ANZ Bank New Zealand Limited
(formerly ANZ National Bank Limited)
Disclosure Statement

FOR THE YEAR ENDED 30 SEPTEMBER 2012 | NUMBER 67 ISSUED NOVEMBER 2012

Disclosure Statement

For the year ended 30 September 2012

Contents

Glossary of Terms

In this Disclosure Statement unless the context otherwise requires:

(a) "Bank" means ANZ Bank New Zealand Limited;
(b) "Banking Group" means ANZ Bank New Zealand Limited and all its subsidiaries;
(c) "Immediate Parent Company" means ANZ Holdings (New Zealand) Limited;
(d) "Ultimate Parent Bank" means Australia and New Zealand Banking Group Limited;
(e) "Overseas Banking Group" means the worldwide operations of Australia and New Zealand Banking Group Limited including its subsidiaries;
(f) "New Zealand business" means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand;
(g) "NZ Branch" means the New Zealand business of the Ultimate Parent Bank;
(h) "ANZ New Zealand" means the New Zealand business of the Overseas Banking Group;
(i) "Registered Office" is Level 10, 170-186 Featherston Street, Wellington, New Zealand, which is also the Banking Group's address for Service;
(j) "RBNZ" means the Reserve Bank of New Zealand;
(k) "APRA" means the Australian Prudential Regulation Authority;
(l) "the Order" means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2012; and
(m) Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

General Disclosures

General Matters

The Disclosure Statement has been issued in accordance with the Order.

The Bank is incorporated under the Companies Act 1993. The Bank changed its name to ANZ Bank New Zealand Limited from ANZ National Bank Limited on 29 October 2012.

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

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

Material Financial Support

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

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

  of the Ultimate Parent Bank's capital base.

General Disclosures

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

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

Credit Rating Information

As at 21 November 2012 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars.

The Bank's Credit Ratings are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA-	Outlook Stable
Moody's Investors Service	Aa3	Outlook Stable
Fitch Ratings	AA-	Outlook Stable

Changes in credit ratings over the last two years

On 27 May 2011, Moody's downgraded the Bank's long-term senior unsecured debt and deposit ratings from Aa2 outlook negative to Aa3 outlook stable. This followed a similar one notch downgrade on the Ultimate Parent Bank and other major Australian banks.

On 1 December 2011, Standard and Poor's downgraded the Bank's long-term senior unsecured debt and deposit ratings from AA outlook stable to AA- outlook stable. This followed a similar one notch downgrade on the Ultimate Parent Bank and other major Australian banks.

On 30 January 2012, Fitch changed the outlook on the Bank's long-term senior unsecured debt and deposit ratings from positive to negative. This occurred simultaneously to a similar change in the outlook of ratings of the Ultimate Parent Bank and other major Australian banks. This was followed by a change in outlook from negative to stable on 24 February 2012.

There were no other changes to the Bank's credit ratings or qualifications during the two years ended 30 September 2012.

The following table describes the credit rating grades available:

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

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

General Disclosures

Guarantors

Crown Wholesale Guarantee

As at the date of signing this Disclosure Statement the Banking Group has debt securities with a carrying value at 30 September 2012 of $205 million for which the Crown has issued a Guarantee Eligibility Certificate under the New Zealand Wholesale Funding Guarantee Facility ("Crown Wholesale Guarantee"), copies of which are available on the Treasury website treasury.govt.nz. The Treasury's address for service is Level 5, 1 The Terrace, Wellington. New Zealand.

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

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

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

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

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

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

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

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

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

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

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

Further Information about the Crown Wholesale Guarantee

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

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

The Crown's foreign currency credit ratings are:

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

The Crown's domestic currency credit ratings are:

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

The Crown's credit ratings are available on the New Zealand Debt Management Office website nzdmo.govt.nz. On 22 November 2010 Standard & Poor's changed the outlook on the Crown's foreign currency credit rating from stable to negative. On 29 and 30 September 2011 Fitch and Standard & Poor's, respectively, downgraded the Crown's long term foreign currency ratings from AA+ (Outlook Negative) to AA (Outlook Stable) and its local currency ratings from AAA (Outlook Negative) to AA+ (Outlook Stable). There have been no other changes to the Crown's long-term foreign-currency and domestic debt credit ratings in the two years immediately before the date of signing this Disclosure Statement.

ANZNZ Covered Bond Trust

Certain debt securities ("Covered Bonds") issued by the Bank or its wholly owned subsidiary, ANZ New Zealand (Int'l) Limited, are guaranteed by ANZNZ Covered Bond Trust Limited (the "Covered Bond Guarantor"), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 30 September 2012 of $2,962 million, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 10, 141 Willis Street, Wellington, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in Note 37.

Summary of Financial Statements

	Banking Group				
$ millions	**Year to 30/09/2012**	Year to 30/09/2011	Year to 30/09/2010	Year to 30/09/2009	Year to 30/09/2008
Interest income	**6,017**	6,179	5,876	7,345	9,857
Interest expense	**3,335**	3,620	3,457	4,892	7,568
Net interest income	**2,682**	2,559	2,419	2,453	2,289
Other operating income	**1,006**	856	744	663	1,124
Operating income	**3,688**	3,415	3,163	3,116	3,413
Operating expenses	**1,742**	1,686	1,565	1,477	1,444
Provision for credit impairment	**193**	178	436	874	302
Profit before income tax	**1,753**	1,551	1,162	765	1,667
Income tax expense	**428**	452	335	467	504
Profit after income tax	**1,325**	1,099	827	298	1,163
Dividends paid	**(1,150)**	(700)	(600)	(1,000)	-

	Banking Group				
$ millions	**As at 30/09/2012**	As at 30/09/2011	As at 30/09/2010	As at 30/09/2009	As at 30/09/2008
Total impaired assets	**1,366**	1,726	2,004	1,178	327
Total assets	**121,449**	121,440	116,458	117,891	122,915
Total liabilities	**110,517**	110,615	106,012	107,803	113,108
Non-controlling interests	**-**	-	1	-	-
Equity	**10,932**	10,825	10,446	10,088	9,807

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

Income Statements

$ millions	Note	Banking Group Year to 30/09/2012	Banking Group Year to 30/09/2011	Bank Year to 30/09/2012	Bank Year to 30/09/2011
Interest income	**4**	**6,017**	6,179	**6,292**	6,393
Interest expense	**5**	**3,335**	3,620	**3,964**	4,194
Net interest income		**2,682**	2,559	**2,328**	2,199
Net trading gains	**4**	**131**	228	**129**	175
Net funds management and insurance income	**4**	**298**	265	**69**	69
Other operating income	**4**	**573**	359	**839**	620
Share of associates' profit		**4**	4	**-**	-
Operating income		**3,688**	3,415	**3,365**	3,063
Operating expenses	**5**	**1,742**	1,686	**1,611**	1,528
Profit before provision for credit impairment and income tax		**1,946**	1,729	**1,754**	1,535
Provision for credit impairment	**15**	**193**	178	**187**	174
Profit before income tax		**1,753**	1,551	**1,567**	1,361
Income tax expense	**6**	**428**	452	**347**	329
Profit after income tax		**1,325**	1,099	**1,220**	1,032

Statements of Comprehensive Income

$ millions	Banking Group Year to 30/09/2012	Banking Group Year to 30/09/2011	Bank Year to 30/09/2012	Bank Year to 30/09/2011
Profit after income tax	**1,325**	1,099	**1,220**	1,032
Unrealised gains recognised directly in equity	**46**	72	**49**	58
Realised losses / (gains) transferred to the income statement	**(95)**	(38)	**(99)**	4
Actuarial loss on defined benefit schemes	**(25)**	(64)	**(25)**	(64)
Income tax credit on items recognised directly in equity	**6**	11	**6**	3
Total comprehensive income for the year	**1,257**	1,080	**1,151**	1,033

Statements of Changes in Equity

Banking Group

$ millions	Ordinary share capital	Available-for-sale revaluation reserve	Cash flow hedging reserve	Retained earnings	Total equity attributable to owners of the Bank	Non-controlling interests	Total equity
As at 1 October 2010	6,943	58	102	3,342	10,445	1	10,446
Profit after income tax	-	-	-	1,099	1,099	-	1,099
Unrealised gains recognised directly in equity	-	21	51	-	72	-	72
Realised losses / (gains) transferred to the income statement	-	(42)	4	-	(38)	-	(38)
Actuarial loss on defined benefit schemes	-	-	-	(64)	(64)	-	(64)
Income tax credit / (expense) on items recognised directly in equity	-	9	(16)	18	11	-	11
Total comprehensive income for the year	-	(12)	39	1,053	1,080	-	1,080
Ordinary dividend paid	-	-	-	(700)	(700)	-	(700)
Movement in non-controlling interests	-	-	-	-	-	(1)	(1)
As at 30 September 2011	6,943	46	141	3,695	10,825	-	10,825
Profit after income tax	**-**	**-**	**-**	**1,325**	**1,325**	**-**	**1,325**
Unrealised gains recognised directly in equity	**-**	**34**	**12**	**-**	**46**	**-**	**46**
Realised gains transferred to the income statement	**-**	**(83)**	**(12)**	**-**	**(95)**	**-**	**(95)**
Actuarial loss on defined benefit schemes	**-**	**-**	**-**	**(25)**	**(25)**	**-**	**(25)**
Income tax credit on items recognised directly in equity	**-**	**-**	**-**	**6**	**6**	**-**	**6**
Total comprehensive income for the year	**-**	**(49)**	**-**	**1,306**	**1,257**	**-**	**1,257**
Ordinary dividend paid	**-**	**-**	**-**	**(1,150)**	**(1,150)**	**-**	**(1,150)**
As at 30 September 2012	**6,943**	**(3)**	**141**	**3,851**	**10,932**	**-**	**10,932**

Bank

$ millions	Ordinary share capital	Available-for-sale revaluation reserve	Cash flow hedging reserve	Retained earnings	Total equity attributable to owners of the Bank	Non-controlling interests	Total equity
As at 1 October 2010	6,943	39	102	2,787	9,871	-	9,871
Profit after income tax	-	-	-	1,032	1,032	-	1,032
Unrealised gains recognised directly in equity	-	7	51	-	58	-	58
Realised losses transferred to the income statement	-	-	4	-	4	-	4
Actuarial loss on defined benefit schemes	-	-	-	(64)	(64)	-	(64)
Income tax credit / (expense) on items recognised directly in equity	-	1	(16)	18	3	-	3
Total comprehensive income for the year	-	8	39	986	1,033	-	1,033
Ordinary dividend paid	-	-	-	(700)	(700)	-	(700)
As at 30 September 2011	6,943	47	141	3,073	10,204	-	10,204
Profit after income tax	**-**	**-**	**-**	**1,220**	**1,220**	**-**	**1,220**
Unrealised gains recognised directly in equity	**-**	**37**	**12**	**-**	**49**	**-**	**49**
Realised gains transferred to the income statement	**-**	**(87)**	**(12)**	**-**	**(99)**	**-**	**(99)**
Actuarial loss on defined benefit schemes	**-**	**-**	**-**	**(25)**	**(25)**	**-**	**(25)**
Income tax credit on items recognised directly in equity	**-**	**-**	**-**	**6**	**6**	**-**	**6**
Total comprehensive income for the year	**-**	**(50)**	**-**	**1,201**	**1,151**	**-**	**1,151**
Ordinary dividend paid	**-**	**-**	**-**	**(1,150)**	**(1,150)**	**-**	**(1,150)**
As at 30 September 2012	**6,943**	**(3)**	**141**	**3,124**	**10,205**	**-**	**10,205**

Balance Sheets

		Banking Group		Bank	
$ millions	**Note**	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Assets					
Liquid assets	**8**	**2,831**	2,455	**2,815**	2,443
Due from other financial institutions	**9**	**1,722**	4,629	**1,722**	4,629
Trading securities	**10**	**12,338**	9,466	**12,338**	9,466
Derivative financial instruments	**11**	**12,753**	15,635	**12,788**	15,678
Current tax assets		**15**	-	**79**	-
Available-for-sale assets	**12**	**57**	411	**54**	375
Net loans and advances	**13**	**86,678**	83,610	**84,319**	81,306
Due from subsidiaries	**26**	**-**	-	**11,619**	11,753
Investments backing insurance policy liabilities		**142**	97	**-**	-
Insurance policy assets		**301**	200	**-**	-
Investments in subsidiaries and associates	**16**	**99**	100	**6,609**	6,609
Other assets	**17**	**592**	863	**611**	883
Deferred tax assets	**18**	**93**	139	**185**	230
Premises and equipment		**323**	325	**74**	89
Goodwill and other intangible assets	**19**	**3,505**	3,510	**3,317**	3,298
Total assets		**121,449**	121,440	**136,530**	136,759
Interest earning and discount bearing assets		**103,341**	99,158	**112,461**	107,607
Liabilities					
Due to other financial institutions	**20**	**1,759**	3,711	**1,555**	3,711
Deposits and other borrowings	**21**	**73,652**	69,238	**66,731**	63,007
Due to subsidiaries	**26**	**-**	-	**37,940**	37,716
Due to Immediate Parent Company	**26**	**740**	174	**740**	174
Derivative financial instruments	**11**	**13,930**	15,118	**13,930**	15,118
Payables and other liabilities	**22**	**1,685**	2,654	**1,469**	2,461
Current tax liabilities		**-**	17	**-**	36
Provisions	**23**	**339**	309	**292**	271
Bonds and notes	**24**	**17,244**	17,406	**2,500**	2,073
Loan capital	**25**	**1,168**	1,988	**1,168**	1,988
Total liabilities		**110,517**	110,615	**126,325**	126,555
Net assets		**10,932**	10,825	**10,205**	10,204
Equity					
Ordinary share capital	**28**	**6,943**	6,943	**6,943**	6,943
Reserves		**138**	187	**138**	188
Retained earnings		**3,851**	3,695	**3,124**	3,073
Total equity		**10,932**	10,825	**10,205**	10,204
Interest and discount bearing liabilities		**89,299**	87,844	**105,017**	103,916

For and on behalf of the Board of Directors:

John Judge
Chairman
21 November 2012

David Hisco
Executive Director
21 November 2012

Cash Flow Statements

$ millions	Note	Banking Group Year to 30/09/2012	Banking Group Year to 30/09/2011	Bank Year to 30/09/2012	Bank Year to 30/09/2011
Cash flows from operating activities					
Interest received		**5,991**	6,074	**6,262**	6,231
Dividends received		**4**	4	**205**	183
Net funds management & insurance income		**196**	203	**69**	69
Fees and other income received		**645**	671	**722**	751
Interest paid		**(3,301)**	(3,573)	**(3,921)**	(4,158)
Operating expenses paid		**(1,615)**	(1,631)	**(1,549)**	(1,439)
Income taxes paid		**(408)**	(226)	**(411)**	(155)
Cash flows from operating activities before changes in operating assets and liabilities		**1,512**	1,522	**1,377**	1,482
Net changes in operating assets and liabilities:					
Change in due from other financial institutions - term		**264**	447	**264**	359
Change in trading securities		**(3,761)**	(1,695)	**(3,770)**	(1,751)
Change in derivative financial instruments		**2,000**	(1,329)	**1,723**	(1,635)
Change in available-for-sale assets		**391**	1,745	**361**	1,697
Change in insurance investment assets		**(44)**	(10)	**-**	-
Change in loans and advances		**(5,777)**	(39)	**(5,714)**	(122)
Proceeds from sale of loans and advances to NZ Branch		**2,397**	1,915	**2,397**	1,915
Change in due from subsidiaries		**-**	-	**134**	(2,710)
Change in due to subsidiaries		**-**	-	**370**	(79)
Change in other assets		**87**	166	**(16)**	167
Change in due to other financial institutions		**(1,952)**	1,531	**(2,156)**	1,531
Change in deposits and other borrowings		**3,813**	(1,570)	**3,647**	1,260
Change in payables and other liabilities		**37**	(55)	**37**	(236)
Net changes in operating assets and liabilities		**(2,545)**	1,106	**(2,723)**	396
Net cash flows provided by / (used in) operating activities	**34**	**(1,033)**	2,628	**(1,346)**	1,878
Cash flows from investing activities					
Proceeds from sale of shares in associates and joint venture		**5**	49	**4**	3
Proceeds from sale of intangible assets		**11**	20	**-**	-
Proceeds from redemption of shares in subsidiaries		**-**	-	**-**	819
Purchase of intangible assets		**(40)**	(54)	**(39)**	(52)
Purchase of premises and equipment		**(55)**	(65)	**(12)**	(24)
Net cash flows provided by / (used in) investing activities		**(79)**	(50)	**(47)**	746
Cash flows from financing activities					
Proceeds from issue of bonds and notes		**5,678**	3,992	**800**	800
Redemptions of bonds and notes		**(5,445)**	(3,687)	**(290)**	(490)
Redemptions of loan capital		**(816)**	(405)	**(816)**	(405)
Change in due to subsidiaries - term		**-**	-	**-**	11
Change in funding from Immediate Parent Company		**566**	180	**566**	180
Distributions to non-controlling interests		**-**	(1)	**-**	-
Dividends paid		**(1,150)**	(700)	**(1,150)**	(700)
Net cash flows used in financing activities		**(1,167)**	(621)	**(890)**	(604)
Net increase / (decrease) in cash and cash equivalents		**(2,279)**	1,957	**(2,283)**	2,020
Cash and cash equivalents at beginning of the year		**5,534**	3,577	**5,522**	3,502
Cash and cash equivalents at end of the year	**34**	**3,255**	5,534	**3,239**	5,522

Notes to the Financial Statements

1. Significant Accounting Policies

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Order. The Bank's financial statements are for ANZ Bank New Zealand Limited as a separate entity and the Banking Group's financial statements are for the Bank's consolidated group, which includes subsidiaries, associates and joint ventures.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. 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.

(ii) Use of estimates and assumptions

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

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

(iii) Basis of measurement

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

- derivative financial instruments, including in the case of fair value hedging, the fair value adjustment on the underlying hedged exposure;
- available-for sale financial assets;
- financial instruments held for trading;
- financial instruments designated at fair value through profit and loss.

Insurance policy assets are measured using the Margin on Services model, and defined benefit obligations are measured using the Projected Unit Credit method.

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

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the prior period. The Banking Group has applied, where relevant, all new or revised NZ IFRSs and NZ IFRS Interpretations applicable to the year ended 30 September 2012. The initial application of these standards and interpretations has only resulted in changes to disclosures.

(v) Rounding

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

(vi) Comparatives

Certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation. This includes reclassifying:

- collateral received of $1,475 million from derivative financial instruments asset to due to other financial institutions;
- collateral paid of $944 million from derivative financial instruments liability to due from other financial institutions.

The comparative figures in the cash flow statements and notes to the financial statements relating to these items have reclassified accordingly.

(vii) Principles of consolidation

Subsidiaries

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

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

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

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

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

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

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

Notes to the Financial Statements

Associates and joint ventures

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

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

In the Bank's financial statements investments in subsidiaries, associates and joint ventures are carried at cost less accumulated impairment losses.

(viii) Foreign currency translation

Functional and presentation currency

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

Foreign currency transactions

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

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

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

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

(b) Income recognition

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

(i) Interest income

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

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

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

(ii) Fee and commission income

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

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

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

(iii) Dividend income

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

(iv) Gain or loss on sale of assets

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

(c) Expense recognition

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

(i) Interest expense

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

(ii) Loan origination expenses

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

- fees and commissions payable to brokers and certain customer incentive payments 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) Lease payments

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

(d) Income tax

(i) Income tax expense

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

(ii) Current tax

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

(iii) Deferred tax

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

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

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

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

(iv) Offsetting

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

(e) Assets

Financial assets

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

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

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

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

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

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

(ii) Derivative financial instruments

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

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

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

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

Notes to the Financial Statements

Fair value hedge

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

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

Cash flow hedge

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

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

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

Derivatives that do not qualify for hedge accounting

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

(iii) Available-for-sale assets

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

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

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

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

(iv) Net loans and advances

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

All loans are graded according to the level of credit risk.

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

Impairment of loans and advances

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

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

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

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

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

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

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

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

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

(v) Lease receivables

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

(vi) Repurchase agreements

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

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

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

(vii) Derecognition

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

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

(viii) Investments backing insurance policy liabilities

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

Non-financial assets

(ix) Goodwill

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

(x) Other intangible assets

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

Software is amortised using the straight-line method over its expected useful life to the Banking Group. The period of amortisation is between 3 and 5 years, except for certain core infrastructure projects where the useful life has been determined to be 7 or 10 years.

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

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

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

(xi) Premises and equipment

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

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The calculation of borrowing costs is based on an internal measure of the costs associated with the borrowing of funds.

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

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

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

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

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

(xii) Insurance policy assets / liabilities

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

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

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

Profits from life insurance contracts are brought to account using the Margin on Services model, under which profit is recognised as premiums are received and services are provided to policyholders. Where premiums are received but the service has not been provided, the profit is deferred. Losses are expensed when identified.

(f) Liabilities

Financial liabilities

(i) Deposits and other borrowings

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

(ii) Bonds, notes and loan capital

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

(iii) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are issued in the ordinary course of business, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given; typically this is the premium received. Subsequent to initial recognition, the Banking Group's liabilities under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses.

(iv) Derecognition

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

Non-financial liabilities

(v) Employee 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. Liability for long service leave is calculated and accrued for in respect of all applicable employees (including on-costs) using an actuarial valuation. 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.

(vi) Provisions

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

Notes to the Financial Statements

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(g) Equity

(i) Shares

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

(ii) Non-controlling interests

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

(iii) Reserves

Available-for-sale revaluation reserve

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

Cash flow hedging reserve

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

(h) Presentation

(i) Offsetting of income and expenses

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

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

(ii) Offsetting of financial assets and liabilities

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

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

(iii) Statement of cash flows

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

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

(iv) Segment reporting

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

(v) Goods and services tax

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

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

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

(i) Other

(i) Contingent liabilities

Contingent liabilities acquired in a business combination are individually measured at fair value at the acquisition date. At subsequent reporting dates the value of such contingent liabilities is reassessed based on the estimate of expenditure required to settle the contingent liability.

Other contingent liabilities are not recognised in the balance sheet but disclosed in Note 36 unless it is considered remote that the Banking Group will be liable to settle the possible obligation.

(ii) Accounting Standards not early adopted

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

Standards and amendments effective for periods commencing after 1 January 2013

NZ IFRS 10 Consolidated Financial Statements
Establishes a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investors.

NZ IFRS 11 Joint Arrangements
Introduces a new approach to joint arrangements, which focuses on the rights and obligations of the

arrangement rather than its legal form, and requires the equity method of accounting for joint ventures.

NZ IFRS 12 Disclosure of Interests in Other Entities
Provides a single, consistent approach for disclosures of all interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

NZ IFRS 13 Fair Value Measurement
Provides a single source of guidance on fair value measurement and requires certain disclosures regarding fair value.

NZ IAS 27 (2011) Separate Financial Statements
Carries forward the existing accounting and disclosure requirements for separate financial statements.

Standards and amendments effective for periods commencing after 1 January 2015

NZ IFRS 9 Financial Instruments
Specifies a simpler methodology for classifying and measuring financial assets, with two primary measurement categories: amortised cost and fair value. Requires the amount of change in the fair value attributable to changes in credit risk of certain liabilities designated under the fair value option to be presented in other comprehensive income.

2. Critical Estimates and Judgement Used in Applying Accounting Policies

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

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

Critical accounting estimates and assumptions

Credit provisioning

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

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

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

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

Refer to Note 15 for details of credit impairment provisions.

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

Critical judgements in applying the Banking Group's accounting policies

Financial instruments at fair value

The Banking Group's financial instruments measured at fair value are stated in note 1(a)(iii). In estimating fair value the Banking Group uses, wherever possible, quoted market prices in an active market for the financial instrument.

In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spread, counterparty credit spreads and other factors that would influence the fair value determined by a market participant. The selection of appropriate valuation techniques, methodology and inputs requires judgement. These are reviewed and updated as market practice evolves.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments, the fair value cannot be determined with reference to current market transactions or valuation techniques whose variables only include data from observable markets. In respect of the valuation component where market observable data is not available, the fair value is determined using data derived and extrapolated from market data and tested against historic transactions and observed market trends. These valuations are based upon assumptions established by application of professional judgement to analyse the data available to support each assumption. Changing the assumptions changes the resulting estimate of fair value.

Derivatives and hedging

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

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

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

Goodwill

Refer to Note 19 for details of goodwill held by the Banking Group.

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

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

Impairment testing of purchased goodwill is performed annually, or more frequently where there is an indication that the goodwill may be impaired, by comparing the recoverable value of each cash generating unit with the current carrying amount of its net assets, including goodwill. Judgement is required in identifying the cash-generating units to which goodwill and other assets are allocated for the purpose of impairment testing.

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

These cash flow projections are discounted using a capital asset pricing model. As at 31 March 2012 when the last valuation was prepared, a discount rate of 10.63% was applied to each segment. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

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

Insurance policy assets

Insurance policy assets represent deferred policy acquisition costs less policy liabilities for life investment contracts and life insurance contracts. Policy liabilities are computed using statistical or mathematical methods, expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. Deferred policy acquisition costs are connected with the measurement basis of the policy liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are: the cost of providing the benefits and administering the contracts; mortality and morbidity experience; discontinuance rates; for life investment contracts, the amounts credited to policyholders' accounts compared to the returns on invested assets; interest rates; inflation; rates of taxation; and general market and economic conditions.

3. Risk Management Policies

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

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

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

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

The Board has ultimate responsibility for overseeing the effective deployment of risk management frameworks, policies and processes within New Zealand. The Bank's Risk Committee assists the Board in this function. The role of the Risk

Committee is to assist the Board in the effective discharge of its responsibilities for business, market, credit, operational, compliance, liquidity, product and reputational risk management, and to liaise and consult with the Ultimate Parent Bank Risk Committee as required. Risk Management, via the Chief Risk Officer, coordinates risk management activities directly between Business Unit risk functions and Ultimate Parent Bank Group Risk Management functions.

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

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

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

Financial risk management

Refer to Note 30 for detailed disclosures on the Banking Group's financial risk management policies.

Operational Risk

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

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

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

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

Compliance

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

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

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

Global Internal Audit

Global Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. Operating under a Board approved Charter, the reporting line for the outcomes of work conducted by Global Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the Chief Executive Officer and the external auditor.

The Global Internal Audit Plan is developed utilising a risk based approach and is refreshed on a quarterly basis. The Audit Committee approves the plan, the associated budget and any changes thereto.

All audit activities are conducted in accordance with local and international auditing standards, and the results thereof are reported to the Audit Committee, Risk Committee and management. These results influence the performance assessment of business heads.

Furthermore, Global Internal Audit monitors the remediation of audit issues and highlights the current status of any outstanding audits.

Notes to the Financial Statements

4. Income

$ millions	Note	Banking Group Year to 30/09/2012	Banking Group Year to 30/09/2011	Bank Year to 30/09/2012	Bank Year to 30/09/2011
Interest income					
Financial assets at fair value through profit or loss					
Trading securities		**446**	404	**446**	404
Due from subsidiaries		**-**	-	**262**	280
		446	404	**708**	684
Financial assets not at fair value through profit or loss					
Liquid assets		**67**	64	**66**	63
Other financial institutions		**38**	43	**32**	43
Available-for-sale assets		**8**	34	**5**	29
Lending on productive loans		**5,305**	5,410	**5,120**	5,235
Lending on impaired assets		**51**	76	**49**	73
Due from subsidiaries		**-**	-	**215**	122
Due from Immediate Parent Company		**-**	19	**-**	19
Other		**102**	129	**97**	125
		5,571	5,775	**5,584**	5,709
Total interest income		**6,017**	6,179	**6,292**	6,393
Net trading gains					
Net gain on foreign exchange trading		**144**	137	**142**	165
Net gain on trading securities		**101**	204	**101**	123
Net loss on trading derivatives		**(114)**	(113)	**(114)**	(113)
Net trading gains		**131**	228	**129**	175
Net funds management and insurance income					
Fee income on trust and other fiduciary activities		**63**	61	**27**	25
Other funds management and insurance income		**235**	204	**42**	44
Total funds management and insurance income		**298**	265	**69**	69
Other operating income					
Lending and credit facility fee income		**51**	41	**53**	42
Other fee income		**590**	593	**658**	629
Total fee income		**641**	634	**711**	671
Direct fee expense		**(186)**	(185)	**(186)**	(185)
Net fee income		**455**	449	**525**	486
Dividends received		**-**	-	**205**	185
Net gain / (loss) on financial assets designated at fair value		**-**	-	**(7)**	53
Net gain / (loss) on financial liabilities designated at fair value		**(1)**	2	**1**	2
Net gain / (loss) on hedges not qualifying for hedge accounting		**7**	(106)	**16**	(112)
Net ineffectiveness on qualifying fair value hedges	**11**	**(4)**	6	**(4)**	6
Net cash flow hedge gain / (loss) transferred to income statement		**12**	(4)	**12**	(4)
Net gain on available for sale equity securities transferred to income statement		**83**	-	**87**	-
Other income		**21**	12	**4**	4
Total other operating income		**573**	359	**839**	620

Notes to the Financial Statements

5. Expenses

	Banking Group		Bank	
	Year to	Year to	**Year to**	Year to
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Interest expense				
Financial liabilities at fair value through profit or loss				
Commercial paper	**174**	158	**-**	-
Due to subsidiaries	**-**	-	**359**	401
	174	158	**359**	401
Financial liabilities not at fair value through profit or loss				
Other financial institutions	**45**	29	**43**	29
Deposits and other borrowings	**2,184**	2,347	**2,040**	2,171
Due to subsidiaries	**-**	-	**1,231**	1,248
Bonds and notes	**782**	884	**142**	141
Immediate parent company	**7**	1	**7**	1
Loan capital	**134**	177	**134**	177
Other	**9**	24	**8**	26
	3,161	3,462	**3,605**	3,793
Total interest expense	**3,335**	3,620	**3,964**	4,194
Operating expenses				
Personnel costs	**804**	794	**739**	717
Employee entitlements	**77**	75	**72**	72
Pension costs				
- Defined contribution schemes	**35**	36	**34**	34
- Defined benefit schemes	**6**	6	**6**	6
Share-based payments expense	**20**	22	**20**	22
Building occupancy costs	**66**	41	**14**	4
Depreciation of premises and equipment	**55**	49	**26**	18
Leasing and rental costs	**85**	84	**14**	16
Related parties (Note 26)	**118**	93	**264**	210
Technology expenses	**144**	141	**128**	130
Impairment of intangibles and other assets	**11**	41	**1**	26
Amortisation of software and other intangible assets	**34**	25	**19**	13
Administrative expenses	**204**	216	**193**	190
Other costs	**83**	63	**81**	70
Total operating expenses	**1,742**	1,686	**1,611**	1,528

Operating expenses for the Bank and the Banking Group include costs of $192 million (30/09/2011 $162 million) incurred in relation to the New Zealand Simplification programme, including implementation of a single core banking system, a single bank brand and an optimised branch network.

	Year to	Year to	**Year to**	Year to
$ thousands	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Fees paid to principal auditors (KPMG New Zealand)				
Audit or review of financial statements	**3,023**	2,522	**1,677**	1,375
Other services	**573**	297	**89**	25
Total auditors' remuneration	**3,596**	2,819	**1,766**	1,400
Audit fees paid to Ernst & Young for subsidiary company financial statement audits	**-**	55	**-**	-

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

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

Notes to the Financial Statements

6. Income Tax Expense

	Banking Group		Bank	
	Year to	Year to	**Year to**	Year to
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Reconciliation of the prima facie income tax payable on profit				
Profit before income tax	**1,753**	1,551	**1,567**	1,361
Prima facie income tax at 28% (2011: 30%)	**491**	465	**439**	408
Imputed and non-assessable dividends	**(6)**	(6)	**(57)**	(55)
Effect of changes in tax legislation	**-**	(5)	**-**	(3)
Change in tax provisions	**(12)**	(11)	**(12)**	(11)
Non-deductible expenses / (non-assessable income)	**(35)**	7	**(17)**	(27)
Income tax under / (over) provided in prior years	**(10)**	2	**(6)**	17
Total income tax expense	**428**	452	**347**	329
Effective tax rate (%)	**24.4%**	29.1%	**22.1%**	24.2%
Amounts recognised in the income statement				
Current tax	**376**	277	**296**	264
Deferred tax	**52**	175	**51**	65
Total income tax expense recognised in the income statement	**428**	452	**347**	329
Amounts recognised directly in equity				
Current income tax				
Net loss on revaluation of financial instruments	**-**	(9)	**-**	(1)
Deferred income tax				
Net gain on revaluation of financial instruments	**-**	16	**-**	16
Actuarial loss on defined benefit schemes	**(6)**	(18)	**(6)**	(18)
Total income tax benefit recognised directly in equity	**(6)**	(11)	**(6)**	(3)
Imputation credits available	**1,457**	1,062	**1,336**	928

The Bank is a member of an imputation group and can access imputation credits of the imputation group. The imputation credit balance for the Bank is the imputation credit balance of this imputation group. The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the imputation group and other companies in the the Banking Group that are not in the imputation group. The imputation credit balance available includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

Notes to the Financial Statements

7. Segmental Analysis

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

Segmental reporting has been updated to show the Wealth division as a separate reportable segment, following the formation of a global Wealth division by the Overseas Banking Group, and to reflect other minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

Retail

Retail provides products and services to personal customers via the branch network, mortgage specialists, the contact centre and a variety of self service channels (internet banking, phone banking, ATMs, website and mobile phone banking). Core products include current and savings accounts, unsecured lending (credit cards, personal loans and overdrafts) and home loans secured by mortgages over property. Retail distributes insurance and investment products on behalf of the Wealth segment.

Commercial

Commercial provides services to Business Banking, Commercial & Agri, and UDC customers. Business Banking services are offered to small enterprises (typically with annual revenues of less than $5 million). Commercial & Agri customers consist of primarily privately owned medium to large enterprises. The Banking Group's relationship with these businesses ranges from simple banking requirements with revenue from deposit and transactional facilities, and cash flow lending, to more complex funding arrangements with revenue sourced from a wider range of products. UDC is principally involved in the financing and leasing of plant, vehicles and equipment, mainly for small and medium sized businesses, as well as investment products.

Wealth

Wealth includes private banking and investment services provided to high net worth individuals, the OnePath wealth management and insurance businesses, and other investment products.

Institutional

Institutional provides financial services through a number of specialised units to large multi-banked corporations, often global, who require sophisticated product and risk management solutions. Those financial services include loan structuring, foreign exchange, wholesale money market services and transaction banking.

Other

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

Notes to the Financial Statements

Business segment analysis[1]

$ millions			Banking Group			
30/09/2012	**Retail**	**Commercial**	**Wealth**	**Institutional**	**Other**	**Total**
External interest income	**1,729**	**3,198**	**79**	**997**	**14**	**6,017**
External interest expense	**(1,033)**	**(581)**	**(196)**	**(419)**	**(1,106)**	**(3,335)**
Net intersegment interest	**111**	**(1,284)**	**138**	**(171)**	**1,206**	**-**
Net interest income	**807**	**1,333**	**21**	**407**	**114**	**2,682**
Other external operating income	**324**	**135**	**228**	**216**	**99**	**1,002**
Share of associates' profit	**-**	**-**	**-**	**-**	**4**	**4**
Operating income	**1,131**	**1,468**	**249**	**623**	**217**	**3,688**
Operating expenses	**683**	**501**	**145**	**184**	**229**	**1,742**
Profit before provision for credit impairment	**448**	**967**	**104**	**439**	**(12)**	**1,946**
Provision for credit impairment	**54**	**128**	**1**	**11**	**(1)**	**193**
Profit before income tax	**394**	**839**	**103**	**428**	**(11)**	**1,753**
Income tax expense	**110**	**233**	**17**	**113**	**(45)**	**428**
Profit after income tax	**284**	**606**	**86**	**315**	**34**	**1,325**
Other information						
Depreciation and amortisation	**19**	**8**	**14**	**-**	**48**	**89**
Goodwill	**547**	**1,466**	**180**	**1,072**	**-**	**3,265**
Other intangible assets	**38**	**3**	**137**	**1**	**61**	**240**
Investment in associates	**-**	**-**	**-**	**12**	**87**	**99**
Total external assets	**27,927**	**53,516**	**1,457**	**36,612**	**1,937**	**121,449**
Total external liabilities	**31,136**	**19,270**	**4,318**	**28,280**	**27,513**	**110,517**

30/09/2011	**Retail**	**Commercial**	**Wealth**	**Institutional**	**Other**	**Total**
External interest income	1,852	3,392	86	831	18	6,179
External interest expense	(1,085)	(625)	(223)	(457)	(1,230)	(3,620)
Net intersegment interest	(42)	(1,430)	154	27	1,291	-
Net interest income	725	1,337	17	401	79	2,559
Other external operating income	319	129	274	239	(109)	852
Share of associates' profit	-	-	-	-	4	4
Operating income	1,044	1,466	291	640	(26)	3,415
Operating expenses	685	495	154	177	175	1,686
Profit before provision for credit impairment	359	971	137	463	(201)	1,729
Provision for credit impairment	66	138	-	(26)	-	178
Profit before income tax	293	833	137	489	(201)	1,551
Income tax expense	88	250	37	144	(67)	452
Profit after income tax	205	583	100	345	(134)	1,099
Other information						
Depreciation and amortisation	18	8	11	-	37	74
Goodwill	547	1,466	180	1,072	-	3,265
Other intangible assets	46	7	161	1	30	245
Investment in associates	-	-	-	12	88	100
Total external assets	27,095	51,543	1,528	36,803	4,471	121,440
Total external liabilities	28,539	17,956	4,322	35,342	24,456	110,615

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

Notes to the Financial Statements

8. Liquid Assets

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Cash and balances with central banks	**2,177**	1,954	**2,177**	1,954
Securities purchased under agreement to resell	**325**	50	**325**	50
Money at call	**237**	330	**236**	330
Bills receivable and remittances in transit	**92**	121	**77**	109
Total liquid assets	**2,831**	2,455	**2,815**	2,443

9. Due from Other Financial Institutions

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Able to be withdrawn without prior notice	**96**	380	**96**	380
Securities purchased under agreement to resell	**228**	1,086	**228**	1,086
Security settlements	**42**	606	**42**	606
Certificates of deposit	**100**	1,562	**100**	1,562
Term loans and advances	**-**	51	**-**	51
Cash collateral given on derivative financial instruments	**1,256**	944	**1,256**	944
Total due from other financial institutions	**1,722**	4,629	**1,722**	4,629
Fair value of securities purchased under agreement to resell	**229**	1,133	**229**	1,133

10. Trading Securities

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Government, local body stock and bonds	**8,600**	5,961	**8,600**	5,961
Certificates of deposit	**455**	334	**455**	334
Promissory notes	**41**	59	**41**	59
Other bank bonds	**3,202**	3,047	**3,202**	3,047
Other	**40**	65	**40**	65
Total trading securities	**12,338**	9,466	**12,338**	9,466

Notes to the Financial Statements

11. Derivative Financial Instruments

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

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

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

Trading positions

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

Balance sheet risk management

The Banking Group designates certain 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 as other balance sheet risk management derivatives are classified as held for trading.

	Banking Group			Bank		
	Notional			Notional		
30/09/2012	Principal	Fair values		Principal	Fair values	
$ millions	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Derivatives held for trading						
Spot and forward contracts	59,862	647	1,240	59,862	647	1,240
Swap agreements	124,674	2,860	4,278	124,674	2,860	4,278
Options purchased	1,798	22	-	1,798	22	-
Options sold	1,651	1	39	1,651	1	39
Foreign exchange derivatives	187,985	3,530	5,557	187,985	3,530	5,557
Forward rate agreements	46,651	3	2	46,651	3	2
Swap agreements	522,387	8,682	8,147	527,517	8,717	8,147
Futures contracts	29,818	2	4	29,818	2	4
Options purchased	2,237	15	-	2,237	15	-
Options sold	1,833	-	14	1,833	-	14
Interest rate derivatives	602,926	8,702	8,167	608,056	8,737	8,167
Commodity derivatives	281	44	42	281	44	42
Total derivatives held for trading	791,192	12,276	13,766	796,322	12,311	13,766
Derivatives in hedging relationships						
Foreign exchange swap agreements	70	3	-	70	3	-
Interest rate swap agreements	15,752	234	92	15,752	234	92
Total fair value hedges	15,822	237	92	15,822	237	92
Interest rate swap agreements	13,524	240	72	13,524	240	72
Total cash flow hedges	13,524	240	72	13,524	240	72
Total derivatives in hedging relationships	29,346	477	164	29,346	477	164
Total derivative financial instruments	820,538	12,753	13,930	825,668	12,788	13,930

Notes to the Financial Statements

30/09/2011 $ millions	Banking Group Notional Principal Amount	Banking Group Fair values Assets	Banking Group Fair values Liabilities	Bank Notional Principal Amount	Bank Fair values Assets	Bank Fair values Liabilities
Derivatives held for trading						
Spot and forward contracts	62,832	2,111	1,440	62,832	2,111	1,440
Swap agreements	117,442	4,607	5,578	117,442	4,607	5,578
Options purchased	2,271	66	1	2,271	66	1
Options sold	2,280	-	69	2,280	-	69
Foreign exchange derivatives	184,825	6,784	7,088	184,825	6,784	7,088
Forward rate agreements	73,641	13	12	73,641	13	12
Swap agreements	629,986	8,224	7,637	636,630	8,267	7,637
Futures contracts	12,841	18	8	12,841	18	8
Options purchased	4,623	24	-	4,623	24	-
Options sold	6,446	-	26	6,446	-	26
Interest rate derivatives	727,537	8,279	7,683	734,181	8,322	7,683
Commodity derivatives	182	13	12	182	13	12
Total derivatives held for trading	912,544	15,076	14,783	919,188	15,119	14,783
Derivatives in hedging relationships						
Foreign exchange swap agreements	76	3	-	76	3	-
Interest rate swap agreements	17,652	281	256	17,652	281	256
Total fair value hedges	17,728	284	256	17,728	284	256
Interest rate swap agreements	11,090	275	69	11,090	275	69
Interest rate futures contracts	13,431	-	10	13,431	-	10
Total cash flow hedges	24,521	275	79	24,521	275	79
Total derivatives in hedging relationships	42,249	559	335	42,249	559	335
Total derivative financial instruments	954,793	15,635	15,118	961,437	15,678	15,118

Fair value hedges

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

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

$ millions	Banking Group **30/09/2012**	Banking Group 30/09/2011	Bank **30/09/2012**	Bank 30/09/2011
Gain / (loss) arising from fair value hedges:				
- hedged item	**41**	(138)	**41**	(138)
- hedging instrument	**(45)**	144	**(45)**	144
Net ineffectiveness on qualifying fair value hedges	**(4)**	6	**(4)**	6

Notes to the Financial Statements

Cash flow hedges

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

Analysis of the cash flow hedging reserve

	Banking Group		Bank	
	30/09/2012	30/09/2011	**30/09/2012**	30/09/2011
Deferred gain / (loss) attributable to hedges of:				
Variable rate loan assets	**208**	219	**208**	219
Variable rate liabilities	**(29)**	(33)	**(29)**	(33)
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	**(38)**	(45)	**(38)**	(45)
Total cash flow hedging reserve	**141**	141	**141**	141

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 (30/09/2011 0-10 years).

12. Available-for-sale Assets

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Government, local body stock and bonds	**13**	247	**13**	246
Other debt securities	**41**	42	**41**	42
Equity securities	**3**	122	**-**	87
Total available-for-sale assets	**57**	411	**54**	375

13. Net Loans and Advances

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Overdrafts	**1,881**	1,847	**1,881**	1,847
Credit card outstandings	**1,395**	1,367	**1,395**	1,367
Term loans - housing	**46,123**	43,636	**46,123**	43,636
Term loans - non-housing	**37,749**	37,398	**35,894**	35,538
Finance lease receivables	**806**	768	**-**	19
Gross loans and advances	**87,954**	85,016	**85,293**	82,407
Provision for credit impairment (Note 15)	**(1,054)**	(1,156)	**(1,016)**	(1,112)
Unearned finance income	**(258)**	(256)	**-**	-
Fair value hedge adjustment	**(2)**	22	**(2)**	22
Deferred fee revenue and expenses	**(60)**	(51)	**(54)**	(46)
Capitalised brokerage / mortgage origination fees	**98**	35	**98**	35
Total net loans and advances	**86,678**	83,610	**84,319**	81,306

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of $9,396 million as at 30 September 2012 (30/09/2011 $9,931 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

Notes to the Financial Statements

14. Impaired Assets and Other Assets Under Administration

$ millions	Banking Group				Bank			
	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
30/09/2012								
Balance at beginning of the year	**451**	**61**	**1,194**	**1,706**	**451**	**61**	**1,131**	**1,643**
Transfers from productive	**277**	**110**	**572**	**959**	**277**	**110**	**550**	**937**
Transfers to productive	**(61)**	**(1)**	**(246)**	**(308)**	**(61)**	**(1)**	**(245)**	**(307)**
Assets realised or loans repaid	**(327)**	**(43)**	**(515)**	**(885)**	**(327)**	**(43)**	**(497)**	**(867)**
Write offs	**(55)**	**(83)**	**(131)**	**(269)**	**(55)**	**(83)**	**(119)**	**(257)**
Individually impaired assets	**285**	**44**	**874**	**1,203**	**285**	**44**	**820**	**1,149**
Restructured items	**28**	**-**	**135**	**163**	**28**	**-**	**135**	**163**
Total impaired assets	**313**	**44**	**1,009**	**1,366**	**313**	**44**	**955**	**1,312**
Other assets under administration	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Undrawn facilities with impaired customers	**-**	**-**	**24**	**24**	**-**	**-**	**24**	**24**
30/09/2011								
Balance at beginning of the year	511	81	1,403	1,995	511	81	1,317	1,909
Transfers from productive	442	158	774	1,374	442	158	756	1,356
Transfers to productive	(77)	(1)	(101)	(179)	(77)	(1)	(99)	(177)
Assets realised or loans repaid	(356)	(71)	(691)	(1,118)	(356)	(71)	(666)	(1,093)
Write offs	(69)	(106)	(191)	(366)	(69)	(106)	(177)	(352)
Individually impaired assets	451	61	1,194	1,706	451	61	1,131	1,643
Restructured items	20	-	-	20	20	-	-	20
Total impaired assets	471	61	1,194	1,726	471	61	1,131	1,663
Other assets under administration	-	-	6	6	-	-	6	6
Undrawn facilities with impaired customers	-	-	26	26	-	-	26	26

Other assets under administration

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

Notes to the Financial Statements

15. Provision for Credit Impairment

$ millions	Banking Group Retail mortgages	Banking Group Other retail exposures	Banking Group Non-retail exposures	Banking Group Total	Bank Retail mortgages	Bank Other retail exposures	Bank Non-retail exposures	Bank Total
30/09/2012								
Collective provision								
Balance at beginning of the year	**120**	**147**	**395**	**662**	**120**	**136**	**382**	**638**
Credit to income statement	**(16)**	**(22)**	**(20)**	**(58)**	**(16)**	**(23)**	**(15)**	**(54)**
Balance at end of the year	**104**	**125**	**375**	**604**	**104**	**113**	**367**	**584**
Individual provision (individually impaired assets)								
Balance at beginning of the year	**148**	**37**	**309**	**494**	**148**	**37**	**289**	**474**
Charge to income statement	**36**	**55**	**160**	**251**	**36**	**55**	**150**	**241**
Recoveries of amounts previously written off	**1**	**17**	**7**	**25**	**1**	**17**	**5**	**23**
Bad debts written off	**(55)**	**(83)**	**(131)**	**(269)**	**(55)**	**(83)**	**(119)**	**(257)**
Discount unwind[1]	**(11)**	**-**	**(40)**	**(51)**	**(11)**	**-**	**(38)**	**(49)**
Balance at end of the year	**119**	**26**	**305**	**450**	**119**	**26**	**287**	**432**
Total provision for credit impairment	**223**	**151**	**680**	**1,054**	**223**	**139**	**654**	**1,016**
30/09/2011								
Collective provision								
Balance at beginning of the year	111	149	533	793	111	135	518	764
Charge / (credit) to income statement	9	(2)	(138)	(131)	9	1	(136)	(126)
Balance at end of the year	120	147	395	662	120	136	382	638
Individual provision (individually impaired assets)								
Balance at beginning of the year	207	51	347	605	207	51	317	575
Charge to income statement	24	79	206	309	24	77	199	300
Recoveries of amounts previously written off	2	17	3	22	2	17	1	20
Bad debts written off	(69)	(106)	(191)	(366)	(69)	(106)	(177)	(352)
Discount unwind[1]	(16)	(4)	(56)	(76)	(16)	(2)	(51)	(69)
Balance at end of the year	148	37	309	494	148	37	289	474
Total provision for credit impairment	268	184	704	1,156	268	173	671	1,112

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

Provision movement analysis $ millions	Banking Group Retail mortgages	Banking Group Other retail exposures	Banking Group Non-retail exposures	Banking Group Total	Bank Retail mortgages	Bank Other retail exposures	Bank Non-retail exposures	Bank Total
30/09/2012								
New and increased provisions	**110**	**87**	**267**	**464**	**110**	**87**	**254**	**451**
Provision releases	**(73)**	**(15)**	**(100)**	**(188)**	**(73)**	**(15)**	**(99)**	**(187)**
Recoveries of amounts previously written off	**(1)**	**(17)**	**(7)**	**(25)**	**(1)**	**(17)**	**(5)**	**(23)**
Individual provision charge	**36**	**55**	**160**	**251**	**36**	**55**	**150**	**241**
Collective provision credit	**(16)**	**(22)**	**(20)**	**(58)**	**(16)**	**(23)**	**(15)**	**(54)**
Total charge to income statement	**20**	**33**	**140**	**193**	**20**	**32**	**135**	**187**
30/09/2011								
New and increased provisions	146	115	319	580	146	113	306	565
Provision releases	(120)	(19)	(110)	(249)	(120)	(19)	(106)	(245)
Recoveries of amounts previously written off	(2)	(17)	(3)	(22)	(2)	(17)	(1)	(20)
Individual provision charge	24	79	206	309	24	77	199	300
Collective provision charge / (credit)	9	(2)	(138)	(131)	9	1	(136)	(126)
Total charge to income statement	33	77	68	178	33	78	63	174

Notes to the Financial Statements

16. Investments in Subsidiaries and Associates

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Investments in subsidiaries	**-**	-	**6,524**	6,524
Investments in associates	**99**	99	**85**	85
Investment in joint venture	**-**	1	**-**	-
Total investments in subsidiaries and associates	**99**	100	**6,609**	6,609

Subsidiaries	**Ownership Interest %**	**Balance Date**	**Nature of business**
Alos Holdings Limited	100	30 September	Investment company
ANZ Capital NZ Limited	100	30 September	Investment company
ANZ Investment Services (New Zealand) Limited	100	30 September	Funds management company
ANZ National Staff Superannuation Limited	100	30 September	Staff superannuation scheme trustee
ANZ New Zealand (Int'l) Limited[1]	100	30 September	Investment company
ANZ New Zealand Securities Limited[2]	100	30 September	On-line share broker
ANZNZ Covered Bond Trust	-	30 September	Securitisation entity
Arawata Assets Limited	100	30 September	Property company
Arawata Finance Limited	100	30 September	Investment company
Arawata Holdings Limited	100	30 September	Investment company
Arawata Trust	-	30 September	Investment entity
Arawata Trust Company	100	30 September	Investment company
AUT Investments Limited	100	30 September	Investment company
Control Nominees Limited	100	30 September	Investment company
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
Harcourt Corporation Limited	100	30 September	Investment company
Karapiro Investments Limited	100	30 September	Investment company
Kingfisher NZ Trust 2008-1	-	30 September	Securitisation entity
Medical Properties Holding Company No.1 Limited	100	30 September	Holding company
National Bank of New Zealand Custodians Limited	100	30 September	Nominee company
NBNZ Holdings Hong Kong Limited (registered in Hong Kong)	100	31 December	Non operative
NBNZ Holdings Limited	100	30 September	Investment company
OneAnswer Nominees Limited	100	30 September	Nominee company
OnePath (NZ) Limited	100	30 September	Funds management company
OnePath Holdings (NZ) Limited	100	30 September	Holding company
OnePath Insurance Holdings (NZ) Limited	100	30 September	Holding company
OnePath Insurance Services (NZ) Limited	100	30 September	Insurance company
OnePath Life (NZ) Limited	100	30 September	Insurance company
OnePath Nominees (NZ) Limited	100	30 September	Nominee company
Origin Mortgage Management Services (2011) Limited	-	31 March	Mortgage finance (non-operative)
Private Nominees Limited	100	30 September	Nominee company
Rural Growth Fund Limited	100	30 September	Investment company
Silver Fern Life Brokers Limited	100	30 September	Non operative
South Pacific Merchant Finance Limited	100	30 September	Investment company
UDC Finance Limited	100	30 September	Finance company

[1] Previously known as ANZ National (Int'l) Limited
[2] Previously known as Direct Broking Limited

All subsidiaries are incorporated in New Zealand, unless stated.

For all companies, with the exception of Origin Mortgage Management Services (2011) Limited, the ownership interest percentage equates to the voting power held. In relation to this company, control exists through the Banking Group having 100% of the voting rights.

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

Notes to the Financial Statements

Associates

	30/09/2012 Book Value $m	30/09/2011 Book Value $m	Ownership Interest %	Balance Date	Nature of business
Cards NZ Limited	**85**	85	19	30 September	Card services
Paymark Limited	**2**	2	25	31 March	EFTPOS settlements
UCG Investments Limited	**10**	10	40	31 March	Rest home operator
Wyma Engineering (NZ) Limited	**2**	2	30	31 March	Agricultural machinery
Total investment in associates	**99**	99			

All associates are incorporated in New Zealand.

Movements in subsidiaries, associates and joint venture

In November 2011 the Banking Group sold its interest in Argenta Limited, which was a joint venture.

In December 2011 the Diversified Yield Fund and Regular Income Fund were wound up.

In January 2012 the Banking Group sold its interests in Vital Healthcare Management Limited, Australian Properties Limited and their subsidiaries Eastern Specialists Consulting Limited and Vital Healthcare Australian Properties Proprietary Limited.

In February 2012 BHI Limited amalgamated with its immediate parent company NBNZ Holdings Limited.

In August 2012 Southpac Corporation Limited and Radiola Corporation Limited amalgamated with their immediate parent company South Pacific Merchant Finance Limited.

In September 2012 the Banking Group ceased to hold the voting rights for Origin Mortgage Management Services Limited and Origin Mortgages Management Services (2008) Limited.

17. Other Assets

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Accrued interest and prepaid discounts	**356**	343	**433**	412
Accrued commission	**25**	22	**15**	13
Share-based payments asset	**60**	66	**60**	66
Prepaid expenses	**23**	29	**16**	21
Security settlements	**29**	250	**29**	250
Other assets	**99**	153	**58**	121
Total other assets	**592**	863	**611**	883

18. Deferred Tax Assets and Liabilities

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Deferred tax assets / (liabilities) comprise the following temporary differences:				
Provision for credit impairment	**295**	324	**284**	311
Premises and equipment, software and intangibles	**(2)**	(17)	**5**	(5)
Provisions and accruals	**108**	126	**91**	122
Deferred acquisition costs and insurance policy assets	**(112)**	(90)	**-**	-
Financial instruments	**(55)**	(55)	**(55)**	(55)
Carried forward losses	**16**	16	**-**	-
Lease finance	**(165)**	(148)	**(158)**	(142)
Other deferred tax assets and liabilities (including tax provisions)	**8**	(17)	**18**	(1)
Net deferred tax assets[1]	**93**	139	**185**	230

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

Notes to the Financial Statements

19. Goodwill and Other Intangible Assets

$ millions	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Goodwill	**3,265**	3,265	**3,217**	3,217
Software	**103**	85	**100**	81
Other intangibles	**137**	160	**-**	-
	3,505	3,510	**3,317**	3,298

Refer to note 2 for discussion of impairment testing for goodwill.

20. Due to Other Financial Institutions

$ millions	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Other due to other financial institutions	**1,256**	1,022	**1,052**	1,022
Securities sold under agreements to repurchase from other financial institutions	**46**	1,164	**46**	1,164
Securities sold under agreements to repurchase from central banks	**200**	50	**200**	50
Cash collateral received on derivative financial instruments	**257**	1,475	**257**	1,475
Total due to other financial institutions	**1,759**	3,711	**1,555**	3,711

21. Deposits and Other Borrowings

$ millions	Note	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Amortised cost					
Certificates of deposit		**2,156**	2,454	**2,156**	2,461
Term deposits		**33,922**	33,799	**33,922**	33,799
Demand deposits bearing interest		**25,815**	22,230	**25,815**	22,270
Deposits not bearing interest		**4,838**	4,477	**4,838**	4,477
Secured debenture stock	**31**	**1,476**	1,488	**-**	-
Total deposits and other borrowings recognised at amortised cost		**68,207**	64,448	**66,731**	63,007
Fair value through profit or loss					
Commercial paper		**5,445**	4,790	**-**	-
Total deposits and other borrowings		**73,652**	69,238	**66,731**	63,007
Amortised cost of balances included within deposits and other borrowings recognised at fair value:					
Commercial paper		**5,444**	4,790	**-**	-

Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

Notes to the Financial Statements

22. Payables and Other Liabilities

$ millions	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Creditors	**73**	78	**42**	54
Accrued interest and unearned discounts	**542**	585	**429**	463
Defined benefit schemes deficit	**103**	84	**103**	84
Share-based payments liability	**36**	39	**36**	39
Accrued charges	**257**	253	**229**	225
Security settlements and short sales	**290**	1,242	**276**	1,237
Other liabilities	**384**	373	**354**	359
Total payables and other liabilities	**1,685**	2,654	**1,469**	2,461

23. Provisions

$ millions	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Employee entitlements[1]	**135**	135	**130**	129
Restructuring costs and surplus leased space[2]	**111**	71	**109**	67
Non-lending losses, frauds and forgeries	**1**	1	**1**	1
Other[3]	**92**	102	**52**	74
Total provisions	**339**	309	**292**	271

1 The aggregate liability for employee entitlements largely comprises provisions for annual leave and long service leave.

2 Restructuring costs and surplus leased space provisions arise from activities related to material changes in the scope of business undertaken by the Banking Group or the manner in which that business is undertaken and includes termination benefits. Costs relating to on-going activities are not provided for. Provision is made when the Banking Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated. The balance includes provisions related to the New Zealand Simplification programme, including implementation of a core banking system, a single bank brand and an optimised branch network.

3 Other provisions include provisions relating to make-good of leased premises, seismic obligations and the deferred settlement of obligations arising from managed funds relating to OnePath Holdings (NZ) Limited.

24. Bonds and notes

$ millions	Note	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Domestic bonds		**2,535**	2,025	**2,535**	2,025
U.S. medium term notes[1]		**7,423**	9,088	**-**	-
Euro medium term notes[1]		**4,179**	5,999	**-**	-
Covered bonds[1]	**37**	**2,962**	-	**-**	-
Index linked notes		**81**	78	**81**	78
Fair value hedge adjustment		**180**	246	**-**	-
Less bonds and notes held by the Bank		**(116)**	(30)	**(116)**	(30)
Total bonds and notes		**17,244**	17,406	**2,500**	2,073

Bonds and notes, other than covered bonds, are unsecured and rank equally with other unsecured liabilities of the Banking Group. Refer to note 37 for guarantee arrangements and other details about the covered bonds.

1 These bonds and notes are issued by ANZ New Zealand (Int'l) Limited and are guaranteed by the Bank.

Notes to the Financial Statements

25. Loan Capital

$ millions	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
AUD 265,740,000 perpetual subordinated floating rate loan	**333**	338	**333**	338
AUD 169,520,000 term subordinated floating rate loan [1]	**-**	216	**-**	216
NZD 350,000,000 term subordinated fixed rate bond [2]	**-**	350	**-**	350
NZD 250,000,000 term subordinated fixed rate bond [3]	**-**	250	**-**	250
NZD 835,000,000 perpetual subordinated bond	**835**	835	**835**	835
Total loan capital issued	**1,168**	1,989	**1,168**	1,989
Less loan capital instruments held by the Banking Group	**-**	(1)	**-**	(1)
Total loan capital	**1,168**	1,988	**1,168**	1,988

[1] The Bank elected to repay this loan on 17 September 2012. Interest was based on BBSW +0.68%.
[2] The Bank elected to redeem this bond on 2 March 2012. The coupon rate was 7.60%.
[3] The Bank elected to redeem this bond on 23 July 2012. The coupon rate was 8.23%.

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.

The perpetual subordinated debt qualifies as Upper Level Tier Two Capital for capital adequacy purposes.

AUD 265,740,000 loan
This loan 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.

NZD 835,000,000 bond
The Bank may elect to redeem the bond on 18 April 2013, 18 April 2018 or any interest payment date subsequent to 18 April 2018. Interest is payable half yearly in arrears on 18 April and 18 October each year, up to and including the Second Call Date and then quarterly thereafter. If the bond is not called at the First Call Date, the coupon rate will reset to the five year interest swap rate plus 2.00%. Should the bond not be called at the Second Call Date, the Coupon Rate from the Second Call Date onwards will be set on a quarterly basis to the three month FRA rate plus 3.00%.

As at 30 September 2012, this bond carried a BBB rating by Standard and Poor's and an A3 rating by Moody’s. On 5 October 2012, Standard and Poor’s upgraded this bond to BBB+.

The current coupon interest on the bond is 9.66%. The Bank has a general right and in certain specified circumstances an obligation, to defer payment of interest on the bond.

This bond is listed on the New Zealand Exchange (“NZX”). The Market Surveillance Panel of the NZX granted the Bank a waiver from the requirements of Listing Rules 10.4 (relating to the provision of preliminary announcements of half yearly and annual results to the NZX) and 10.5 (relating to preparing and providing a copy of half yearly and annual reports to the NZX).

Notes to the Financial Statements

26. Related Party Transactions

Key management personnel

	Banking Group		Bank	
$ thousands	**Year to 30/09/2012**	Year to 30/09/2011	**Year to 30/09/2012**	Year to 30/09/2011
Key management personnel compensation				
Salaries and short-term employee benefits	**11,605**	13,557	**11,605**	13,557
Post-employment benefits	**201**	344	**201**	344
Other long-term benefits	**87**	153	**87**	153
Termination benefits	**-**	2,656	**-**	2,656
Share-based payments expense	**4,537**	2,929	**4,537**	2,929
Total compensation of key management personnel	**16,430**	19,639	**16,430**	19,639
Loans to key management personnel	**2,726**	3,300	**2,726**	3,300
Deposits from key management personnel	**7,055**	6,387	**7,055**	6,387

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

Loans made to and deposits held by key management personnel are made in the course of ordinary business on normal commercial terms and conditions no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed, variable and interest only, all of which have been made in accordance with the Bank's lending policies.

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

Transactions with other related parties

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

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

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

Transactions with related parties	Banking Group		Bank	
$ millions	**Year to 30/09/2012**	Year to 30/09/2011	**Year to 30/09/2012**	Year to 30/09/2011
Interest income				
Received from the Immediate Parent Company	**-**	19	**-**	19
Received from subsidiaries	**-**	-	**477**	402
Received from associates	**-**	6	**-**	6
Interest expense				
Paid to the Ultimate Parent Bank and subsidiaries not part of the Banking Group	**58**	65	**28**	35
Paid to the Immediate Parent Company	**7**	1	**7**	1
Paid to subsidiaries	**-**	-	**1,590**	1,505
Paid to associates	**2**	2	**2**	2
Other operating income				
Fees received from the NZ Branch	**26**	29	**26**	29
Dividends received from subsidiaries	**-**	-	**201**	181
Fees & commission received from subsidiaries	**-**	-	**70**	66
Dividends received from associates	**4**	4	**4**	4
Operating expenses				
Paid to the Ultimate Parent Bank and subsidiaries not part of the Banking Group	**118**	93	**118**	93
Operating expenses paid to subsidiaries	**-**	-	**146**	117

Notes to the Financial Statements

Balances with related parties

$ millions	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Due from other financial institutions				
Due from NZ Branch	**-**	51	**-**	51
Due from Ultimate Parent Bank and subsidiaries not part of the Banking Group	**264**	134	**264**	134
Derivative financial assets				
Due from Ultimate Parent Bank and subsidiaries not part of the Banking Group	**2,615**	2,596	**2,615**	2,596
Due from Immediate Parent Company	**88**	25	**88**	25
Due from subsidiaries	**-**	-	**35**	43
Net loans and advances				
Due from associates	**4**	4	**4**	4
Due from joint ventures	**-**	33	**-**	33
Due from subsidiaries	**-**	-	**11,619**	11,753
Shares in subsidiaries and associates	**99**	100	**6,609**	6,609
Other assets				
Due from Ultimate Parent Bank and subsidiaries not part of the Banking Group	**61**	66	**61**	66
Total due from related parties	**3,131**	3,009	**21,295**	21,314
Due to other financial institutions				
Due to NZ Branch	**20**	-	**20**	-
Due to Ultimate Parent Bank	**205**	775	**1**	775
Deposits and other borrowings				
Due to associates	**85**	85	**85**	85
Due to subsidiaries	**-**	-	**37,940**	37,716
Due to Immediate Parent Company	**740**	174	**740**	174
Derivative financial liabilities				
Due to Ultimate Parent Bank and subsidiaries not part of the Banking Group	**3,050**	4,206	**3,050**	4,206
Payables and other liabilities				
Due to NZ Branch	**284**	338	**284**	338
Due to Ultimate Parent Bank and subsidiaries not part of the Banking Group	**15**	10	**14**	-
Due to Immediate Parent Company	**1**	-	**1**	-
Bonds and notes				
Due to Ultimate Parent Bank and subsidiaries not part of the Banking Group	**1,257**	2,290	**-**	-
Loan capital				
Due to Ultimate Parent Bank and subsidiaries not part of the Banking Group	**333**	554	**333**	554
Total due to related parties	**5,990**	8,432	**42,468**	43,848

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

$ millions	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Bonds and notes issued by ANZ New Zealand (Int'l) Limited to subsidiaries of the Ultimate Parent Bank not part of ANZ New Zealand and guaranteed by the Bank	**-**	-	**1,257**	2,290
Financial guarantees provided to the Ultimate Parent Bank	**256**	1,296	**256**	1,296
Undrawn credit commitments provided to the Immediate Parent Company	**250**	250	**250**	250
Undrawn credit commitments provided to subsidiaries	**-**	-	**643**	2,863

Notes to the Financial Statements

27. Current and Non-current Assets and Liabilities

$ millions	Banking Group				Bank			
	30/09/2012		30/09/2011		**30/09/2012**		30/09/2011	
	Current	**Non-current**	Current	Non-current	**Current**	**Non-current**	Current	Non-current
Assets								
Liquid assets	**2,831**	**-**	2,455	-	**2,815**	**-**	2,443	-
Due from other financial institutions	**1,722**	**-**	4,629	-	**1,666**	**-**	4,629	-
Trading securities	**12,338**	**-**	9,466	-	**12,338**	**-**	9,466	-
Derivative financial instruments	**12,753**	**-**	15,635	-	**12,788**	**-**	15,678	-
Current tax assets	**15**	**-**	-	-	**79**	**-**	-	-
Available-for-sale assets	**16**	**41**	393	18	**13**	**41**	357	18
Net loans and advances	**27,980**	**58,698**	27,834	55,776	**26,932**	**57,387**	27,489	53,817
Due from subsidiaries	**-**	**-**	-	-	**3,507**	**8,168**	2,382	9,371
Investments backing insurance policy liabilities	**140**	**2**	71	26	**-**	**-**	-	-
Insurance policy assets	**-**	**301**	-	200	**-**	**-**	-	-
Investments in subsidiaries and associates	**-**	**99**	-	100	**-**	**6,609**	-	6,609
Other assets	**532**	**60**	806	57	**551**	**60**	826	57
Deferred tax assets	**-**	**93**	-	139	**-**	**185**	-	230
Premises and equipment	**-**	**323**	-	325	**-**	**74**	-	89
Goodwill and other intangible assets	**-**	**3,505**	-	3,510	**-**	**3,317**	-	3,298
Total assets	**58,327**	**63,122**	61,289	60,151	**60,689**	**75,841**	63,270	73,489
Liabilities								
Due to other financial institutions	**1,605**	**154**	3,649	62	**1,401**	**154**	3,649	62
Deposits and other borrowings	**70,793**	**2,859**	66,659	2,579	**64,124**	**2,607**	60,453	2,554
Due to subsidiaries	**-**	**-**	-	-	**14,943**	**22,997**	17,594	20,122
Due to the Immediate Parent Company	**740**	**-**	174	-	**740**	**-**	174	-
Derivative financial instruments	**13,930**	**-**	15,118	-	**13,930**	**-**	15,118	-
Payables and other liabilities	**1,546**	**139**	2,540	114	**1,330**	**139**	2,347	114
Current tax liability	**-**	**-**	17	-	**-**	**-**	36	-
Provisions	**240**	**99**	211	98	**196**	**96**	176	95
Bonds and notes	**4,043**	**13,201**	4,798	12,608	**100**	**2,400**	288	1,785
Loan capital	**-**	**1,168**	-	1,988	**-**	**1,168**	-	1,988
Total liabilities	**92,897**	**17,620**	93,166	17,449	**96,764**	**29,561**	99,835	26,720

Assets and liabilities are classified as current if:

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

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

For the purposes of this disclosure, the fair value of both trading and hedging derivatives has been classified as current. For more information on the contractual timing of expected outflows and inflows in relation to hedging derivatives refer to Note 30.

Notes to the Financial Statements

28. Ordinary Share Capital

The issued capital of the Bank comprises 1,700,755,498 (30/09/2011 1,700,755,498) ordinary shares, of which 650,712 shares are uncalled (30/09/2011 650,712 shares uncalled).

During the year ended 30 September 2012 the Bank paid an ordinary dividend of $1,150 million to the Immediate Parent Company (equivalent to $0.68 per share). (30/09/2011 the Bank paid an ordinary dividend of $700 million to the Immediate Parent Company (equivalent to $0.41 per share)). There were no changes to issued capital during the year ended 30 September 2012 (30/09/2011 $nil).

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

29. Capital Adequacy

Capital management policies

The Banking Group's core capital objectives are to:

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

The Board holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes: setting, monitoring and obtaining assurance for the Banking Group's Internal Capital Adequacy Assessment Process ("ICAAP") policy and framework; standardised risk definitions for all material risks; materiality thresholds; capital adequacy targets; internal economic risk capital principles; and risk appetite.

The Banking Group has minimum and trigger levels for both tier one and total capital that ensure sufficient capital is maintained to:

- Meet minimum prudential requirements imposed by regulators;
- Ensure consistency with the Banking Group's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- Support the economic risk capital requirements of the business.

The Banking Group's Asset & Liability Committee and its related Capital Management Forum are responsible for developing, implementing and maintaining the Banking Group's ICAAP framework, including ongoing monitoring, reporting and compliance. The Banking Group's ICAAP is subject to independent and periodic review conducted by Internal Audit.

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

Notes to the Financial Statements

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

Banking Group	**30/09/2012**	30/09/2011
Tier One Capital	**10.80%**	10.02%
RBNZ minimum Tier One Capital ratio	**4.00%**	4.00%
Total Capital	**12.48%**	12.74%
RBNZ minimum Total Capital ratio	**8.00%**	8.00%

Capital of the Banking Group as at 30 September 2012 (Unaudited)

	$m
Tier One Capital	
Ordinary share capital	**6,943**
Audited retained earnings and reserves	**3,848**
Less deductions from Tier One Capital	
Goodwill	**3,265**
Software and other intangible assets	**240**
50% of expected loss to the extent higher than total eligible allowances for impairment	**39**
Total Tier One Capital	**7,247**
Tier Two Capital - Upper Level	
Perpetual subordinated debt	**1,168**
Less deductions from Tier Two Capital	
50% of expected loss to the extent higher than total eligible allowances for impairment	**39**
Total Tier Two Capital	**1,129**
Total Capital	**8,376**

Total required capital of the Banking Group as at 30 September 2012 (Unaudited)

$ millions	**Exposure at default**	**Risk weighted exposure[1]**	**Total capital requirement**
Exposures subject to internal ratings based approach	**124,414**	**47,594**	**3,808**
Specialised lending exposures subject to slotting approach	**8,034**	**7,820**	**626**
Exposures subject to standardised approach	**276**	**258**	**21**
Equity exposures	**102**	**431**	**35**
Other exposures	**3,038**	**913**	**73**
Total credit risk	**135,864**	**57,016**	**4,563**
Operational risk	**n/a**	**5,401**	**432**
Market risk	**n/a**	**4,713**	**377**
Total capital requirement	**135,864**	**67,130**	**5,372**

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

Capital adequacy ratios under the Basel I approach (Unaudited)

	Bank	
	30/09/2012	30/09/2011
Tier One Capital	**9.46%**	9.64%
Total Capital	**10.29%**	11.60%
Total risk-weighted exposures ($ millions)	**74,131**	72,923
RBNZ minimum ratios:		
Tier One Capital	**4.00%**	4.00%
Total Capital	**8.00%**	8.00%

Basel I ratios have been derived in accordance with the RBNZ document entitled ‘Capital Adequacy Framework (Basel I Approach)’ (“BS2”), dated October 2010.

Notes to the Financial Statements

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

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

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

Probability of Default ("PD"): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring;

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

Loss Given Default ("LGD"): An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value ("LVR") bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

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

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

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

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

Standardised approach

Exposure class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB

Notes to the Financial Statements

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

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

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

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

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

Capital requirements by asset class under the IRB approach

Banking Group	**Total exposure or principal amount**	**Exposure at default**	**Exposure-weighted LGD used for the capital calculation**	**Exposure-weighted risk weight**	**Risk weighted exposure**	**Total capital requirement**
As at 30/09/2012 (Unaudited)	**$m**	**$m**	**%**	**%**	**$m**	**$m**
On-balance sheet exposures						
Corporate	**32,167**	**32,157**	**36**	**59**	**20,207**	**1,617**
Sovereign	**10,227**	**10,067**	**5**	**1**	**90**	**8**
Bank	**3,574**	**3,336**	**56**	**18**	**634**	**50**
Retail mortgages	**44,118**	**44,278**	**21**	**26**	**12,197**	**976**
Other retail	**4,278**	**4,363**	**60**	**73**	**3,396**	**271**
Total on-balance sheet exposures	**94,364**	**94,201**	**27**	**37**	**36,524**	**2,922**
Off-balance sheet exposures						
Corporate	**12,747**	**9,951**	**52**	**50**	**5,272**	**422**
Sovereign	**75**	**75**	**5**	**1**	**1**	**-**
Bank	**1,219**	**1,114**	**47**	**14**	**164**	**13**
Retail mortgages	**7,081**	**5,881**	**18**	**16**	**969**	**77**
Other retail	**4,967**	**4,649**	**72**	**49**	**2,431**	**195**
Total off-balance sheet exposures	**26,089**	**21,670**	**47**	**38**	**8,837**	**707**
Market related contracts						
Corporate	**71,611**	**2,287**	**60**	**46**	**1,117**	**89**
Sovereign	**8,631**	**381**	**5**	**1**	**4**	**-**
Bank	**738,529**	**5,875**	**64**	**18**	**1,112**	**90**
Total market related contracts	**818,771**	**8,543**	**60**	**25**	**2,233**	**179**
Total credit risk exposures subject to the IRB approach	**939,224**	**124,414**	**33**	**36**	**47,594**	**3,808**

Notes to the Financial Statements

IRB exposures by customer credit rating

Banking Group As at 30/09/2012 (Unaudited)	Probability of default %	Exposure at default $m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure $m	Total capital requirement $m
Corporate						
0 - 2	**0.05**	**4,975**	**61**	**24**	**1,243**	**99**
3 - 4	**0.32**	**22,580**	**38**	**41**	**9,827**	**786**
5	**1.01**	**8,891**	**37**	**65**	**6,160**	**493**
6	**2.26**	**4,840**	**39**	**87**	**4,485**	**359**
7 - 8	**8.41**	**1,959**	**39**	**140**	**2,904**	**232**
Default	**100.00**	**1,150**	**41**	**162**	**1,977**	**159**
Total corporate exposures	**3.58**	**44,395**	**41**	**57**	**26,596**	**2,128**
Sovereign						
0	**0.01**	**10,476**	**5**	**1**	**95**	**8**
1 - 8	**0.05**	**47**	**5**	**1**	**-**	**-**
Total sovereign exposures	**0.01**	**10,523**	**5**	**1**	**95**	**8**
Bank						
0	**0.03**	**4,190**	**65**	**15**	**688**	**55**
1	**0.03**	**5,633**	**56**	**18**	**1,064**	**85**
2 - 4	**0.13**	**493**	**52**	**28**	**144**	**12**
5 - 8	**2.50**	**9**	**65**	**140**	**14**	**1**
Total bank exposures	**0.04**	**10,325**	**59**	**17**	**1,910**	**153**
Retail mortgages						
0 - 3	**0.20**	**10,136**	**11**	**5**	**500**	**40**
4	**0.46**	**16,108**	**18**	**13**	**2,305**	**184**
5	**0.93**	**17,058**	**26**	**30**	**5,489**	**439**
6	**2.12**	**5,643**	**30**	**60**	**3,617**	**289**
7 - 8	**5.35**	**691**	**31**	**105**	**766**	**61**
Default	**100.00**	**523**	**33**	**88**	**489**	**40**
Total residential mortgages exposures	**1.86**	**50,159**	**21**	**25**	**13,166**	**1,053**
Other retail						
0 - 2	**0.10**	**647**	**77**	**49**	**333**	**27**
3 - 4	**0.29**	**4,118**	**70**	**49**	**2,159**	**173**
5	**1.10**	**1,720**	**62**	**65**	**1,182**	**95**
6	**2.50**	**1,502**	**58**	**71**	**1,133**	**91**
7 - 8	**10.07**	**926**	**62**	**94**	**920**	**74**
Default	**100.00**	**99**	**61**	**95**	**100**	**6**
Total other retail exposures	**2.90**	**9,012**	**66**	**61**	**5,827**	**466**
Total credit risk exposures subject to the IRB approach	**2.24**	**124,414**	**33**	**36**	**47,594**	**3,808**

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

Notes to the Financial Statements

Specialised lending subject to the slotting approach

Banking Group As at 30/09/2012 (Unaudited)	Exposure at default $m	Risk weight %	Risk weighted exposure $m	Total capital requirement $m
On-balance sheet exposures				
Strong	1,989	70	1,476	118
Good	3,671	90	3,502	280
Satisfactory	1,189	115	1,449	116
Weak	252	250	671	54
Default	188	-	-	-
Total on-balance sheet exposures	7,289	92	7,098	568

	Exposure amount $m	Exposure at default $m	Average risk weight %	Risk weighted exposure $m	Total capital requirement $m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	653	646	91	621	50
Market related contracts	1,767	99	97	101	8
Total off-balance sheet exposures	2,420	745	97	722	58

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

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

Credit risk exposures subject to the standardised approach

Banking Group As at 30/09/2012 (Unaudited)	Exposure at default $m	Risk weight %	Risk weighted exposure $m	Total capital requirement $m
On-balance sheet exposures				
Corporates	55	100	58	5
Default	1	150	1	-
Total on-balance sheet exposures	56	100	59	5

	Exposure amount $m	Average credit conversion factor %	Exposure at default $m	Average risk weight %	Risk weighted exposure $m	Total capital requirement $m
Off-balance sheet exposures						
Undrawn commitments and other off balance sheet exposures	502	44	220	85	199	16

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

Equity exposures

Banking Group As at 30/09/2012 (Unaudited)	Exposure at default $m	Risk weight %	Risk weighted exposure $m	Total capital requirement $m
All equity holdings not deducted from capital	102	400	431	35

Equity exposures have been calculated in accordance with BS2B.

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Other exposures

Banking Group As at 30/09/2012 (Unaudited)	Exposure at default $m	Risk weight %	Risk weighted exposure $m	Total capital requirement $m
Cash	204	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	1,973	-	-	-
Other assets	861	100	913	73
Total other IRB credit risk exposures	3,038	28	913	73

Other exposures have been calculated in accordance with BS2B.

Credit risk mitigation

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

As at 30 September 2012, under the IRB approach, the Banking Group had $1,525 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 30 September 2012 the Banking Group had an implied risk weighted exposure of $5,401 million for operational risk and an operational risk capital requirement of $432 million.

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

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

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

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

Market risk

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

The peak end-of-day market risk exposures are for the half-year ended 30 September 2012.

Banking Group 30/09/2012 (Unaudited)	Implied risk weighted exposure Period end $m	 Peak $m	Aggregate capital charge Period end $m	 Peak $m	Peak occurred on
Interest rate risk	4,704	5,323	377	426	4/09/2012
Foreign currency risk	6	93	-	7	21/08/2012
Equity risk	3	130	-	10	15/08/2012
	4,713		377		

Notes to the Financial Statements

Pillar II capital for other material risks

The Banking Group has an ICAAP which complies with the requirements of the Bank's Conditions of Registration.

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

The Banking Group's internal capital allocation for these other material risks is $502 million (30/09/2011: $457 million).

The Banking Group regularly reviews the methodologies used to calculate the economic capital allocated to other material risks. Updated capital methodologies (particularly relating to insurance and funds management risks) were applied in February 2012 and the prior period restated accordingly.

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

	Overseas Banking Group		Ultimate Parent Bank	
	30/09/2012	30/09/2011	30/09/2012	30/09/2011
Tier One Capital	**10.8%**	10.9%	**11.4%**	11.5%
Total Capital	**12.2%**	12.1%	**12.7%**	12.3%

For calculation of minimum capital requirements under Pillar I of the Basel II Accord, APRA has accredited the Overseas Banking Group to use the Advanced Internal Ratings Based methodology for calculation of credit risk weighted assets and the Advanced Measurement Approach for the operational risk weighted asset equivalent.

Under prudential regulations, the Ultimate Parent Bank is required to hold a minimum Prudential Capital Ratio as determined by APRA. The Overseas Banking Group exceeded the minimum capital adequacy requirements set by APRA as at 30 September 2012 and for the comparative prior period.

The Overseas Banking Group is required to publicly disclose Pillar III financial information as at 30 September 2012. The Overseas Banking Group's Basel II Pillar 3 Disclosure document for the year ended to 30 September 2012, prepared in accordance with APS 330, discloses capital adequacy ratios calculated under the Basel II methodology. These documents can be accessed at the website anz.com.

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

As required by the RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off-balance sheet exposures include undrawn and partially undrawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which may or may not be accepted by the customer.

Unaudited 30/09/2012 $ millions	On-balance sheet	Off-balance sheet	Total
LVR range			
0% - 59%	**16,736**	**3,315**	**20,051**
60% - 69%	**7,328**	**977**	**8,305**
70% - 79%	**10,557**	**1,275**	**11,832**
Less than 80%	**34,621**	**5,567**	**40,188**
80% - 89%	**6,034**	**1,094**	**7,128**
Over 90%	**3,463**	**420**	**3,883**
Total	**44,118**	**7,081**	**51,199**

Reconciliation of mortgage related amounts

$ millions	Note	Banking Group Unaudited 30/09/2012
Term loans - housing	**13**	**46,123**
Plus: short-term housing loans classified as overdrafts		**514**
Less: housing loans made to corporate customers		**(2,585)**
Gross retail mortgage loans	**30**	**44,052**
Plus: Unsettled re-purchases of mortgages from the NZ Branch		**66**
On-balance sheet retail mortgage exposures subject to the IRB approach	**29**	**44,118**
Plus: off-balance sheet retail mortgage exposures subject to the IRB approach		**7,081**
Total retail mortgage exposures subject to the IRB approach (as per LVR analysis)	**29**	**51,199**

Notes to the Financial Statements

30. Financial Risk Management

Strategy in using financial instruments

Financial instruments are fundamental to the Banking Group’s business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Banking Group. Financial instruments create, modify or reduce the credit, market and liquidity risks of the Banking Group’s balance sheet. The Banking Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Banking Group.

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

Credit risk

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

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

Credit risk management

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

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

The credit risk management framework is top down. The framework is defined by the Banking Group's credit principles and policies. The effectiveness of the credit risk management framework is validated through the compliance and monitoring processes.

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

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

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

Country risk management

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

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

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

Portfolio stress testing

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

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

Portfolio analysis and reporting

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

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

Collateral management

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

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

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

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

Concentrations of credit risk

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

The Banking Group monitors its portfolios to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks. Risk Management, Business Unit executives and senior management monitor large exposure concentrations through a monthly list of the Banking Group's top corporate exposures. The ANZ Credit and Market Risk Committee and Board Risk Committee regularly 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.

Notes to the Financial Statements

Concentrations of credit risk analysis

	Banking Group						
$ millions							
30/09/2012	**Liquid assets and due from other financial institutions**	**Trading securities and available-for-sale assets**	**Derivative financial instruments**	**Net loans and advances**	**Other financial assets**	**Credit related commitments [3]**	**Total**
Industry							
Agriculture	-	-	60	17,342	123	1,546	19,071
Forestry, fishing and mining	24	-	14	894	6	322	1,260
Business and property services	19	-	51	9,030	64	2,542	11,706
Construction	-	-	2	1,015	7	1,035	2,059
Entertainment, leisure and tourism	-	-	41	1,165	8	483	1,697
Finance and insurance	2,345	3,696	11,322	501	32	1,349	19,245
Government and local authority [1]	2,002	8,574	405	1,332	9	1,111	13,433
Manufacturing	43	6	98	2,914	21	2,509	5,591
Personal lending	-	-	-	47,339	335	10,990	58,664
Retail trade	28	6	43	1,772	13	1,102	2,964
Transport and storage	25	50	93	1,657	12	579	2,416
Wholesale trade	54	-	21	1,195	8	1,375	2,653
Other [2]	13	63	603	1,798	13	2,302	4,792
	4,553	12,395	12,753	87,954	651	27,245	145,551
Provision for credit impairment	-	-	-	(1,054)	-	-	(1,054)
Fair value hedge adjustment	-	-	-	(2)	-	-	(2)
Unearned finance income and deferred / capitalised fees	-	-	-	(220)	-	-	(220)
Total financial assets	4,553	12,395	12,753	86,678	651	27,245	144,275
Geography							
New Zealand	3,873	10,524	3,582	85,070	639	27,245	130,933
Overseas	680	1,871	9,171	1,608	12	-	13,342
Total financial assets	4,553	12,395	12,753	86,678	651	27,245	144,275

Notes to the Financial Statements

Concentrations of credit risk analysis

$ millions	Banking Group						
30/09/2011	**Liquid assets and due from other financial institutions**	**Trading securities and available-for-sale assets**	**Derivative financial instruments**	**Net loans and advances**	**Other financial assets**	**Credit related commitments [3]**	**Total**
Industry							
Agriculture	38	-	95	17,681	125	1,477	19,416
Forestry, fishing and mining	9	-	12	498	4	326	849
Business & property services	24	-	19	8,847	62	2,054	11,006
Construction	-	-	4	1,073	7	863	1,947
Entertainment, leisure and tourism	-	-	43	1,238	8	419	1,708
Finance and insurance	4,904	3,501	14,159	1,041	258	1,755	25,618
Government and local authority[1]	1,887	6,253	537	1,505	10	1,070	11,262
Manufacturing	41	10	197	2,640	19	3,304	6,211
Personal lending	-	-	-	43,962	329	9,489	53,780
Retail trade	75	2	32	1,778	11	878	2,776
Transport and storage	19	57	42	1,630	11	639	2,398
Wholesale trade	51	-	106	1,218	8	1,306	2,689
Other[2]	36	54	389	1,905	13	2,278	4,675
	7,084	9,877	15,635	85,016	865	25,858	144,335
Provision for credit impairment	-	-	-	(1,156)	-	-	(1,156)
Fair value hedge adjustment	-	-	-	22	-	-	22
Unearned finance income and deferred / capitalised fees	-	-	-	(272)	-	-	(272)
Total financial assets	7,084	9,877	15,635	83,610	865	25,858	142,929
Geography							
New Zealand	5,657	8,017	4,080	82,202	865	25,858	126,679
Overseas	1,427	1,860	11,555	1,408	-	-	16,250
Total financial assets	7,084	9,877	15,635	83,610	865	25,858	142,929

Notes to the Financial Statements

$ millions	Bank							
30/09/2012	**Liquid assets and due from other financial institutions**	**Trading securities and available-for-sale assets**	**Derivative financial instruments**	**Net loans and advances**	**Due from subsidiaries**	**Other financial assets**	**Credit related commitments [3]**	**Total**
Industry								
Agriculture	-	-	60	17,043	-	101	1,511	18,715
Forestry, fishing and mining	24	-	14	754	-	4	320	1,116
Business and property services	19	-	51	8,894	-	53	2,524	11,541
Construction	-	-	2	766	-	5	993	1,766
Entertainment, leisure and tourism	-	-	41	1,128	-	7	478	1,654
Finance and insurance	2,329	3,693	11,357	494	11,619	32	1,991	31,515
Government and local authority[1]	2,002	8,574	405	1,103	-	7	1,111	13,202
Manufacturing	43	6	98	2,773	-	16	2,491	5,427
Personal lending	-	-	-	46,741	-	277	10,982	58,000
Retail trade	28	6	43	1,594	-	9	1,013	2,693
Transport and storage	25	50	93	1,303	-	8	521	2,000
Wholesale trade	54	-	21	1,135	-	7	1,356	2,573
Other[2]	13	63	603	1,565	-	9	2,294	4,547
	4,537	12,392	12,788	85,293	11,619	535	27,585	154,749
Provision for credit impairment	-	-	-	(1,016)	-	-	-	(1,016)
Fair value hedge adjustment	-	-	-	(2)	-	-	-	(2)
Unearned finance income and deferred / capitalised fees	-	-	-	44	-	-	-	44
Total financial assets	4,537	12,392	12,788	84,319	11,619	535	27,585	153,775
Geography								
New Zealand	3,857	10,521	3,617	82,711	11,619	525	27,585	140,435
Overseas	680	1,871	9,171	1,608	-	10	-	13,340
Total financial assets	4,537	12,392	12,788	84,319	11,619	535	27,585	153,775

Notes to the Financial Statements

$ millions 30/09/2011	Liquid assets and due from other financial institutions	Trading securities and available-for-sale assets	Derivative financial instruments	Net loans and advances	Due from subsidiaries	Other financial assets	Credit related commitments [3]	Total
	Bank							
Industry								
Agriculture	38	-	95	17,378	-	96	1,477	19,084
Forestry, fishing and mining	9	-	12	354	-	2	326	703
Business and property services	24	-	51	8,700	-	48	2,054	10,877
Construction	-	-	4	872	-	4	863	1,743
Entertainment, leisure and tourism	-	-	43	1,198	-	6	419	1,666
Finance and insurance	4,892	3,465	14,181	1,034	11,753	335	4,467	40,127
Government and local authority[1]	1,887	6,253	537	1,266	-	7	1,070	11,020
Manufacturing	41	10	197	2,473	-	14	3,304	6,039
Personal lending	-	-	-	43,417	-	254	9,489	53,160
Retail trade	75	2	42	1,614	-	8	838	2,579
Transport and storage	19	57	106	1,272	-	7	599	2,060
Wholesale trade	51	-	21	1,164	-	6	1,306	2,548
Other[2]	36	54	389	1,665	-	9	2,278	4,431
	7,072	9,841	15,678	82,407	11,753	796	28,490	156,037
Provision for credit impairment	-	-	-	(1,112)	-	-	-	(1,112)
Fair value hedge adjustment	-	-	-	22	-	-	-	22
Unearned finance income and deferred / capitalised fees	-	-	-	(11)	-	-	-	(11)
Total financial assets	7,072	9,841	15,678	81,306	11,753	796	28,490	154,936
Geography								
New Zealand	5,645	7,987	4,106	79,942	11,753	796	28,490	138,719
Overseas	1,427	1,854	11,572	1,364	-	-	-	16,217
Total financial assets	7,072	9,841	15,678	81,306	11,753	796	28,490	154,936

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

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk for on and off balance sheet financial instruments before taking account of the financial effect of any collateral held or other credit enhancements, unless such collateral meets the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation*.

The table also provides a quantification of the value of the financial charges the Banking Group holds over a borrower's specific asset (or assets) where the Banking Group is able to enforce the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where the collateral held is valued at more than the corresponding credit exposure, the financial effect is capped at the value of the credit exposure. In respect of derivative financial instruments, the assessed collateral is the amount of cash collateral received and does not include the effect of any netting arrangements under ISDAs.

The most common types of collateral include:

- Security over real estate including residential, commercial, industrial and rural property
- Cash deposits
- Other security over business assets including specific plant and equipment, inventory and accounts receivables.

The Banking Group also manages its credit risk by accepting other types of collateral such as guarantees and security interests over the assets of a customer's business. The assignable value of such credit mitigants is less certain and their financial effect has not been quantified for disclosure purposes. Credit exposures shown as not fully secured may benefit from such credit mitigants.

Notes to the Financial Statements

$ millions	Banking Group			Bank		
	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure
30/09/2012						
On and off-balance sheet positions						
Liquid assets	**2,627**	**325**	**2,302**	**2,611**	**325**	**2,286**
Due from other financial institutions	**1,722**	**270**	**1,452**	**1,722**	**270**	**1,452**
Trading securities	**12,338**	**-**	**12,338**	**12,338**	**-**	**12,338**
Derivative financial instruments	**12,753**	**257**	**12,496**	**12,788**	**257**	**12,531**
Available-for-sale assets	**54**	**-**	**54**	**54**	**-**	**54**
Net loans and advances	**86,678**	**78,460**	**8,218**	**84,319**	**76,468**	**7,851**
Due from subsidiaries	**-**	**-**	**-**	**11,619**	**-**	**11,619**
Other financial assets	**651**	**351**	**300**	**535**	**351**	**184**
Credit related commitments	**27,245**	**12,307**	**14,938**	**27,585**	**12,055**	**15,530**
Total exposure to credit risk	**144,068**	**91,970**	**52,098**	**153,571**	**89,726**	**63,845**
30/09/2011						
On and off-balance sheet positions						
Liquid assets	2,266	50	2,216	2,254	50	2,204
Due from other financial institutions	4,629	1,692	2,937	4,629	1,692	2,937
Trading securities	9,466	-	9,466	9,466	-	9,466
Derivative financial instruments	15,635	1,475	14,160	15,678	1,475	14,203
Available-for-sale assets	289	-	289	288	-	288
Net loans and advances	83,610	75,511	8,099	81,306	73,589	7,717
Due from subsidiaries	-	-	-	11,753	-	11,753
Other financial assets	865	560	305	796	560	236
Credit related commitments	25,858	11,439	14,419	28,490	13,425	15,065
Total exposure to credit risk	142,618	90,727	51,891	154,660	90,791	63,869

Credit quality

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

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

Impairment and provisioning of financial assets

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

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

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

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

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

Distribution of gross loans and advances assets by credit quality

The credit quality of the portfolio of loans and advances is assessed by reference to the Banking Group's risk grading principles and policies supported by a complementary risk grading methodology.

Notes to the Financial Statements

Distribution by asset class of gross loans and advances by credit quality

	Banking Group				Bank			
$ millions	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
30/09/2012								
Strong risk rating	**33,258**	**1,140**	**19,994**	**54,392**	**33,258**	**1,140**	**19,362**	**53,760**
Satisfactory risk rating	**8,635**	**2,466**	**15,590**	**26,691**	**8,635**	**1,590**	**14,641**	**24,866**
Substandard but not past due or impaired	**891**	**408**	**2,118**	**3,417**	**891**	**387**	**2,042**	**3,320**
Total neither past due nor impaired	**42,784**	**4,014**	**37,702**	**84,500**	**42,784**	**3,117**	**36,045**	**81,946**
Past due but not impaired:								
1 to 5 days	**326**	**139**	**458**	**923**	**326**	**132**	**456**	**914**
6 to 29 days	**363**	**92**	**181**	**636**	**363**	**77**	**171**	**611**
1 to 29 days	**689**	**231**	**639**	**1,559**	**689**	**209**	**627**	**1,525**
30 to 59 days	**127**	**32**	**67**	**226**	**127**	**27**	**66**	**220**
60 to 89 days	**48**	**17**	**28**	**93**	**48**	**15**	**25**	**88**
90 days and over	**91**	**33**	**86**	**210**	**91**	**30**	**81**	**202**
Total past due but not impaired	**955**	**313**	**820**	**2,088**	**955**	**281**	**799**	**2,035**
Total impaired assets	**313**	**44**	**1,009**	**1,366**	**313**	**44**	**955**	**1,312**
	44,052	**4,371**	**39,531**	**87,954**	**44,052**	**3,442**	**37,799**	**85,293**
30/09/2011								
Strong risk rating	30,966	1,071	17,297	49,334	30,966	1,071	16,401	48,438
Satisfactory risk rating	7,277	2,312	16,561	26,150	7,277	1,590	15,739	24,606
Substandard but not past due or impaired	1,484	557	3,489	5,530	1,484	546	3,459	5,489
Total neither past due nor impaired	39,727	3,940	37,347	81,014	39,727	3,207	35,599	78,533
Past due but not impaired:								
1 to 5 days	336	126	545	1,007	336	126	536	998
6 to 29 days	365	94	119	578	365	70	116	551
1 to 29 days	701	220	664	1,585	701	196	652	1,549
30 to 59 days	167	35	99	301	167	27	97	291
60 to 89 days	60	18	24	102	60	15	24	99
90 days and over	133	38	117	288	133	32	107	272
Total past due but not impaired	1,061	311	904	2,276	1,061	270	880	2,211
Total impaired assets	471	61	1,194	1,726	471	61	1,131	1,663
	41,259	4,312	39,445	85,016	41,259	3,538	37,610	82,407

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

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

Internal ratings

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

Satisfactory risk rating - Corporate customers consistently demonstrating sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. Retail customers with moderate expected loss. This rating band broadly corresponds to ratings "Ba2" to "B1" and "BB" to "B+" of Moody's Investors Service and Standard & Poor's respectively.

Substandard but not past due or impaired - Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band broadly corresponds to ratings "B2" 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.

Notes to the Financial Statements

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

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

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

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

Market risk

Market risk is the risk to the Banking Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. Market risk is generated through both trading activities and the interest rate risk inherent in the banking book.

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

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

Market risk management and control responsibilities

The Board Risk Committee has delegated responsibility for the oversight of market risk to the Asset & Liability Committee ("ALCO"), chaired by the Chief Executive Officer of the Banking Group. ALCO are required to ensure that market risk exposure across Traded and Non-Traded portfolios remains within the risk appetite specified by the Board Risk Committee. ALCO receive regular reporting on a range of trading and balance sheet market risk exposures.

The Risk Management division of the Banking Group, through the Chief Risk Officer, is responsible for the day-to-day oversight of market risk. This includes the implementation of a comprehensive limit and policy framework to control the amount of risk that the Banking Group will accept. Market risk limits are allocated at various levels and are reported and monitored on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (e.g., interest rates, foreign exchange), risk factors (e.g., interest rates, volatilities) and profit and loss limits (to monitor and manage the performance of the trading portfolios).

Additional oversight and monitoring of material risk exposures of the Banking Group is undertaken by the Risk Management functions of the Ultimate Parent Bank.

Within overall strategies and policies, the control of market risk is the joint responsibility of business units and Risk Management, with the delegation of market risk limits from the Board Risk Committee to both Risk Management and the business units.

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

a. Traded market risk

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

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

Notes to the Financial Statements

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 movements in market rates.

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

In all trading areas the Banking Group has implemented models that calculate Value at Risk ("VaR") exposures, monitor risk exposures against defined limits on a daily basis, and "stress test" trading portfolios.

VaR measure

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

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

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

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

Traded market risks

$ millions	Banking Group Value at risk at 97.5% confidence				Banking Group Value at risk at 99% confidence			
	Period end	High for year	Low for year	Average for year	Period end	High for year	Low for year	Average for year
30/09/2012								
Foreign exchange risk	**0.1**	**1.0**	**0.1**	**0.3**	**0.2**	**1.4**	**0.2**	**0.4**
Interest rate risk	**1.9**	**4.4**	**1.3**	**2.6**	**2.7**	**6.4**	**1.6**	**3.6**
Credit spread risk	**0.3**	**1.1**	**0.2**	**0.6**	**0.4**	**1.2**	**0.2**	**0.7**
Diversification benefit	**(0.4)**	**n/a**	**n/a**	**(0.9)**	**(0.7)**	**n/a**	**n/a**	**(1.2)**
Total VaR	**1.9**	**4.4**	**1.2**	**2.6**	**2.6**	**6.3**	**1.5**	**3.5**
30/09/2011								
Foreign exchange risk	0.4	0.9	0.2	0.4	0.4	1.3	0.3	0.5
Interest rate risk	1.9	4.3	1.2	2.8	2.3	7.2	1.6	3.9
Credit spread risk	0.8	1.0	0.3	0.6	0.9	1.1	0.4	0.7
Diversification benefit	(1.1)	n/a	n/a	(1.0)	(1.4)	n/a	n/a	(1.3)
Total VaR	2.0	4.4	1.4	2.8	2.2	6.7	1.8	3.8

Traded market risk VaR is calculated separately for foreign exchange and for interest rate/debt markets businesses as well as for the Banking Group. The diversification benefit reflects the historical correlation between foreign exchange, interest rate and debt markets.

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

Non-traded market risk (or balance sheet risk)

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

Notes to the Financial Statements

Interest rate risk

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

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

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

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

a. Non-traded interest rate risk VaR

	Banking Group			
$ millions	Period end	High for year	Low for year	Average for year
30/09/2012				
Value at risk at 97.5% confidence	**8.7**	**10.9**	**7.2**	**8.8**
30/09/2011				
Value at risk at 97.5% confidence	7.9	13.5	7.3	9.3

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

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

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

	Banking Group	
	30/09/2012	30/09/2011
Impact of 1% rate shock		
Period end	**1.1%**	1.4%
Maximum exposure	**2.3%**	1.5%
Minimum exposure	**0.9%**	-0.1%
Average exposure (in absolute terms)	**1.7%**	0.7%

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

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

Notes to the Financial Statements

Interest rate sensitivity gap

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

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

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

	Banking Group						
30/09/2012		**Less than**	**3 to 6**	**6 to 12**	**1 to 2**	**Beyond**	**Not bearing**
$ millions	**Total**	**3 months**	**months**	**months**	**years**	**2 years**	**interest**
Assets							
Liquid assets	**2,831**	**2,626**	**-**	**-**	**-**	**-**	**205**
Due from other financial institutions	**1,722**	**1,653**	**-**	**-**	**-**	**-**	**69**
Trading securities	**12,338**	**1,465**	**161**	**3,042**	**1,121**	**6,549**	**-**
Derivative financial instruments	**12,753**	**-**	**-**	**-**	**-**	**-**	**12,753**
Available-for-sale assets	**57**	**46**	**5**	**3**	**-**	**-**	**3**
Net loans and advances	**86,678**	**63,168**	**3,144**	**6,818**	**8,967**	**4,431**	**150**
Other financial assets	**651**	**104**	**11**	**27**	**-**	**-**	**509**
Total financial assets	**117,030**	**69,062**	**3,321**	**9,890**	**10,088**	**10,980**	**13,689**
Liabilities							
Due to other financial institutions	**1,759**	**1,073**	**-**	**-**	**-**	**154**	**532**
Deposits and other borrowings	**73,652**	**47,398**	**11,939**	**6,694**	**1,641**	**1,142**	**4,838**
Due to Immediate Parent Company	**740**	**740**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**13,930**	**-**	**-**	**-**	**-**	**-**	**13,930**
Bonds and notes	**17,244**	**6,266**	**-**	**2,495**	**253**	**8,230**	**-**
Loan capital	**1,168**	**-**	**333**	**835**	**-**	**-**	**-**
Other financial liabilities	**1,248**	**14**	**3**	**1**	**-**	**88**	**1,142**
Total financial liabilities	**109,741**	**55,491**	**12,275**	**10,025**	**1,894**	**9,614**	**20,442**
Hedging instruments	**-**	**2,206**	**2,867**	**(9,177)**	**2,490**	**1,614**	**-**
Interest sensitivity gap	**7,289**	**15,777**	**(6,087)**	**(9,312)**	**10,684**	**2,980**	**(6,753)**

Notes to the Financial Statements

30/09/2011	Banking Group						
$ millions	Total	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 years	Beyond 2 years	Not bearing interest
Assets							
Liquid assets	2,455	2,266	-	-	-	-	189
Due from other financial institutions	4,629	3,981	-	-	-	-	648
Trading securities	9,466	2,684	18	496	2,218	4,050	-
Derivative financial instruments	15,635	-	-	-	-	-	15,635
Available-for-sale assets	411	94	72	122	-	-	123
Net loans and advances	83,610	62,082	4,353	6,676	6,436	3,513	550
Other financial assets	865	66	4	7	14	6	768
Total financial assets	117,071	71,173	4,447	7,301	8,668	7,569	17,913
Liabilities							
Due to other financial institutions	3,711	3,238	-	-	-	62	411
Deposits and other borrowings	69,238	46,510	11,227	4,427	1,080	1,517	4,477
Due to Immediate Parent Company	174	174	-	-	-	-	-
Derivative financial instruments	15,118	-	-	-	-	-	15,118
Bonds and notes	17,406	6,875	-	2,110	4,348	4,073	-
Loan capital	1,988	-	250	903	835	-	-
Other financial liabilities	2,237	24	-	-	2	189	2,022
Total financial liabilities	109,872	56,821	11,477	7,440	6,265	5,841	22,028
Hedging instruments	-	(6,788)	8,598	(3,634)	1,624	200	-
Interest sensitivity gap	7,199	7,564	1,568	(3,773)	4,027	1,928	(4,115)

30/09/2012	Bank						
$ millions	Total	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 years	Beyond 2 years	Not bearing interest
Assets							
Liquid assets	**2,815**	**2,610**	**-**	**-**	**-**	**-**	**205**
Due from other financial institutions	**1,722**	**1,653**	**-**	**-**	**-**	**-**	**69**
Trading securities	**12,338**	**1,465**	**161**	**3,042**	**1,121**	**6,549**	**-**
Derivative financial instruments	**12,788**	**-**	**-**	**-**	**-**	**-**	**12,788**
Available-for-sale assets	**54**	**46**	**5**	**3**	**-**	**-**	**-**
Net loans and advances	**84,319**	**62,051**	**3,031**	**6,463**	**8,653**	**3,989**	**132**
Due from subsidiaries	**11,619**	**11,619**	**-**	**-**	**-**	**-**	**-**
Other financial assets	**535**	**-**	**-**	**-**	**-**	**-**	**535**
Total financial assets	**126,190**	**79,444**	**3,197**	**9,508**	**9,774**	**10,538**	**13,729**
Liabilities							
Due to other financial institutions	**1,555**	**869**	**-**	**-**	**-**	**154**	**532**
Deposits and other borrowings	**66,731**	**43,647**	**9,630**	**6,089**	**1,522**	**1,009**	**4,834**
Due to subsidiaries	**37,940**	**22,221**	**2,615**	**3,868**	**1,775**	**7,104**	**357**
Due to Immediate Parent Company	**740**	**740**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**13,930**	**-**	**-**	**-**	**-**	**-**	**13,930**
Bonds and notes	**2,500**	**637**	**-**	**100**	**176**	**1,587**	**-**
Loan capital	**1,168**	**-**	**333**	**835**	**-**	**-**	**-**
Other financial liabilities	**1,065**	**14**	**3**	**1**	**-**	**88**	**959**
Total financial liabilities	**125,629**	**68,128**	**12,581**	**10,893**	**3,473**	**9,942**	**20,612**
Hedging instruments	**-**	**(1,803)**	**3,429**	**(7,878)**	**4,188**	**2,064**	**-**
Interest sensitivity gap	**561**	**9,513**	**(5,955)**	**(9,263)**	**10,489**	**2,660**	**(6,883)**

Notes to the Financial Statements

30/09/2011 $ millions	Total	Less than 3 months	3 to 6 months	Bank 6 to 12 months	1 to 2 years	Beyond 2 years	Not bearing interest
Assets							
Liquid assets	2,443	2,254	-	-	-	-	189
Due from other financial institutions	4,629	3,981	-	-	-	-	648
Trading securities	9,466	2,684	18	496	2,218	4,050	-
Derivative financial instruments	15,678	-	-	-	-	-	15,678
Available-for-sale assets	375	94	72	122	-	-	87
Net loans and advances	81,306	60,977	4,207	6,459	5,952	3,182	529
Due from subsidiaries	11,753	10,841	-	-	-	-	912
Other financial assets	796	-	-	-	-	-	796
Total financial assets	126,446	80,831	4,297	7,077	8,170	7,232	18,839
Liabilities							
Due to other financial institutions	3,711	3,238	-	-	-	62	411
Deposits and other borrowings	63,007	42,302	9,781	4,089	951	1,407	4,477
Due to subsidiaries	37,716	23,851	1,924	3,233	5,285	3,343	80
Due to Immediate Parent Company	174	174	-	-	-	-	-
Derivative financial instruments	15,118	-	-	-	-	-	15,118
Bonds and notes	2,073	642	-	148	98	1,185	-
Loan capital	1,988	-	250	903	835	-	-
Other financial liabilities	2,075	24	-	-	2	189	1,860
Total financial liabilities	125,862	70,231	11,955	8,373	7,171	6,186	21,946
Hedging instruments	-	(5,989)	7,043	(3,446)	1,848	544	-
Interest sensitivity gap	584	4,611	(615)	(4,742)	2,847	1,590	(3,107)

Equity price risk

The portfolio of financial assets classified as available-for-sale contains equity investment holdings held for longer term strategic intentions. These equity investments are also subject to market risk which is not captured by the VaR measures for traded and non-traded market risks. The fair value of these securities as at 30 September 2012 was $3 million (30/09/2011 $122 million). A 10 per cent reduction in the value of the available-for-sale equity securities would not be material.

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

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Net open position				
Australian dollar	**1**	(4)	**1**	(4)
Euro	**1**	-	**1**	-
Japanese yen	**1**	-	**1**	-
Pound sterling	**1**	-	**1**	-
US dollar	**1**	2	**1**	2
Other	**1**	-	**1**	-
Total net open position	**6**	(2)	**6**	(2)

Notes to the Financial Statements

Liquidity risk

Liquidity risk is the risk that the Banking Group is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Banking Group.

The Banking Group's liquidity and funding risks are governed by a detailed policy framework which is approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards. The core objective of the Banking Group's framework is to manage liquidity to meet obligations as they fall due, without incurring unacceptable losses.

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

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

Management of liquidity and funding risks are overseen by ALCO.

Supervision and Regulation

The RBNZ requires the Bank to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. The Banking Group is required to meet one week and one month liquidity mismatch ratios and a one year core funding ratio each day.

Scenario Modelling

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

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

"Name-crisis": refers to a potential name-specific liquidity crisis scenario which models the behaviour of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under this scenario the Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the Banking Group must be cash flow positive over an eight calendar day period.

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

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

As of 30 September 2012 the Banking Group was in compliance with all of the above scenarios.

Notes to the Financial Statements

Funding Composition

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

	Banking Group		Bank	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Funding composition				
Customer deposits[1]				
New Zealand	**58,383**	55,044	**57,029**	53,719
Overseas	**7,668**	6,950	**7,546**	6,827
Total customer deposits	**66,051**	61,994	**64,575**	60,546
Wholesale funding				
Bonds and notes	**17,244**	17,406	**2,500**	2,073
Loan capital	**1,168**	1,988	**1,168**	1,988
Certificates of deposit	**2,156**	2,454	**2,156**	2,461
Commercial paper	**5,445**	4,790	**-**	-
Due to subsidiaries	**-**	-	**37,940**	37,716
Due to Immediate Parent Company	**740**	174	**740**	174
Due to other financial institutions	**1,759**	3,711	**1,555**	3,711
Total wholesale funding	**28,512**	30,523	**46,059**	48,123
Total funding	**94,563**	92,517	**110,634**	108,669
Concentrations of funding by industry				
Households	**42,761**	40,595	**41,285**	39,107
Agriculture	**2,259**	2,240	**2,259**	2,240
Forestry, fishing and mining	**488**	504	**488**	504
Manufacturing	**1,595**	2,464	**1,595**	2,464
Entertainment, leisure and tourism	**585**	668	**585**	668
Finance and insurance	**37,233**	37,607	**54,780**	55,246
Retail trade	**718**	690	**718**	690
Wholesale trade	**975**	873	**975**	873
Business and property services	**3,616**	3,281	**3,616**	3,281
Transport and storage	**672**	507	**672**	507
Construction	**753**	762	**753**	762
Government and local authority	**1,754**	1,347	**1,754**	1,348
Other[2]	**1,154**	979	**1,154**	979
Total funding	**94,563**	92,517	**110,634**	108,669
Concentrations of funding by geography[3]				
New Zealand	**64,934**	61,375	**81,127**	77,650
Australia	**1,370**	2,899	**1,353**	2,879
United States	**13,231**	14,635	**13,221**	14,625
Europe	**9,291**	8,552	**9,261**	8,527
Other countries	**5,737**	5,056	**5,672**	4,988
Total funding	**94,563**	92,517	**110,634**	108,669

1 Represents term deposits, demand deposits bearing interest, deposits not bearing interest and secured debenture stock.
2 Other includes exposures to electricity, gas and water, communications and personal services.
3 Funding via ANZ New Zealand (Int'l) Limited is classified as either from the United States or Europe, as the company conducts overseas funding activities through its London branch which is passed through to the Bank.

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

Notes to the Financial Statements

Wholesale funding

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

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

Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. Funding capacity limits are determined at the Ultimate Parent Bank level and allocated to individual sites based on their requirements. Annually, a funding plan is approved by the Bank's Board. The plan is supplemented by monthly updates and is linked to the Banking Group's three year strategic planning cycle.

Liquidity portfolio management

The Banking Group holds a diversified portfolio of cash and high-quality highly-liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy.

Total liquidity portfolio	**Banking Group**		**Bank**	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Balances with central banks	**1,973**	1,765	**1,973**	1,765
Securities purchased under agreement to resell	**105**	992	**105**	992
Certificates of deposit	**100**	1,562	**100**	1,562
Government, local body stock and bonds	**8,220**	4,329	**8,220**	4,329
Government treasury bills	**17**	169	**17**	169
Other bonds	**3,768**	3,269	**3,768**	3,269
Total liquidity portfolio	**14,183**	12,086	**14,183**	12,086

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets would be accepted as collateral by the RBNZ in repurchase transactions. At 30 September 2012 the Banking Group would be eligible to enter into repurchase transactions with a value of $13,770 million. The Banking Group also held unencumbered internal residential mortgage backed securities ("RMBS") which would entitle the Banking Group to enter into repurchase transactions with a value of $3,735 million at 30 September 2012 (the RBNZ has imposed a cap limiting the amount of RMBS deemed as eligible in the liquidity portfolio to 4% of total assets).

Liquidity crisis contingency planning

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

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

Notes to the Financial Statements

Contractual maturity analysis of financial assets and liabilities

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

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

The Banking Group does not manage its liquidity risk on this basis.

	Banking Group						
$ millions			Less than	3 to 12		Beyond	No maturity
30/09/2012	Total	At call	3 months	months	1 to 5 years	5 years	specified
Financial assets							
Liquid assets	2,834	2,506	328	-	-	-	-
Due from other financial institutions	1,723	139	1,584	-	-	-	-
Trading securities	13,353	-	152	3,667	6,969	2,565	-
Derivative financial assets (trading)	11,395	-	11,395	-	-	-	-
Available-for-sale assets	65	-	1	13	48	-	3
Net loans and advances	117,600	-	14,891	17,194	36,313	49,202	-
Other financial assets	294	-	216	76	2	-	-
Total financial assets	147,264	2,645	28,567	20,950	43,332	51,767	3
Financial liabilities							
Due to other financial institutions	1,791	932	628	5	37	189	-
Deposits and other borrowings	74,977	30,272	22,682	18,840	3,183	-	-
Due to Immediate Parent Company	741	-	741	-	-	-	-
Derivative financial liabilities (trading)	13,104	-	13,104	-	-	-	-
Bonds and notes	18,399	-	1,636	2,872	11,731	2,160	-
Loan capital	1,829	-	24	71	472	94	1,168
Other financial liabilities	723	-	600	10	65	48	-
Total financial liabilities	111,564	31,204	39,415	21,798	15,488	2,491	1,168
Net financial assets / (liabilities)	35,700	(28,559)	(10,848)	(848)	27,844	49,276	(1,165)
Derivative financial instruments used for balance sheet management							
- gross inflows	16,700	-	1,277	3,710	10,098	1,615	-
- gross outflows	(15,932)	-	(1,182)	(3,471)	(9,674)	(1,605)	-
Net financial assets / (liabilities) after balance sheet management	36,468	(28,559)	(10,753)	(609)	28,268	49,286	(1,165)

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Banking Group		
$ millions		Less than	Beyond
30/09/2012	Total	1 year	1 year
Non-credit related commitments	355	124	231
Credit related commitments	25,440	25,440	-
Contingent liabilities	1,805	1,805	-
Total	27,600	27,369	231

Notes to the Financial Statements

$ millions 30/09/2011	Banking Group Total	At call	Less than 3 months	3 to 12 months	1 to 5 years	Beyond 5 years	No maturity specified
Financial assets							
Liquid assets	2,455	2,455	-	-	-	-	-
Due from other financial institutions	4,637	972	3,665	-	-	-	-
Trading securities	10,220	-	1,797	851	6,984	588	-
Derivative financial assets (trading)	13,930	-	13,930	-	-	-	-
Available-for-sale assets	418	-	73	201	-	21	123
Net loans and advances	113,431	-	10,258	21,631	32,072	49,470	-
Other financial assets	522	-	491	11	14	6	-
Total financial assets	145,613	3,427	30,214	22,694	39,070	50,085	123
Financial liabilities							
Due to other financial institutions	3,711	726	2,923	-	-	62	-
Deposits and other borrowings	70,611	26,340	24,483	16,785	2,887	116	-
Due to Immediate Parent Company	176	-	176	-	-	-	-
Derivative financial liabilities (trading)	13,522	-	13,522	-	-	-	-
Bonds and notes	18,482	-	1,353	3,712	13,094	323	-
Loan capital	3,135	-	40	120	797	1,005	1,173
Other financial liabilities	1,681	-	1,440	6	198	37	-
Total financial liabilities	111,318	27,066	43,937	20,623	16,976	1,543	1,173
Net financial assets / (liabilities)	34,295	(23,639)	(13,723)	2,071	22,094	48,542	(1,050)
Derivative financial instruments used for balance sheet management							
- gross inflows	19,833	-	2,822	5,478	11,463	70	-
- gross outflows	(19,451)	-	(3,059)	(5,475)	(10,840)	(77)	-
Net financial assets / (liabilities) after balance sheet management	34,677	(23,639)	(13,960)	2,074	22,717	48,535	(1,050)

Contractual maturity of off-balance sheet commitments and contingent liabilities

$ millions 30/09/2011	Banking Group Total	Less than 1 year	Beyond 1 year
Non-credit related commitments	257	93	164
Credit related commitments	23,053	23,053	-
Contingent liabilities	2,805	2,805	-
Total	26,115	25,951	164

Notes to the Financial Statements

$ millions 30/09/2012	Total	At call	Less than 3 months	3 to 12 months	1 to 5 years	Beyond 5 years	No maturity specified
	Bank						
Financial assets							
Liquid assets	2,818	2,490	328	-	-	-	-
Due from other financial institutions	1,722	37	1,685	-	-	-	-
Trading securities	13,353	-	152	3,667	6,969	2,565	-
Derivative financial assets (trading)	11,404	-	11,404	-	-	-	-
Available-for-sale assets	62	-	1	13	48	-	-
Net loans and advances	114,645	-	14,227	16,388	34,944	49,086	-
Due from subsidiaries	19,427	-	3,554	273	2,902	12,698	-
Other financial assets	102	-	102	-	-	-	-
Total financial assets	163,533	2,527	31,453	20,341	44,863	64,349	-
Financial liabilities							
Due to other financial institutions	1,587	932	424	5	37	189	-
Deposits and other borrowings	67,971	30,256	19,513	15,299	2,903	-	-
Due to subsidiaries	44,707	-	9,442	6,345	15,522	13,398	-
Due to Immediate Parent Company	741	-	741	-	-	-	-
Derivative financial liabilities (trading)	13,104	-	13,104	-	-	-	-
Bonds and notes	3,020	-	19	220	2,188	593	-
Loan capital	1,829	-	24	71	472	94	1,168
Other financial liabilities	655	-	532	10	65	48	-
Total financial liabilities	133,614	31,188	43,799	21,950	21,187	14,322	1,168
Net financial assets / (liabilities)	29,919	(28,661)	(12,346)	(1,609)	23,676	50,027	(1,168)
Derivative financial instruments used for balance sheet management							
- gross inflows	19,240	-	1,347	3,911	10,991	2,991	-
- gross outflows	(23,082)	-	(1,238)	(3,636)	(10,553)	(7,655)	-
Net financial assets / (liabilities) after balance sheet management	26,077	(28,661)	(12,237)	(1,334)	24,114	45,363	(1,168)

Contractual maturity of off-balance sheet commitments and contingent liabilities

$ millions 30/09/2012	Total	Less than 1 year	Beyond 1 year
	Bank		
Non-credit related commitments	328	115	213
Credit related commitments	25,781	25,781	-
Contingent liabilities	1,804	1,804	-
Total	27,913	27,700	213

Notes to the Financial Statements

$ millions 30/09/2011	Total	At call	Bank Less than 3 months	3 to 12 months	1 to 5 years	Beyond 5 years	No maturity specified
Financial assets							
Liquid assets	2,443	2,443	-	-	-	-	-
Due from other financial institutions	4,637	972	3,665	-	-	-	-
Trading securities	10,220	-	1,797	851	6,984	588	-
Derivative financial instruments (trading)	13,936	-	13,936	-	-	-	-
Available-for-sale assets	380	-	71	201	-	21	87
Net loans and advances	110,507	-	9,804	21,320	30,129	49,254	-
Due from subsidiaries	11,772	-	2,401	-	-	9,371	-
Other financial assets	373	-	373	-	-	-	-
Total financial assets	154,268	3,415	32,047	22,372	37,113	59,234	87
Financial liabilities							
Due to other financial institutions	3,711	726	2,923	-	-	62	-
Deposits and other borrowings	64,174	26,168	20,338	14,846	2,607	215	-
Due to subsidiaries	43,828	-	13,088	5,268	13,841	11,631	-
Derivative financial instruments (trading)	13,522	-	13,522	-	-	-	-
Bonds and notes	2,512	-	20	387	1,782	323	-
Loan capital	3,135	-	40	120	797	1,005	1,173
Other financial liabilities	1,815	-	1,574	6	198	37	-
Total financial liabilities	132,697	26,894	51,505	20,627	19,225	13,273	1,173
Net financial assets / (liabilities)	21,571	(23,479)	(19,458)	1,745	17,888	45,961	(1,086)
Derivative financial instruments used for balance sheet management							
- gross inflows	23,479	-	2,919	5,755	12,695	2,110	-
- gross outflows	(30,568)	-	(3,142)	(5,723)	(12,166)	(9,537)	-
Net financial assets / (liabilities) after balance sheet management	14,482	(23,479)	(19,681)	1,777	18,417	38,534	(1,086)

Contractual maturity of off-balance sheet commitments and contingent liabilities

$ millions 30/09/2011	Total	Bank Less than 1 year	Beyond 1 year
Non-credit related commitments	229	85	144
Credit related commitments	25,687	25,687	-
Contingent liabilities	2,803	2,803	-
Total	28,719	28,575	144

Notes to the Financial Statements

31. Financial Assets Pledged as Collateral

		Banking Group		Bank	
$ millions	Note	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Cash collateral given on derivative financial instruments	9	**1,256**	944	**1,256**	944
Trading securities encumbered through repurchase agreements		**252**	1,219	**252**	1,219
Residential mortgages pledged as security for covered bonds	37	**4,977**	-	**4,977**	-
Total tangible assets of UDC Finance Limited pledged as collateral for secured stock		**2,103**	2,007	**-**	-
Total financial assets pledged as collateral		**8,588**	4,170	**6,485**	2,163

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.

32. Concentrations of Credit Risk to Individual Counterparties

The Banking Group measures its concentration of credit risk in respect to bank counterparties on the basis of approved exposures and in respect to non bank counterparties on the basis of limits. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures.

For the three month period ended 30 September 2012 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where the Banking Group's period end or peak end-of-day credit exposure equalled or exceeded 10% of equity (as at the end of the period).

Concentrations of credit risk to connected persons

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis and partially on a gross basis. Netting has occurred (up to a limit of 125% of the Banking Group's tier one capital) in respect of certain transactions which are the subject of a bilateral netting agreement.

Banking Group	**30/09/2012**		30/09/2011	
	Amount $m	**% of Tier One Capital**	Amount $m	% of Tier One Capital
Aggregate at end of year[1]				
Bank connected persons (on gross basis, before netting)	**4,708**	**65.0%**	4,687	66.1%
Less: amount netted off	**3,621**	**50.0%**	4,221	59.5%
Bank connected persons (on partial bilateral net basis)	**1,087**	**15.0%**	466	6.6%
Peak end-of-day for the year[2]				
Bank connected persons (on gross basis, before netting)	**5,939**	**82.0%**	5,534	78.0%
Less: amount netted off	**4,221**	**58.3%**	3,221	45.4%
Bank connected persons (on partial bilateral net basis)	**1,718**	**23.7%**	2,313	32.6%
Rating-contingent limit[3]				
Bank connected persons (on a gross basis, before netting)	**n/a**	**125.0%**	n/a	125.0%
Bank connected persons (on partial bilateral net basis)	**n/a**	**70.0%**	n/a	70.0%
Non-bank connected persons	**n/a**	**15.0%**	n/a	15.0%

1 The Banking Group has amounts due from the Immediate Parent Company and the Ultimate Parent Bank and other entities within the Overseas Banking Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 30 September 2012, the gross exposures to the Immediate Parent Company were $97 million (30/09/2011 $35 million). As at 30 September 2012, the gross exposures to the Ultimate Parent Bank were $4,611 million (30/09/2011 $4,652 million).

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

3 Represents the maximum peak end-of-day aggregate credit exposures limit (of a non-capital nature and net of individual provisions) to all connected persons. This limit is based on the ratings applicable to the Bank's long term senior unsecured obligations payable in New Zealand in New Zealand dollars. Within the overall limit a sub-limit of 15% of Tier One Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons. There have been no changes to these limits for the year ended 30 September 2012.

Notes to the Financial Statements

33. Fair Value of Financial Assets and Financial Liabilities

	Banking Group						
$ millions	At amortised cost	At fair value through profit or loss		Hedging	Available-for-sale assets	Total	Fair value
Carrying amount		Designated on initial recognition	Held for trading				
30/09/2012							
Liquid assets	**2,831**	**-**	**-**	**-**	**-**	**2,831**	**2,831**
Due from other financial institutions	**1,622**	**-**	**-**	**-**	**100**	**1,722**	**1,722**
Trading securities	**-**	**-**	**12,338**	**-**	**-**	**12,338**	**12,338**
Derivative financial instruments[1]	**-**	**-**	**12,276**	**477**	**-**	**12,753**	**12,753**
Available-for-sale assets	**-**	**-**	**-**	**-**	**57**	**57**	**57**
Net loans and advances[2]	**86,678**	**-**	**-**	**-**	**-**	**86,678**	**86,869**
Other financial assets	**509**	**142**	**-**	**-**	**-**	**651**	**651**
Total financial assets	**91,640**	**142**	**24,614**	**477**	**157**	**117,030**	**117,221**
Due to other financial institutions	**1,759**	**-**	**-**	**-**	**-**	**1,759**	**1,759**
Deposits and other borrowings	**68,207**	**5,445**	**-**	**-**	**-**	**73,652**	**73,744**
Due to Immediate Parent Company	**740**	**-**	**-**	**-**	**-**	**740**	**740**
Derivative financial instruments[1]	**-**	**-**	**13,766**	**164**	**-**	**13,930**	**13,930**
Bonds and notes[2]	**17,244**	**-**	**-**	**-**	**-**	**17,244**	**17,482**
Loan capital	**1,168**	**-**	**-**	**-**	**-**	**1,168**	**1,030**
Other financial liabilities	**1,248**	**-**	**-**	**-**	**-**	**1,248**	**1,248**
Total financial liabilities	**90,366**	**5,445**	**13,766**	**164**	**-**	**109,741**	**109,933**
30/09/2011							
Liquid assets	2,455	-	-	-	-	2,455	2,455
Due from other financial institutions	3,067	-	-	-	1,562	4,629	4,629
Trading securities	-	-	9,466	-	-	9,466	9,466
Derivative financial instruments[1]	-	-	15,076	559	-	15,635	15,635
Available-for-sale assets	-	-	-	-	411	411	411
Net loans and advances[2]	83,610	-	-	-	-	83,610	83,828
Other financial assets	768	97	-	-	-	865	865
Total financial assets	89,900	97	24,542	559	1,973	117,071	117,289
Due to other financial institutions	3,711	-	-	-	-	3,711	3,711
Deposits and other borrowings	64,448	4,790	-	-	-	69,238	69,343
Due to Immediate Parent Company	174	-	-	-	-	174	174
Derivative financial instruments[1]	-	-	14,783	335	-	15,118	15,118
Bonds and notes[2]	17,406	-	-	-	-	17,406	17,390
Loan capital	1,988	-	-	-	-	1,988	1,922
Other financial liabilities	2,237	-	-	-	-	2,237	2,237
Total financial liabilities	89,964	4,790	14,783	335	-	109,872	109,895

Notes to the Financial Statements

	Bank						
$ millions	**At amortised cost**	**At fair value through profit or loss**		**Hedging**	**Available-for-sale assets**	**Total**	**Fair Value**
Carrying amount		**Designated on initial recognition**	**Held for trading**				
30/09/2012							
Liquid assets	**2,815**	**-**	**-**	**-**	**-**	**2,815**	**2,815**
Due from other financial institutions	**1,622**	**-**	**-**	**-**	**100**	**1,722**	**1,722**
Trading securities	**-**	**-**	**12,338**	**-**	**-**	**12,338**	**12,338**
Derivative financial instruments[1]	**-**	**-**	**12,311**	**477**	**-**	**12,788**	**12,788**
Available-for-sale assets	**-**	**-**	**-**	**-**	**54**	**54**	**54**
Net loans and advances[2]	**84,319**	**-**	**-**	**-**	**-**	**84,319**	**84,501**
Due from subsidiaries	**6,552**	**5,067**	**-**	**-**	**-**	**11,619**	**11,632**
Other financial assets	**535**	**-**	**-**	**-**	**-**	**535**	**535**
Total financial assets	**95,843**	**5,067**	**24,649**	**477**	**154**	**126,190**	**126,385**
Due to other financial institutions	**1,555**	**-**	**-**	**-**	**-**	**1,555**	**1,555**
Deposits and other borrowings	**66,731**	**-**	**-**	**-**	**-**	**66,731**	**66,815**
Due to subsidiaries	**32,966**	**4,974**	**-**	**-**	**-**	**37,940**	**38,095**
Due to Immediate Parent Company	**740**	**-**	**-**	**-**	**-**	**740**	**740**
Derivative financial instruments[1]	**-**	**-**	**13,766**	**164**	**-**	**13,930**	**13,930**
Bonds and notes[2]	**2,500**	**-**	**-**	**-**	**-**	**2,500**	**2,596**
Loan capital	**1,168**	**-**	**-**	**-**	**-**	**1,168**	**1,030**
Other financial liabilities	**1,065**	**-**	**-**	**-**	**-**	**1,065**	**1,065**
Total financial liabilities	**106,725**	**4,974**	**13,766**	**164**	**-**	**125,629**	**125,826**
30/09/2011							
Liquid assets	2,443	-	-	-	-	2,443	2,443
Due from other financial institutions	3,067	-	-	-	1,562	4,629	4,629
Trading securities	-	-	9,466	-	-	9,466	9,466
Derivative financial instruments[1]	-	-	15,119	559	-	15,678	15,678
Available-for-sale assets	-	-	-	-	375	375	375
Net loans and advances[2]	81,306	-	-	-	-	81,306	81,510
Due from subsidiaries	5,169	6,584	-	-	-	11,753	11,761
Other financial assets	796	-	-	-	-	796	796
Total financial assets	92,781	6,584	24,585	559	1,937	126,446	126,658
Due to other financial institutions	3,711	-	-	-	-	3,711	3,711
Deposits and other borrowings	63,007	-	-	-	-	63,007	63,102
Due to subsidiaries	31,049	6,667	-	-	-	37,716	37,636
Due to Immediate Parent Company	174	-	-	-	-	174	174
Derivative financial instruments[1]	-	-	14,783	335	-	15,118	15,118
Bonds and notes[2]	2,073	-	-	-	-	2,073	1,900
Loan capital	1,988	-	-	-	-	1,988	1,922
Other financial liabilities	2,075	-	-	-	-	2,075	2,075
Total financial liabilities	104,077	6,667	14,783	335	-	125,862	125,638

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 certain financial assets within loans and advances and certain financial liabilities within bonds and notes. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

Notes to the Financial Statements

Estimation of fair value

Liquid assets, due from / to other financial institutions and balances with related parties

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

Trading securities, derivative financial instruments and available for sale assets

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

Net loans and advances

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

Other financial assets / liabilities

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

Deposits and other borrowings

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

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

Bonds and notes and loan capital

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

Valuation hierarchy

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

"Level 1" - Quoted market price

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

"Level 2" - Valuation technique using observable inputs

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

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

The majority of valuation techniques employ only observable market data. However, the Banking Group holds some investments in unlisted funds or other investments which do not trade in an active market. For these instruments the fair value cannot be determined in whole with reference to current market transactions or valuation techniques whose variables only include data from observable markets. Where observable market data is not available, the fair value is determined using broker quotes or valuation techniques, including discounted cash flow analysis, using data derived and extrapolated from market data and tested against historic transactions and observed market trends.

Notes to the Financial Statements

Valuation technique	**Banking Group**				**Bank**			
$millions	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30/09/2012								
Due from other financial institutions	**-**	**100**	**-**	**100**	**-**	**100**	**-**	**100**
Trading securities	**7,599**	**4,739**	**-**	**12,338**	**7,599**	**4,739**	**-**	**12,338**
Derivative financial instruments	**2**	**12,751**	**-**	**12,753**	**2**	**12,786**	**-**	**12,788**
Available-for-sale assets	**13**	**42**	**2**	**57**	**13**	**41**	**-**	**54**
Due from subsidiaries	**-**	**-**	**-**	**-**	**-**	**5,067**	**-**	**5,067**
Other financial assets	**3**	**138**	**1**	**142**	**-**	**-**	**-**	**-**
Total financial assets held at fair value	**7,617**	**17,770**	**3**	**25,390**	**7,614**	**22,733**	**-**	**30,347**
Deposits and other borrowings	**-**	**5,445**	**-**	**5,445**	**-**	**-**	**-**	**-**
Due to subsidiaries	**-**	**-**	**-**	**-**	**-**	**4,974**	**-**	**4,974**
Derivative financial instruments	**4**	**13,926**	**-**	**13,930**	**4**	**13,926**	**-**	**13,930**
Total financial liabilities held at fair value	**4**	**19,371**	**-**	**19,375**	**4**	**18,900**	**-**	**18,904**
30/09/2011								
Due from other financial institutions	-	1,562	-	1,562	-	1,562	-	1,562
Trading securities	5,565	3,901	-	9,466	5,565	3,901	-	9,466
Derivative financial instruments	18	15,616	1	15,635	18	15,659	1	15,678
Available-for-sale assets	334	72	5	411	334	41	-	375
Due from subsidiaries	-	-	-	-	-	6,584	-	6,584
Other financial assets	27	70	-	97	-	-	-	-
Total financial assets held at fair value	5,944	21,221	6	27,171	5,917	27,747	1	33,665
Deposits and other borrowings	-	4,790	-	4,790	-	-	-	-
Due to subsidiaries	-	-	-	-	-	6,667	-	6,667
Derivative financial instruments	18	15,100	-	15,118	18	15,100	-	15,118
Total financial liabilities held at fair value	18	19,890	-	19,908	18	21,767	-	21,785

Movements in level 3 valuations

	Banking Group		**Bank**	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Opening balance	**6**	119	**1**	-
Purchases	**-**	11	**-**	-
Revaluations	**(3)**	38	**(1)**	1
Foreign exchange movements	**-**	4	**-**	-
Sales	**-**	(166)	**-**	-
Closing balance	**3**	6	**-**	1

Notes to the Financial Statements

34. Notes to the Cash Flow Statements

$ millions	Banking Group Year to 30/09/2012	Banking Group Year to 30/09/2011	Bank Year to 30/09/2012	Bank Year to 30/09/2011
Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities				
Profit after income tax	**1,325**	1,099	**1,220**	1,032
Non-cash items:				
Depreciation and amortisation	**89**	74	**45**	31
Provision for credit impairment	**193**	178	**187**	174
Deferred fee revenue and expenses	**14**	4	**12**	4
Amortisation of capitalised brokerage / mortgage origination fees	**25**	33	**25**	33
Amortisation of premiums and discounts	**235**	109	**235**	69
Fair value gains and losses	**(254)**	(190)	**(259)**	(187)
Loss on disposal and impairment of premises and equipment and intangibles	**13**	49	**2**	33
Deferrals or accruals of past or future operating cash receipts or payments:				
Change in net operating assets less liabilities	**(2,545)**	1,106	**(2,723)**	396
Change in interest receivable	**(13)**	48	**(21)**	11
Change in interest payable	**(43)**	(38)	**(34)**	(31)
Change in accrued income	**(3)**	3	**(2)**	5
Change in accrued expenses	**4**	(55)	**4**	(64)
Change in provisions	**20**	(6)	**21**	54
Change in insurance policy assets	**(101)**	(62)	**-**	-
Change in other receivables and payables	**(8)**	55	**10**	147
Change in net income tax assets / liabilities	**20**	226	**(64)**	174
Items classified as investing / financing:				
Gain on disposal of interests in associates	**(4)**	(5)	**(4)**	(3)
Net cash flows provided by / (used in) operating activities	**(1,033)**	2,628	**(1,346)**	1,878

$ millions	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Reconciliation of cash and cash equivalents to the balance sheets				
Liquid assets	**2,831**	2,455	**2,815**	2,443
Due from other financial institutions - less than 90 days	**424**	3,079	**424**	3,079
Total cash and cash equivalents	**3,255**	5,534	**3,239**	5,522

35. Commitments

$ millions	Banking Group 30/09/2012	Banking Group 30/09/2011	Bank 30/09/2012	Bank 30/09/2011
Contracts for outstanding capital expenditure				
Not later than 1 year	**43**	13	**42**	13
Total capital expenditure commitments	**43**	13	**42**	13
Future minimum lease payments under non-cancellable operating leases				
Not later than 1 year	**81**	80	**73**	72
Later than 1 year but not later than 5 years	**139**	135	**124**	120
Later than 5 years	**92**	29	**89**	24
Total lease rental commitments	**312**	244	**286**	216
Total commitments	**355**	257	**328**	229

Notes to the Financial Statements

36. Credit Related Commitments, Guarantees and Contingent Liabilities

	Banking Group		Bank	
	Face or contract value		Face or contract value	
$ millions	**30/09/2012**	30/09/2011	**30/09/2012**	30/09/2011
Credit related commitments				
Commitments with certain drawdown due within one year	**742**	527	**742**	527
Commitments to provide financial services	**24,698**	22,526	**25,039**	25,160
Total credit related commitments	**25,440**	23,053	**25,781**	25,687
Guarantees and contingent liabilities				
Financial guarantees	**731**	1,753	**731**	1,753
Standby letters of credit	**44**	60	**44**	60
Transaction related contingent items	**913**	882	**913**	882
Trade related contingent liabilities	**117**	110	**116**	108
Total guarantees and contingent liabilities	**1,805**	2,805	**1,804**	2,803

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

Other contingent liabilities

The Banking Group has other contingent liabilities in respect of actual and possible claims and court proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where deemed necessary.

37. Securitisation, Funds Management, Other Fiduciary Activities and Insurance

Kingfisher NZ Trust 2008-1 ("the Kingfisher Trust")

The Banking Group has established the Kingfisher Trust as an in-house residential mortgage backed securities facility that can issue securities meeting the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ.

These assets do not qualify for derecognition as the Bank retains substantially all of the risks and rewards of the transferred assets.

As at 30 September 2012 and 30 September 2011 the Banking Group had not entered into any repurchase agreements with the RBNZ for residential mortgage backed securities and therefore no collateral had been accepted by the RBNZ under this facility.

ANZNZ Covered Bond Trust ("the Covered Bond Trust")

Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

The Banking Group continues to recognise the assets of the Covered Bond Trust on its balance sheet as, although they are pledged as security for covered bonds, the Bank retains substantially all the risks and rewards of ownership.

The Bank has purchased securities issued by both the Kingfisher Trust and the Covered Bond Trust in exchange for the transfer of the rights to the cash flows associated with the identified residential mortgages. The residential mortgages continue to be recognised by the Bank because they do not qualify for derecognition. The following table sets out the carrying values of the residential mortgages transferred by the Bank to these special purpose entities and the associated liabilities to deliver the cashflows on those instruments.

	Bank[1]	
$ millions	**30/09/2012**	30/09/2011
Securitisations[2]		
Carrying amount of assets transferred	**5,102**	6,633
Carrying amount of associated liabilities	**5,127**	6,667
Covered Bonds		
Carrying amount of assets transferred	**4,977**	2,825
Carrying amount of associated liabilities	**4,977**	2,825

[1] There are no balances for the Banking Group as the balances for the Bank relate to transfers to internal special purpose entities.
[2] The securitisation liabilities have recourse only to the pool of residential mortgages which have been securitised. The fair value of securitised assets is $5,127 million (30/09/2011 $6,667 million). The fair value of the associated liabilities is $5,127 million (30/09/2011 $6,667 million). The net position is nil (30/09/2011 nil).

Notes to the Financial Statements

Funds management

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

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

Some funds under management are invested in products owned or securities issued by the Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2012, $3,114 million of funds under management were invested in the Banking Group's own products or securities (30/09/2011 $2,832 million).

Aggregate value of funds managed by the Banking Group

	Banking Group	
$ millions	**30/09/2012**	30/09/2011
Funds managed by OnePath	**7,324**	6,709
The Bonus Bonds Trust	**3,188**	2,996
Other discretionary funds	**5,173**	5,016
Total funds under management	**15,685**	14,721

Custodial services

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

Provision of financial services

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

Except for standard lending facilities provided in the normal course of business on arm's length terms, the Banking Group has not provided any funding to entities which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group (30/09/2011 $nil).

Insurance business

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

The aggregate insurance business conducted by OnePath Insurance comprises assets totalling $564 million (30/09/2011: $438 million), which is 0.5% (30/09/2011: 0.4%) of the total consolidated assets of the Banking Group.

Risk management

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

Directorate and Auditors

Any document or communication may be sent to any Director at the Registered Office. The document or communication should be marked for the attention of that Director.

Directors' interests

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

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

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

In addition to the written disclosures referred to above, Directors disclose relevant interests which they have before discussion of particular business items.

The Companies Act 1993 allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

Transactions with Directors

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

Board Members as at 21 November 2012

Independent Non-Executive Director and Chairman

John Frederick Judge

B Com, FCA
Company Director
Auckland, New Zealand

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

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

Executive Director

David Duncan Hisco

B Bus, MBA
Chief Executive, ANZ Bank New Zealand Limited
Auckland, New Zealand

Other directorships: ANZ Holdings (New Zealand) Limited

Non-Executive Directors

Michael Roger Pearson Smith, OBE

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

Mr Smith is a Member of the Remuneration Committee.

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

Shayne Cary Elliott

B Com
Chief Financial Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Other directorships: ANZ Holdings (New Zealand) Limited

Independent Non-Executive Directors

Norman Michael Thomas Geary, CBE

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

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

Other directorships: Otago Innovation Limited

Antony (Tony) John Carter

BE (Hons), ME, FNZIM
Company Director
Auckland, New Zealand

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

Other directorships: Air New Zealand Limited, Fletcher Building Limited, Fisher and Paykel Healthcare Corporation, Fletcher Building Industries Limited, Loughborough Investments Limited

Auditors

KPMG

Chartered Accountants
10 Customhouse Quay
P O Box 996
Wellington, New Zealand

Conditions of Registration

Conditions of Registration, applicable as at 30 September 2012. These Conditions of Registration have applied from 31 August 2012.

Since issuance of the last Disclosure Statement dated 16 August 2012 the Bank's conditions of registration have been amended to update cross-references to refer to a new version of the RBNZ document "Capital adequacy framework (internal models based approach)" (BS2B) dated August 2012.

The registration of the Bank as a registered bank is subject to the following conditions:

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

   (a) the total capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated August 2012 is not less than 8%;

   (b) the tier one capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated August 2012 is not less than 4%; and

   (c) the capital of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated August 2012 is not less than $30 million.

   For the purposes of this condition of registration the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated August 2012 is 1.06.

1A. That-

   (a) the Bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ("ICAAP")" (BS12) dated December 2007;

   (b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital adequacy framework (internal models based approach)" (BS2B) dated August 2012; and

   (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated August 2012.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the banking group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the Banking Group's insurance business

   (a) all amounts must relate to on balance sheet items only and must comply with generally accepted accounting practice; and

   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration:

   "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance;

   "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated June 2011.

Conditions of Registration

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the Bank complies with the following corporate governance requirements:

   (a) the board of the Bank must have at least five directors;

   (b) the majority of the board members must be non-executive directors;

   (c) at least half of the board members must be independent directors;

   (d) an alternate director,—

   (i) for a non-executive director must be non-executive; and

   (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;

   (f) the chairperson of the board of the Bank must be independent; and

   (g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (ie the Bank).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the Bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the Bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   (a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;

   (b) the committee must have at least three members;

   (c) every member of the committee must be a non-executive director of the Bank;

   (d) the majority of the members of the committee must be independent; and

   (e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:

    (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;

    (b) that the Bank's financial risk positions on a day can be identified on that day;

    (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

    (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

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

12. That:

    (a) the business and affairs of the Bank are managed by, or under the direction and supervision of, the board of the Bank.

    (b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decision relating to the employment or termination of employment of the CEO are made by, the board of the Bank.

    (c) all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.

13. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:

    (a) the one-week mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day;

    (b) the one-month mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day; and

    (c) the one-year core funding ratio of the Banking Group is not less than 70 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with

Conditions of Registration

the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

14. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:

    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

    (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and

    (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV. For the purposes of this condition,—

    "total assets" means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets:

    "SPV" means a person—

    (a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;

    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:

    "covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

16. That:

    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

In these conditions of registration:

"Banking Group" means ANZ Bank New Zealand Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993);

"generally accepted accounting practice" has the same meaning as in section 2 of the Financial Reporting Act 1993.

Directors' Statement

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

(i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2012;
(ii) The Disclosure Statement is not false or misleading.

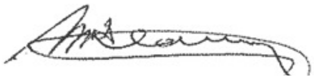
Over the year ended 30 September 2012, after due enquiry, each Director believes that:

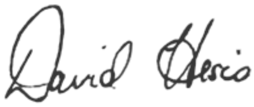
(i) ANZ Bank New Zealand Limited has complied with all the Conditions of Registration;
(ii) Credit exposures to connected persons were not contrary to the interests of the Banking Group;
(iii) ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material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

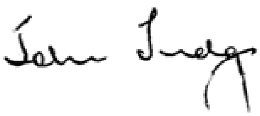
This Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on 21 November 2012. On that date, the Directors of the Bank were:

A J Carter 

S C Elliott 

N M T Geary, CBE 

D D Hisco 

J F Judge 

M R P Smith, OBE 

Independent Auditor's Report

To the Shareholder of ANZ Bank New Zealand Limited

Report on the Bank and Banking Group Disclosure Statement

We have audited the accompanying financial statements and supplementary information of ANZ Bank New Zealand Limited ("the Bank") (formerly ANZ National Bank Limited) and its subsidiaries ("the Banking Group") on pages 5 to 74 of the Disclosure Statement. The financial statements comprise the balance sheets as at 30 September 2012, the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Bank and the Banking Group. The supplementary information comprises the information that is required to be disclosed under the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2012 (the "Order").

Directors' Responsibility for the Disclosure Statement

The Directors are responsible for the preparation of the Bank and Banking Group Disclosure Statement, including financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand, and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Bank and Banking Group financial statements that are free from material misstatement whether due to fraud or error.

The Directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Auditor's Responsibility

Our responsibility is to express an opinion on the Disclosure Statement, including the financial statements prepared in accordance with Clause 24 of the Order and the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Bank and Banking Group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Bank and Banking Group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank and Banking Group's preparation of the financial statements that gives a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and Banking Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has provided other services to the Bank and Banking Group in relation to audit related services. Partners and employees of our firm may also deal with the Bank and Banking Group on normal terms within the ordinary course of trading activities of the business of the Bank and Banking group. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the Bank and Banking Group. These matters have not impaired our independence as auditors of the Bank and Banking Group. The firm has no other relationship with, or interest in, the Bank or Banking Group.

Opinion on the Disclosure Statement

In our opinion the Disclosure Statement of the Bank and Banking Group on pages 5 to 74:

- complies with generally accepted accounting practice in New Zealand;
- complies with International Financial Reporting Standards; and
- gives a true and fair view of the financial position as at 30 September 2012 and of their financial performance and cash flows for the year ended on that date.

Opinion on Supplementary Information

In our opinion, the supplementary information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order, and is included within notes 14, 30, 32, and 37 of the Disclosure Statement:

- has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration;
- is in accordance with the books and records of the Bank and Banking Group; and
- fairly states the matters to which it relates in accordance with those Schedules.

Report on Supplementary Information Relating to Capital Adequacy

We have reviewed the Supplementary Information relating to Capital Adequacy, as disclosed in note 29 of the Disclosure Statement for the year ended 30 September 2012.

Directors' Responsibility for the Supplementary Information Relating to Capital Adequacy

The Directors are responsible for the preparation of Supplementary Information relating to Capital Adequacy that is required to be disclosed under Schedule 11.

Auditor's Responsibility

Our responsibility is to express an opinion on the supplementary information relating to Capital Adequacy based on our review. We conducted our review in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. Those standards require that we comply with ethical requirements and plan and perform the review to obtain limited assurance about whether the supplementary information relating to Capital Adequacy is, in all material respects:

- prepared in accordance with the Bank's Conditions of Registration;
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- disclosed in accordance with Schedule 11 of the Order.

A review is limited primarily to enquiries of Bank and Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the Capital Adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

Opinion on the Supplementary Information Relating to Capital Adequacy

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy, disclosed in note 29 of the Disclosure Statement, is not, in all material respects:

- prepared in accordance with the Bank's Conditions of Registration;
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- disclosed in accordance with Schedule 11 of the Order.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, and clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Bank and Banking Group, as far as appears from our examination of those records.

KPMG

Wellington
21 November 2012

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