisions utilised	**(1)**	(3)	**-**	-
Balance at end of the year	**1**	2	**-**	-
Other provisions	**29**	48	**-**	-
Total provisions	**190**	165	**-**	-

[1]Employee entitlements

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

[2]Personnel restructuring costs and redundant assets restructuring costs

Restructuring cost provisions arise from exit activities relating to material changes in the scope or manner of business undertaken by the NZ Banking Group and includes termination benefits. Provisions are made when the NZ Banking Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated. The majority of provisions recognised at 30 September 2008 are expected to be settled over the 2009 financial year, with the exception that provisions for losses arising from rental commitments on leased premises which have become vacant as a result of restructuring will be settled over the remaining term of the leases.

26. BONDS AND NOTES

					NZ Banking Group	
					30/09/2008	30/09/2007
					$m	$m
Issued by ANZ National Bank Limited						
Denomination	**Face value ($m)**		**Maturity**	**Interest rate %**		
NZD	150m	fixed rate notes	2009	6.82%	**150**	150
NZD	50m	floating rate notes	2009	3 month BKBM + 0.30%	**50**	-
NZD	70m	floating rate notes	2010	3 month BKBM + 0.35%	**70**	-
NZD	100m	fixed rate notes	2010	8.74%	**100**	-
NZD	150m	fixed rate notes	2011	6.80%	**150**	150
NZD	170m	floating rate notes	2011	3 month BKBM + 0.90%	**170**	-
NZD	50m	fixed rate notes	2011	8.25%	**50**	-
NZD	175m	fixed rate notes	2014	8.80%	**175**	-
Other bonds and notes[1]					**208**	261
					1,123	561

Issued by ANZ National (Int'l) Limited						
Denomination	**Face value ($m)**		**Maturity**	**Interest rate %**		
GBP	250m	floating rate notes[2]	2007	3 month LIBOR - 0.01%	**-**	668
NZD	150m	fixed rate notes	2008	6.50%	**-**	150
JPY	9,000m	floating rate notes	2008	3 month JPY LIBOR	**-**	103
GBP	40m	floating rate notes	2008	3 month GBP LIBOR - 0.065%	**-**	107
EUR	100m	floating rate notes	2008	3 month EURIBOR + 0.02%	**-**	187
GBP	300m	floating rate notes	2008	3 month GBP LIBOR + 0.01%	**806**	802
HKD	80m	fixed rate notes	2008	3.93%	**-**	14
USD	27m	fixed rate notes[3]	2008	5.00%	**-**	36
USD	120m	floating rate notes	2008	3 month LIBOR - 0.06%	**179**	158
USD	250m	fixed rate notes	2008	4.265%	**-**	330
USD	750m	floating rate notes	2008	3 month LIBOR + 0.07%	**-**	991
USD	170m	floating rate notes[4]	2008	1 month LIBOR + 0.01%	**254**	-
USD	1,500m	floating rate notes[4]	2008	1 month LIBOR + 0.01%	**-**	1,969
NZD	200m	fixed rate notes	2008	9.20%	**200**	-
JPY	15,000m	floating rate notes	2008	3 month JPY LIBOR	**215**	-
EUR	750m	floating rate notes	2009	3 month EURIBOR + 0.12%	**1,607**	1,403
HKD	1,000m	fixed rate notes	2009	4.40%	**193**	170
NZD	150m	floating rate notes	2009	3 month BKBM + 0.10%	**150**	150
HKD	300m	fixed rate notes	2009	4.93%	**58**	51
HKD	280m	fixed rate notes	2009	4.44%	**54**	48
USD	750m	floating rate notes	2009	3 month LIBOR + 0.04%	**1,120**	991
USD	250m	floating rate notes	2009	3 month Prime - 2.9125%	**373**	330
USD	300m	floating rate notes	2009	1 month LIBOR + 0.04%	**448**	396
NZD	20m	floating rate notes	2009	3 month BKBM + 0.05%	**20**	20
EUR	300m	floating rate notes	2009	3 month EUR LIBOR + 0.15%	**643**	561
JPY	17,770m	fixed rate notes	2009	0.055%	**254**	-
JPY	17,500m	floating rate notes	2009	3 month JPY LIBOR	**250**	-
USD	9m	floating rate notes[4]	2009	1 month LIBOR + 0.01%	**13**	12
USD	2,000m	floating rate notes[5]	2009	3 month LIBOR + 0.22%	**2,985**	-
JPY	8,640m	fixed rate notes	2009	0.114%	**124**	-
JPY	1,000m	fixed rate notes	2009	0.01%	**14**	-
JPY	6,000m	floating rate notes	2009	3 month JPY LIBOR	**86**	-
HKD	150m	floating rate notes[6]	2010	6 month HIBOR + 0.60%	**-**	26
HKD	190m	floating rate notes[7]	2010	6 month HIBOR + 0.60%	**-**	32
HKD	200m	floating rate notes[8]	2010	6 month HIBOR + 0.60%	**-**	34
USD	750m	floating rate notes	2010	3 month LIBOR + 0.11%	**1,120**	991
NZD	100m	floating rate notes	2010	3 month BKBM + 0.05%	**100**	100
CHF	275m	floating rate notes	2010	3 month CHF LIBOR + 0.75%	**375**	-
SGD	200m	fixed rate notes	2010	3.22%	**209**	-
USD	100m	floating rate notes	2010	3 month LIBOR + 0.55%	**149**	-
AUD	50m	floating rate notes	2010	3 month BBSW + 0.61%	**60**	-
USD	890m	floating rate notes[12]	2010	3 month LIBOR + 1.03%	**1,328**	-
USD	300m	fixed rate notes	2011	5.50%	**448**	396
GBP	435m	floating rate notes	2011	3 month GBP LIBOR + 0.05%	**1,169**	1,069
HKD	200m	fixed rate notes[9]	2011	5.10%	**-**	34
HKD	200m	fixed rate notes[10]	2011	4.90%	**-**	34
GBP	450m	floating rate notes[12]	2012	6 month GBP LIBOR + 0.08%	**1,210**	1,203
USD	2,000m	fixed rate notes	2013	6.20%	**2,985**	-
USD	250m	floating rate notes	2015	3 month LIBOR + 0.90%	**373**	-
					19,572	13,566

26. BONDS AND NOTES (continued)

					NZ Banking Group	
					30/09/2008	30/09/2007
Issued by NBNZ Holdings Limited					**$m**	$m
Denomination	**Face value**		**Maturity**	**Interest rate %**		
NZD	480m	floating rate notes[11]	2008	3 month BKBM	**-**	480
Issued by ANZ Holdings (New Zealand) Limited						
Denomination	**Face value**		**Maturity**	**Interest rate %**		
AUD	1,000m	floating rate notes[13]	2053	BBSW + 1.00% p.a.	**-**	1,164
Issued by Samson Funding Limited						
Denomination	**Face value**		**Maturity**	**Interest rate %**		
USD	350m	fixed rate notes[14]	2053	4.484%	**527**	454
USD	750m	fixed rate notes[14]	2053	5.36%	**1,160**	972
					1,687	1,426
Total bonds and notes					**22,382**	17,197
Included within bonds and notes is the following related party balance:						
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)					**2,538**	1,871

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

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

[2]These notes were issued to Australia and New Zealand Banking Group Limited.

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

[4]The interest rate payable on these notes is stepped as follows: Year 1 1 month LIBOR - 0.02%, Year 2 1 month LIBOR, Year 3 1 month LIBOR + 0.01%, Year 4 1 month LIBOR + 0.02% and Year 5 1 month LIBOR + 0.03%. The investor may elect to extend the maturity of the notes for a year on a monthly basis. These notes were orginally for USD1.5billion, but between 7 August 2007 and 7 May 2008, investors elected not to extend USD 1,492 million of bonds. This has resulted in these bonds carrying a fixed maturity as follows: 7 August 2008 USD 89 million; 5 September 2008 USD 1,232 million; 7 October 2008 USD 164 million; 5 December 2008 USD 6 million; 7 May 2009 USD 1 million.

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

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

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

[8]The interest rate payable on these notes is stepped as follows: Year 1 HIBOR + 1.26%, Years 2 - 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 4.00% after Year 1 and stepping up 0.25% every 6 months. The issuer exercised their option to call the note on 26 November 2007.

[9]The interest rate payable on these notes is stepped as follows: Year 1 5.10% per annum, Year 2 4.65% per annum, Years 3, 4 and 5 4.40% per annum. The issuer exercised their option to call the note on 5 December 2007.

[10]The interest rate payable on these notes is stepped as follows: Year 1 4.90% per annum, Year 2 4.65% per annum, Years 3, 4 and 5 4.40% per annum. The issuer exercised their option to call the note on 6 December 2007.

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

[12]These notes were issued to subsidiaries of Australia and New Zealand Banking Group Limited. The issue for USD890m was settled on 1 October 2008.

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

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

27. TERM FUNDING

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
ANZ Funds Pty Limited	**1,765**	1,765	**-**	-

ANZ Funds Pty Limited (Related Company)

This New Zealand dollar loan was made on 1 December 2003 and is repayable upon demand being made by the ANZ Funds Pty Limited, where 12 months prior written notice is given, unless a shorter notice period is agreed upon. Interest is payable quarterly in arrears based on BKBM + 0.20% p.a., with interest payments due 1 March, 1 June, 1 September and 1 December. As part of the annual review of terms and conditions of the loan the margin was increased to + 0.32% p.a., effective from 1 December 2008.

28. LOAN CAPITAL

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
AUD 207,450,000 term subordinated floating rate loan	**248**	242	**-**	-
AUD 265,740,000 perpetual subordinated floating rate loan	**317**	309	**-**	-
AUD 186,100,000 term subordinated floating rate loan	**222**	217	**-**	-
AUD 43,767,507 term subordinated floating rate loan	**52**	51	**-**	-
AUD 169,520,000 term subordinated floating rate loan	**202**	197	**-**	-
NZD subordinated fixed rate bonds	**1,779**	1,046	**-**	-
Total loan capital	**2,820**	2,062	**-**	-
Included within loan capital is the following related party balance:				
Australia and New Zealand Banking Group Limited (Ultimate Parent Bank)	**1,041**	1,016	**-**	-

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

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

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

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

AUD 169,520,000 loan
This loan was drawn down on 17 September 2007 with an ultimate maturity date of 17 September 2017. The Bank may elect to repay the loan on 17 September each year commencing from 2012 through to 2016. All interest is payable half yearly in arrears, with interest payments due 17 March and 17 September. Interest is based on BBSW + 0.68% p.a. to 17 September 2012 and increases to BBSW + 1.18% p.a. thereafter.

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

New Zealand Exchange listed bonds

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

As at 30 September 2008, these bonds carried an AA- rating by Standard & Poor's.

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

Perpetual Subordinated 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 30 September 2008, 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.

28. LOAN CAPITAL (continued)

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

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

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

29. ORDINARY SHARE CAPITAL

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	Number of	Number of	**Number of**	Number of
Issued share capital	**Issued Shares**	Issued Shares	**Issued Shares**	Issued Shares
Ordinary shares at beginning and end of the year	**382,238,236**	382,238,236	**-**	-
Redeemable preference shares at beginning of the year	**2,700,066,601**	700,068,601	**-**	-
Issue of redeemable preference shares during year	**510,000,000**	2,002,000,000	**-**	-
Redemption of redeemable preference shares during year	**-**	(2,002,000)	**-**	-
Redeemable preference shares at end of the year	**3,210,066,601**	2,700,066,601	**-**	-
Issued share capital at end of the year	**3,592,304,837**	3,082,304,837	**-**	-

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
Paid in share capital	**$m**	$m	**$m**	$m
Ordinary shares fully paid at beginning and end of the year	**1,453**	1,453	**-**	-
Redeemable preference shares at beginning of the year	**3,450**	3,298	**-**	-
Issue of redeemable preference shares during year	**510**	2,349	**-**	-
Redemption of redeemable preference shares during year	**-**	(2,197)	**-**	-
Redeemable preference shares at end of the year	**3,960**	3,450	**-**	-
Paid in share capital at end of year	**5,413**	4,903	**-**	-

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.

30. RESERVES AND RETAINED EARNINGS

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Available-for-sale revaluation reserve				
Balance at beginning of the year	**(1)**	3	**-**	-
Valuation gain (loss) recognised after tax	**24**	(1)	**-**	-
Cumulative gain transferred to the income statement on sale of financial assets	**-**	(3)	**-**	-
Balance at end of the year	**23**	(1)	**-**	-
Cash flow hedging reserve				
Balance at beginning of the year	**84**	52	**-**	-
Valuation (loss) gain recognised after tax	**(34)**	55	**-**	-
Transferred to income statement	**(26)**	(23)	**-**	-
Balance at end of the year	**24**	84	**-**	-
Total reserves	**47**	83	**-**	-
Retained earnings				
Balance at beginning of the year	**1,869**	1,580	**-**	-
Profit after income tax	**990**	1,041	**-**	-
Total available for appropriation	**2,859**	2,621	**-**	-
Actuarial (loss) gain on defined benefit schemes after tax	**(23)**	2	**-**	-
Interim ordinary dividends paid	**(1,169)**	(600)	**-**	-
Foreign exchange loss on redemption of redeemable preference shares	**-**	(154)	**-**	-
Supplementary dividend	**-**	(106)	**-**	-
Foreign investor tax credits	**-**	106	**-**	-
Balance at end of the year	**1,667**	1,869	**-**	-

The paid dividend on ordinary shares was $nil per share (30/09/2007 $1.04 per share).

31. CAPITAL ADEQUACY

OVERSEAS BANKING GROUP CAPITAL ADEQUACY RATIO

Overseas Banking Group	30/09/2008 Basel II	30/09/2007 Basel I	APRA minimum ratios 30/09/2008
Tier One Capital	7.7%	6.7%	4.0%
Total Capital	11.1%	10.1%	8.0%

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

The Overseas Banking Group is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB methodology. The Overseas Banking Group exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2008.

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

RISK WEIGHTED CREDIT RISK EXPOSURES

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

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

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

Off-balance sheet exposures	Prinicipal amount $m	Credit conversion factor	Credit equivalent amount $m	Average counterparty risk weight	Risk weighted exposure $m
Direct credit substitutes	2,418	100%	2,418	37%	899
Commitments with certain drawdown	685	100%	685	70%	481
Transaction related contingent items	1,090	50%	545	91%	495
Short term, self liquidating trade related contingencies	118	20%	24	71%	17
Other commitments to provide financial services which have an original maturity of 1 year or more	4,081	50%	2,041	100%	2,041
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	19,069	0%	-	100%	-
Market related contracts [1]					
- Foreign exchange	108,372		7,051	22%	1,584
- Interest rate	539,111		5,094	23%	1,159
- Equity	36		7	57%	4
	674,980		17,865		6,680

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

31. CAPITAL ADEQUACY (continued)

Total Risk Weighted Exposures of the NZ Banking Group as at 30 September 2007:

On-balance sheet exposures	Prinicipal amount	Risk weight	Risk weighted exposure
	$m		$m
Cash and short term claims on Government	3,793	0%	-
Long term claims on Government	492	10%	49
Claims on banks	5,160	20%	1,032
Claims on public sector entities	390	20%	78
Residential Mortgages	49,510	50%	24,755
Other	40,318	100%	40,318
Non risk weighted assets	7,943	n/a	-
	107,606		66,232

Off-balance sheet exposures	Prinicipal amount	Credit conversion factor	Credit equivalent amount	Average counterparty risk weight	Risk weighted exposure
	$m		$m		$m
Direct credit substitutes	2,461	100%	2,461	49%	1,206
Commitments with certain drawdown	1,089	100%	1,089	63%	686
Transaction related contingent items	398	50%	199	100%	199
Short term, self liquidating trade related contingencies	123	20%	25	60%	15
Other commitments to provide financial services which have an original maturity of 1 year or more	1,996	50%	998	100%	998
Other commitments with an original maturity of less than 1 year or which can be unconditionally cancelled at any time	18,755	0%	0	100%	-
Market related contracts [1]					
- Foreign exchange	91,514		4,524	26%	1,176
- Interest rate	464,242		3,984	21%	837
- Equity	20		21	19%	4
	580,598		13,301		5,121

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

31. CAPITAL ADEQUACY (continued)

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

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

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

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

31. CAPITAL ADEQUACY (continued)

Total Risk Weighted Exposures of the NZ Branch as at 30 September 2007:

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

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

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

ADDITIONAL MORTGAGE INFORMATION

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

Residential mortgages by loan-to-valuation ratio for the NZ Banking Group as at 30 September 2008

LVR range	Exposure Amount [2] $m
0% - 80%	**39,183**
80% - 90%	**7,486**
Over 90%	**6,550**
	53,219

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

32. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

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

CREDIT RISK

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

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

CREDIT RISK MANAGEMENT

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

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

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

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

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

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

Country risk management

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

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

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

32. FINANCIAL RISK MANAGEMENT (continued)

Portfolio stress testing

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

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

Portfolio analysis and reporting

Where appropriate global credit portfolios are analysed by the Board, its Risk Committees and Senior Business Executives. For the key operating entities within the NZ Banking Group, a central risk reporting department produces credit portfolio analysis which is distributed to senior Risk and Business Executives through monthly, half yearly and ad hoc reporting, or as set agenda reports to the various Risk Committees. This area provides an independent mechanism to ensure that significant and emerging credit risks are proactively identified and communicated to the overseas Group, Risk and Business Executives, including the respective Board Risk Committees.

Collateral management

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

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

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

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

32. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

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

Concentrations of credit risk analysis:

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

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

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

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

[3]Includes credit related commitments, contingent liabilities and letters of offer.

32. FINANCIAL RISK MANAGEMENT (continued)

NZ Banking Group

30/09/2007	Liquid assets and due from other financial institutions $m	Trading securities and available for-sale assets $m	Derivative financial instruments $m	Net loans and advances $m	Other financial assets $m	Credit related commitments[3] $m	Total $m
Industry							
Agriculture, forestry, fishing	201	-	24	14,514	159	4,059	18,957
Business services	-	-	10	1,141	12	577	1,740
Construction	-	-	-	812	9	410	1,231
Entertainment, leisure and tourism	21	4	63	958	10	484	1,540
Finance and insurance	4,115	1,577	4,039	2,471	27	1,290	13,519
Government and local authority[1]	3,082	152	48	1,334	16	673	5,305
Manufacturing	281	27	139	2,809	31	1,420	4,707
Personal lending	-	-	-	51,819	567	9,405	61,791
Property services	-	-	-	7,432	81	3,756	11,269
Retail trade	441	-	52	1,556	17	786	2,852
Transport and storage	69	28	26	1,233	13	623	1,992
Wholesale trade	16	-	8	1,218	13	616	1,871
Other[2]	144	137	142	1,400	15	708	2,546
	8,370	1,925	4,551	88,697	970	24,807	129,320
Individual provision for credit impairment	-	-	-	(44)	-	-	(44)
Collective provision for credit impairment	-	-	-	(422)	-	-	(422)
	-	-	-	(466)	-	-	(466)
Fair value hedge adjustment	-	-	-	(442)	-	-	(442)
Total financial assets	8,370	1,925	4,551	87,789	970	24,807	128,412
Geography							
New Zealand	7,108	1,329	1,207	84,612	970	24,807	120,033
Overseas	1,262	596	3,344	3,177	-	-	8,379
Total financial assets	8,370	1,925	4,551	87,789	970	24,807	128,412

NZ Branch

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

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

32. FINANCIAL RISK MANAGEMENT (continued)

	NZ Branch						
30/09/2007	Liquid assets and due from other financial institutions $m	Trading securities and available for-sale assets $m	Derivative financial instruments $m	Net loans and advances $m	Other financial assets $m	Credit related commitments[3] $m	Total $m
Industry							
Agriculture, forestry, fishing	-	-	-	-	-	-	-
Business services	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Entertainment, leisure and tourism	-	-	-	-	-	-	-
Finance and insurance	-	-	-	-	-	-	-
Government and local authority[1]	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-
Personal lending	-	-	-	-	-	-	-
Property services	-	-	-	-	-	-	-
Retail trade	-	-	-	-	-	-	-
Transport and storage	-	-	-	-	-	-	-
Wholesale trade	-	-	-	-	-	-	-
Other[2]	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Individual provision for credit impairment	-	-	-	-	-	-	-
Collective provision for credit impairment	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Fair value hedge adjustment	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-
Geography							
New Zealand	-	-	-	-	-	-	-
Overseas	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-

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

32. FINANCIAL RISK MANAGEMENT (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

	NZ Banking Group				NZ Branch			
30/09/2008	Retail mortgages $m	Other retail exposures $m	Corporate exposures[1] $m	Total maximum exposure to credit risk $m	Retail mortgages $m	Other retail exposures $m	Corporate exposures[1] $m	Total maximum exposure to credit risk $m
Exposure to credit risk								
Liquid assets	**-**	**-**	**4,839**	**4,839**	**-**	**-**	**-**	**-**
Due from other financial institutions	**-**	**-**	**5,032**	**5,032**	**-**	**-**	**-**	**-**
Trading securities	**-**	**-**	**2,624**	**2,624**	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**-**	**7,603**	**7,603**	**-**	**-**	**-**	**-**
Available-for-sale assets	**-**	**-**	**109**	**109**	**-**	**-**	**-**	**-**
Net loans and advances	**49,514**	**5,207**	**42,958**	**97,679**	**-**	**-**	**-**	**-**
Other financial assets	**-**	**-**	**893**	**893**	**-**	**-**	**-**	**-**
Credit related commitments	**5,397**	**5,307**	**16,731**	**27,435**	**-**	**-**	**-**	**-**
Total financial assets	**54,911**	**10,514**	**80,789**	**146,214**	**-**	**-**	**-**	**-**
30/09/2007								
Exposure to credit risk								
Liquid assets	-	-	4,807	4,807	-	-	-	-
Due from other financial institutions	-	-	3,563	3,563	-	-	-	-
Trading securities	-	-	1,877	1,877	-	-	-	-
Derivative financial instruments	-	-	4,551	4,551	-	-	-	-
Available-for-sale assets	-	-	48	48	-	-	-	-
Net loans and advances	45,944	4,987	36,858	87,789	-	-	-	-
Other financial assets	-	-	970	970	-	-	-	-
Credit related commitments	4,552	4,853	15,402	24,807	-	-	-	-
Total financial assets	50,496	9,840	68,076	128,412	-	-	-	-

[1] Includes corporate, sovereign and bank

32. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

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

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

Impairment and provisioning of financial assets

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

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

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

Credit exposures, including loans and advances and off-balance sheet items, such as commitments and guarantees, are reviewed at least at each reporting date for impairment. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that a loss event or events has (or have) had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated. When an impairment loss in an individual asset or portfolio of assets is identified, the NZ Banking Group is recognising that future economic benefits (previously assessed as being available to the entity) are no longer probable.

Where applicable, the NZ Banking Group's methodology for determining the total provision for loan losses establishes both an individual component for assets that are individually significant (or on a portfolio basis for small value loans) and then a collective component for those exposures not individually known to be impaired. The individual provision represents the results of analysis of individual loans within the NZ Banking Group's portfolio. The NZ Banking Group reviews its loan portfolios and monitors adherence to terms, conditions and lending covenants. The reviews undertaken employ a variety of statistical measures and experienced judgement to determine the continuing collectability of credit facilities. When objective evidence arises as to the collectability of a credit facility, the exposure is classified and reported as individually impaired and an individual provision for credit impairment is allocated against it.

Exposures that are assessed collectively are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not yet identified. The collective provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. Historical loss experience is determined using loan and portfolio risk gradings, associated default and loss expectancy rates and an assessment of the emergence period. The historical loss experience may be refined based on current observed default data and through various scenario adjustments.

The collective provision is also reviewed to ensure it is adequate for the term of the portfolio as a whole.

Distribution of gross loans and advances assets by credit quality

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

	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total
30/09/2008	$m	$m	$m	$m	$m	$m	$m	$m
Neither past due nor impaired	**47,520**	**4,912**	**41,886**	**94,318**	**-**	**-**	**-**	**-**
Past due but not impaired (1 to 89 days)	**1,776**	**385**	**877**	**3,038**	**-**	**-**	**-**	**-**
Past due but not impaired (over 90 days)	**244**	**54**	**11**	**309**	**-**	**-**	**-**	**-**
Impaired	**83**	**30**	**214**	**327**	**-**	**-**	**-**	**-**
	49,623	**5,381**	**42,988**	**97,992**	**-**	**-**	**-**	**-**
30/09/2007								
Neither past due nor impaired	45,268	4,730	36,308	86,306	-	-	-	-
Past due but not impaired (1 to 89 days)	1,116	361	697	2,174	-	-	-	-
Past due but not impaired (over 90 days)	57	19	26	102	-	-	-	-
Impaired	7	20	88	115	-	-	-	-
	46,448	5,130	37,119	88,697	-	-	-	-

[1] Includes corporate, sovereign and bank

32. FINANCIAL RISK MANAGEMENT (continued)

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

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

Internal rating

Strong risk rating

Corporate customers demonstrating superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. Retail customers with low expected loss. This rating band comprises CCR 0+ to CCR 4- which broadly corresponds to ratings "Aaa" to "Ba1" and "AAA" to "BB+" of Moody's Investors Service and Standard & Poor's respectively.

Satisfactory risk rating

Corporate customers consistently demonstrating sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. Retail customers with moderate expected loss. This rating band comprises CCR 5+ to CCR 6- which broadly corresponds to ratings "Ba2" to "Ba3" and "BB" to "BB-" of Moody's Investors Service and Standard & Poor's respectively.

Weak risk rating but not past due or impaired

Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band comprises CCR 7+ to 8 which broadly corresponds to ratings "B1" to "Caa" and "B+" to "CCC" of Moody's Investors Service and Standard & Poor's respectively.

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

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

	NZ Banking Group				NZ Branch			
30/09/2008	**Retail mortgages $m**	**Other retail exposures $m**	**Corporate exposures[1] $m**	**Total $m**	**Retail mortgages $m**	**Other retail exposures $m**	**Corporate exposures[1] $m**	**Total $m**
Strong risk rating	**43,866**	**1,849**	**19,827**	**65,542**	**-**	**-**	**-**	**-**
Satisfactory risk rating	**3,041**	**2,800**	**19,987**	**25,828**	**-**	**-**	**-**	**-**
Weak risk rating but not past due or impaired	**613**	**263**	**2,072**	**2,948**	**-**	**-**	**-**	**-**
	47,520	**4,912**	**41,886**	**94,318**	**-**	**-**	**-**	**-**
30/09/2007								
Strong risk rating	41,385	1,524	17,790	60,699	-	-	-	-
Satisfactory risk rating	3,357	2,810	17,246	23,413	-	-	-	-
Weak risk rating but not past due or impaired	526	396	1,272	2,194	-	-	-	-
	45,268	4,730	36,308	86,306	-	-	-	-

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

Ageing analysis of past due loans between 1 and 90 days is used to measure and manage the retail portfolio's credit quality within the NZ Banking Group. The remaining portfolios in these entities are individually managed and therefore, accounts are managed on a daily basis. The following table presents an ageing analysis of past due loans that are not impaired:

	NZ Banking Group				NZ Branch			
30/09/2008	**Retail mortgages $m**	**Other retail exposures $m**	**Corporate exposures $m**	**Total $m**	**Retail mortgages $m**	**Other retail exposures $m**	**Corporate exposures $m**	**Total $m**
1 to 5 days	**544**	**137**	**534**	**1,215**	**-**	**-**	**-**	**-**
6 to 29 days	**798**	**155**	**193**	**1,146**	**-**	**-**	**-**	**-**
30 to 59 days	**304**	**63**	**106**	**473**	**-**	**-**	**-**	**-**
60 to 89 days	**130**	**30**	**44**	**204**	**-**	**-**	**-**	**-**
90 days or over	**244**	**54**	**11**	**309**	**-**	**-**	**-**	**-**
	2,020	**439**	**888**	**3,347**	**-**	**-**	**-**	**-**
30/09/2007								
1 to 5 days	366	189	506	1,061	-	-	-	-
6 to 29 days	580	125	136	841	-	-	-	-
30 to 59 days	138	34	35	207	-	-	-	-
60 to 89 days	32	13	20	65	-	-	-	-
90 days or over	57	19	26	102	-	-	-	-
	1,173	380	723	2,276	-	-	-	-

[1] Includes corporate, sovereign and bank

32. FINANCIAL RISK MANAGEMENT (continued)

Past due but not impaired (over 90 days)

This classification applies where contractual payments are past due greater than 90 days, or where the facility remains outside of contractual arrangements for greater than 90 consecutive days, but entities within the NZ Banking Group believe that impairment is not appropriate on the basis of the level of security/collateral available, or the facility is portfolio managed.

A facility, subject to a regular repayment schedule, is classified as 90 days past due when at least 90 calendar days have elapsed since the due date of a contractual payment has not been met in full and the facility is well secured.

Facilities that do not have a regular repayment schedule are considered 90 days past due when the facility has remained continuously outside of contracted arrangements for 90 or more consecutive days and the facility is well secured.

Well secured is when the fair value of associated security is sufficient to ensure that the NZ Banking Group will recover the entire amount owing over the life of the facility and there is reasonable assurance that collective efforts will result in payment of the amounts due in a timely manner.

The NZ Banking Group's residential mortgages and corporate exposures are generally well secured. Collateral is generally represented by residential property and business assets respectively.

Portfolio managed assets 90 days past due but not impaired include financial assets which are homogenous with similar characteristics and are assessed, approved, and controlled on a portfolio basis within a centralised environment (for example Credit Cards, Personal Loans, Home Loans). When the financial assets are managed on a portfolio basis, the assets can be held on a non-impaired basis for up to 180 days.

Credit quality of financial assets that are individually impaired

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

	NZ Banking Group				NZ Branch			
	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total	Retail mortgages	Other retail exposures	Corporate exposures[1]	Total
30/09/2008		$m	$m	$m		$m	$m	$m
Impaired financial assets	**83**	**30**	**214**	**327**	**-**	**-**	**-**	**-**
Undrawn facilities with impaired customers	**-**	**-**	**6**	**6**	**-**	**-**	**-**	**-**
Individual provision balance	**28**	**10**	**94**	**132**	**-**	**-**	**-**	**-**
Net impaired financial assets	**55**	**20**	**126**	**201**	**-**	**-**	**-**	**-**
Collective provision balance	**81**	**164**	**289**	**534**	**-**	**-**	**-**	**-**
30/09/2007								
Impaired financial assets	7	20	88	115	-	-	-	-
Undrawn facilities with impaired customers	-	-	6	6	-	-	-	-
Individual provision balance	4	13	27	44	-	-	-	-
Net impaired financial assets	3	7	67	77	-	-	-	-
Collective provision balance	58	130	234	422	-	-	-	-

[1] Includes corporate, sovereign and bank

Security held by the NZ Banking Group in respect of individually impaired financial assets in the analysis above has an estimated fair value of $195 million (30/09/2007 $71 million). In addition, security held in respect of impaired off-balance sheet facilities amounts to $6 million (30/09/2007 $6 million).

Restructured items

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

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

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

There are no material restructured loans held by the NZ Banking Group.

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

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

32. FINANCIAL RISK MANAGEMENT (continued)

NZ Banking Group 30/09/2007	Liquid assets and due from other financial institutions $m	Trading securities and available for-sale assets $m	Derivative financial instruments $m	Net loans and advances $m	Other financial assets $m	Credit related commitments $m	Total $m
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	3	-	-	3
Other	-	-	-	68	-	6	74
Total value of collateral	-	-	-	71	-	6	77
Credit exposure	-	-	-	115	-	6	121
Unsecured portion of credit	-	-	-	44	-	-	44

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

NZ Branch 30/09/2007	Liquid assets and due from other financial institutions $m	Trading securities and available for-sale assets $m	Derivative financial instruments $m	Net loans and advances $m	Other financial assets $m	Credit related commitments $m	Total $m
Cash and securities	-	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total value of collateral	-	-	-	-	-	-	-
Credit exposure	-	-	-	-	-	-	-
Unsecured portion of credit	-	-	-	-	-	-	-

32. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

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

Market risk management and control responsibilities

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

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

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

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

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

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

b) Non-traded market risk (or balance sheet risk)
This comprises the management of non-traded interest rate risk, liquidity, and the risk to capital and earnings as a result of foreign exchange rate movements.

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

The Boards of Directors through the Risk Committees have responsibility for oversight of market risk within the NZ Banking Group. Routine management, overall strategies and policies, and control of market risk exposures at NZ Banking Group level are the responsibilities of the relevant Chief Risk Officer, who work closely with the Markets business units.

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

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

Value at Risk (VaR) measure

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

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

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

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

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

32. FINANCIAL RISK MANAGEMENT (continued)

Traded market risks

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

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

	NZ Banking Group Value at risk at 97.5% confidence				NZ Banking Group Value at risk at 99% confidence			
30/09/2008	**As at $m**	**High for period $m**	**Low for period $m**	**Average for period $m**	**As at $m**	**High for period $m**	**Low for period $m**	**Average for period $m**
Foreign exchange	**0.2**	**1.3**	**0.1**	**0.3**	**0.2**	**1.6**	**0.2**	**0.5**
Interest rate	**1.6**	**1.9**	**0.5**	**0.9**	**2.7**	**2.7**	**0.6**	**1.3**
Credit spread	**0.2**	**0.3**	**0.1**	**0.1**	**0.4**	**0.4**	**0.2**	**0.2**
Diversification benefit	**(0.3)**	**n/a**	**n/a**	**(0.5)**	**(0.6)**	**n/a**	**n/a**	**(0.7)**
Total VaR	**1.7**	**2.0**	**0.3**	**0.8**	**2.7**	**2.8**	**0.5**	**1.3**
30/09/2007								
Foreign exchange	0.2	1.1	0.1	0.4	0.3	1.3	0.1	0.5
Interest rate	0.7	1.5	0.5	0.9	0.8	2.3	0.7	1.3
Credit spread	0.2	0.2	0.1	0.1	0.3	0.4	0.1	0.2
Diversification benefit	(0.1)	n/a	n/a	(0.4)	(0.1)	n/a	n/a	(0.5)
Total VaR	1.0	2.0	0.5	1.0	1.3	3.1	0.7	1.5

VaR is calculated separately for Foreign Exchange/Commodities and for Interest Rate/Debt Markets businesses as well as for the overall trading activities of each relevant entity. The diversification benefit reflects the historical correlation between Foreign Exchange, Commodity, Interest Rate and Debt Markets.

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

Non-traded market risks (balance sheet risk)

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

Interest rate risk

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long term. Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the NZ Banking Group's future net interest income. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Non-traded interest rate risk is managed to both value and earnings at risk limits. Interest rate risk is reported using three measures: VaR; scenario analysis (to a 1% shock); and interest rate sensitivity gap.

a) VaR non-traded interest rate risk

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

	NZ Banking Group			
30/09/2008	**As at $m**	**High for period $m**	**Low for period $m**	**Average for period $m**
Value at risk at 97.5% confidence	**12.8**	**13.0**	**10.4**	**11.9**
30/09/2007				
Value at risk at 97.5% confidence	10.8	10.8	7.3	8.8

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

32. FINANCIAL RISK MANAGEMENT (continued)

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

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

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

	NZ Banking Group	
	30/09/2008	30/09/2007
Impact of 1% Rate Shock		
As at	**0.0%**	1.4%
Maximum exposure	**1.8%**	2.8%
Minimum exposure	**0.0%**	0.9%
Average exposure (in absolute terms)	**0.8%**	1.9%

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

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

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

Interest rate sensitivity gap

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

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

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

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

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

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

32. FINANCIAL RISK MANAGEMENT (continued)

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

	NZ Banking Group						
30/09/2008	**Total $m**	**Less than 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**Not bearing interest $m**
Assets							
Liquid assets	4,839	4,668	-	-	-	-	171
Due from other financial institutions	5,032	3,080	450	-	134	-	1,368
Trading securities	2,624	1,043	10	-	1,332	239	-
Derivative financial instruments	7,603	-	-	-	-	-	7,603
Available-for-sale assets	109	30	-	-	14	-	65
Net loans and advances	97,679	44,105	6,682	13,308	33,877	46	(339)
Other financial assets	893	-	-	-	-	-	893
Total financial assets	118,779	52,926	7,142	13,308	35,357	285	9,762
Non-financial assets	4,299	-	-	-	-	-	4,299
Total assets	123,078	52,926	7,142	13,308	35,357	285	14,061
Liabilities							
Due to other financial institutions	3,311	2,379	114	378	381	40	19
Deposits and other borrowings	77,136	54,827	10,671	6,813	896	1	3,928
Derivative financial instruments	6,472	-	-	-	-	-	6,472
Payables and other financial liabilities	1,499	94	-	-	60	7	1,338
Bonds and notes	22,382	15,732	472	374	4,464	1,295	45
Term funding	1,765	1,765	-	-	-	-	-
Loan capital	2,820	216	819	-	1,785	-	-
Total financial liabilities	115,385	75,013	12,076	7,565	7,586	1,343	11,802
Non-financial liabilities	566	-	-	-	-	-	566
Equity	7,127	-	-	-	-	-	7,127
Total liabilities and equity	123,078	75,013	12,076	7,565	7,586	1,343	19,495
On-balance sheet interest sensitivity gap	-	(22,087)	(4,934)	5,743	27,771	(1,058)	(5,433)
Hedging instruments	-	18,595	5,578	(6,078)	(18,964)	867	-
Interest sensitivity gap - net	-	(3,492)	644	(335)	8,807	(191)	(5,433)
Interest sensitivity gap - cumulative	-	(3,492)	(2,848)	(3,183)	5,624	5,433	-

32. FINANCIAL RISK MANAGEMENT (continued)

	NZ Banking Group						
30/09/2007	**Total $m**	**Less than 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**Not bearing interest $m**
Assets							
Liquid assets	4,807	4,606	-	-	-	-	201
Due from other financial institutions	3,563	2,925	440	-	174	-	24
Trading securities	1,877	742	375	4	629	127	-
Derivative financial instruments	4,551	-	-	-	-	-	4,551
Available-for-sale assets	48	34	-	-	13	-	1
Net loans and advances	87,789	33,246	4,051	11,404	39,355	84	(351)
Other financial assets	970	-	-	-	-	-	970
Total financial assets	103,605	41,553	4,866	11,408	40,171	211	5,396
Non-financial assets	4,001	-	-	-	-	-	4,001
Total assets	107,606	41,553	4,866	11,408	40,171	211	9,397
Liabilities							
Due to other financial institutions	3,170	2,334	216	189	16	377	38
Deposits and other borrowings	70,030	49,276	7,489	6,261	2,650	-	4,354
Derivative financial instruments	4,935	-	-	-	-	-	4,935
Payables and other financial liabilities	1,107	16	77	-	-	60	954
Bonds and notes	17,197	13,113	150	1,543	1,419	972	-
Term funding	1,765	1,765	-	-	-	-	-
Loan capital	2,062	217	799	100	946	-	-
Total financial liabilities	100,266	66,721	8,731	8,093	5,031	1,409	10,281
Non-financial liabilities	485	-	-	-	-	-	485
Equity	6,855	-	-	-	-	-	6,855
Total liabilities and equity	107,606	66,721	8,731	8,093	5,031	1,409	17,621
On-balance sheet interest sensitivity gap	-	(25,168)	(3,865)	3,315	35,140	(1,198)	(8,224)
Hedging instruments	-	23,742	3,514	2,370	(31,244)	1,618	-
Interest sensitivity gap - net	-	(1,426)	(351)	5,685	3,896	420	(8,224)
Interest sensitivity gap - cumulative	-	(1,426)	(1,777)	3,908	7,804	8,224	-

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

32. FINANCIAL RISK MANAGEMENT (continued)

	NZ Branch						
30/09/2007	**Total $m**	**Less than 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**Not bearing interest $m**
Assets							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-
Non-financial assets	-	-	-	-	-	-	-
Total assets	-	-	-	-	-	-	-
Liabilities							
Due to other financial institutions	-	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Payables and other financial liabilities	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-
Due to parent company	-	-	-	-	-	-	-
Term funding	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-	-
Non-financial liabilities	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Total liabilities and equity	-	-	-	-	-	-	-
On-balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Hedging instruments	-	-	-	-	-	-	-
Interest sensitivity gap - net	-	-	-	-	-	-	-
Interest sensitivity gap - cumulative	-	-	-	-	-	-	-

32. FINANCIAL RISK MANAGEMENT (continued)

Equity securities classified as available-for-sale

Market risk arises on equity securities classified as available-for-sale. The fair value of these securities as at 30 September 2008 was $65 million (30 September 2007 $1 million) and private equity holdings of $nil included in other assets (30 September 2007 $2 million). Regular reviews are performed to substantiate valuation of the investments within the portfolio. The fair value of the equity securities classified as available-for-sale can fluctuate considerably. A 10 per cent reduction in the value of the available-for-sale equity securities at 30 September 2008 would have reduced equity by $6.5 million (30 September 2007 $nil).

Foreign currency related risks

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

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

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

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
Net open position	**$m**	$m	**$m**	$m
Australian dollar	**9**	(10)	**-**	-
Canadian dollar	**(2)**	-	**-**	-
Euro	**9**	13	**-**	-
Pound sterling	**-**	(1)	**-**	-
US dollar	**14**	2	**-**	-
Other	**2**	2	**-**	-
Total net open position	**32**	6	**-**	-

LIQUIDITY RISK

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

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

- ensuring the liquidity management framework is compatible with local regulatory requirements;
- daily liquidity reporting and scenario analysis, where appropriate, to quantify the positions;
- monitoring wholesale and customer liability composition;
- maintaining a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency;
- holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- establishing detailed contingency plans to cover liquidity crisis events.

Scenario Modelling

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

1). 'Normal Business conditions': the normal behaviour of cash flows in the ordinary course of business. The relevant entities must be able to meet all commitments and obligations under a going concern scenario, within their normal funding capacity, over at least the next 30 calendar days. In estimating the funding requirement the models incorporate expected cash flows by reference to historical behaviour and contractual maturity data.

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

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

32. FINANCIAL RISK MANAGEMENT (continued)

Customer and wholesale funding composition

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

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

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

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
Funding composition	**$m**	$m	**$m**	$m
Customer deposits[1]				
New Zealand	**52,199**	50,391	**-**	-
Overseas	**6,757**	5,875	**-**	-
Total customer deposits	**58,956**	56,266	**-**	-
Wholesale funding				
Bonds and notes	**22,382**	17,197	**-**	-
Loan capital	**2,820**	2,062	**-**	-
Certificates of deposit	**5,527**	4,447	**-**	-
Commercial paper	**12,653**	9,317	**-**	-
Term funding	**1,765**	1,765	**-**	-
Due to other financial institutions	**3,311**	3,170	**-**	-
Total wholesale funding	**48,458**	37,958	**-**	-
Total funding	**107,414**	94,224	**-**	-
Concentrations of funding by industry				
Households	**36,239**	34,234	**-**	-
Agriculture, forestry, fishing and mining	**4,517**	3,438	**-**	-
Manufacturing	**1,465**	1,429	**-**	-
Entertainment, leisure and tourism	**611**	559	**-**	-
Finance and insurance	**54,545**	45,308	**-**	-
Retail trade	**752**	665	**-**	-
Wholesale trade	**626**	590	**-**	-
Business and property services	**4,686**	4,405	**-**	-
Transport and storage	**594**	582	**-**	-
Construction	**722**	693	**-**	-
Government and local authority	**1,585**	1,366	**-**	-
Other[2]	**1,072**	955	**-**	-
Total concentrations of funding by industry	**107,414**	94,224	**-**	-
Concentrations of funding by geography[3]				
New Zealand	**60,660**	57,320	**-**	-
United States	**24,178**	13,834	**-**	-
Europe	**11,484**	14,120	**-**	-
Other countries	**11,092**	8,950	**-**	-
Total concentrations of funding by geography	**107,414**	94,224	**-**	-

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

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

Wholesale funding

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

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

Funding capacity and debt issuance planning

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

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

32. FINANCIAL RISK MANAGEMENT (continued)

Liquidity portfolio management

The NZ Banking Group holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in the event of a market disruption.

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

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

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

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

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

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Cash and balances with central banks	**3,779**	2,809	**-**	-
Securities purchased under agreement to resell	**134**	346	**-**	-
Certificates of deposit	**3,343**	2,417	**-**	-
Government, Local Body stock and bonds	**180**	1	**-**	-
Other bank bonds	**1,300**	595	**-**	-
Total liquidity portfolio	**8,736**	6,168	**-**	-

Liquidity crisis contingency planning

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

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

32. FINANCIAL RISK MANAGEMENT (continued)

Contractual maturity analysis of financial assets and liabilities

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

The management of liquidity risk is detailed on pages 66 to 68. The analysis presented below has been made on an undiscounted basis, but it should be noted that this is not how the NZ Banking Group manages its liquidity risk.

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

	NZ Banking Group							
30/09/2008	**Carrying Value $m**	**Total $m**	**At call $m**	**Less than 3 months $m**	**3 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**No maturity specified $m**
Assets								
Liquid assets	**4,839**	**4,923**	**4,838**	**85**	**-**	**-**	**-**	**-**
Due from other financial institutions	**5,032**	**5,173**	**436**	**3,640**	**579**	**518**	**-**	**-**
Trading securities	**2,624**	**3,097**	**-**	**1,028**	**103**	**1,688**	**278**	**-**
Derivative financial instruments	**7,603**	**7,603**	**-**	**-**	**-**	**-**	**-**	**7,603**
Available-for-sale assets	**109**	**136**	**-**	**-**	**-**	**32**	**39**	**65**
Net loans and advances	**97,679**	**163,788**	**-**	**11,047**	**18,580**	**47,374**	**87,120**	**(333)**
Other financial assets	**893**	**893**	**-**	**893**	**-**	**-**	**-**	**-**
Total financial assets	**118,779**	**185,613**	**5,274**	**16,693**	**19,262**	**49,612**	**87,437**	**7,335**
Liabilities								
Due to other financial institutions	**3,311**	**3,528**	**1,713**	**734**	**538**	**497**	**46**	**-**
Deposits and other borrowings	**77,136**	**79,497**	**26,946**	**33,068**	**18,292**	**1,189**	**2**	**-**
Derivative financial instruments	**6,472**	**6,472**	**-**	**-**	**-**	**-**	**-**	**6,472**
Other financial liabilities	**1,499**	**1,499**	**-**	**1,432**	**-**	**60**	**7**	**-**
Bonds and notes	**22,382**	**26,881**	**78**	**2,183**	**7,511**	**15,160**	**1,904**	**45**
Term funding	**1,765**	**1,901**	**34**	**51**	**1,816**	**-**	**-**	**-**
Loan capital	**2,820**	**4,502**	**-**	**60**	**178**	**959**	**2,153**	**1,152**
Total financial liabilities	**115,385**	**124,280**	**28,771**	**37,528**	**28,335**	**17,865**	**4,112**	**7,669**
30/09/2007								
Assets								
Liquid assets	4,807	5,219	4,860	359	-	-	-	-
Due from other financial institutions	3,563	3,782	961	1,718	474	334	295	-
Trading securities	1,877	2,169	-	662	454	865	188	-
Derivative financial instruments	4,551	4,551	-	-	-	-	-	4,551
Available-for-sale assets	48	53	-	34	3	15	-	1
Net loans and advances	87,789	159,967	-	11,527	15,086	45,380	88,324	(350)
Other financial assets	970	970	-	970	-	-	-	-
Total financial assets	103,605	176,711	5,821	15,270	16,017	46,594	88,807	4,202
Liabilities								
Due to other financial institutions	3,170	3,407	1,163	1,248	449	128	419	-
Deposits and other borrowings	70,030	72,875	26,073	28,216	15,666	2,920	-	-
Derivative financial instruments	4,935	4,935	-	-	-	-	-	4,935
Other financial liabilities	1,107	1,107	-	753	97	32	60	165
Bonds and notes	17,197	20,940	58	953	6,148	12,615	1,166	-
Term Funding	1,765	1,901	34	51	1,816	-	-	-
Loan capital	2,062	3,194	-	40	122	647	2,076	309
Total financial liabilities	100,266	108,359	27,328	31,261	24,298	16,342	3,721	5,409

32. FINANCIAL RISK MANAGEMENT (continued)

	NZ Branch							
30/09/2008	**Carrying Value $m**	**Total $m**	**At call $m**	**Less than 3 months $m**	**3 to 12 months $m**	**1 to 5 years $m**	**Beyond 5 years $m**	**No maturity specified $m**
Assets								
Liquid assets	-	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-	-
Net loans and advances	-	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-
Liabilities								
Due to other financial institutions	-	-	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-	-
Due to parent company	-	-	-	-	-	-	-	-
Term Funding								
Loan capital	-	-	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-	-	-
30/09/2007								
Assets								
Liquid assets	-	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-	-
Net loans and advances	-	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-
Liabilities								
Due to other financial institutions	-	-	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
Bonds and notes	-	-	-	-	-	-	-	-
Due to parent company	-	-	-	-	-	-	-	-
Term Funding	-	-	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-	-	-

33. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

The NZ Banking Group has no credit exposures, on the basis of limits, to individual counterparties or groups of closely related counterparties (whether bank or non-bank exposures) which equal or exceed 10% of the Overseas Banking Group's equity as at 30 September 2008 or 30 September 2007, or in respect of peak end-of-day aggregate credit exposures for the quarter ended 30 September 2008. The peak end-of-day exposures have been calculated using the Overseas Banking Group equity as at 30 September 2008. These calculations exclude credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent.

34. MARKET RISK

RBNZ Market Risk Disclosure

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

The peak end-of-day market risk exposures for the quarter are measured as a percentage of the Overseas Banking Group's equity as at 30 September 2008.

	NZ Banking Group					
	Implied risk weighted exposure		Aggregate capital charge		Aggregate capital charge as a percentage of the Overseas Banking Group's Equity	
	As at $m	Peak $m	As at $m	Peak $m	As at $m	Peak $m
30/09/2008						
Interest rate risk	**3,696**	**3,995**	**296**	**320**	**1.1%**	**1.2%**
Foreign currency risk	**35**	**160**	**3**	**13**	**0.0%**	**0.0%**
Equity risk	**64**	**75**	**5**	**6**	**0.0%**	**0.0%**
30/09/2007						
Interest rate risk	3,776	4,696	302	376	1.4%	1.7%
Foreign currency risk	16	81	1	7	0.0%	0.0%
Equity risk	3	3	0	0	0.0%	0.0%

35. INTEREST EARNING AND DISCOUNT BEARING ASSETS AND LIABILITIES

	NZ Banking Group		NZ Branch	
	30/09/2008 $m	30/09/2007 $m	**30/09/2008 $m**	30/09/2007 $m
Interest earning and discount bearing assets	**109,017**	98,209	**-**	-
Interest and discount bearing liabilities	**103,583**	89,985	**-**	-

36. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

All financial instruments are recognised initially at fair value, which is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of a financial instrument on initial recognition is normally the transaction price, however, in certain circumstances the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. For the majority of short-term financial instruments, defined as those which reprice or mature in 90 days or less, with no significant change in credit risk, the fair value was assumed to equate to the carrying amount in the NZ Banking Group's balance sheet.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, fair values are based on present value estimates or other market accepted valuation techniques which include data from observable markets wherever possible.

The fair values are based on relevant information available as at the respective balance sheet dates. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement and changes in underlying assumptions could significantly affect these estimates.

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

The significant accounting policies in Note 1 Accounting Policies describe how the categories of financial assets and financial liabilities are measured and how income and expenses, including fair value gains and losses, are recognised. The carrying amount and fair value of the NZ Banking Group's financial assets and financial liabilities are also set out below.

A significant number of financial instruments are carried at fair value in the balance sheet. Additional disclosure of the fair value of those financial instruments not carried at fair value has been provided below. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective such as income tax and intangible assets. The aggregate fair value amounts do not represent the underlying value of the Group.

FINANCIAL ASSETS

Liquid assets and due from other financial institutions

The carrying values of these financial instruments are considered to approximate their net fair values as they are short-term in nature or are receivable on demand.

Trading securities

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

Derivative financial instruments

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

Available-for-sale assets

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

Net loans and advances

The carrying value of loans and advances includes deferred fees and expenses, and is net of provision for credit impairment and income yet to mature. The estimated fair value of loans and advances is based on the discounted amount of estimated future cash flows and accordingly has not been adjusted for provision for credit impairment. Estimated contractual cash flows for performing loans are discounted at estimated current bank credit spreads to determine fair value. For loans with doubt as to collection, expected cash flows (inclusive of the value of security) are discounted using a rate, which includes a premium for the uncertainty of the flows.

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

Other financial assets

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

Financial assets designated at fair value through profit or loss

The NZ Banking Group has not reclassified any financial assets previously measured at amortised cost to fair value, or previously measured at fair value to amortised cost, during the year ended 30 September 2008 (30 September 2007 nil).

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

FINANCIAL LIABILITIES

Due to other financial institutions

The carrying values of these financial instruments are considered to approximate their net fair values as they are short-term in nature or are receivable on demand.

Deposits and other borrowings

The fair value of a deposit liability without a specified maturity or at call is deemed to be the amount payable on demand at the reporting date. The fair value is not adjusted for any value expected to be derived from retaining the deposit for a future period of time.

For interest bearing fixed maturity deposits and other borrowings without quoted market prices, market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows.

Bonds and notes, term funding and loan capital

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

Other financial liabilities

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

Commitments and contingencies

As outlined in Note 43 Contingent Liabilities and Credit Related Commitments, the NZ Banking Group has various credit related commitments. Based upon the level of fees currently charged for granting such commitments, taking into account maturity and interest rates, together with any changes in the creditworthiness of counterparties since origination of the commitments, their estimated replacement or net fair value is not material.

Financial liabilities designated at fair value through profit or loss

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

Deposits and other borrowings

At balance date, the carrying amount of deposits and other borrowings designated by the NZ Banking Group at fair value through profit or loss was $12,653 million (30/09/2007 $9,317 million). This is $17 million lower (30/09/2007 $2 million lower) than their amortised cost.

The accumulated amount of the change in fair value attributable to changes in credit risk on these liabilities was less than $3 million (30/09/2007 less than $1 million). The change in fair value attributable to changes in credit risk has been determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risks (benchmark interest rate, and foreign exchange rates).

The fair value amounts have not been updated for the purposes of these financial statements since 30 September 2008, and therefore the fair value of the financial instruments subsequent to 30 September 2008 may be different from the amounts reported.

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

	NZ Banking Group						
	At amortised cost			At fair value though profit or loss	Hedging	Available-for-sale assets	
Carrying amount	Loans and receivables $m	Other financial assets at amortised cost $m	Sub-total $m	Held for trading $m	$m	$m	Total $m
Financial assets							
30/09/2008							
Liquid assets	**-**	**4,839**	**4,839**	**-**	**-**	**-**	**4,839**
Due from other financial institutions	**-**	**2,585**	**2,585**	**-**	**-**	**2,447**	**5,032**
Trading securities	**-**	**-**	**-**	**2,624**	**-**	**-**	**2,624**
Derivative financial instruments[1]	**-**	**-**	**-**	**7,297**	**306**	**-**	**7,603**
Available-for-sale assets	**-**	**-**	**-**	**-**	**-**	**109**	**109**
Net loans and advances[2]	**97,679**	**-**	**97,679**	**-**	**-**	**-**	**97,679**
Other financial assets	**-**	**893**	**893**	**-**	**-**	**-**	**893**
Total financial assets	**97,679**	**8,317**	**105,996**	**9,921**	**306**	**2,556**	**118,779**
30/09/2007							
Liquid assets	-	4,807	4,807	-	-	-	4,807
Due from other financial institutions	-	1,929	1,929	-	-	1,634	3,563
Trading securities	-	-	-	1,877	-	-	1,877
Derivative financial instruments[1]	-	-	-	4,054	497	-	4,551
Available-for-sale assets	-	-	-	-	-	48	48
Net loans and advances[2]	87,789	-	87,789	-	-	-	87,789
Other financial assets	-	966	966	-	-	2	968
Total financial assets	87,789	7,702	95,491	5,931	497	1,684	103,603

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

	NZ Banking Group			
	30/09/2008		30/09/2007	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m
Liquid assets	**4,839**	**4,839**	4,807	4,807
Due from other financial institutions	**2,585**	**2,585**	1,929	1,929
Net loans and advances[2]	**97,679**	**97,429**	87,789	87,518
Other financial assets	**893**	**893**	966	966
Total financial assets at amortised cost	**105,996**	**105,746**	95,491	95,220

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

[2]Fair value hedging is applied to financial assets within loans and advances. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

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

	NZ Banking Group					
	At amortised cost	At fair value through profit or loss			Hedging	
		Designated on initial recognition	Held for trading	Sub-total		Total
Carrying amount	$m	$m	$m	$m	$m	$m
Financial liabilities						
30/09/2008						
Due to other financial institutions	**3,311**	**-**	**-**	**-**	**-**	**3,311**
Deposits and other borrowings	**64,483**	**12,653**	**-**	**12,653**	**-**	**77,136**
Derivative financial instruments[1]	**-**	**-**	**5,708**	**5,708**	**764**	**6,472**
Other financial liabilities	**1,499**	**-**	**-**	**-**	**-**	**1,499**
Bonds and notes[2]	**22,382**	**-**	**-**	**-**	**-**	**22,382**
Term funding	**1,765**	**-**	**-**	**-**	**-**	**1,765**
Loan capital	**2,820**	**-**	**-**	**-**	**-**	**2,820**
Total financial liabilities	**96,260**	**12,653**	**5,708**	**18,361**	**764**	**115,385**
30/09/2007						
Due to other financial institutions	3,170	-	-	-	-	3,170
Deposits and other borrowings	60,713	9,317	-	9,317	-	70,030
Derivative financial instruments[1]	-	-	4,748	4,748	187	4,935
Other financial liabilities	1,107	-	-	-	-	1,107
Bonds and notes[2]	17,197	-	-	-	-	17,197
Term Funding	1,765	-	-	-	-	1,765
Loan capital	2,062	-	-	-	-	2,062
Total financial liabilities	86,014	9,317	4,748	14,065	187	100,266

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

	NZ Banking Group			
	30/09/2008		30/09/2007	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m
Due to other financial institutions	**3,311**	**3,311**	3,170	3,170
Deposits and other borrowings	**64,483**	**64,532**	60,713	60,676
Other financial liabilities	**1,499**	**1,499**	1,107	1,107
Bonds and notes[2]	**22,382**	**21,897**	17,197	17,153
Term Funding	**1,765**	**1,764**	1,765	1,765
Loan capital	**2,820**	**2,687**	2,062	2,038
Total financial liabilities at amortised cost	**96,260**	**95,690**	86,014	85,909

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

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

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

	NZ Branch						
	At amortised cost			At fair value though profit or loss	Hedging	Available-for-sale assets	
Carrying amount	**Loans and receivables $m**	**Other financial assets at amortised cost $m**	**Sub-total $m**	**Held for trading $m**	**$m**	**$m**	**Total $m**
Financial assets							
30/09/2008							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments[1]	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances[2]	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-
30/09/2007							
Liquid assets	-	-	-	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments[1]	-	-	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-	-	-
Net loans and advances[2]	-	-	-	-	-	-	-
Due from subsidiary companies	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-

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

	NZ Branch			
	30/09/2008		30/09/2007	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m
Liquid assets	-	-	-	-
Due from other financial institutions	-	-	-	-
Net loans and advances[2]	-	-	-	-
Due from subsidiary companies	-	-	-	-
Other financial assets	-	-	-	-
Total financial assets at amortised cost	-	-	-	-

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

[2]Fair value hedging is applied to financial assets within loans and advances. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

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

	NZ Branch					
	At amortised cost	At fair value through profit or loss			Hedging	
		Designated on initial recognition	Held for trading	Sub-total		Total
Carrying amount	$m	$m	$m	$m	$m	$m
Financial liabilities						
30/09/2008						
Due to other financial institutions	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-
Derivative financial instruments[1]	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Bonds and notes[2]	-	-	-	-	-	-
Term funding	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-
30/09/2007						
Due to other financial institutions	-	-	-	-	-	-
Deposits and other borrowings	-	-	-	-	-	-
Due to subsidiary companies	-	-	-	-	-	-
Derivative financial instruments[1]	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Bonds and notes[2]	-	-	-	-	-	-
Term Funding	-	-	-	-	-	-
Loan capital	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-

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

	NZ Branch			
	30/09/2008		30/09/2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	$m	$m	$m	$m
Due to other financial institutions	-	-	-	-
Deposits and other borrowings	-	-	-	-
Due to subsidiary companies	-	-	-	-
Other financial liabilities	-	-	-	-
Bonds and notes[2]	-	-	-	-
Term Funding	-	-	-	-
Loan capital	-	-	-	-
Total financial liabilities at amortised cost	-	-	-	-

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

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

37. SEGMENTAL ANALYSIS

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

A summarised description of each business segment is shown below:

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

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

Institutional Comprises businesses that provide a full range of financial services to the NZ Banking Group's client base. The Institutional business unit is made up of the following specialised units:

- Institutional - provides financial services to large multi-banked corporates, often global, who require sophisticated product and structuring solutions.
- Corporate Finance - provides complex financing and advisory services, structured financial products, leasing, private equity, project, export and leveraged finance.
- Markets - provides foreign exchange and commodity trading and sales-related services, origination, underwriting, structuring, risk management and sale of credit and derivative products globally.
- Working Capital - provide cash management, trade finance, international payments, clearing and custodian services.

Other Includes Treasury Funding and back office support functions, none of which constitutes a separately reportable segment. Truck Leasing Limited (trading as Esanda FleetPartners) is classified as a discontinued operation, and is included in the "Other" segment for 2007.

As the composition of segments has changed over time, prior period comparatives have been adjusted to be consistent with the 2008 segment definitions.

	NZ Banking Group				
Year to 30/09/2008	**Retail Banking $m**	**Relationship Banking $m**	**Institutional $m**	**Other $m**	**Total $m**
Continuing operations[1, 2]					
External interest income	4,945	3,002	1,875	36	9,858
External interest expense	(2,646)	(669)	(1,821)	(2,693)	(7,829)
Net intersegment interest	(984)	(1,694)	71	2,607	-
Net interest income	1,315	639	125	(50)	2,029
Other external operating income	502	79	420	14	1,015
Share of profit of equity accounted associates and jointly controlled entities	23	-	1	87	111
Operating income	1,840	718	546	51	3,155
Other external expenses	631	143	90	499	1,363
Net intersegment and related party expenses[3]	357	95	68	(438)	82
Operating expenses	988	238	158	61	1,445
Profit before provision for credit impairment and income tax	852	480	388	(10)	1,710
Provision for credit impairment	202	85	15	-	302
Profit before income tax	650	395	373	(10)	1,408
Income tax expense	204	131	110	(27)	418
Profit after income tax	446	264	263	17	990
Discontinued operations					
Profit from discontinued operations (net of income tax)	-	-	-	-	-
Profit after income tax	446	264	263	17	990
Non-cash expenses					
Depreciation and amortisation	16	-	2	28	46
Balance sheet					
Total external assets	56,299	34,129	27,550	5,100	123,078
Share in associates and jointly controlled entities	231	-	64	68	363
Total external liabilities	39,431	9,949	29,183	37,388	115,951

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

37. SEGMENTAL ANALYSIS (continued)

	NZ Banking Group				
Year to 30/09/2007	**Retail Banking $m**	**Relationship Banking $m**	**Institutional $m**	**Other $m**	**Total $m**
Continuing operations[1, 2]					
External interest income	4,204	2,419	1,668	5	8,296
External interest expense	(2,094)	(526)	(1,507)	(2,112)	(6,239)
Net intersegment interest	(814)	(1,311)	7	2,118	-
Net interest income	1,296	582	168	11	2,057
Other external operating income	476	66	265	33	840
Share of profit of equity accounted associates and jointly controlled entities	22	-	2	-	24
Operating income	1,794	648	435	44	2,921
Other external expenses	623	122	73	442	1,260
Net intersegment and related party expenses[3]	348	96	58	(431)	71
Operating expenses	971	218	131	11	1,331
Profit before provision for credit impairment and income tax	823	430	304	33	1,590
Provision for credit impairment	57	21	(3)	(1)	74
Profit before income tax	766	409	307	34	1,516
Income tax expense	245	136	91	79	551
Profit after income tax	521	273	216	(45)	965
Discontinued operations					
Profit from discontinued operations (net of income tax)	-	-	-	76	76
Profit after income tax	521	273	216	31	1,041
Non-cash expenses					
Depreciation and amortisation	14	1	1	39	55
Balance sheet					
Total external assets	52,614	29,488	21,665	3,839	107,606
Share in associates and jointly controlled entities	189	-	15	2	206
Total external liabilities	36,787	8,611	25,586	29,767	100,751

Geographic segment analysis

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

[1]Results are equity standardised

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

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

38. NOTES TO THE CASH FLOW STATEMENTS

	NZ Banking Group		NZ Branch	
	Year to 30/09/2008 $m	Year to 30/09/2007 $m	**Year to 30/09/2008 $m**	Year to 30/09/2007 $m
Reconciliation of profit after income tax to net cash flows (used in) provided by operating activities				
Profit after income tax	**990**	1,041	**-**	-
Non-cash items:				
Depreciation and amortisation	**47**	55	**-**	-
Provision for credit impairment	**302**	74	**-**	-
Deferred fee revenue and expenses	**(3)**	3	**-**	-
Share-based payments expense	**13**	12	**-**	-
Amortisation of capitalised brokerage/ mortgage origination fees	**56**	45	**-**	-
Deferrals or accruals of past or future operating cash receipts or payments:				
Increase in operating assets and liabilities	**(3,699)**	(705)	**-**	-
Decrease (increase) in interest receivable	**2**	(94)	**-**	-
Increase in interest payable	**206**	242	**-**	-
Increase in accrued income	**(8)**	(1)	**-**	-
(Decrease) increase in accrued expenses	**46**	28	**-**	-
Decrease in provisions	**25**	(9)	**-**	-
Amortisation of premiums and discounts	**56**	46	**-**	-
(Increase) decrease in income tax assets	**(43)**	109	**-**	-
(Decrease) increase in income tax liabilities	**-**	(11)	**-**	-
Items classified as investing/financing:				
Share of profit of equity accounted associates and jointly controlled entities	**(111)**	(24)	**-**	-
Other adjustments including associates	**-**	-	**-**	-
Gain on disposal of controlled entities	**-**	(76)	**-**	-
Gain on disposal of associates and jointly controlled entities	**-**	(2)	**-**	-
Loss (gain) on disposal of premises and equipment	**1**	-	**-**	-
Net cash flows used in operating activities	**(2,120)**	733	**-**	-

Reconciliation of core liquidity portfolio to cash and cash equivalents

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

	Note	NZ Banking Group		NZ Branch	
		30/09/2008 $m	30/09/2007 $m	**30/09/2008 $m**	30/09/2007 $m
Total liquidity portfolio[1]	**32**	**8,736**	6,168	**-**	-
Add back items not included in liquidity portfolio:					
Liquid assets		**1,060**	1,874	**-**	-
Due from other financial institutions - less than 90 days		**1,948**	1,233	**-**	-
Deduct items not included in cash and cash equivalents:					
Trading securities		**(2,376)**	(1,378)	**-**	-
Available-for-sale assets		**-**	(1)	**-**	-
Due from other financial institutions - greater than 90 days		**(1,578)**	(765)	**-**	-
Total cash and cash equivalents		**7,790**	7,131	**-**	-

[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.

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

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

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

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

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

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

In relation to Marmion Trust, control exists through the undertaking of the majority of risks and rewards which are variable.

Movements in controlled entities

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

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

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

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

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

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

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

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

Associates	Book Value $m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Cards NZ Limited	86	25	14	30 September	Card services
Electronic Transaction Services Limited	2	25	25	31 March	Eftpos settlements
EXCCL Limited (in receivership)	0	45	81	30 September	Plastics manufacturing and recycling
Mondex New Zealand Limited	0	40	40	31 December	Card services
NZ Poultry Enterprises Limited	40	20	20	30 April	Poultry processor
UCG Investments Limited	13	38	38	31 March	Rest home operator
Wyma Engineering (NZ) Limited	3	31	31	31 March	Agricultural machinery supplier
Total investment in associates	144				

All associates are incorporated in New Zealand.

Movements in associates

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

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

Jointly controlled entities	Book Value $m	Voting Interest %	Ownership Interest %	Balance Date	Nature of business
Argenta Limited	2	24	24	31 July	Manufacture and marketing of animal remedies
BCS Group Limited	4	40	40	30 June	Manufacturer of baggage handling systems
ING (NZ) Holdings Limited	212	50	49	31 December	Funds management and insurance
JMI Aerospace Limited	1	33	33	31 March	Airline maintenance and service provider
Total investment in jointly controlled entities	219				

All jointly controlled entities are incorporated in New Zealand.

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

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

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

	NZ Banking Group	
	30/09/2008	30/09/2007
	$m	$m
Share of assets and liabilities		
Investments	**78**	81
Other assets	**160**	160
Total assets	**238**	241
Life insurance policy liabilities	**(3)**	22
Other liabilities	**11**	11
Total liabilities	**8**	33
Net assets	**230**	208
Share of revenue, expenses and results		
Net underwriting result	**66**	49
Other revenue	**25**	29
Total revenue	**91**	78
Expenses	**75**	56
Profit before income tax	**16**	22
Income tax expense	**6**	-
Profit after tax	**22**	22
Share of commitments		
Lease commitments	**8**	4

There are no unrecognised losses in respect of any of the NZ Banking Group's jointly controlled entities. The NZ Banking Group's share of the contingent liabilities of its joint ventures are incurred jointly with other investors. There were no contingent liabilities as at 30 September 2008 (30/09/2007 $nil).

40. ULTIMATE PARENT BANK

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

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

Securitisation

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, subsequent to balance date, the NZ Banking Group established an in-house RMBS facility that could issue securities meeting the RBNZ criteria. The NZ Banking Group's financial statements do not change as a result of establishing this facility.

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

Funds management

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

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

Some funds under management are invested in products owned or securities issued by the NZ Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2008, $2,229 million of funds under management were invested in the NZ Banking Group's own products or securities (30/09/2007 $1,035 million).

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

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

	NZ Banking Group	
	30/09/2008	30/09/2007
	$m	$m
Superannuation schemes	**-**	3
Bonus Bonds	**2,417**	2,488
Discretionary funds	**3,440**	2,045
Totals funds under management	**5,857**	4,536

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

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

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

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

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

Custodial services

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

Marketing and distribution of insurance products

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

Insurance business

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

Provision of financial services

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

The NZ Banking Group has not provided any funding to entities 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 Group (30/09/2007 $nil).

Risk management

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

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

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

Where the insurance products are subject to the Securities Act 1978, investment statements, prospectuses and brochures additionally include disclosures that:

- the policies do not represent deposits or other liabilities of the NZ Banking Group;
- the policies are subject to investment risk, including possible loss of income and principal; and
- the NZ Banking Group does not guarantee the capital value or performance of the policies.

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

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

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

Prospectuses, investment statements and brochures for funds management products include disclosures:

- that the securities do not represent deposits or other liabilities of the NZ Banking Group;
- that the securities are subject to investment risk including possible loss of income and principal invested; and
- that the NZ Banking Group does not guarantee the capital value or performance of the securities.

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

42. COMMITMENTS

	NZ Banking Group		NZ Branch	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
	$m	$m	**$m**	$m
Capital expenditure				
Contracts for outstanding capital expenditure:				
Premises and equipment				
Not later than 1 year	**26**	15	**-**	-
Total capital expenditure commitments	**26**	15	**-**	-
Lease rentals				
Future minimum lease payments under non-cancellable operating leases:				
Premises and equipment				
Not later than 1 year	**86**	85	**-**	-
Later than 1 year but not later than 5 years	**167**	163	**-**	-
Later than 5 years	**27**	32	**-**	-
Total lease rental commitments	**280**	280	**-**	-
Total commitments	**306**	295	**-**	-

43. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS

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

	NZ Banking Group		NZ Branch	
	Face or contract value		Face or contract value	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
Credit related commitments	**$m**	$m	**$m**	$m
Commitments with certain drawdown due within one year	**659**	1,074	**-**	-
Commitments to provide financial services	**23,150**	20,751	**-**	-
Total credit related commitments	**23,809**	21,825	**-**	-
Contingent liabilities				
Financial guarantees	**2,017**	1,933	**-**	-
Standby letters of credit	**401**	528	**-**	-
Transaction related contingent items	**1,090**	398	**-**	-
Trade related contingent liabilities	**118**	123	**-**	-
Total contingent liabilities	**3,626**	2,982	**-**	-

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

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

Contingent tax liability

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

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

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

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

The tax adjustments proposed so far by the IRD cover the 2000 to 2005 tax years and imply a maximum potential liability of $224 million ($343 million with interest tax effected).

43. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS (continued)

The IRD is also investigating other transactions undertaken by the NZ Banking Group, which have been subject to the same tax treatment. Should the same position be taken by the IRD for all years on all these transactions, including those that the Notices cover, the maximum potential liability would be approximately $365 million ($541 million with interest tax effected) as at 30 September 2008.

Of the maximum potential tax liability, it has been estimated that approximately $99 million ($151 million with interest tax effected) is subject to indemnities given by Lloyds TSB Bank plc under the agreement by which the NZ Banking Group acquired the NBNZ Holdings Limited Group, and which relate to transactions undertaken by NBNZ Group before December 2003.

This leaves a net potential tax liability as at 30 September 2008 of $266 million ($390 million with interest tax effected).

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

Commerce Commission

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

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

ANZ National Bank Limited (the 'Bank') is defending the proceedings. The Bank has received independent legal advice. The Bank considers it has a strongly arguable case, but the matter is complex and difficult. At this stage any potential liabilities cannot be assessed with any certainty. A trial has been scheduled for October 2009.

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

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

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

ING New Zealand Funds

The ANZ National Bank Limited (the 'Bank') markets and distributes a range of wealth management products which are managed by ING (NZ) Limited (of which the NZ Banking Group holds 49%).

Trading in the ING Diversified Yield Fund and the ING Regular Income Fund was suspended on 13 March 2008 by the fund manager, ING (NZ) Limited, due to the deterioration in liquidity in credit markets. On 10 December 2008 ING (NZ) Limited announced these funds would be wound up and a liquidity facility would be provided to investors to assist with this process.

There has been significant public coverage regarding the closure of these funds and questions have been raised about the involvement of ING and the Bank. In particular, the Bank has received a number of claims from customers alleging that the Bank, in its capacity as one of the distributors for ING, mis-sold these funds to some investors. We are investigating these claims. It is too early at this stage to assess the merit of these claims and therefore the nature or quantum of any potential liability.

Other contingent liabilities

The NZ Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the NZ Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where appropriate. As at 30 September 2008, there were no other contingent assets or liabilities required to be disclosed (30/09/2007 nil).

44. EMPLOYEE SHARE AND OPTION PLANS

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

The closing market price of one ordinary share of ANZ quoted on the ASX (Australian Stock Exchange) at 30 September 2008 was A$18.75 (30/09/2007 A$29.70).

ANZ EMPLOYEE SHARE ACQUISITION PLAN

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

A$1,000 share plan

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

The NZ Banking Group's employees are required to pay NZ 1 cent per share at the time the shares are transferred to them. During the year to 30 September 2008, 267,523 shares with an average issue price of A$27.96 were issued to NZ employees under the A$1,000 Share Plan (30/09/2007 269,025 shares with an average issue price of A$27.88 were issued).

Deferred share plan

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

Restricted share plan

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

Shares valuations

The fair value of services received in return for shares in the ANZ Employee Share Acquisition Plan are measured by referring to the fair value of ANZ shares granted. The fair value of shares granted in the current period, measured at the date of grant of the shares, is NZ $8.5 million based on 267,523 shares at a weighted average price of A$27.96 converted at the exchange rate of 0.8809 (30/09/2007 NZ $9 million based on 269,025 shares at a weighted average price of A$27.88 converted at the exchange rate of 0.8391 were issued).

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

ANZ SHARE OPTION PLAN

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

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

Current option plans

Performance rights plan

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

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

Deferred share rights

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

44. EMPLOYEE SHARE AND OPTION PLANS (continued)

Legacy Option Plans

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

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

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

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

	NZ Banking Group			
	30/09/2008		30/09/2007	
	Number of shares	**Weighted average exercise price[1] A$**	Number of shares	Weighted average exercise price[1] A$
Share options at beginning of the year	**1,616,716**	**13.93**	1,668,436	17.49
Share options granted	**376,715**	**-**	318,921	0.00
Share options exercised	**(130,988)**	**16.13**	(339,782)	17.53
Share options forfeited and expired	**(120,672)**	**12.27**	(30,859)	19.67
Share options at end of the year	**1,741,771**	**10.86**	1,616,716	13.93
Weighted average share price during the year		**21.37**		28.83
Range of exercise prices on share options at end of the year		**0.00-23.49**		0.00 - 23.49
Weighted average remaining contractual life on share options at end of the year		**36 months**		46 months

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

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

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

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

All options issued in 2008 were valued using the BOM pricing model.

The following inputs are used to measure the fair value of instruments granted during the period. For each instrument, the model used (a or b) is indicated. All prices are quoted in Australian dollars:

Option type	Performance rights (b)	LTI deferred share rights (b)	STI deferred share rights (b)	Performance rights (b)
Grant date	29-May-2008	9-Nov-2007	9-Nov-2007	30-Oct-2007
Number of Options	22,633	161,011	15,758	177,313
Option value	$18.38	$24.49	$25.59	$12.30
Exercise price (5 day VWAP)	$nil	$nil	$nil	$nil
Share price at grant	$21.35	$27.95	$27.95	$29.69
ANZ expected volatility[2]	n/a	15%	15%	15%
Option term	5 years	5 years	5 years	5 years
Vesting period	3 years	3 years	2 years	3 years
Expected life	2 years	2 years	3 years	2 years
Expected dividends	5.00%	4.50%	4.50%	4.50%
Risk free interest rate	n/a	6.69%	6.77%	6.63%

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

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

45. RETIREMENT BENEFIT OBLIGATIONS

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

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

Details of the defined benefit schemes are as follows:

Actuarial valuations are undertaken every six months. The latest valuations were carried out as at 30 September 2008.

	NZ Banking Group	
	30/09/2008	30/09/2007
	$m	$m
The amounts recognised in the balance sheet arising from the NZ Banking Group's obligation in respect of its defined benefit schemes are determined as follows:		
Defined benefit obligation at beginning of the year	**181**	190
Current service cost	**3**	4
Interest cost	**12**	12
Contributions by scheme participants	**1**	1
Actuarial (gains) losses	**4**	(10)
Benefits paid	**(21)**	(16)
Present value of funded defined benefit obligations	**179**	181
Fair value of scheme assets at beginning of the year	**189**	196
Expected return on scheme assets (net of tax)	**10**	11
Actuarial (losses) gains	**(30)**	(7)
Contributions by employer	**3**	4
Contributions by scheme participants	**1**	1
Benefits paid	**(21)**	(16)
Fair value of scheme assets	**152**	189
Net defined benefit (liability) asset recognised on balance sheet	**(27)**	8

The fair value of scheme assets include cash deposits and fixed interest investments of $5 million with the NZ Banking Group as at 30 September 2008 (30/09/2007 $7 million).

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

Current service cost	**3**	4
Interest cost	**12**	12
Expected return on scheme assets (net of tax)	**(10)**	(11)
Contribution withholding tax	**2**	1
Total pension costs recognised in the income statement - defined benefit superannuation schemes	**7**	6

[1]These schemes provide for pension benefits and provide for lump sum benefits.

[2]Closed to new members on 31 March 1990. Operates to make pension payments to retirees who were members of that section of the scheme or to dependents of the members.

[3]Closed to new members on 1 October 1991.

[4]30/09/2008: $nil (30/09/2007 $nil).

[5]30/09/2008: 22.3% (30/09/2007 22.3%) of members' salaries.

[6]30/09/2008: 7.5% (30/09/2007 7.5%) of members' salaries.

[7]30/09/2008: 11.2% (30/09/2007 11.2%) of members' salaries.

45. RETIREMENT BENEFIT OBLIGATIONS (continued)

The actuarial gains and losses recognised directly in equity via the statement of recognised income and expense are as follows:

	NZ Banking Group	
	30/09/2008	30/09/2007
Actuarial gains (pre-tax) at beginning of the year	**8**	4
Actuarial (loss) gain (pre-tax) incurred during the year	**(35)**	3
Balance of actuarial (losses) gains (pre-tax) at end of the year	**(27)**	7
Income tax credit (expense) recognised directly in equity	**8**	(2)
Balance of actuarial (losses) gains at end of the year (net of tax)	**(19)**	5

The principal actuarial assumptions used were as follows:

	The National Bank Staff Superannuation Fund		ANZ National Bank Staff Superannuation Scheme	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
Defined benefits calculation				
Discount rate (gross of tax)	**6.0%**	6.5%	**6.0%**	6.5%
Future price inflation	**2.5%**	2.5%	**2.5%**	2.5%
Future pension increases	**2.5%**	2.5%	**2.5%**	2.5%
Future salary increases	**3.7%**	3.7%	**n/a**	n/a
Scheme assets calculation				
Expected return on scheme assets (net of tax)	**5.5%**	5.5%	**4.5%**	4.5%

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

The actual return on scheme assets (net of tax) for The National Bank Staff Superannuation Fund was -9.0**%** for the year ended 30 September 2008 (30/09/2007 6.5%). The actual return on scheme assets (net of tax) for the ANZ National Bank Staff Superannuation Scheme was -6.0% for the year ended 30 September 2008 (30/09/2007 6.1%).

The investment return on scheme assets is taxed at 33% (30/09/2007 33%).

The major categories of scheme assets as a percentage of the fair value of scheme plan assets are as follows:

	The National Bank Staff Superannuation Fund		ANZ National Bank Staff Superannuation Scheme	
	30/09/2008	30/09/2007	**30/09/2008**	30/09/2007
Cash and short term debt instruments	**19.9%**	15.7%	**17.1%**	13.2%
New Zealand fixed interest	**14.5%**	22.2%	**23.2%**	23.1%
Overseas fixed interest	**16.1%**	16.5%	**20.8%**	23.3%
New Zealand equities	**9.7%**	8.9%	**9.3%**	7.1%
Overseas equities	**39.8%**	36.7%	**23.9%**	28.0%
Property	**0.0%**	0.0%	**5.7%**	5.3%
	100.0%	100.0%	**100.0%**	100.0%

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

45. RETIREMENT BENEFIT OBLIGATIONS (continued)

Historical summary

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

	NZ Banking Group			
	30/09/2008	30/09/2007	30/09/2006	30/09/2005
	$m	$m	$m	$m
Defined benefit obligation	**(179)**	(181)	(190)	(187)
Fair value of scheme assets	**152**	189	196	195
Net benefit (liability)/asset	**(27)**	8	6	8
Experience adjustments on scheme liabilities	**5**	(1)	3	-
Experience adjustment on scheme assets	**(21)**	(7)	5	11

Employer contributions

To ensure the defined benefit schemes remain solvent, the schemes' independent actuaries recommend an employer contribution rate to the NZ Banking Group, annually for The National Bank Staff Superannuation Fund and every three years for the ANZ National Bank Staff Superannuation Scheme. The funding methods and current contribution rates of the individual schemes are determined in accordance with NZ IAS 19 Employee Benefits ('NZ IAS 19') for annual periods beginning on or after 1 January 2007.

The National Bank Staff Superannuation Fund deficit was valued at $5.5 million in the most recent actuarial valuation at 1 April 2007 determined in accordance with NZ IAS 19. The ANZ National Bank Staff Superannuation Scheme surplus was valued at $0.2 million in the most recent actuarial valuation at 31 Dec 2007 determined in accordance with NZ IAS 19.

The NZ Banking Group contributed $3.1 million (net of contributions withholding tax) to its defined benefit schemes in the period to 30 September 2008 (30/09/2007 $4 million). Employer contributions are taxed at a rate of 33% (30/09/2007 33%).

Contingent liabilities

The National Bank Staff Superannuation Fund

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

ANZ National Bank Staff Superannuation Scheme

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

46. RELATED PARTY TRANSACTIONS

	NZ Banking Group		NZ Branch	
	Year to 30/09/2008 $'000	Year to 30/09/2007 $'000	**Year to 30/09/2008 $'000**	Year to 30/09/2007 $'000
Key management personnel				
Key management personnel compensation				
Salaries and short-term employee benefits	**11,919**	10,407	**-**	-
Post-employment benefits	**786**	315	**-**	-
Other long-term benefits	**127**	106	**-**	-
Share-based payments	**2,665**	2,144	**-**	-
Total compensation of key management personnel	**15,497**	12,972	**-**	-
Loans to key management personnel	**7,272**	6,202	**-**	-
Deposits from key management personnel	**3,594**	2,666	**-**	-

Loans made to and deposits held by key management personnel (including personally related parties) are made in the course of ordinary business on normal commercial terms and conditions no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed, variable and interest only, all of which have been made in accordance with the NZ Banking Group's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (30/09/2007 $nil).

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

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including directors (whether executive or otherwise).

Transactions with the Ultimate Parent Bank and subsidiaries

Details of amounts provided by/to the Ultimate Parent Bank and subsidiaries of the NZ Banking Group during the ordinary course of business are set out in the relevant notes to these financial statements. No provision for credit impairment has been recognised during the year ended 30 September 2008 (30/09/2007 $nil).

	NZ Banking Group		NZ Branch	
	Year to 30/09/2008 $m	Year to 30/09/2007 $m	**Year to 30/09/2008 $m**	Year to 30/09/2007 $m
Interest income				
- Subsidiary companies	**-**	**-**	**-**	-
- ANZ National Bank Limited	**-**	**-**	**-**	-
- Ultimate Parent Bank	**4**	4	**-**	-
Interest expense				
- Subsidiary companies	**-**	**-**	**-**	-
- ANZ National Bank Limited	**-**	**-**	**-**	-
- Samson Funding Limited	**-**	**-**	**-**	-
- ANZ Funds Pty Ltd	**159**	142	**-**	-
- Ultimate Parent Bank	**193**	224	**-**	-
Operating expenses				
- Subsidiary companies	**-**	-	**-**	-
- Ultimate Parent Bank	**82**	71	**-**	-

46. RELATED PARTY TRANSACTIONS (continued)

Transactions with associates and joint venture entities

During the period the NZ Banking Group conducted transactions with associates and joint venture entities on normal commercial terms and conditions as shown below:

	NZ Banking Group		NZ Branch	
	Year to 30/09/2008 $m	Year to 30/09/2007 $m	**Year to 30/09/2008 $m**	Year to 30/09/2007 $m
Amounts receivable				
- associates	**28**	14	**-**	-
- joint venture entities	**36**	56	**-**	-
Amounts payable				
- associates	**85**	-	**-**	-
Interest income				
- associates	**2**	1	**-**	-
- joint venture entities	**4**	8	**-**	-
Commission received from ING NZ joint venture	**23**	23	**-**	-
Costs recovered from ING NZ joint venture	**1**	1	**-**	-

The NZ Banking Group provides general administrative, strategic and governance services to ING (NZ) Limited under a Technical Services Agreement.

The NZ Banking Group provided registry services to the ING NZ joint venture in connection with the business of ING Managed Funds (NZ) Limited until 31 December 2006. The Group provided payroll, tax accounting and compliance services, and premises in connection with and for the purpose of ING Insurance Services (NZ) Limited and ING Managed Funds (NZ) Limited. All provision of these services ceased from 5 March 2007.

A provision for credit impairment of $5 million is recognised for amounts outstanding from associates as at 30 September 2008 (30/09/2007 $7 million). A credit impairment loss of $nil million was recovered during the year ended 30 September 2008 (30/09/2007 $1 million charged).

47. SUBSEQUENT EVENTS

Deposit Guarantee Schemes

ANZ National Bank Limited (the 'Bank') has a guarantee under the New Zealand Deposit Guarantee Scheme ('Crown Guarantee'). The Crown Guarantee is provided under a Crown Deed of Guarantee entered into by the Bank and the Crown on 14 November 2008. The NZ Branch is not covered by this scheme. Further information about the Crown Guarantee is available in the General Disclosures section of the ANZ National Bank Limited's most recent General Disclosure Statement and Supplemental Disclosure Statement and on The Treasury website at www.treasury.govt.nz.

On 12 October 2008, the Australian Government announced two guarantee schemes to cover both retail and wholesale deposits and certain term funding of Authorised Deposit-taking Institutions such as the Overseas Bank. Deposits of the NZ Branch are covered by these schemes. Further information on these schemes is available in the General Disclosure section of the NZ Branch's General Disclosure Statement and Supplemental Disclosure Statement.

Securitisation

On 10 October 2008, subsequent to balance date, the NZ Banking Group established an in-house residential mortgage-backed securities facility that could issue securities that can be used as collateral for borrowing from the Reserve Bank of New Zealand. The NZ Banking Group's financial statements do not change as a result of establishing this facility.

Directorate and Auditors

The address to which any document or communication may be sent to any Director or the Chief Executive Officer, NZ Branch is Australia and New Zealand Banking Group Limited - New Zealand Branch, Level 6, NBNZ House, 1 Victoria Street, Wellington. The document or communication should be marked for the attention of that Director or the Chief Executive Officer.

Directors' Interests

The Board of the Overseas Bank has adopted procedures to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Overseas Bank and their own interests are avoided or dealt with. Pursuant to these procedures:

a) each Director should give notice to the Board of any material personal interest they have in any matter which relates to the affairs of the Overseas Bank and any other interest which the Director believes is appropriate to disclose in order to avoid an actual conflict of interest or the perception of a conflict of interest. This disclosure should be made as soon as practicable after the Director becomes aware of their interest or the need to make a disclosure; and

b) a Director who has an interest of the type referred to in a) above in a matter that is to be considered at a Directors' meeting, must not vote on the matter nor be present while the matter is considered at the meeting, unless a majority of Directors who do not have such an interest in the matter agree that the interest should not disqualify such Director from being present while the matter is being considered and from voting on the matter.

In addition, each Director maintains and provides to the Board a standing notice about their interests. If the Director's interests change, the standing notice is updated to reflect the change and is tabled at the next Board meeting and recorded in the minutes of that meeting.

Transactions with Directors and the Chief Executive Officer, NZ Branch

There are no transactions entered into by any Director, the Chief Executive Officer, NZ Branch or any immediate relative or professional associate of any Director or the Chief Executive Officer, NZ Branch, with the NZ Branch or any member of the NZ Banking Group which has been either entered into on terms other than those which would in the ordinary course of business be given to any other person of like circumstances or means or which could otherwise be reasonably likely to influence materially the exercise of the Directors' or Chief Executive Officer, NZ Branch, duties as Director or Chief Executive Officer of the NZ Branch and NZ Banking Group.

Directors as at 18 December 2008

The name, qualifications, occupation, country of residence and external directorships of each director of the Overseas Bank as at the date this General Disclosure Statement was signed were:

Independent Non-Executive Director, Chairman

Charles Barrington Goode, AC
BCom (Hons), MBA, Hon LLD (Melb), Hon LLD (Monash)
Company Director
Melbourne, Australia

External Directorships

Chairman: Australian United Investment Company Limited, Diversified United Investment Limited, Grosvenor Australia Properties Pty Ltd, The Ian Potter Foundation Ltd
Member: International Council of the Asia Society, Asia Society Australasia Centre, AsiaLink Council, The Global Foundation.

Chief Executive Officer - Australia and New Zealand Banking Group Limited

Michael Roger Pearson Smith, OBE
BSc (Hons)
Chief Executive Officer
Melbourne, Australia

External Directorships
Director: The Financial Markets Foundation for Children, ANZ National Bank Limited
Member: Chongqing Mayor's International Economic Advisory Council, Australian Bankers' Association Incorporated, Asia Business Council, Financial Literacy Advisory Board
Fellow: The Hong Kong Management Association.

Non-Executive Directors

Dr Gregory John Clark
BSc (Hons), PhD, FAPS, FTSE
Company Director
Based in New York, United States of America but also resides in Sydney, Australia

External Directorships
Chairman: GPM Classified Directories
Director: Babcock & Brown Capital Limited, KaComm Communications Pty Limited

Jeremy Kitson Ellis
MA, FAICD, Hon FIE AUST, FAus IMM, FTSE, Hon DR ENG (CQU)
Company Director
Melbourne, Australia

External Directorships
Chairman: Landcare Australia Limited, Future Eye Pty Ltd Advisory Board, Pacific Road Corporate Finance Pty Limited Advisory Board, Earth Resources Development Council
Director: Future Directions International Pty Limited
Member: The Sentient Group Advisory Council, Anglo American plc's Australian Advisory Board

Margaret Anne Jackson, AC
BEc, MBA, Hon LLD (Monash), FAICD, FCA
Company Director
Melbourne, Australia

External Directorships
Chairman: FlexiGroup Limited, Asia Pacific Business Coalition on HIV/AIDS, Ponting Foundation
Director: Billabong International Limited, Australian Tissue Engineering Centre
President: Australian Volunteers International.

Peter Algernon Franc Hay
LLB (Melb)
Company Director
Melbourne, Australia

External Directorships
Co-Chairman: Investment Banking Australia, Lazard Carnegie Wylie
Director: Lazard Carnegie Wylie & Co Pty Ltd, Alumina Limited, Landcare Australia Limited

Ian John Macfarlane, AC
BEc (Hons), MEc, Hon DSc (Syd), Hon DSc (UNSW), Hon DCom (Melb), Hon DLitt (Macq), Hon LLD (Monash)
Company Director
Sydney, Australia

External Directorships
Director: Woolworths Limited, Leighton Holdings Limited, Lowy Institute for International Policy
Member: International Advisory Board of Goldman Sachs JB Were, International Advisory Board of CHAMP Private Equity

David Edward Meiklejohn
BCom, Dip Ed, FCPA, FAICD, FAIM
Company Director
Melbourne, Australia

External Directorships
Chairman: PaperlinX Limited
Director: Coca Cola Amatil Limited, Mirrabooka Investments Limited
President: Melbourne Cricket Club

John Powell Morschel
DipQS, FAIM
Company Director
Sydney, Australia

External Directorships
Director: Singapore Telecommunications Limited, Tenix Group Pty Limited, Gifford Communications Pty Limited

Alison Mary Watkins
BCom, ICAA, FSIA, AICD
Chief Executive Officer - Bennelong Group
Melbourne, Australia

External Directorships
Director: Woolworths Limited

Chief Executive Officer, Australia and New Zealand Banking Group - New Zealand Branch
Susan Ruth Peterson
BCom, LLB
Chief Executive Officer & Managing Director, NZ Branch
Auckland, New Zealand

External Directorships
Director: IHC New Zealand

Audit Committee
The following were members of the Audit Committee of the Overseas Bank as at 18 December 2008:

D E Meiklejohn
Non-Executive Director

MA Jackson
Non-Executive Director

AM Watkins
Non-executive Director

J K Ellis
Non-Executive Director

C B Goode
Chairman of the Board

Auditors

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

CREDIT RATING INFORMATION

The Overseas Bank has three current credit ratings, which are applicable to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars. The credit ratings, which are not subject to any qualifications, are:

Standard & Poor's	**AA**
Moody's Investors Service	**Aa1**
Fitch Ratings	**AA-**

The Standard & Poor's rating was issued on 22 February 2007. On this date Standard & Poor's revised the Overseas Bank's rating to AA from AA-. There have been no other changes in the credit rating issued in the past two years ended 30 September 2008.

The Moody's Investors Service rating was issued on 4 May 2007. On this date Moody's Investors Service revised the Overseas Bank's rating to Aa1 from Aa3. There have been no other changes in the credit rating issued in the past two years ended 30 September 2008.

There has been no changes to the credit rating issued by Fitch Ratings in the two years preceeding 30 September 2008.

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

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

FINANCIAL STATEMENTS OF THE OVERSEAS BANK AND OVERSEAS BANKING GROUP

Copies of the most recent publicly available financial statements of the Overseas Bank and Overseas Banking Group, will be provided immediately, free of charge, to any person requesting a copy where the request is made at the NZ Branch's head office, Level 6, NBNZ House, 1 Victoria Street, Wellington. The most recent publicly available financial statements for the Overseas Bank and Overseas Banking Group can also be accessed at the internet address www.anz.com.au

Directors' and New Zealand Chief Executive Officer's Statement

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed:

(i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half-Year - Overseas Incorporated Registered Banks) Order 2008;

(ii) The Disclosure Statement is not false or misleading.

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, over the twelve months ended 30 September 2008 :

(i) the NZ Banking Group had systems in place to monitor and control adequately the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This General Disclosure Statement is dated this 18th day of December 2008, and has been signed by all Directors of the Overseas Bank and Ms S R Peterson, Chief Executive Officer, NZ Branch.

C B Goode

S R Peterson

M R P Smith

I J Macfarlane

G J Clark

D E Meiklejohn

J K Ellis

J P Morschel

M A Jackson

A M Watkins

P A F Hay

KPMG

Audit Report to the Directors of Australia and New Zealand Banking Group Limited, New Zealand Branch

We have audited the financial statements on pages 6 to 93 prepared and disclosed in accordance with Clause 22 of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2008 (the 'Order') and the supplementary information prescribed in Schedules 3 to 8 of the Order. The financial statements, and supplementary information, provide information about the past financial performance and cash flows of Australia and New Zealand Banking Group Limited New Zealand Branch (the 'NZ Branch') and related companies (the 'NZ Banking Group') and their financial position as at 30 September 2008. This information is stated in accordance with the accounting policies set out on pages 10 to 19.

Directors' responsibilities

The Directors of the NZ Branch are responsible for the preparation and presentation of financial statements which give a true and fair view of the financial position of the NZ Branch and NZ Banking Group as at 30 September 2008 and their financial performance and cash flows for the year ended on that date.

They are also responsible for the preparation of supplementary information which gives a fair view, in accordance with the Order, of the matters to which it relates; and complies with Schedules 3 to 8 of the Order.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements, including the supplementary information disclosed in accordance with Schedules 4, 6 to 8, and Clauses 19 and 20 of Schedule 3 of the Order presented to us by the Directors and report our opinion to you in accordance with Clause 19 of the Order.

It is also our responsibility to express an independent opinion on whether the supplementary information relating to credit and market risk exposures and capital adequacy that is required to be disclosed under Schedule 5, is in all material respects, prepared in accordance with Capital Adequacy Framework (Basel I Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 5 and for reporting our findings to you.

Basis of audit opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements and supplementary information; and
- whether the accounting policies are appropriate to the NZ Branch's and NZ Banking Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the NZ Branch and certain of its related companies in relation to other audit related services. Partners and employees of our firm may also deal with NZ Banking Group on normal terms within the ordinary course of trading activities of the business of the NZ Banking Group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the NZ Branch and NZ Banking Group. These matters have not impaired our independence as auditors of the NZ Branch and NZ Banking Group. The firm has no other relationship with, or interest in, the NZ Branch or any of its related companies.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the NZ Branch and NZ Banking Group as far as appears from our examination of those records;
- the financial statements on pages 6 to 93 (excluding the supplementary information included in Notes 31, 33, 34 and 41):
  - comply with New Zealand generally accepted accounting practice; anc
  - give a true and fair view of the balance sheets of the NZ Branch and NZ Banking Group as at 30 September 2008 and the results of their operations and cash flows for the year ended on that date;
- the supplementary information disclosed in Notes 33, 34 and 41 prescribed by Schedules 4, 6 to 8 and Clauses 19 and 20 of Schedule 3 of the Order is fairly stated in accordance with those Schedules;
- the supplementary information disclosed in Note 31 relating to Capital Adequacy as required by Schedule 5 of the Order, is in all material respects, prepared in accordance with Capital Adequacy Framework (Basel I Approach) and Capital Adequacy Framework (Standardised Approach) (BS2A), and disclosed in accordance with Schedule 5 of the Order.

Our audit was completed on 18 December 2008 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

Conditions of Registration, applicable as at date of registration.

The Conditions of Registration imposed on the NZ Branch, which will apply from the date of registration are:

1. That the New Zealand banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

2. That the New Zealand banking group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:
   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
   (ii) In measuring the size of the New Zealand banking group's insurance business:
      (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
         - The total consolidated assets of the group headed by that entity;
         - Or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
      (b) otherwise, the size of each insurance business conducted by any entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
      (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the banking group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
      (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the business of the Australia and New Zealand Banking Group Limited.

4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:
   (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (ii) the Reserve Bank has advised that it has no objection to that appointment.

5. That Australia and New Zealand Banking Group Limited complies with the requirements imposed on it by the Australian Prudential Regulation Authority.

6. That Australia and New Zealand Banking Group Limited complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
   - tier one capital of the Australia and New Zealand Banking Group Limited is not less than 4 percent of risk weighted exposures;
   - capital of Australia and New Zealand Banking Group Limited is not less than 8 percent of risk weighted exposures.

7. That the business of the registered bank in New Zealand is restricted to:
   (i) acquiring for fair value, and holding, mortgages originated by ANZ National Bank Limited; and
   (ii) any other business for which the prior written approval of the Reserve Bank of New Zealand has been obtained; and
   (iii) activities that are necessarily incidental to the business specified in paragraphs (i) and (ii).

8. That the value of the mortgages held by the registered bank in New Zealand must not exceed $15 billion in aggregate.

9. That the registered bank in New Zealand may not incur any liabilities except:
   (i) to the government of New Zealand in respect of taxation and other charges; and
   (ii) to other branches or the head office of the registered bank; and
   (iii) to trade creditors and staff; and
   (iv) to ANZ National Bank Limited in respect of activities, other than borrowing, that are necessarily incidental to the business specified in paragraphs (i) and (ii) of condition 7; and
   (v) any other liabilities for which the prior written approval of the Reserve Bank has been obtained.

For the purposes of these Conditions of Registration, the term "banking group" means the New Zealand operations of Australia and New Zealand Banking Group Limited whose business is required to be reported in the financial statements for the group's New Zealand business, prepared in accordance with section 9(2) of the Financial Reporting Act 1993.

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