

AUSTRALIA & NEW ZEALAND BANKING GROUP LTD

Form 6-K

May 22, 2007

# **SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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## **FORM 6-K**

**REPORT OF FOREIGN ISSUER  
PURSUANT TO RULE 13A-16 OR 15D-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**18 May 2007**

## Australia and New Zealand Banking Group Limited

ACN 005 357 522

(Translation of registrant's name into English)

**Level 6, 100 Queen Street Melbourne Victoria 3000 Australia**

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If  is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

This Form 6-K may contain certain forward-looking statements, including statements regarding (i) economic and financial forecasts, (ii) anticipated implementation of certain control systems and programs, (iii) the expected outcomes of legal proceedings and (iv) strategic priorities. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control and which may cause actual results to differ materially from those expressed in the forward-looking statement contained in these forward-looking statements. For example, these forward-looking statements may be affected by movements in exchange rates and interest rates, general economic conditions, our ability to acquire or develop necessary technology, our ability to attract and retain qualified personnel, government regulation, the competitive environment and political and regulatory policies. There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in the Form 6-K.

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Signatures

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Australia and New Zealand  
Banking Group Limited

(Registrant)

By: /s/ John Priestley  
Company Secretary  
(Signature)\*

Date 18 May 2007

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\* Print the name and title of the signing officer under his signature.

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**ANZ NATIONAL BANK LIMITED GROUP**

**General Disclosure Statement**

for the six months ended 31 March 2007

Number 45 Issued May 2007

**ANZ National Bank Limited**

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**ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES**

**GENERAL DISCLOSURE STATEMENT for the six months ended 31 March 2007**

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## ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES

### GENERAL DISCLOSURES

This Disclosure Statement has been issued in accordance with the Registered Bank Disclosure Statement (Full and Half-Year New Zealand Incorporated Registered Banks) Order 2007 (the Order).

In this Disclosure Statement unless the context otherwise requires:

- a) **Banking Group** means ANZ National Bank Limited and all its subsidiaries; and
- b) any term or expression which is defined in, or in the manner prescribed by, the Registered Bank Disclosure Statement (Full and Half Year New Zealand Incorporated Registered Banks) Order 2007 shall have the meaning given in or prescribed by that Order.

#### General Matters

The full name of the registered bank is ANZ National Bank Limited (the Bank) and its address for service is Level 14, ANZ Tower, 215-229 Lambton Quay, Wellington, New Zealand.

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

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

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

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

#### Nature of Business

The principal activities of the Banking Group during the period were retail, corporate and rural banking, mortgage lending, hire purchase and general finance, international and investment banking, nominee and custodian services, and life insurance and funds management activities through the ING New Zealand joint venture.

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

#### Material Financial Support

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

- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank;
- the Ultimate Parent Bank should not hold unlimited exposures (should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations);

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

of the Ultimate Parent Bank's capital base.

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

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

#### **Pending Proceedings or Arbitration**

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

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

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

Further details on pending proceedings or arbitration are set out in Note 41 Contingent Liabilities and Credit Related Commitments.

#### **Other Material Matters**

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

#### **Guarantors**

The material obligations of the Bank are not guaranteed.





## ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES

## SUMMARY OF FINANCIAL STATEMENTS

|   | Consolidated   |   |   | Previous<br>GAAP(3)<br>Audited<br>Year to<br>30/09/2004<br>\$m | Previous<br>GAAP<br>Audited<br>Year to<br>30/09/2003<br>\$m | Previous<br>GAAP<br>Audited<br>Year to<br>30/09/2002<br>\$m |
|---|--|---|---|--|---|---|
|   | NZ IFRS<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | NZ IFRS(1),(2)<br>Audited<br>Year to<br>30/09/2006<br>\$m | NZ IFRS(1),(2)<br>Audited<br>Year to<br>30/09/2005<br>\$m |  |   |   |
| <b>Continuing operations</b>                                    |  |   |   |  |   |   |
| Interest income   | 3,923  | 7,206   | 6,009   | 4,481  | 1,980   | 1,829   |
| Interest expense  | 2,816  | 5,077   | 4,069   | 2,797  | 1,220   | 1,112   |
| Net interest income   | 1,107  | 2,129   | 1,940   | 1,684  | 760   | 717   |
| Other operating income  | 422  | 802   | 794   | 751  | 453   | 500   |
| Net operating income  | 1,529  | 2,931   | 2,734   | 2,435  | 1,213   | 1,217   |
| Operating expenses  | 653  | 1,323   | 1,312   | 1,265  | 559   | 545   |
| Profit before provision for credit<br>impairment and income tax | 876  | 1,608   | 1,422   | 1,170  | 654   | 672   |
| Collective provision charge (credit)                            | 22   | (10 )   | 121   | 133  | 61  | 65  |
| Individual provision charge(4)                                  | 8  | 28  |   |  |   |   |
| Provision for credit impairment                                 | 30   | 18  | 121   | 133  | 61  | 65  |
| <b>Profit before income tax</b>                                 | <b>846</b>   | <b>1,590</b>  | <b>1,301</b>  | <b>1,037</b>   | <b>593</b>  | <b>607</b>  |
| Income tax expense  | 287  | 523   | 398   | 357  | 176   | 177   |
| <b>Profit after income tax from<br/>continuing operations</b>   | <b>559</b>   | <b>1,067</b>  | <b>903</b>  | <b>680</b>   | <b>417</b>  | <b>430</b>  |
| <b>Discontinued operation</b>                                   |  |   |   |  |   |   |
| Profit from discontinued operation<br>(net of income tax)       | 76   | 5   | 14  |  |   |   |
| <b>Profit after income tax</b>                                  | <b>635</b>   | <b>1,072</b>  | <b>917</b>  | <b>680</b>   | <b>417</b>  | <b>430</b>  |
| <b>Retained profits at beginning of<br/>the period</b>          | <b>2,235</b>   | <b>2,003</b>  | <b>1,438</b>  | <b>958</b>   | <b>841</b>  | <b>786</b>  |
| Adjustment on adoption of NZ IFRS<br>on 1 October 2004          |  |   | 4   |  |   |   |
| Adjustment on adoption of NZ IAS<br>39 on 1 October 2005        |  | 61  |   |  |   |   |
| <b>Total available for appropriation</b>                        | <b>2,870</b>   | <b>3,136</b>  | <b>2,359</b>  | <b>1,638</b>   | <b>1,258</b>  | <b>1,216</b>  |
| Actuarial gain (loss) on defined<br>benefit schemes after tax   | 6  | (1 )  | 4   |  |   |   |
| Appropriation Interim ordinary<br>dividends paid                |  | (900 )  | (360 )  | (200 )   | (300 )  | (375 )  |
| <b>Retained profits at end of the<br/>period</b>                | <b>2,876</b>   | <b>2,235</b>  | <b>2,003</b>  | <b>1,438</b>   | <b>958</b>  | <b>841</b>  |
|   | Consolidated   |   |   |  |   |   |
|   | NZ IFRS<br>Unaudited<br>6 months to                      | NZ IFRS(1),(2)<br>Audited<br>Year to                      | NZ IFRS(1),(2)<br>Audited<br>Year to                      | Previous<br>GAAP(3)<br>Audited<br>Year to                      | Previous<br>GAAP<br>Audited<br>Year to                      | Previous<br>GAAP<br>Audited<br>Year to                      |

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|  | 31/03/2007 | 30/09/2006 | 30/09/2005 | 30/09/2004 | 30/09/2003 | 30/09/2002 |
|--|------------|------------|------------|------------|------------|------------|
|  | \$m        | \$m        | \$m        | \$m        | \$m        | \$m        |
| Total impaired assets (on-balance sheet and off-balance sheet) | 124        | 159        | 220        | 123        | 25         | 43         |
| Total assets   | 100,958    | 96,024     | 85,501     | 74,212     | 29,362     | 27,353     |
| Total liabilities  | 92,066     | 87,791     | 77,555     | 66,831     | 27,998     | 26,106     |
| Equity   | 8,892      | 8,233      | 7,946      | 7,381      | 1,364      | 1,247      |

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

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

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

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

## ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES

## INCOME STATEMENTS for the six months ended 31 March 2007

|  | Note | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m |
|--|------|---|---|---|---|---|---|
| <b>Continuing operations</b>   |      |   |   |   |   |   |   |
| Interest income  | 4    | 3,923   | 3,455   | 7,206                                   | 3,777   | 3,287   | 6,892                                   |
| Interest expense   | 5    | 2,816   | 2,437   | 5,077                                   | 2,995   | 2,610   | 5,589                                   |
| Net interest income  |      | 1,107   | 1,018   | 2,129                                   | 782   | 677   | 1,303                                   |
| Other operating income   | 4    | 411   | 426   | 780                                     | 485   | 402   | 885                                     |
| Share of profit of equity<br>accounted associates and<br>jointly controlled entities | 16   | 11  | 12  | 22                                      | 11  | 12  | 22                                      |
| Net operating income   |      | 1,529   | 1,456   | 2,931                                   | 1,278   | 1,091   | 2,210                                   |
| Operating expenses   | 5    | 653   | 683   | 1,323                                   | 629   | 657   | 1,273                                   |
| Profit before provision for<br>credit impairment and income<br>tax                   |      | 876   | 773   | 1,608                                   | 649   | 434   | 937                                     |
| Provision for credit impairment  | 15   | 30  | 13  | 18                                      | 29  | 12  | 16                                      |
| <b>Profit before income tax</b>  |      | <b>846</b>  | 760   | 1,590                                   | <b>620</b>  | 422   | 921                                     |
| Income tax expense   | 6    | 287   | 242   | 523                                     | 195   | 135   | 310                                     |
| <b>Profit after income tax from<br/>continuing operations</b>                        |      | <b>559</b>  | 518   | 1,067                                   | <b>425</b>  | 287   | 611                                     |
| <b>Discontinued operation</b>  |      |   |   |   |   |   |   |
| Profit from discontinued<br>operation (net of income tax)                            | 10   | 76  | 2   | 5                                       |   |   |   |
| <b>Profit after income tax</b>   |      | <b>635</b>  | 520   | 1,072                                   | <b>425</b>  | 287   | 611                                     |

The notes on pages 8 to 85 form part of and should be read in conjunction with these financial statements.

## ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES

## STATEMENT OF RECOGNISED INCOME AND EXPENSES for the six months ended 31 March 2007

|  | Note   | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m |
|--|--------|---|---|---|---|---|---|
| <b>Available-for-sale revaluation reserve:</b>                     |        |   |   |   |   |   |   |
| Valuation gain taken to equity                                     | 30     |   |   | 3                                       |   |   | 3                                       |
| Cumulative gain transferred to the income statement on sale        | 30     | (3 )  |   |   | (3 )  |   |   |
| <b>Cash flow hedging reserve:</b>                                  |        |   |   |   |   |   |   |
| Valuation gain (loss) taken to equity                              | 30     | 31  | (60 )   | 18                                      | 31  | (60 )   | 18                                      |
| Actuarial gain (loss) on defined benefit schemes                   | 30, 51 | 9   | (2 )  | (2 )                                    | 9   | (2 )  | (2 )                                    |
| Income tax (expense) credit on items recognised directly in equity |        | (13 )   | 21  | (5 )                                    | (13 )   | 21  | (5 )                                    |
| <b>Net income (expense) recognised directly in equity</b>          |        | <b>24</b>   | <b>(41 )</b>                                  | <b>14</b>                               | <b>24</b>   | <b>(41 )</b>                                  | <b>14</b>                               |
| <b>Profit after income tax</b>                                     |        | <b>635</b>  | <b>520</b>                                    | <b>1,072</b>                            | <b>425</b>  | <b>287</b>                                    | <b>611</b>                              |
| <b>Total recognised income and expenses for the period</b>         |        | <b>659</b>  | <b>479</b>                                    | <b>1,086</b>                            | <b>449</b>  | <b>246</b>                                    | <b>625</b>                              |

The notes on pages 8 to 85 form part of and should be read in conjunction with these financial statements.

## ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES

## BALANCE SHEETS as at 31 March 2007

|   | Note          | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|---|---------------|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|
| <b>Assets</b>   |               |  |                                |                              |  |                                |                              |
| Liquid assets   | 7             | 5,741  | 1,997                          | 2,698                        | 5,740                                    | 1,997                          | 2,698                        |
| Due from other financial institutions                                     | 8             | 3,067  | 7,110                          | 5,617                        | 2,580                                    | 6,510                          | 5,111                        |
| Trading securities  | 9             | 1,917  | 1,652                          | 1,596                        | 1,916                                    | 1,652                          | 1,596                        |
| Held for sale assets  | 10            |  |                                | 538                          |  |                                |                              |
| Derivative financial instruments  | 11            | 3,041  | 3,648                          | 2,020                        | 3,066                                    | 3,648                          | 2,019                        |
| Available-for-sale assets   | 12            | 45   | 556                            | 359                          | 35                                       | 546                            | 349                          |
| Net loans and advances  | 13, 14,<br>15 | 82,258   | 74,176                         | 78,155                       | 78,570                                   | 70,462                         | 74,453                       |
| Due from subsidiary companies   |               |  |                                |                              | 1,543                                    | 1,577                          | 1,505                        |
| Shares in controlled entities, associates and jointly controlled entities | 16            | 190  | 174                            | 177                          | 7,669                                    | 8,774                          | 7,684                        |
| Current tax assets  |               | 28   |                                | 114                          | 208                                      | 100                            | 242                          |
| Other assets  | 17            | 800  | 606                            | 890                          | 686                                      | 505                            | 797                          |
| Deferred tax assets   | 18            | 353  | 363                            | 332                          | 324                                      | 328                            | 307                          |
| Premises and equipment  | 19            | 225  | 729                            | 240                          | 54                                       | 51                             | 59                           |
| Goodwill and other intangible assets                                      | 20            | 3,293  | 3,283                          | 3,288                        | 3,243                                    | 3,237                          | 3,239                        |
| <b>Total assets</b>   |               | <b>100,958</b>                                 | 94,294                         | 96,024                       | <b>105,634</b>                           | 99,387                         | 100,059                      |
| <b>Liabilities</b>  |               |  |                                |                              |  |                                |                              |
| Due to other financial institutions                                       | 21            | 4,178  | 3,936                          | 3,987                        | 1,741                                    | 2,357                          | 2,828                        |
| Deposits and other borrowings   | 22            | 64,758   | 61,716                         | 63,176                       | 56,618                                   | 51,067                         | 53,594                       |
| Due to subsidiary companies   |               |  |                                |                              | 30,185                                   | 29,347                         | 28,648                       |
| Derivative financial instruments  | 11            | 3,168  | 2,927                          | 1,997                        | 3,165                                    | 2,916                          | 1,992                        |
| Payables and other liabilities  | 23            | 1,413  | 1,363                          | 1,240                        | 1,132                                    | 1,143                          | 1,015                        |
| Held for sale liabilities   | 10            |  |                                | 53                           |  |                                |                              |
| Current tax liabilities   |               |  | 11                             |                              |  |                                |                              |
| Deferred tax liabilities  | 24            | 262  | 178                            | 210                          | 256                                      | 143                            | 202                          |
| Provisions  | 25            | 144  | 149                            | 135                          | 127                                      | 144                            | 131                          |
| Bonds and notes   | 26            | 13,340   | 11,323                         | 12,468                       | 509                                      | 935                            | 475                          |
| Related party funding   | 27            | 2,764  | 2,643                          | 2,720                        | 2,764                                    | 2,643                          | 2,720                        |
| Loan capital  | 28            | 2,039  | 1,522                          | 1,805                        | 2,039                                    | 1,522                          | 1,805                        |
| <b>Total liabilities</b>  |               | <b>92,066</b>                                  | 85,768                         | 87,791                       | <b>98,536</b>                            | 92,217                         | 93,410                       |
| <b>Net assets</b>   |               | <b>8,892</b>                                   | 8,526                          | 8,233                        | <b>7,098</b>                             | 7,170                          | 6,649                        |
| <b>Equity</b>   |               |  |                                |                              |  |                                |                              |
| Ordinary share capital  | 29            | 5,943  | 5,943                          | 5,943                        | 5,943                                    | 5,943                          | 5,943                        |
| Reserves  | 30            | 73   |                                | 55                           | 73                                       |                                | 55                           |
| Retained profits  | 30            | 2,876  | 2,583                          | 2,235                        | 1,082                                    | 1,227                          | 651                          |
| <b>Total equity</b>   |               | <b>8,892</b>                                   | 8,526                          | 8,233                        | <b>7,098</b>                             | 7,170                          | 6,649                        |



## ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES

## CASH FLOW STATEMENTS for the six months ended 31 March 2007

| Note   | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m |
|--|---|---|---|---|---|---|
| <b>Cash flows from operating activities</b>  |   |   |   |   |   |   |
|  | 3,717   | 3,174   | 6,707                                   | 3,581   | 3,048   | 6,445                                   |
| Interest received  |   |   |   |   |   |   |
| Dividends received   | 1   |   | 1                                       | 101   |   | 153                                     |
| Fees and other income received   | 437   | 515   | 953                                     | 398   | 425   | 774                                     |
| Interest paid  | (2,587)   | (2,221)                                       | (4,669)                                 | (2,762)   | (2,423)                                       | (5,229)                                 |
| Operating expenses paid  | (664)   | (657)   | (1,276)                                 | (650)   | (635)   | (1,230)                                 |
| Income taxes paid  | (176)   | (116)   | (466)                                   | (137)   | (22)  | (285)                                   |
|  |   |   |   |   |   |   |
| Cash flows from operating profits before changes in operating assets and liabilities | 728   | 695   | 1,250                                   | 531   | 393   | 628                                     |
| Net changes in operating assets and liabilities:                                     |   |   |   |   |   |   |
| Decrease (increase) in due from other financial institutions term                    | 893   | (1,042)                                       | (128)                                   | 894   | (1,931)                                       | (302)                                   |
| Increase in trading securities   | (227)   | (739)   | (576)                                   | (226)   | (739)   | (576)                                   |
| (Increase) decrease in derivative financial instruments                              | (497)   | 70  | 330                                     | (500)   | 64  | 301                                     |
| Decrease in available-for-sale assets  | 315   | 886   | 957                                     | 315   | 896   | 967                                     |
| Increase in loans and advances   | (4,344)   | (4,476)                                       | (8,550)                                 | (4,343)   | (4,471)                                       | (8,553)                                 |
| Increase in due from subsidiary companies  |   |   |   | (38)  | (147)   | (75)                                    |
| Decrease in other assets   | 130   | 415   | 117                                     | 144   | 404   | 123                                     |
| Increase (decrease) in due to other financial institutions term                      | 1,223   | (571)   | (386)                                   | (1)   | 26  | (107)                                   |
| Increase in deposits and other borrowings  | 1,416   | 1,565   | 2,883                                   | 2,863   | 2,944   | 5,301                                   |
| Increase (decrease) in payables and other liabilities                                | 137   | (237)   | (375)                                   | 87  | (258)   | (399)                                   |
|  |   |   |   |   |   |   |
| <b>Net cash flows used in operating activities</b>                                   | <b>45</b>   | <b>(226)</b>                                  | <b>(4,478)</b>                          | <b>(274)</b>  | <b>(2,819)</b>                                | <b>(2,692)</b>                          |
| <b>Cash flows from investing activities</b>  |   |   |   |   |   |   |
| Proceeds from sale of shares in associates and jointly controlled entities           |   |   | 12                                      |   |   |   |
| Proceeds related to sale of controlled entities(1)                                   | 10  | 585   |   |   |   | 1,091                                   |
| Proceeds from sale of premises and equipment   | 16  | 21  | 87                                      | 2   | 55  | 57                                      |
| Purchase of shares in associates and jointly controlled entities                     | (2)   | (4)   | (7)                                     |   | (4)   | (5)                                     |
| Acquisition of shares in subsidiary companies  |   |   | (5)                                     |   | (1,230)                                       | (1,235)                                 |
| Purchase of intangible assets  | (8)   | (4)   | (10)                                    | (7)   | (4)   | (9)                                     |
| Purchase of premises and equipment   | (25)  | (98)  | (228)                                   | (7)   | (5)   | (25)                                    |
|  |   |   |   |   |   |   |
| <b>Net cash flows provided by (used in) investing activities</b>                     | <b>566</b>  | <b>(85)</b>                                   | <b>(151)</b>                            | <b>(12)</b>   | <b>(1,188)</b>                                | <b>(126)</b>                            |
| <b>Cash flows from financing activities</b>  |   |   |   |   |   |   |
| Proceeds from bonds and notes  | 2,251   | 4,026   | 6,337                                   | 27  | 302   | 312                                     |
| Redemptions of bonds and notes   | (503)   | (69)  | (663)                                   |   | (16)  | (482)                                   |
| Proceeds from loan capital   | 250   |   | 400                                     | 250   |   | 400                                     |
| Redemptions of loan capital  |   |   | (100)                                   |   |   | (100)                                   |
| Increase in due to subsidiaries  |   |   |   | 2,420   | 4,211   | 4,156                                   |
| Increase (decrease) in related party funding   | 44  | (7)   | 70                                      | 44  | (7)   | 70                                      |
| Dividends paid   |   |   | (900)                                   |   |   | (900)                                   |
|  |   |   |   |   |   |   |
|  | <b>2,042</b>  | <b>3,950</b>                                  | <b>5,144</b>                            | <b>2,741</b>  | <b>4,490</b>                                  | <b>3,456</b>                            |



**Net cash flows provided by financing activities**

|  |              |              |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Net cash flows used in operating activities                              | (226 )       | (3,434 )     | (4,478 )     | (274 )       | (2,819 )     | (2,692 )     |
| Net cash flows provided by (used in) investing activities                | 566          | (85 )        | (151 )       | (12 )        | (1,188 )     | (126 )       |
| Net cash flows provided by financing activities                          | 2,042        | 3,950        | 5,144        | 2,741        | 4,490        | 3,456        |
| Net increase in cash and cash equivalents                                | 2,382        | 431          | 515          | 2,455        | 483          | 638          |
| Cash and cash equivalents at beginning of the period                     | 2,728        | 2,213        | 2,213        | 3,865        | 3,227        | 3,227        |
| <b>Cash and cash equivalents at end of the period</b>                    | <b>5,110</b> | <b>2,644</b> | <b>2,728</b> | <b>6,320</b> | <b>3,710</b> | <b>3,865</b> |
| <b>Reconciliation of cash and cash equivalents to the balance sheets</b> |              |              |              |              |              |              |
| Liquid assets  | 5,741        | 1,997        | 2,698        | 5,740        | 1,997        | 2,698        |
| Due from other financial institutions less than 90 days                  | 2,305        | 3,921        | 3,998        | 2,303        | 3,918        | 3,976        |
| Due to other financial institutions less than 90 days                    | (2,936 )     | (3,274 )     | (3,968 )     | (1,723 )     | (2,205 )     | (2,809 )     |
| <b>Total cash and cash equivalents</b>                                   | <b>5,110</b> | <b>2,644</b> | <b>2,728</b> | <b>6,320</b> | <b>3,710</b> | <b>3,865</b> |

The cash flow statement has not been restated for the classification of Truck Leasing Limited ( TLL ) as a discontinued operation as at 30 September 2006. Disclosure of the net cash flows attributable to the operating, investing and financing activities of the discontinued operations are presented in Note 10 Discontinued Operations.

The notes on pages 8 to 85 form part of and should be read in conjunction with these financial statements.

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

**ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS**

**1. ACCOUNTING POLICIES**

**(i) Basis of preparation**

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Registered Bank Disclosure Statement (Full and Half Year New Zealand Incorporated Banks) Order 2007 (the Order). The parent company's financial statements are for ANZ National Bank Limited (the Bank) as a separate entity and the consolidated financial statements are for the ANZ National Bank Limited Group (the Banking Group and reporting entity), which includes subsidiaries and associate companies disclosed in Note 47 Controlled Entities, Associates and Interests in Jointly Controlled Entities.

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

These financial statements were authorised for issue by the Board of Directors on 1 May 2007.

**(ii) Presentation currency and rounding**

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

**(iii) Changes in accounting policies / adoption of NZ IFRS**

The Ultimate Parent Company, Australia and New Zealand Banking Group Limited, adopted the Australian equivalents to IFRS for the reporting period commencing 1 October 2005. Hence, from this date, the Banking Group has elected to prepare financial statements using NZ IFRS as issued by the International Accounting Standards Board and approved by the Accounting Standards Review Board (ASRB).

The accounting policies set out below have been consistently applied to all periods presented in these financial statements, except for a change in the recognition of financial guarantee contracts. With effect from 1 October 2006, financial guarantee contracts are recognised initially at fair value. After initial recognition, such contracts are measured at the higher of the amount determined in accordance with NZ IAS 37: Provisions, Contingent Liabilities and Contingent Assets, or the amount initially recognised. There was no financial impact on adoption of this amendment to NZ IAS 39: Financial Instruments: Recognition and Measurement.

The Banking Group has not early adopted NZ IFRS 7: Financial Instruments: Disclosures (NZ IFRS 7), issued in November 2005. This standard is effective for annual accounting periods beginning on or after 1 January 2007. Application of NZ IFRS 7 will result in changes to disclosures about the risks arising from financial instruments. The initial application of NZ IFRS 7 is not expected to have an impact on the financial results.

**(iv) Measurement base**

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

for sale, financial instruments held for trading, certain financial liabilities designated at fair value through profit or loss, certain assets and liabilities designated as part of fair value hedging arrangements and defined benefit scheme assets and liabilities.

(v) **Accounting estimates**

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

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

(vi) **Consolidation**

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

Subsidiaries

Control means the power to govern, directly or indirectly, decision making in relation to the financial and operating policies of an entity so as to obtain benefits from its activities.

Where subsidiaries have been sold or acquired during the period, their operating results have been included to the date control ceases or from the date control is transferred to the Banking Group.

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

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

Associates and joint ventures

Associates are all entities over which the Banking Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities over which the Banking Group has joint control. Joint control is the contractually agreed sharing of control and exists only when the strategic financial and operating decisions relating to the business activities of the joint venture require the unanimous consent of the parties sharing control. The Banking Group adopts the equity method of accounting for associates and jointly controlled entities. The Banking Group's investment in equity accounted associates and jointly controlled entities is initially recognised at cost and includes any attributable goodwill (net of accumulated impairment losses) identified on acquisition.

The Banking Group's share of the post acquisition results of associates and jointly controlled entities is included in the consolidated income statement and its share of post-acquisition movements in reserves recognised in reserves. Shares in associates and jointly controlled entities are stated in the consolidated balance sheet at cost plus the Banking Group's share of post acquisition net assets. Unrealised gains on transactions between the Banking Group and its associates and jointly controlled entities are eliminated to the extent of the Banking Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of an associate or jointly controlled entity have been changed where necessary to ensure consistency with the policies adopted by the Banking Group.

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

All significant activities of the Banking Group, with the exception of the ING New Zealand Joint Venture, are operated through wholly owned and controlled entities.

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

**(vii) Foreign currency**

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 Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Foreign exchange gains and losses resulting from (i) the settlement of such transactions, and (ii) the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary items held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement.

**(viii) Revenue and expense recognition**

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

**(ix) Interest income and interest expense**

Interest income and interest expense are recognised in the income statement as they accrue, 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. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment. Loan commitment fees (together with related direct costs), are deferred and recognised as an adjustment to the effective interest on the loan once drawn or immediately to the income statement for expired commitments.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

(x) **Fee and commission income**

Fees and commission income integral to the effective yield of a financial asset or liability are recognised as an adjustment to the effective interest calculation and included in net interest income.

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

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

(xi) **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 gains and losses relating to fair value hedges are assessed as being effective;
- where gains and losses from a group of similar transactions are reported on a net basis such as foreign exchange gains and losses;
- where amounts are collected on behalf of third parties, where the Banking Group is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Banking Group is reimbursed.

(xii) **Recognition and derecognition of financial assets and financial liabilities**

The Banking Group recognises a financial asset or liability on its balance sheet when, and only when, the Banking Group becomes a party to the contractual provisions of the financial asset or liability. The Banking Group derecognises a financial asset from its balance sheet when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Banking Group has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the financial asset. The Banking Group derecognises a financial liability from its balance sheet, when and only when, it is extinguished.

(xiii) **Trading securities**

Trading securities are those financial assets classified as held for trading and comprise debt and equity securities and treasury notes purchased with the intent of being actively traded. Trading securities are initially recognised at fair value on trade date with transaction costs taken to the income statement. Gains and losses on subsequent revaluation are taken to the income statement. The assets are derecognised when the rights to receive cash flows have expired, or the Banking Group has transferred substantially all of the risks and rewards of ownership. Fair value for listed and unlisted securities is determined by the price displayed by a willing buyer in a liquid market at the reporting date. Where a market price in a liquid market is not readily available, the fair value is determined by reference to the market price available for a security with similar credit, maturity and yield characteristics or by using industry standard pricing models.



(xiv) **Derivative financial instruments**

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

Derivative financial instruments are entered into for trading purposes (including customer-related reasons) or for hedging purposes (where the derivative instruments are used to hedge the 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 and subsequently remeasured at fair value. Fair values are obtained from quoted prices in active markets (including recent transactions) and valuation techniques including discounted cash flow models and option pricing models, as appropriate. Movements in the fair value of derivative financial instruments are recognised in the income statement, unless the derivative financial instrument meets the requirement for hedge accounting.

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

(a) Fair value hedge

Where the Banking Group hedges the change in fair value of a recognised asset or liability or firm commitment, any change in the fair value of derivatives designated as fair value hedges are recognised in the income statement. Changes in the fair value of the hedged asset or liability are also recognised in the income statement with a corresponding adjustment to the carrying value of the hedged item.

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

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

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

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

Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in the income statement.

Embedded derivatives

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

(xv) **Available-for-sale assets**

Available-for-sale assets comprise those securities which the Banking Group intends to hold for an indefinite period such as certain fixed term securities, normally until maturity, but which may be sold in response to liquidity needs. They are initially recorded at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity called the available-for-sale revaluation reserve. When the asset is sold the cumulative gain or loss related to the asset is transferred from equity to the income statement.

Where there is objective evidence of impairment, the cumulative loss previously recognised in equity from the decline in fair value of the asset is removed from equity and recognised in the income statement. If in a subsequent period the amount of an impairment loss for a security decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss previously recognised in the income statement is reversed through the income statement.

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

(xvi) **Net loans and advances**

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not classified as available-for-sale. The loans and advances are initially recognised at fair value including transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss. They are derecognised when the rights to receive cash flows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership.

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



credit cards and term loans are carried at principal balances outstanding. Customer financing through redeemable preference shares is included within net loans and advances. Dividends received on redeemable preference shares are taken to the income statement as part of interest income, when there is a right to receive income.

#### Finance lease receivables

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

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

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

#### Credit assessment

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

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

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

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

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

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

Past due assets are any loans that have not been operated by the counterparty within its key terms for at least 90 days.

Other assets under administration are any loans, not being impaired or past due, where the customer is in any form of voluntary or involuntary administration.

#### Impairment of loans and advances

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

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

For those exposures that are assessed collectively, these are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off are taken to the income statement.

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

#### **(xvii) Operating leases**

##### Leases as lessee

Operating lease payments are recognised as an expense on a systematic basis over the lease term.

##### Leases as lessor

Operating lease rentals are included in the income statement on a systematic basis over the lease term. Gross operating lease income comprises amounts received under the lease contracts.

Operating lease assets are stated at cost less accumulated depreciation and are included as part of premises and equipment. Depreciation is calculated using a systematic basis over the estimated useful lives of those assets after deducting any residual values. Residual values are reviewed at each reporting date to ensure they represent the amounts that the Banking Group would currently obtain from disposing of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of the lease expiry. The estimated lives of lease assets vary up to 10 years.

#### **(xviii) 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 deposits and other borrowings.



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

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

**(xix) Goodwill and other intangible assets**

Goodwill

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

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

Other intangible assets

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

Software is amortised using the straight-line method over its expected useful life to the Banking Group. The period of amortisation is between 3 and 5 years except for the branch front-end applications where 7 years is used.

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

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

**(xx) Premises and equipment**

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

The gain or loss on the disposal of premises and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, and is included in the income statement in the period of disposal.

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% |
|-----------|----|

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

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

At each reporting date, the carrying amounts of premises and equipment are reviewed for indications of impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the asset's existing carrying value exceeds its recoverable amount the difference is charged to the income statement. Where the asset does not generate cash flows that are independent from other assets, the Banking Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An impairment loss recognised in prior periods may be reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

**(xxi) Deposits and other borrowings**

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

**(xxii) Bonds, notes and loan capital**

Bonds, notes and loan capital are initially recognised at fair value plus transaction costs and subsequently stated at amortised cost. Interest expense is recognised in the income statement using the effective interest method.

**(xxiii) Income tax**

Income tax expense

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

Current tax

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

Deferred tax

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

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.

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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.

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

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

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

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 and there is a legal right and intention to settle on a net basis and it is allowed under the tax law.

#### **(xxiv) Employee benefits**

The Banking Group elected to apply the amendments to NZ IAS 19 Employee Benefits (issued May 2005) early, with effect from 1 October 2005. As a result, defined benefit superannuation scheme actuarial gains and losses are taken directly to retained profits. Comparatives have also been restated on this basis.

##### 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.

##### Superannuation schemes

The Banking Group's contributions to its defined contribution cash accumulation scheme are recognised as a personnel expense in the income statement when due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Banking Group has no further payment obligations once the contributions have been paid.

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

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

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

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

#### Share-based compensation

The Banking Group's employees participate in various equity-settled share-based compensation plans operated by the ANZ and largely comprise the Employee Share Acquisition Plan and the ANZ Share Option Plan. The Banking Group purchases ANZ shares and share options for the benefit of its employees from the ANZ, and as such accounts for share-based compensation plans as cash-settled.

#### *ANZ ordinary shares*

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

#### *Share Options*

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

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



*Other adjustments*

The amount of expense recognised during the vesting period is adjusted for the number of shares or options expected to vest. Non-market vesting conditions (e.g. service conditions) are taken into account, so that ultimately the expense recognised in the income statement reflects the number of shares or share options that actually vest.

**(xxv) Capitalised expenses**

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

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

**(xxvi) Provisions**

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

**(xxvii) Goods and services tax**

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

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

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

**(xxviii) Offsetting of assets and liabilities**

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

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

**(xxix) Contingent liabilities**

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

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

Further disclosure is made within Note 41 Contingent Liabilities and Credit Related Commitments, where the above requirements are not met, but there is a possible obligation that is higher than remote. Specific details are provided together with an estimate of the range or a statement that such an estimate is not possible.

**(xxx) Segment reporting**

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

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

**(xxxi) Statement of cash flows**

Basis of preparation

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

Cash and cash equivalents

Cash and cash equivalents include liquid assets and amounts due from/(to) other financial institutions with an original term to maturity of less than three months.

Netting of cash flows

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.

**(xxxii) Securitisation, funds under management, and other fiduciary activities**

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

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

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



**(xxxiii) Discontinued operations**

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

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

**(xxxiv) Comparatives**

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

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## 2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

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

An explanation of the judgements and estimates made by the 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.

### (a) Credit provisioning

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

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

#### Individual provisions

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

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

#### Collective provisions

A collective provision is calculated for:

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

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

For individually significant loans, historical loss experience used to calculate the collective provision is determined by taking into account historical information on probability of default and loss given default by risk grade. The collective provision

on homogeneous or portfolio managed exposures is calculated by applying an expected loss factor to the outstanding drawn and undrawn balances in each loan portfolio. The expected loss factor is determined from internal historical loss data.

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

As at 31 March 2007 for the Banking Group, total provision for credit impairment was \$457 million representing 0.56% of total net loans and advances (31/03/2006 \$493 million or 0.67%; 30/09/2006 \$460 million or 0.59%). Of the total provision for 31 March 2007, \$410 million represented collective provisions and \$47 million represented individual provisions.

As at 31 March 2007 for the Bank, total provision for credit impairment was \$413 million representing 0.53% of total net loans and advances (31/03/2006 \$433 million or 0.62%; 30/09/2006 \$415 million or 0.56%). Of the total provision for 31 March 2007, \$375 million represented collective provisions and \$38 million represented individual provisions.

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

**(b) 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. The derivative instruments used to hedge the Banking Group's exposures include:

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

The Banking Group enters into derivatives for trading (including customer-related reasons) or for hedging purposes.

Hedging

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

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

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

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

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

Hedge accounting is only achieved where both prospective and retrospective effectiveness is achieved.

- *External Counterparty:* For hedge accounting purposes, only instruments that involve a party external to the Banking Group can be designated as hedging instruments.

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

#### Fair value of derivatives

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

#### (c) **Goodwill**

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

As at 31 March 2007, the balance of goodwill recorded as an asset on the Banking Group's consolidated balance sheet as a result of acquisitions was \$3,265 million, of which \$3,230 million relates to the acquisition of NBNZ Holdings Limited in December 2003 (31/03/2006 \$3,263 million; 30/09/2006 \$3,266 million).

As at 31 March 2007, the balance of goodwill recorded as an asset on the Bank's consolidated balance sheet as a result of acquisitions was \$3,217 million, which relates to the amalgamation of The National Bank of New Zealand Limited in June 2004 (31/03/2006 \$3,217 million; 30/09/2006 \$3,217 million).

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



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

In determining the fair value of the Banking Group, an independent valuation is obtained based on a capitalisation of earnings approach. Under this methodology valuation multiples (such as the price to earnings (PE) ratio) observed from previous transactions in the banking sector and current price/cash earnings multiples from similar businesses are used to determine an appropriate price/earnings multiple for the Banking Group. This multiple is then applied to the Banking Group's adjusted cash earnings to determine a fair value for the Banking Group.

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

The results of the independent valuation carried out as at 31 March 2007 resulted in a fair value in excess of the current carrying value for the Banking Group and hence the current carrying value of the Banking Group goodwill is not considered impaired.

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

The Banking Group adopts the equity method of accounting for its 49% interest in its jointly controlled entity ING NZ. As at 31 March 2007, the carrying value of the Banking Group's investment in ING NZ was \$177 million (31/03/2006 \$157 million; 30/09/2006 \$167 million). The carrying value of the Bank's investment in ING NZ was \$196 million (31/03/2006 \$176 million; 30/09/2006 \$186 million).

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

The Banking Group obtained an independent valuation of ING NZ as at 31 March 2007. The valuation was based on a value-in-use methodology using a discounted cash flow approach. The results of the independent valuation resulted in a value-in-use in excess of current carrying value.

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

### 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 function is independent of the business with clear delegations from the Board and operates within a comprehensive framework comprising:

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

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

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

The risk management process is subject to oversight by the Risk Committee of the Ultimate Parent Bank Board. This includes the review of risk portfolios and the establishment of prudential policies and controls. Associated with this, the Ultimate Parent Bank auditor, KPMG, and the Australian Prudential Regulatory Authority regularly review the risk management function of the Ultimate Parent Bank Group, including the Banking Group.

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

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

## **Credit Risk**

The Banking Group has an overall lending objective of sound growth for appropriate returns. The credit risk management framework exists to provide a structured and disciplined process to support this objective.

This framework is top down, being defined firstly by the Banking Group's Vision and Values and secondly, by Credit Principles and Policies. The effectiveness of the credit risk management framework is validated through compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.

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

Credit risk includes concentrations of credit risk, intra day credit risk, credit risk to bank counterparties and related party credit risk, and is the potential loss arising from the non-performance by the counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual agreements, and encompasses both on and off-balance sheet instruments. 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 on the level of risk. Credit risk policy and management is executed through the Chief Risk Officer who has various dedicated areas within the Risk Management division. Wholesale Credit services the Banking Group's corporate and investment banking activities, Rural Credit services the Banking Group's rural lending activities, Retail Credit services the Banking Group's small business and consumer customers, and Portfolio Risk Management in turn 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 the retail and rural lending sectors, with larger transactions approved by Retail Credit or Rural Credit.

## **Market Risk**

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

Traded market risk is the risk of loss from changes in value of financial instruments due to movements in price factors for both physical and derivative trading positions. These risks are monitored daily against a comprehensive limit framework that includes VaR, aggregate market position and sensitivity, product and geographic thresholds. The principal risk components of this monitoring process 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 decline in value of an instrument due to a deterioration in the creditworthiness of the issuer of the instrument.

**VaR Methodology:** All the above risks are measured using a VaR methodology. The VaR methodology is a statistical estimate of the maximum daily decrease in market value with a 97.5% confidence. Conversely there is a 2.5% probability of the decrease in market value exceeding the VaR estimate on any given day. The Banking Group has adopted the historical simulation methodology as its standard for the calculation of VaR. This methodology is based on assessing the change in value of portfolios each day against historical prices.

Within overall strategies and policies, control of market risk exposures at Banking Group level is the responsibility of Market Risk, who work closely with the Markets, and Treasury business units.

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

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

**Balance Sheet Risk Management** embraces the management of non-traded interest rate risk, liquidity and the risk to capital and earnings as a result of exchange rate movements. A specialist balance sheet management unit manages these, and is overseen by Risk Management and the Banking Group Asset and Liability Committee.

- **Interest rate risk** management's objective is to produce strong and stable net interest income over time. The Banking Group uses simulation models to quantify the potential impact of interest rate changes on earnings and the market value of the balance sheet. Interest rate risk management focuses on two principal sources of risk: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Non-traded interest rate risk is managed to both value and earnings at risk limits.
- **Currency 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.

- **Liquidity risk** is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. The Banking Group maintains sufficient liquid funds to meet its commitments based on historical and forecasted cash flow requirements. Liquidity risk is measured through cash flow modelling, with profiles produced for both normal business and short-term crisis conditions.
- **Equity risk** is the potential loss arising from the decline in the value of equity instruments held by the Banking Group due to changes in their equity market prices or implied volatilities.

#### **Operational Risk**

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

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

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 Bank'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.

Business Units have primary responsibility for the identification and management of operational risk. The Banking Group's Risk Committee provides policy and framework, measurement, monitoring and reporting, as well as leadership in areas such as technology risk and payments risk. The Board and Risk Management conduct effective monitoring and oversight.

## **Compliance**

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

In addition, Compliance, a discrete function within Risk Management, is responsible for working in conjunction with Business Unit Compliance teams and other risk management areas to provide a compliance infrastructure and framework to facilitate planning, reporting and management of new and changing business obligations and processes.

Compliance seeks 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. The Banking Group's Risk Management division 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 Banking Group's Risk Committee, the Chief Risk Officer, the Board and the Risk Committee of the Ultimate Parent Bank Board conduct Board and Executive oversight.

## **Internal Audit**

The Banking Group's internal audit function, conducts independent reviews that assist the Board of Directors and management to meet their statutory and other obligations. Internal Audit has no reporting line to ANZ Management. Internal Audit reports directly to the Chairman of the Audit Committee. Under its Charter, Internal Audit conducts independent appraisals of:

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

In performing this role, Internal Audit adopts a risk-based approach, encompassing reviews of the major credit, market and operating risks within the Banking Group. Significant findings are reported quarterly to the Audit Committee of the Banking Group. The Head of Internal Audit of the Banking Group makes a quarterly attestation on the adequacy of internal controls.

A Strategic Audit Plan is prepared annually covering each business area of the Banking Group, with greater emphasis placed on those areas where the highest risk exists. The Plan is endorsed by the Audit Committees of the Banking Group and the Ultimate Parent Banking Group.

## **Integration Review**

The Bank has confirmed to the Reserve Bank of New Zealand ( RBNZ ) that it has achieved compliance with the Bank's Condition of Registration 13(i) which requires that by no later than 31 December 2005, the Bank should locate and continue to operate in New Zealand the Bank's domestic system and that the board of directors of the Bank will have legal and practical ability to control the management and operation of the domestic system.

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Plans to achieve compliance with Condition 13(ii), which relates to the board of directors having legal and practical ability to control the management and operation of the international system, have been reassessed in light of the release of the RBNZ's final Outsourcing Policy (BS11). The Bank is continuing to work with the RBNZ to agree a plan to achieve compliance with the Outsourcing Policy (which will eventually be embodied in replacement Condition(s) of Registration for the existing Condition 13) particularly with respect to the Bank's international system.

As part of this process, the RBNZ has:

- Advised that it is satisfied with the Bank's *Self Assessment* of outsourced business functions and governance arrangements;
- Commenced reviewing the Bank's revised *Compliance Plan*; and
- Advised the Bank of an extension to the completion date for condition 13(ii) to 30 June 2007, with effect from 4 December 2006.

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## 4. INCOME

| Continuing operations   | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m |
|---|---|---|---|---|---|---|
| <b>Interest income</b>  |   |   |   |   |   |   |
| Other financial institutions  | 117   | 177   | 412                                     | 97  | 148   | 355                                     |
| Trading securities  | 110   | 52  | 156                                     | 110   | 52  | 156                                     |
| Available-for-sale assets   | 6   | 39  | 52                                      | 5   | 39  | 51                                      |
| Lending on productive loans   | 3,505   | 3,096   | 6,435                                   | 3,354   | 2,935   | 6,100                                   |
| Lending on impaired assets (Note 14)  | 2   | 3   | 7                                       | 2   | 3   | 7                                       |
| Subsidiary companies  |   |   |   | 29  | 24  | 79                                      |
| Related parties   | 9   | 6   | 11                                      | 9   | 6   | 11                                      |
| Other   | 174   | 82  | 133                                     | 171   | 80  | 133                                     |
| <b>Total interest income</b>  | <b>3,923</b>  | <b>3,455</b>                                  | <b>7,206</b>                            | <b>3,777</b>  | <b>3,287</b>                                  | <b>6,892</b>                            |
| <b>Other operating income</b>   |   |   |   |   |   |   |
| Net fee income(1)   | 277   | 268   | 543                                     | 256   | 247   | 504                                     |
| Dividends received  | 1   |   | 1                                       | 101   |   | 153                                     |
| Net gain on foreign exchange trading  | 61  | 91  | 152                                     | 60  | 91  | 152                                     |
| Net gain on trading securities  |   | 15  | 13                                      |   | 15  | 13                                      |
| Net gain (loss) on trading derivatives  | 21  | 7   | (6                                      | ) 21  | 7   | (6                                      |
| Net gain (loss) on hedges not<br>qualifying for hedge accounting                        | 19  | (3  | ) 3                                     | 19  | (3  | ) 4                                     |
| Net ineffectiveness on qualifying<br>hedges   | 4   | 6   | 1                                       | 4   | 6   | 1                                       |
| Net gain on financial liabilities<br>designated at fair value through profit<br>or loss | 1   | 5   | 3                                       | 1   | 5   | 3                                       |
| Other income  | 27  | 37  | 70                                      | 23  | 34  | 61                                      |
| <b>Total other operating income</b>   | <b>411</b>  | <b>426</b>                                    | <b>780</b>                              | <b>485</b>  | <b>402</b>                                    | <b>885</b>                              |
| <b>(1)Net fee income comprises:</b>   |   |   |   |   |   |   |
| Lending and credit facility fee income  | 51  | 45  | 92                                      | 51  | 46  | 94                                      |
| Management services fee income  | 22  | 21  | 42                                      | 13  | 11  | 25                                      |
| Other fee income  | 281   | 277   | 559                                     | 269   | 265   | 535                                     |
| <b>Total fee income</b>   | <b>354</b>  | <b>343</b>                                    | <b>693</b>                              | <b>333</b>  | <b>322</b>                                    | <b>654</b>                              |
| Direct fee expense  | 77  | 75  | 150                                     | 77  | 75  | 150                                     |
| <b>Net fee income</b>   | <b>277</b>  | <b>268</b>                                    | <b>543</b>                              | <b>256</b>  | <b>247</b>                                    | <b>504</b>                              |



## 5. EXPENSES

| Continuing operations                         | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m |
|---|---|---|---|---|---|---|
| <b>Interest expense</b>                       |   |   |   |   |   |   |
| Other financial institutions                  | 111   | 102   | 213                                     | 43  | 63  | 119                                     |
| Deposits and other borrowings                 | 2,028   | 1,755   | 3,716                                   | 1,784   | 1,517   | 3,221                                   |
| Subsidiary companies(1)                       |   |   |   | 974   | 769   | 1,824                                   |
| Bonds and notes                               | 472   | 335   | 744                                     | 15  | 26  | 46                                      |
| Related party funding                         | 100   | 94  | 190                                     | 100   | 94  | 190                                     |
| Loan capital                                  | 74  | 55  | 117                                     | 74  | 55  | 117                                     |
| Other   | 31  | 96  | 97                                      | 5   | 86  | 72                                      |
| Total interest expense                        | 2,816   | 2,437   | 5,077                                   | 2,995   | 2,610   | 5,589                                   |
| <b>Operating expenses</b>                     |   |   |   |   |   |   |
| Personnel costs                               | 323   | 310   | 623                                     | 306   | 295   | 592                                     |
| Employee entitlements                         | 28  | 32  | 63                                      | 28  | 31  | 61                                      |
| Pension costs                                 |   |   |   |   |   |   |
| Defined contribution schemes                  | 17  | 18  | 35                                      | 17  | 18  | 35                                      |
| Defined benefit schemes                       | 3   | 3   | 6                                       | 3   | 3   | 6                                       |
| Share-based payments expense                  | 7   | 5   | 10                                      | 7   | 5   | 10                                      |
| Building occupancy costs                      | 18  | 17  | 34                                      | 7   | 7   | 14                                      |
| Depreciation of premises and equipment        |   |   |   |   |   |   |
| Leasing and rental costs                      | 37  | 35  | 73                                      | 7   | 12  | 20                                      |
| Integration costs                             |   | 49  | 49                                      |   | 49  | 49                                      |
| Related parties                               | 34  | 34  | 67                                      | 81  | 69  | 145                                     |
| Writedown of investment in subsidiary company |   |   |   |   |   | 1                                       |
| Other costs                                   | 165   | 159   | 320                                     | 163   | 155   | 316                                     |
| Total operating expenses                      | 653   | 683   | 1,323                                   | 629   | 657   | 1,273                                   |

Related party and integration operating expenses are predominantly recharges from Australia and New Zealand Banking Group Limited (Ultimate Parent Company).

|   | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$ 000 | Unaudited<br>6 months to<br>31/03/2006<br>\$ 000 | Audited<br>Year to<br>30/09/2006<br>\$ 000 | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$ 000 | Unaudited<br>6 months to<br>31/03/2006<br>\$ 000 | Audited<br>Year to<br>30/09/2006<br>\$ 000 |
|---|--|--|--|--|--|--|
| <b>Auditors remuneration to KPMG comprises:</b> |  |  |  |  |  |  |
| Audit or review of financial statements         | 808  | 972  | 1,798                                      | 597  | 829  | 1,308                                      |
| Other audit-related services                    | 57   | 359  | 486  | 56   | 352  | 362  |
| Total auditors remuneration                     | 865  | 1,331  | 2,284                                      | 653  | 1,181  | 1,670                                      |

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

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conflict with the role of auditor may be provided by KPMG subject to the approval of the Ultimate Parent Bank Audit Committee.

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

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(1)Included in the 30 September 2006 figure was a misposting of subsidiary company interest expense, this resulted in the Parent expense line being overstated. This misposting was corrected in the current reporting period. This misposting was not material to the Parent and had no impact on the consolidated result.

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## 6. INCOME TAX EXPENSE

|   | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m |
|---|---|---|---|---|---|---|
| <b>Reconciliation of the prima facie income tax payable on profit with the income tax expense charged in the income statement</b> |   |   |   |   |   |   |
| <b>Continuing operations</b>  |   |   |   |   |   |   |
| Profit before income tax  | 846   | 760   | 1,590                                   | 620   | 422   | 921                                     |
| Prima facie income tax at 33%   | 279   | 251   | 525                                     | 205   | 139   | 304                                     |
| Rebateable and non-assessable dividends   | (7 )  | (4 )  | (7 )                                    | (33 )   |   | (51 )                                   |
| Other permanent items   | 14  | (5 )  | 9                                       | 23  | (4 )  | 60                                      |
|   | 286   | 242   | 527                                     | 195   | 135   | 313                                     |
| Income tax under (over) provided in prior years   | 1   |   | (4 )                                    |   |   | (3 )                                    |
| Total income tax expense from continuing operations   | 287   | 242   | 523                                     | 195   | 135   | 310                                     |
| <b>Discontinued operations</b>  |   |   |   |   |   |   |
| Income tax expense from discontinued operations (Note 10)   |   | 1   | 3                                       |   |   |   |
| <b>Effective tax rate (%)</b>   | <b>33.9</b>   | <b>% 31.8</b>                                 | <b>% 32.9</b>                           | <b>% 31.5</b>   | <b>% 32.0</b>                                 | <b>% 33.7</b>                           |
| <b>The major components of the income tax expense comprise:</b>   |   |   |   |   |   |   |
| <b>Amounts recognised in the income statement</b>   |   |   |   |   |   |   |
| <b>Current income tax charge</b>  |   |   |   |   |   |   |
| Current income tax charge   | 265   | 193   | 426                                     | 168   | 89  | 213                                     |
| Adjustments recognised in the current year in relation to current tax of prior years  | 1   |   | (4 )                                    |   |   | (3 )                                    |
| <b>Deferred income tax</b>  |   |   |   |   |   |   |
| Deferred tax expense relating to the origination and reversal of temporary differences  | 21  | 49  | 101                                     | 27  | 46  | 100                                     |
| Total income tax expense recognised in income statement continuing operations   | 287   | 242   | 523                                     | 195   | 135   | 310                                     |
| <b>The following amounts were charged or (credited) directly to equity:</b>   |   |   |   |   |   |   |
| <b>Current income tax</b>   |   |   |   |   |   |   |
| Actuarial gain (loss) on defined benefit schemes  | 3   | (1 )  | (1 )                                    | 3   | (1 )  | (1 )                                    |
| <b>Deferred income tax</b>  |   |   |   |   |   |   |
| Net gain (loss) on revaluation of cash flow hedges  | 10  | (20 )   | 6                                       | 10  | (20 )   | 6                                       |
| Total income tax expense (credit) recognised directly in equity   | 13  | (21 )   | 5                                       | 13  | (21 )   | 5                                       |
| <b>Imputation Credit Account</b>  |   |   |   |   |   |   |

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|   |            |     |      |            |     |      |
|---|------------|-----|------|------------|-----|------|
| Balance at beginning of the period                        | <b>642</b> | 492 | 492  | <b>483</b> | 286 | 286  |
| Imputation credits attached to dividends received         | <b>17</b>  | 12  | 17   | <b>8</b>   | 9   | 56   |
| Taxation paid   | <b>174</b> | 23  | 211  | <b>126</b> |     | 135  |
| Imputation credits attached to dividends paid             |            |     | (247 | )          |     | (247 |
| Imputation credits transferred to Imputation Credit Group |            | 169 | 169  |            | 245 | 253  |
| <b>Balance at end of the period</b>                       | <b>833</b> | 696 | 642  | <b>617</b> | 540 | 483  |

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

The parent is a member of an Imputation Group with other members of the Banking Group. The figures shown for the Parent above include the imputation credits available for use by the Parent held by the Imputation Group.

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**7. LIQUID ASSETS**

|  | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|--|--|---|---------------------------------------|--|---|---------------------------------------|
| Cash and balances with central banks           | <b>4,286</b>   | 477                                     | 1,046                                 | <b>4,286</b>                                       | 477                                     | 1,046                                 |
| Securities purchased under agreement to resell | <b>25</b>  |   |                                       | <b>25</b>  |   |                                       |
| Money at call                                  | <b>1,358</b>   | 1,424                                   | 1,493                                 | <b>1,357</b>                                       | 1,424                                   | 1,493                                 |
| Bills receivable and remittances in transit    | <b>72</b>  | 96                                      | 159                                   | <b>72</b>  | 96                                      | 159                                   |
| <b>Total liquid assets</b>                     | <b>5,741</b>   | 1,997                                   | 2,698                                 | <b>5,740</b>                                       | 1,997                                   | 2,698                                 |

**Included within liquid assets is the following balance:**

|                                       |              |     |     |              |     |     |
|---------------------------------------|--------------|-----|-----|--------------|-----|-----|
| Overnight balances with central banks | <b>4,041</b> | 218 | 806 | <b>4,041</b> | 218 | 806 |
|---------------------------------------|--------------|-----|-----|--------------|-----|-----|

**8. DUE FROM OTHER FINANCIAL INSTITUTIONS**

|  |              |       |       |              |       |       |
|--|--------------|-------|-------|--------------|-------|-------|
| Able to be withdrawn without prior notice          | <b>776</b>   | 842   | 1,019 | <b>776</b>   | 838   | 1,017 |
| Securities purchased under agreement to resell     | <b>604</b>   | 1,049 | 657   | <b>604</b>   | 1,049 | 657   |
| Term loans and advances                            | <b>1,687</b> | 5,219 | 3,941 | <b>1,200</b> | 4,623 | 3,437 |
| <b>Total due from other financial institutions</b> | <b>3,067</b> | 7,110 | 5,617 | <b>2,580</b> | 6,510 | 5,111 |

**Included within due from other financial institutions are the following balances:**

|   |            |       |       |            |       |       |
|---|------------|-------|-------|------------|-------|-------|
| Assets used to secure deposit obligations       | <b>208</b> | 224   |       | <b>208</b> | 224   |       |
| Assets encumbered through repurchase agreements | <b>25</b>  | 1,034 | 1,164 | <b>25</b>  | 1,034 | 1,164 |

**Included within due from other financial institutions is the following related party balance:**

|  |            |     |    |            |     |    |
|--|------------|-----|----|------------|-----|----|
| Australia and New Zealand Banking Group Limited<br>(Ultimate Parent Company) | <b>208</b> | 224 | 51 | <b>208</b> | 224 | 51 |
|--|------------|-----|----|------------|-----|----|

**9. TRADING SECURITIES**

|  |              |       |       |              |       |       |
|--|--------------|-------|-------|--------------|-------|-------|
| Government, Local Body stock and bonds | <b>209</b>   | 155   | 198   | <b>208</b>   | 155   | 198   |
| Certificates of deposit                | <b>1,430</b> | 958   | 1,112 | <b>1,430</b> | 958   | 1,112 |
| Promissory notes                       | <b>178</b>   | 443   | 212   | <b>178</b>   | 443   | 212   |
| Other                                  | <b>100</b>   | 96    | 74    | <b>100</b>   | 96    | 74    |
| <b>Total trading securities</b>        | <b>1,917</b> | 1,652 | 1,596 | <b>1,916</b> | 1,652 | 1,596 |

**Included within trading securities is the following balance:**

|   |            |     |     |            |     |     |
|---|------------|-----|-----|------------|-----|-----|
| Assets encumbered through repurchase agreements | <b>208</b> | 155 | 198 | <b>208</b> | 155 | 198 |
|---|------------|-----|-----|------------|-----|-----|

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**10. DISCONTINUED OPERATIONS**

On 1 September 2006, UDC Finance Limited ( UDC ) agreed to sell Truck Leasing Limited ( TLL ) to Nikko Principal Investments Australia Limited, a private equity business of Nikko Cordial Corporation. The sale was completed on 31 October 2006 for consideration of \$147 million.

As the sale agreement was signed on 1 September 2006, in accordance with accounting requirements the assets and liabilities of TLL were classified as held for sale as at 30 September 2006 and TLL treated as a discontinued operation.

TLL's unsecured bank borrowings with UDC were repaid on the sale date and have been excluded from TLL's liabilities classified as held for sale. As at 31 October 2006, this balance was \$438 million (30/09/2006 \$423 million).

The income statements have been restated to show the discontinued operation separately from continuing operations.

The profit from discontinued operations shown in the income statement comprised:

|  | Truck Leasing Limited                        |   | Audited<br>Year to<br>30/09/2006<br>\$m |
|--|--|---|---|
|  | Unaudited<br>1 month to<br>31/10/2006<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m |   |
| <b>Result of discontinued operations</b>                               |  |   |   |
| Interest income  |  |   | 1                                       |
| Interest expense   | 2  | 13  | 28                                      |
| Net interest expense   | (2)  | (13)  | (27)                                    |
| Other operating income(1)  | 3  | 22  | 45                                      |
| Net operating income   | 1  | 9   | 18                                      |
| Operating expenses   | 1  | 5   | 9                                       |
| Operating profit before provision for credit impairment and income tax |  | 4   | 9                                       |
| Provision for credit impairment  |  | 1   | 1                                       |
| <b>Operating profit before income tax</b>                              |  | 3   | 8                                       |
| Income tax expense   |  | 1   | 3                                       |
| <b>Operating profit after income tax - discontinued operations</b>     |  | 2   | 5                                       |
| Gain on sale of discontinued operations                                | 76   |   |   |
| <b>Net profit from discontinued operations</b>                         | 76   | 2   | 5                                       |
| <b>Cash flows from discontinued operations</b>                         |  |   |   |
| Net cash flows provided by operating activities                        | 15   | 53  | 114                                     |
| Net cash flows used in investing activities                            | (3)  | (59)  | (116)                                   |
| Net cash flows from discontinued operations                            | 12   | (6)   | (2)                                     |
| (1)Other operating income includes:                                    |  |   |   |
| Gross operating lease income   | 14   | 81  | 162                                     |
| Less direct income related expenses                                    |  |   |   |
| - Operating lease depreciation   | 8  | 45  | 90                                      |
| - Other direct income related expenses                                 | 3  | 14  | 28                                      |
| Net operating lease income   | 3  | 22  | 44                                      |





The assets and liabilities classified as held for sale as at 30 September 2006 comprised:

|   | <b>Consolidated<br/>Audited<br/>30/09/2006<br/>\$m</b> |
|---|--|
| <b>Assets classified as held for sale</b>                 |  |
| Net loans and advances                                    | 3  |
| Current tax assets  | 2  |
| Other assets  | 40   |
| Deferred tax assets                                       | 6  |
| Premises and equipment (including operating lease assets) | 486  |
| Goodwill  | 1  |
| <b>Total assets</b>                                       | <b>538</b>   |
| <b>Liabilities classified as held for sale</b>            |  |
| Payables and other liabilities                            | 23   |
| Provisions  | 1  |
| Deferred tax liabilities                                  | 29   |
| <b>Total liabilities</b>                                  | <b>53</b>  |

The sale resulted in the following impact on the consolidated financial statements:

|   | <b>Consolidated<br/>Unaudited<br/>31/10/2006<br/>\$m</b> |
|---|--|
| Cash proceeds from sale                         | 147  |
| <b>Impact on net assets</b>                     |  |
| Cash and cash equivalents                       | 438  |
| Assets classified as held for sale              | (543 )   |
| Liabilities classified as held for sale         | 34   |
| Impact on net assets                            | (71 )  |
| Gain on sale                                    | 76   |
| <b>Cash flow statement</b>                      |  |
| Cash proceeds from sale                         | 147  |
| Repayment of related party loans and advances   | 438  |
| Proceeds related to sale of controlled entities | 585  |

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

### Credit risk of derivatives

The credit risk of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligation. Credit risk arises when market movements are such that the derivative has a positive value to the Banking Group. It is the cost of replacing the contract in the event of counterparty default. The Banking Group limits its credit risk within a conservative framework by dealing with creditworthy counterparties, settling credit limits on exposures to counterparties, and obtaining collateral where appropriate.

The following table provides an overview of the Banking Group's exchange rate and interest rate derivatives. It includes all trading and hedging contracts. Notional principal amounts measure the amount of the underlying financial contract and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of the derivative instruments held and notional principal amounts are set out below.

The credit equivalent amount is calculated in accordance with the Reserve Bank of New Zealand's capital adequacy guidelines. It combines the aggregate gross replacement cost with an allowance for the potential increase in value over the remaining term of the transaction should market conditions change.

The fair value of a derivative represents the aggregate net present value of the cash inflows and outflows required to extinguish the rights and obligations arising from the derivative in an orderly market as at the reporting date. Fair value does not indicate future gains or losses, but rather the unrealised gains and losses arising from marking to market all derivatives at a particular point in time.

### Master netting arrangements

The Banking Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Banking Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.



| Unaudited 31/03/2007                              | Consolidated<br>Notional<br>Principal<br>Amount<br>\$m | Credit<br>Equivalent<br>Amount<br>\$m | Fair values<br>Assets<br>\$m | Liabilities<br>\$m | Parent<br>Notional<br>Principal<br>Amount<br>\$m | Credit<br>Equivalent<br>Amount<br>\$m | Fair values<br>Assets<br>\$m | Liabilities<br>\$m |
|---|--|---------------------------------------|------------------------------|--------------------|--|---------------------------------------|------------------------------|--------------------|
| <b>Derivatives held for trading</b>               |  |                                       |                              |                    |  |                                       |                              |                    |
| <i>Foreign exchange derivatives</i>               |  |                                       |                              |                    |  |                                       |                              |                    |
| Spot and forward contracts                        | 24,679   | 725                                   | 445                          | 632                | 24,679   | 725                                   | 445                          | 632                |
| Swap agreements                                   | 42,476   | 2,284                                 | 799                          | 912                | 42,476   | 2,284                                 | 799                          | 912                |
| Options purchased                                 | 3,135  | 123                                   | 89                           |                    | 3,135  | 123                                   | 89                           |                    |
| Options sold                                      | 2,837  |                                       |                              | 86                 | 2,837  |                                       |                              | 86                 |
|   | 73,127   | 3,132                                 | 1,333                        | 1,630              | 73,127   | 3,132                                 | 1,333                        | 1,630              |
| <i>Interest rate derivatives</i>                  |  |                                       |                              |                    |  |                                       |                              |                    |
| Forward rate agreements                           | 36,217   | 1                                     | 1                            | 5                  | 36,217   | 1                                     | 1                            | 5                  |
| Swap agreements                                   | 259,843  | 2,231                                 | 1,406                        | 1,494              | 261,126  | 2,262                                 | 1,431                        | 1,519              |
| Futures contracts                                 | 19,742   |                                       | 3                            | 28                 | 19,742   |                                       | 3                            | 28                 |
| Options purchased                                 | 1,260  | 11                                    | 7                            |                    | 1,260  | 11                                    | 7                            |                    |
| Options sold                                      | 1,179  |                                       |                              | 6                  | 1,179  |                                       |                              | 6                  |
|   | 318,241  | 2,243                                 | 1,417                        | 1,533              | 319,524  | 2,274                                 | 1,442                        | 1,558              |
| <i>Equity derivatives</i>                         |  |                                       |                              |                    |  |                                       |                              |                    |
| Options purchased                                 | 20   | 21                                    | 20                           |                    | 20   | 21                                    | 20                           |                    |
| Total derivatives held for trading                | 391,388  | 5,396                                 | 2,770                        | 3,163              | 392,671  | 5,427                                 | 2,795                        | 3,188              |
| <b>Derivatives held for hedging</b>               |  |                                       |                              |                    |  |                                       |                              |                    |
| <b>(a) Designated as cash flow hedges</b>         |  |                                       |                              |                    |  |                                       |                              |                    |
| <i>Interest rate derivatives</i>                  |  |                                       |                              |                    |  |                                       |                              |                    |
| Swap agreements                                   | 10,113   | 77                                    | 40                           | 46                 | 10,113   | 77                                    | 40                           | 46                 |
| Total derivatives designated as cash flow hedges  | 10,113   | 77                                    | 40                           | 46                 | 10,113   | 77                                    | 40                           | 46                 |
| <b>(b) Designated as fair value hedges</b>        |  |                                       |                              |                    |  |                                       |                              |                    |
| <i>Foreign exchange derivatives</i>               |  |                                       |                              |                    |  |                                       |                              |                    |
| Swap agreements                                   | 82   | 6                                     | 2                            | 10                 | 82   | 6                                     | 2                            | 10                 |
| <i>Interest rate derivatives</i>                  |  |                                       |                              |                    |  |                                       |                              |                    |
| Swap agreements                                   | 31,889   | 422                                   | 281                          | 110                | 30,789   | 419                                   | 281                          | 82                 |
| Total derivatives designated as fair value hedges | 31,971   | 428                                   | 283                          | 120                | 30,871   | 425                                   | 283                          | 92                 |
| Total derivatives held for hedging                | 42,084   | 505                                   | 323                          | 166                | 40,984   | 502                                   | 323                          | 138                |
|   | 433,472  | 5,901                                 | 3,093                        | 3,329              | 433,655  | 5,929                                 | 3,118                        | 3,326              |
| Collateral received / paid                        |  |                                       | (52 )                        | (161 )             |  |                                       | (52 )                        | (161 )             |

|  |         |       |       |       |         |       |       |       |
|--|---------|-------|-------|-------|---------|-------|-------|-------|
| Total derivative financial instruments | 433,472 | 5,901 | 3,041 | 3,168 | 433,655 | 5,929 | 3,066 | 3,165 |
|--|---------|-------|-------|-------|---------|-------|-------|-------|

### Hedge accounting

#### Cash flow hedges

The Banking Group hedges the cash flows from floating rate customer deposits and floating rate wholesale funding arrangements that fund fixed rate lending using cross currency and interest rate swaps. There were no transactions where cash flow hedge accounting ceased in the six months ended 31 March 2007 as a result of highly probable cash flows that were no longer expected to occur (31/03/2006 no transactions; 30/09/2006 no transactions).

Fair valuation gains and losses deferred to the cash flow hedging reserve are transferred to the income statement over the same period as the cash flows from the hedging transaction occur.

#### Fair value hedges

The Banking Group is exposed to interest rate risk by providing fixed rate lending to customers. The Banking Group hedges this risk through the use of interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate assets and interest rate swaps.

The fair value gains and losses are recorded through the income statement as incurred. The opposing fair value adjustments carried on balance sheet are amortised to the income statement as the fixed rate asset and interest rate swap near maturity.

| Unaudited 31/03/2006                              | Consolidated<br>Notional<br>Principal<br>Amount<br>\$m | Credit<br>Equivalent<br>Amount<br>\$m | Fair values<br>Assets<br>\$m | Liabilities<br>\$m | Parent<br>Notional<br>Principal<br>Amount<br>\$m | Credit<br>Equivalent<br>Amount<br>\$m | Fair values<br>Assets<br>\$m | Liabilities<br>\$m |
|---|--|---------------------------------------|------------------------------|--------------------|--|---------------------------------------|------------------------------|--------------------|
| <b>Derivatives held for trading</b>               |  |                                       |                              |                    |  |                                       |                              |                    |
| <i>Foreign exchange derivatives</i>               |  |                                       |                              |                    |  |                                       |                              |                    |
| Spot and forward contracts                        | 29,017   | 1,617                                 | 1,280                        | 715                | 29,017   | 1,617                                 | 1,280                        | 715                |
| Swap agreements                                   | 39,317   | 3,320                                 | 1,908                        | 1,154              | 39,317   | 3,320                                 | 1,908                        | 1,154              |
| Options purchased                                 | 3,033  | 72                                    | 32                           |                    | 3,033  | 72                                    | 32                           |                    |
| Options sold                                      | 3,227  |                                       |                              | 39                 | 3,227  |                                       |                              | 39                 |
|   | 74,594   | 5,009                                 | 3,220                        | 1,908              | 74,594   | 5,009                                 | 3,220                        | 1,908              |
| <i>Interest rate derivatives</i>                  |  |                                       |                              |                    |  |                                       |                              |                    |
| Forward rate agreements                           | 20,813   | 5                                     | 4                            | 4                  | 20,813   | 5                                     | 4                            | 4                  |
| Swap agreements                                   | 114,718  | 1,057                                 | 646                          | 728                | 114,344  | 1,057                                 | 646                          | 717                |
| Futures contracts                                 | 20,658   |                                       | 1                            |                    | 20,658   |                                       | 1                            |                    |
| Options purchased                                 | 1,606  | 7                                     | 4                            |                    | 1,606  | 7                                     | 4                            |                    |
| Options sold                                      | 1,586  |                                       |                              | 4                  | 1,586  |                                       |                              | 4                  |
|   | 159,381  | 1,069                                 | 655                          | 736                | 159,007  | 1,069                                 | 655                          | 725                |
| <i>Equity derivatives</i>                         |  |                                       |                              |                    |  |                                       |                              |                    |
| Options purchased                                 | 30   | 22                                    | 19                           |                    | 30   | 22                                    | 19                           |                    |
| Total derivatives held for trading                | 234,005  | 6,100                                 | 3,894                        | 2,644              | 233,631  | 6,100                                 | 3,894                        | 2,633              |
| <b>Derivatives held for hedging</b>               |  |                                       |                              |                    |  |                                       |                              |                    |
| <b>(a) Designated as cash flow hedges</b>         |  |                                       |                              |                    |  |                                       |                              |                    |
| <i>Interest rate derivatives</i>                  |  |                                       |                              |                    |  |                                       |                              |                    |
| Swap agreements                                   | 8,003  | 49                                    | 10                           | 109                | 8,003  | 49                                    | 10                           | 109                |
| Total derivatives designated as cash flow hedges  | 8,003  | 49                                    | 10                           | 109                | 8,003  | 49                                    | 10                           | 109                |
| <b>(b) Designated as fair value hedges</b>        |  |                                       |                              |                    |  |                                       |                              |                    |
| <i>Interest rate derivatives</i>                  |  |                                       |                              |                    |  |                                       |                              |                    |
| Swap agreements                                   | 25,153   | 146                                   | 77                           | 174                | 25,153   | 146                                   | 77                           | 174                |
| Total derivatives designated as fair value hedges | 25,153   | 146                                   | 77                           | 174                | 25,153   | 146                                   | 77                           | 174                |
| Total derivatives held for hedging                | 33,156   | 195                                   | 87                           | 283                | 33,156   | 195                                   | 87                           | 283                |
|   | 267,161  | 6,295                                 | 3,981                        | 2,927              | 266,787  | 6,295                                 | 3,981                        | 2,916              |
| Collateral received                               |  |                                       | (333)                        |                    |  |                                       | (333)                        |                    |
| Total derivative financial instruments            | 267,161  | 6,295                                 | 3,648                        | 2,927              | 266,787  | 6,295                                 | 3,648                        | 2,916              |



| Audited 30/09/2006                                | Consolidated<br>Notional<br>Principal<br>Amount<br>\$m | Credit<br>Equivalent<br>Amount<br>\$m | Fair values<br>Assets<br>\$m | Liabilities<br>\$m | Parent<br>Notional<br>Principal<br>Amount<br>\$m | Credit<br>Equivalent<br>Amount<br>\$m | Fair values<br>Assets<br>\$m | Liabilities<br>\$m |
|---|--|---------------------------------------|------------------------------|--------------------|--|---------------------------------------|------------------------------|--------------------|
| <b>Derivatives held for trading</b>               |  |                                       |                              |                    |  |                                       |                              |                    |
| <i>Foreign exchange derivatives</i>               |  |                                       |                              |                    |  |                                       |                              |                    |
| Spot and forward contracts                        | 26,325   | 636                                   | 340                          | 449                | 26,325   | 636                                   | 340                          | 449                |
| Swap agreements                                   | 40,205   | 2,114                                 | 695                          | 1,234              | 40,205   | 2,114                                 | 695                          | 1,234              |
| Options purchased                                 | 3,226  | 83                                    | 49                           |                    | 3,226  | 83                                    | 49                           |                    |
| Options sold                                      | 3,140  |                                       |                              | 46                 | 3,140  |                                       |                              | 46                 |
|   | 72,896   | 2,833                                 | 1,084                        | 1,729              | 72,896   | 2,833                                 | 1,084                        | 1,729              |
| <i>Interest rate derivatives</i>                  |  |                                       |                              |                    |  |                                       |                              |                    |
| Forward rate agreements                           | 24,080   | 12                                    | 12                           | 9                  | 24,080   | 12                                    | 12                           | 9                  |
| Swap agreements                                   | 177,045  | 1,398                                 | 772                          | 847                | 177,209  | 1,398                                 | 773                          | 847                |
| Futures contracts                                 | 17,097   |                                       | 1                            | 1                  | 17,097   |                                       | 1                            | 1                  |
| Options purchased                                 | 1,404  | 7                                     | 4                            |                    | 1,404  | 7                                     | 4                            |                    |
| Options sold                                      | 1,293  |                                       |                              | 4                  | 1,293  |                                       |                              | 4                  |
|   | 220,919  | 1,417                                 | 789                          | 861                | 221,083  | 1,417                                 | 790                          | 861                |
| <i>Equity derivatives</i>                         |  |                                       |                              |                    |  |                                       |                              |                    |
| Options purchased                                 | 30   | 22                                    | 20                           |                    | 30   | 22                                    | 20                           |                    |
| Total derivatives held for trading                | 293,845  | 4,272                                 | 1,893                        | 2,590              | 294,009  | 4,272                                 | 1,894                        | 2,590              |
| <b>Derivatives held for hedging</b>               |  |                                       |                              |                    |  |                                       |                              |                    |
| <b>(a) Designated as cash flow hedges</b>         |  |                                       |                              |                    |  |                                       |                              |                    |
| <i>Interest rate derivatives</i>                  |  |                                       |                              |                    |  |                                       |                              |                    |
| Swap agreements                                   | 5,199  | 40                                    | 20                           | 19                 | 5,199  | 40                                    | 20                           | 19                 |
| Total derivatives designated as cash flow hedges  | 5,199  | 40                                    | 20                           | 19                 | 5,199  | 40                                    | 20                           | 19                 |
| <b>(b) Designated as fair value hedges</b>        |  |                                       |                              |                    |  |                                       |                              |                    |
| <i>Foreign exchange derivatives</i>               |  |                                       |                              |                    |  |                                       |                              |                    |
| Swap agreements                                   | 121  | 7                                     | 3                            |                    | 121  | 7                                     | 3                            |                    |
| <i>Interest rate derivatives</i>                  |  |                                       |                              |                    |  |                                       |                              |                    |
| Swap agreements                                   | 27,412   | 208                                   | 104                          | 173                | 26,839   | 207                                   | 102                          | 168                |
| Total derivatives designated as fair value hedges | 27,533   | 215                                   | 107                          | 173                | 26,960   | 214                                   | 105                          | 168                |
| Total derivatives held for hedging                | 32,732   | 255                                   | 127                          | 192                | 32,159   | 254                                   | 125                          | 187                |
|   | 326,577  | 4,527                                 | 2,020                        | 2,782              | 326,168  | 4,526                                 | 2,019                        | 2,777              |



|  |         |       |       |       |         |       |       |       |   |
|--|---------|-------|-------|-------|---------|-------|-------|-------|---|
| Collateral paid                        |         |       |       | (785  | )       |       |       | (785  | ) |
| Total derivative financial instruments | 326,577 | 4,527 | 2,020 | 1,997 | 326,168 | 4,526 | 2,019 | 1,992 |   |

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**12. AVAILABLE-FOR-SALE ASSETS**

|  | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|--|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|
| Government, Local Body stock and bonds | 3  | 526                            | 316                          | 3  | 526                            | 316                          |
| Floating rate notes                    | 42   | 30                             | 39                           | 32                                       | 20                             | 29                           |
| Other                                  |  |                                | 4                            |  |                                | 4                            |
| <b>Total available-for-sale assets</b> | <b>45</b>                                      | <b>556</b>                     | <b>359</b>                   | <b>35</b>                                | <b>546</b>                     | <b>349</b>                   |

**Included within available-for-sale assets is the following balance:**

|   |  |    |     |  |    |     |
|---|--|----|-----|--|----|-----|
| Assets used to secure deposit obligations |  | 40 | 221 |  | 40 | 221 |
|---|--|----|-----|--|----|-----|

**13. NET LOANS AND ADVANCES**

|   |               |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Overdrafts                                      | 2,061         | 1,959         | 1,907         | 2,061         | 1,959         | 1,907         |
| Credit card outstandings                        | 1,303         | 1,208         | 1,238         | 1,303         | 1,208         | 1,238         |
| Term loans housing                              | 46,564        | 40,923        | 43,472        | 46,564        | 40,891        | 43,472        |
| Term loans non-housing                          | 32,605        | 30,110        | 31,547        | 29,318        | 26,754        | 28,282        |
| Finance lease receivables                       | 752           | 708           | 776           | 40            | 70            | 44            |
| <b>Gross loans and advances</b>                 | <b>83,285</b> | <b>74,908</b> | <b>78,940</b> | <b>79,286</b> | <b>70,882</b> | <b>74,943</b> |
| Provision for credit impairment (Note 15)       | (457)         | (493)         | (460)         | (413)         | (433)         | (415)         |
| Unearned finance income                         | (264)         | (249)         | (248)         |               |               |               |
| Fair value hedge adjustment                     | (364)         | (18)          | (119)         | (364)         | (18)          | (119)         |
| Deferred fee revenue and expenses               | (50)          | (51)          | (50)          | (47)          | (48)          | (48)          |
| Capitalised brokerage\mortgage origination fees | 108           | 79            | 92            | 108           | 79            | 92            |
| <b>Total net loans and advances</b>             | <b>82,258</b> | <b>74,176</b> | <b>78,155</b> | <b>78,570</b> | <b>70,462</b> | <b>74,453</b> |

**Included within net loans and advances is the following related party balance:**

|  |     |     |    |     |     |    |
|--|-----|-----|----|-----|-----|----|
| ANZ Holdings (New Zealand) Limited<br>(Parent Company) | 230 | 155 | 58 | 234 | 213 | 62 |
|--|-----|-----|----|-----|-----|----|

The balance owing by the Parent Company is due within the next twelve months. Interest is received at variable bank rates.

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

|  | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Parent<br>Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|--|--|--|------------------------------|--------------------------------|--------------------------------|------------------------------|
| <b>On-balance sheet impaired assets, past due assets and other assets under administration</b>       |  |  |                              |                                |                                |                              |
| <b>Impaired assets</b>   |  |  |                              |                                |                                |                              |
| Balance at the beginning of the period   | 151  | 213                                      | 213                          | 129                            | 186                            | 186                          |
| Transfers from productive  | 84   | 111                                      | 190                          | 66                             | 89                             | 150                          |
| Transfers to productive  | (8 )   | (8 )                                     | (10 )                        | (5 )                           | (7 )                           | (8 )                         |
| Assets realised or loans repaid  | (67 )  | (73 )                                    | (165 )                       | (56 )                          | (63 )                          | (135 )                       |
| Write offs   | (41 )  | (36 )                                    | (77 )                        | (38 )                          | (30 )                          | (64 )                        |
| Balance at the end of the period   | 119  | 207                                      | 151                          | 96                             | 175                            | 129                          |
| <b>Past due assets (90 days past due assets)</b>   |  |  |                              |                                |                                |                              |
| Balance at the beginning of the period   | 86   | 72                                       | 72                           | 78                             | 63                             | 63                           |
| Transfers to past due assets   | 190  | 142                                      | 306                          | 169                            | 122                            | 268                          |
| Transfers from past due assets   | (157 )   | (127 )                                   | (292 )                       | (141 )                         | (107 )                         | (253 )                       |
| Balance at the end of the period   | 119  | 87                                       | 86                           | 106                            | 78                             | 78                           |
| <b>Other assets under administration</b>   |  |  |                              |                                |                                |                              |
| Balance at the beginning of the period   |  |  |                              |                                |                                |                              |
| Transfers to other assets under administration   | 3  |  |                              | 3                              |                                |                              |
| Balance at the end of the period   | 3  |  |                              | 3                              |                                |                              |
| <b>Total on-balance sheet impaired assets, past due assets and other assets under administration</b> |  |  |                              |                                |                                |                              |
|  | 241  | 294                                      | 237                          | 205                            | 253                            | 207                          |
| <b>Off-balance sheet impaired assets</b>   |  |  |                              |                                |                                |                              |
| Balance at the beginning of the period   | 8  | 7  | 7                            | 8                              | 7                              | 7                            |
| Transfers (from) to off-balance sheet impaired assets  | (3 )   |  | 1                            | (3 )                           |                                | 1                            |
| <b>Total off-balance sheet impaired assets</b>   | 5  | 7  | 8                            | 5                              | 7                              | 8                            |
| <b>Interest foregone on impaired assets</b>  |  |  |                              |                                |                                |                              |
| Gross interest receivable on impaired assets   | 7  | 9  | 15                           | 7                              | 8                              | 14                           |
| Interest recognised(1)   | (2 )   | (3 )                                     | (7 )                         | (2 )                           | (3 )                           | (7 )                         |
| Total net interest not recognised  | 5  | 6  | 8                            | 5                              | 5                              | 7                            |

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



**15. PROVISION FOR CREDIT IMPAIRMENT**

|  | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|--|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|
| <b>Collective provision</b>  |  |                                |                              |  |                                |                              |
| Balance at beginning of the period   | 402  | 568                            | 568                          | 364                                      | 565                            | 565                          |
| Adjustment on adoption of NZ IAS 39 on 1 October 2005                                  |  | (154 )                         | (154 )                       |  | (197 )                         | (197 )                       |
| Transfer to held for sale assets   |  |                                | (2 )                         |  |                                |                              |
| Charge (credit) to income statement continuing operations                              | 8  | (9 )                           | (10 )                        | 11                                       | (6 )                           | (4 )                         |
| Balance at end of the period   | 410  | 405                            | 402                          | 375                                      | 362                            | 364                          |
| <b>Individual provision (impaired assets)</b>  |  |                                |                              |  |                                |                              |
| Balance at beginning of the period   | 58   | 98                             | 98                           | 51                                       | 81                             | 81                           |
| Adjustment on adoption of NZ IAS 39 on 1 October 2005                                  |  | (6 )                           | (6 )                         |  | (6 )                           | (6 )                         |
| Transfer to held for sale assets   |  |                                | (1 )                         |  |                                |                              |
| Transfers from subsidiary company  |  |                                |                              |  |                                | 7                            |
| Charge to income statement continuing operations                                       | 22   | 22                             | 28                           | 18                                       | 18                             | 20                           |
| Charge to income statement discontinued operations                                     |  | 1                              | 1                            |  |                                |                              |
| Recoveries   | 10   | 12                             | 22                           | 9  | 11                             | 20                           |
| Bad debts written off  | (41 )  | (36 )                          | (77 )                        | (38 )                                    | (30 )                          | (64 )                        |
| Discount unwind(1)   | (2 )   | (3 )                           | (7 )                         | (2 )                                     | (3 )                           | (7 )                         |
| Balance at end of the period   | 47   | 88                             | 58                           | 38                                       | 71                             | 51                           |
| Total provision for credit impairment  | 457  | 493                            | 460                          | 413                                      | 433                            | 415                          |
| Total provision for credit impairment has been deducted from gross loans and advances. |  |                                |                              |  |                                |                              |
| <b>Provision movement analysis</b>   |  |                                |                              |  |                                |                              |
| New and increased provisions   | 43   | 43                             | 91                           | 38                                       | 37                             | 80                           |
| Provision releases   | (11 )  | (9 )                           | (41 )                        | (11 )                                    | (8 )                           | (40 )                        |
|  | 32   | 34                             | 50                           | 27                                       | 29                             | 40                           |
| Recoveries   | (10 )  | (12 )                          | (22 )                        | (9 )                                     | (11 )                          | (20 )                        |
| Individual provision charge  | 22   | 22                             | 28                           | 18                                       | 18                             | 20                           |
| Collective provision charge (credit)   | 8  | (9 )                           | (10 )                        | 11                                       | (6 )                           | (4 )                         |
| Provision for credit impairment continuing operations                                  | 30   | 13                             | 18                           | 29                                       | 12                             | 16                           |
| Provision for credit impairment discontinued operations                                |  | 1                              | 1                            |  |                                |                              |
| Provision for credit impairment  | 30   | 14                             | 19                           | 29                                       | 12                             | 16                           |

(1) The impairment loss on an impaired asset is calculated as the difference between the asset's future cashflows discounted to their present value. As this discount unwinds during the period it is recognised as interest income.

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**16. INVESTMENT IN CONTROLLED ENTITIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES**

|   | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|---|--|---|---------------------------------------|--|---|---------------------------------------|
| <b>Shares in controlled entities</b>  |  |   |                                       |  |   |                                       |
| Unquoted at cost  |  |   |                                       | <b>7,464</b>                                       | 8,591                                   | 7,490                                 |
| <b>Shares in associates</b>   |  |   |                                       |  |   |                                       |
| Unquoted at cost plus equity accounted adjustments                              | <b>5</b>   | 13                                      | 3                                     | <b>3</b>   | 3                                       | 3                                     |
| <b>Shares in jointly controlled entities</b>                                    |  |   |                                       |  |   |                                       |
| Unquoted at cost plus equity accounted adjustments                              | <b>185</b>   | 161                                     | 174                                   | <b>202</b>   | 180                                     | 191                                   |
| Total shares in controlled entities, associates and jointly controlled entities | <b>190</b>   | 174                                     | 177                                   | <b>7,669</b>                                       | 8,774                                   | 7,684                                 |
| <b>Shares in associates comprises:</b>  |  |   |                                       |  |   |                                       |
| Balance at beginning of the period  | <b>3</b>   | 13                                      | 13                                    | <b>3</b>   | 3                                       | 3                                     |
| Acquisitions  | <b>2</b>   |   |                                       |  |   |                                       |
| Disposals   |  |   | (10)                                  |  |   |                                       |
| Balance at end of the period  | <b>5</b>   | 13                                      | 3                                     | <b>3</b>   | 3                                       | 3                                     |

Shares in associates at 31 March 2007 includes goodwill of \$2 million (31/03/2006 \$nil; 30/09/2006 \$nil).

**Shares in jointly controlled entities  
comprises:**

|   |            |     |     |            |     |     |
|---|------------|-----|-----|------------|-----|-----|
| Balance at beginning of the period                              | <b>174</b> | 145 | 145 | <b>191</b> | 164 | 164 |
| Acquisitions  |            | 4   | 7   |            | 4   | 5   |
| Share of profit of equity accounted jointly controlled entities | <b>11</b>  | 12  | 22  | <b>11</b>  | 12  | 22  |
| Balance at end of the period                                    | <b>185</b> | 161 | 174 | <b>202</b> | 180 | 191 |

Shares in jointly controlled entities at 31 March 2007 includes goodwill of \$93 million (31/03/2006 \$90 million; 30/09/2006 \$93 million).

**17. OTHER ASSETS**

|  |            |     |     |            |     |     |
|--|------------|-----|-----|------------|-----|-----|
| Accrued interest and prepaid discounts | <b>481</b> | 423 | 443 | <b>414</b> | 357 | 383 |
| Accrued commission                     | <b>11</b>  | 11  | 11  | <b>8</b>   | 8   | 8   |
| Defined benefit schemes surplus        | <b>14</b>  | 6   | 6   | <b>14</b>  | 6   | 6   |
| Share-based payments asset             | <b>38</b>  | 15  | 36  | <b>38</b>  | 15  | 36  |

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|                      |            |     |     |            |     |     |
|----------------------|------------|-----|-----|------------|-----|-----|
| Prepaid expenses     | <b>34</b>  | 26  | 25  | <b>28</b>  | 20  | 18  |
| Security settlements | <b>44</b>  | 16  | 310 | <b>44</b>  | 16  | 310 |
| Other assets         | <b>178</b> | 109 | 59  | <b>140</b> | 83  | 36  |
| Total other assets   | <b>800</b> | 606 | 890 | <b>686</b> | 505 | 797 |

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**18. DEFERRED TAX ASSETS**

|   | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|---|--|---|---------------------------------------|--|---|---------------------------------------|
| <b>Deferred tax assets</b>  |  |   |                                       |  |   |                                       |
| Balance at beginning of the period  | 332  | 415                                     | 415                                   | 307  | 395                                     | 395                                   |
| Adjustment on adoption of NZ IAS 39 on 1 October 2005   |  | (30 )                                   | (30 )                                 |  | (43 )                                   | (43 )                                 |
| Transfer from deferred tax liabilities  |  | (6 )                                    | (6 )                                  |  | (6 )                                    | (6 )                                  |
| Transfer to held for sale assets  |  |   | (6 )                                  |  |   |                                       |
| Credited (charged) to income statement continuing operations  | 21   | (16 )                                   | (41 )                                 | 17   | (18 )                                   | (39 )                                 |
| Balance at end of the period  | 353  | 363                                     | 332                                   | 324  | 328                                     | 307                                   |
| <b>Deferred tax assets comprise the following temporary differences:</b>  |  |   |                                       |  |   |                                       |
| Provision for credit impairment   | 151  | 163                                     | 152                                   | 137  | 143                                     | 137                                   |
| Deferred fee revenue and expenses   | 4  | 8                                       | 5                                     | 4  | 8                                       | 5                                     |
| Premises and equipment  | 4  | 4                                       | 4                                     | (1 )   | (1 )                                    | (1 )                                  |
| Software  | 33   | 20                                      | 32                                    | 32   | 19                                      | 31                                    |
| Provisions and accruals   | 93   | 104                                     | 99                                    | 84   | 95                                      | 95                                    |
| Derivative financial instruments  | 47   | 9                                       | 9                                     | 47   | 9                                       | 9                                     |
| Other   | 21   | 55                                      | 31                                    | 21   | 55                                      | 31                                    |
| Total deferred tax assets   | 353  | 363                                     | 332                                   | 324  | 328                                     | 307                                   |
| <b>The deferred tax credited (charged) to the income statement comprises the following temporary differences:</b> |  |   |                                       |  |   |                                       |
| Provision for credit impairment   | (1 )   | (3 )                                    | (14 )                                 |  | (4 )                                    | (9 )                                  |
| Deferred fee revenue and expenses   | (1 )   |   | (4 )                                  | (1 )   |   | (3 )                                  |
| Premises and equipment  |  |   | (2 )                                  |  | (5 )                                    | (6 )                                  |
| Software  | 1  | 2                                       | 16                                    | 1  | 1                                       | 15                                    |
| Provisions and accruals   | (6 )   | 5                                       | 6                                     | (11 )  | 8                                       | 8                                     |
| Derivative financial instruments  | 38   | (29 )                                   | (30 )                                 | 38   | (29 )                                   | (30 )                                 |
| Other   | (10 )  | 9                                       | (13 )                                 | (10 )  | 11                                      | (14 )                                 |
| Total deferred tax credited (charged) to the income statement continuing operations                               | 21   | (16 )                                   | (41 )                                 | 17   | (18 )                                   | (39 )                                 |

There was no deferred tax asset charged or credited to equity as at 31 March 2007 (31/03/2006 \$nil; 30/09/2006 \$nil).

There are no unrecognised deferred tax assets as at 31 March 2007 (31/03/2006 \$nil; 30/09/2006 \$nil).

**19. PREMISES AND EQUIPMENT**

|  | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|--|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|
| <b>Freehold and leasehold land and buildings</b> |  |                                |                              |  |                                |                              |
| At cost  | 68   | 68                             | 68                           |  |                                |                              |
| Accumulated depreciation                         | (11 )  | (11 )                          | (11 )                        |  |                                |                              |
| Total carrying amount                            | 57   | 57                             | 57                           |  |                                |                              |
| <b>Leasehold improvements</b>                    |  |                                |                              |  |                                |                              |
| At cost  | 94   | 99                             | 98                           | 1  | 4                              | 3                            |
| Accumulated depreciation                         | (71 )  | (71 )                          | (71 )                        |  | (3 )                           | (2 )                         |
| Total carrying amount                            | 23   | 28                             | 27                           | 1  | 1                              | 1                            |
| <b>Operating lease assets</b>                    |  |                                |                              |  |                                |                              |
| At cost  |  | 729                            |                              |  |                                |                              |
| Accumulated depreciation                         |  | (231 )                         |                              |  |                                |                              |
| Total carrying amount                            |  | 498                            |                              |  |                                |                              |
| <b>Furniture and equipment</b>                   |  |                                |                              |  |                                |                              |
| At cost  | 236  | 224                            | 233                          | 17                                       | 24                             | 19                           |
| Accumulated depreciation                         | (159 )   | (160 )                         | (158 )                       | (9 )                                     | (18 )                          | (12 )                        |
| Total carrying amount                            | 77   | 64                             | 75                           | 8  | 6                              | 7                            |
| <b>Computer and office equipment</b>             |  |                                |                              |  |                                |                              |
| At cost  | 236  | 264                            | 238                          | 198                                      | 224                            | 198                          |
| Accumulated depreciation                         | (184 )   | (213 )                         | (193 )                       | (155 )                                   | (184 )                         | (164 )                       |
| Total carrying amount                            | 52   | 51                             | 45                           | 43                                       | 40                             | 34                           |
| Work in progress                                 | 16   | 31                             | 36                           | 2  | 4                              | 17                           |
| Total premises and equipment                     | 225  | 729                            | 240                          | 54                                       | 51                             | 59                           |

|  | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|--|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|
| Reconciliation of the carrying amounts for each class of premises and equipment are set out below: |  |                                |                              |  |                                |                              |
| <b>Freehold and leasehold land and buildings</b>   |  |                                |                              |  |                                |                              |
| Balance at beginning of the period   | 57   | 58                             | 58                           |  | 3                              | 3                            |
| Additions  | 1  |                                |                              |  |                                |                              |
| Transfers to subsidiary company  |  |                                |                              |  | (3)                            | (3)                          |
| Depreciation   | (1)  | (1)                            | (1)                          |  |                                |                              |
| Balance at end of the period   | 57   | 57                             | 57                           |  |                                |                              |
| <b>Leasehold improvements</b>  |  |                                |                              |  |                                |                              |
| Balance at beginning of the period   | 27   | 28                             | 28                           | 1  | 21                             | 21                           |
| Additions  | 2  | 3                              | 6                            |  |                                |                              |
| Transfer to held for sale assets   |  |                                | (1)                          |  | (19)                           |                              |
| Transfers to subsidiary company  |  |                                |                              |  | (1)                            | (19)                         |
| Disposals  | (3)  |                                |                              |  |                                |                              |
| Depreciation   | (3)  | (3)                            | (6)                          |  |                                | (1)                          |
| Balance at end of the period   | 23   | 28                             | 27                           | 1  | 1                              | 1                            |
| <b>Operating lease assets</b>  |  |                                |                              |  |                                |                              |
| Balance at beginning of the period   |  | 484                            | 484                          |  |                                |                              |
| Additions  |  | 80                             | 176                          |  |                                |                              |
| Transfer to held for sale assets   |  |                                | (485)                        |  |                                |                              |
| Disposals  |  | (21)                           | (85)                         |  |                                |                              |
| Depreciation   |  | (45)                           | (90)                         |  |                                |                              |
| Balance at end of the period   |  | 498                            |                              |  |                                |                              |
| <b>Furniture and equipment</b>   |  |                                |                              |  |                                |                              |
| Balance at beginning of the period   | 75   | 66                             | 66                           | 7  | 30                             | 30                           |
| Additions  | 12   | 4                              | 22                           | 4  |                                | 2                            |
| Transfers to subsidiary company  |  |                                |                              |  | (22)                           | (22)                         |
| Disposals  | (3)  |                                |                              | (1)                                      |                                |                              |
| Depreciation   | (7)  | (6)                            | (13)                         | (2)                                      | (2)                            | (3)                          |
| Balance at end of the period   | 77   | 64                             | 75                           | 8  | 6                              | 7                            |
| <b>Computer and office equipment</b>   |  |                                |                              |  |                                |                              |
| Balance at beginning of the period   | 45   | 56                             | 56                           | 34                                       | 45                             | 45                           |
| Additions  | 18   | 6                              | 14                           | 18                                       | 5                              | 10                           |
| Disposals  | (1)  |                                | (2)                          | (1)                                      |                                | (1)                          |
| Depreciation   | (10)   | (11)                           | (23)                         | (8)                                      | (10)                           | (20)                         |
| Balance at end of the period   | 52   | 51                             | 45                           | 43                                       | 40                             | 34                           |
| <b>Work in progress</b>  |  |                                |                              |  |                                |                              |
| Balance at beginning of the period   | 36   | 26                             | 26                           | 17                                       | 15                             | 15                           |
| Transfers to subsidiary company  |  |                                |                              |  | (11)                           | (11)                         |
| Net (transfers) additions  | (20)   | 5                              | 10                           | (15)                                     |                                | 13                           |

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|                              |            |     |     |           |    |    |
|------------------------------|------------|-----|-----|-----------|----|----|
| Balance at end of the period | <b>16</b>  | 31  | 36  | <b>2</b>  | 4  | 17 |
| Total premises and equipment | <b>225</b> | 729 | 240 | <b>54</b> | 51 | 59 |

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**20. GOODWILL AND OTHER INTANGIBLE ASSETS**

|  | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|--|--|---|---------------------------------------|--|---|---------------------------------------|
| <b>Goodwill</b>                            |  |   |                                       |  |   |                                       |
| <b>Gross carrying amount</b>               |  |   |                                       |  |   |                                       |
| Balance at beginning of the period         | <b>3,265</b>   | 3,263                                   | 3,263                                 | <b>3,217</b>                                       | 3,217                                   | 3,217                                 |
| Additions                                  |  |   | 3                                     |  |   |                                       |
| Transfer to held for sale assets           |  |   | (1 )                                  |  |   |                                       |
| Balance at end of the period               | <b>3,265</b>   | 3,263                                   | 3,265                                 | <b>3,217</b>                                       | 3,217                                   | 3,217                                 |
| <b>Software</b>                            |  |   |                                       |  |   |                                       |
| <b>Gross carrying amount</b>               |  |   |                                       |  |   |                                       |
| Balance at beginning of the period         | <b>51</b>  | 41                                      | 41                                    | <b>50</b>  | 41                                      | 41                                    |
| Additions from internal developments       | <b>8</b>   | 4                                       | 10                                    | <b>7</b>   | 4                                       | 9                                     |
| Balance at end of the period               | <b>59</b>  | 45                                      | 51                                    | <b>57</b>  | 45                                      | 50                                    |
| <b>Accumulated amortisation</b>            |  |   |                                       |  |   |                                       |
| Balance at beginning of the period         | <b>(32 )</b>   | (25 )                                   | (25 )                                 | <b>(32 )</b>                                       | (25 )                                   | (25 )                                 |
| Amortisation expense(1)                    | <b>(3 )</b>  | (4 )                                    | (7 )                                  | <b>(3 )</b>  | (4 )                                    | (7 )                                  |
| Balance at end of the period               | <b>(35 )</b>   | (29 )                                   | (32 )                                 | <b>(35 )</b>                                       | (29 )                                   | (32 )                                 |
| Total software                             | <b>24</b>  | 16                                      | 19                                    | <b>22</b>  | 16                                      | 18                                    |
| <b>Other intangible assets</b>             | <b>4</b>   | 4                                       | 4                                     | <b>4</b>   | 4                                       | 4                                     |
| Total goodwill and other intangible assets | <b>3,293</b>   | 3,283                                   | 3,288                                 | <b>3,243</b>                                       | 3,237                                   | 3,239                                 |

No impairment losses have been recognised against the gross carrying amount of goodwill, software and other intangible assets for the six months ended 31 March 2007 (31/03/2006 \$nil; 30/09/2006 \$nil).

(1) Software amortisation expense is included in other costs in the income statement.

**21. DUE TO OTHER FINANCIAL INSTITUTIONS**

|  | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|--|--|---|---------------------------------------|--|---|---------------------------------------|
| Australia and New Zealand Banking Group Limited (Ultimate Parent Company)                            | <b>2,106</b>   | 1,502                                   | 1,082                                 |  |   |                                       |
| Securities sold under agreements to repurchase from other financial institutions                     | <b>233</b>   | 1,189                                   | 1,362                                 | <b>233</b>   | 1,189                                   | 1,362                                 |
| Other financial institutions   | <b>1,839</b>   | 1,245                                   | 1,543                                 | <b>1,508</b>                                       | 1,168                                   | 1,466                                 |
| <b>Total due to other financial institutions</b>   | <b>4,178</b>   | 3,936                                   | 3,987                                 | <b>1,741</b>                                       | 2,357                                   | 2,828                                 |
| <b>Included within due to other financial institutions is the following balance:</b>                 |  |   |                                       |  |   |                                       |
| Balances owing to the Ultimate Parent Company by ANZ National (Int 1) Limited guaranteed by the Bank | <b>2,106</b>   | 1,502                                   | 1,082                                 |  |   |                                       |

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

**22. DEPOSITS AND OTHER BORROWINGS**

| <b>Amortised cost</b>  |               |        |        |               |        |        |
|--|---------------|--------|--------|---------------|--------|--------|
| Certificates of deposit  | <b>5,190</b>  | 4,359  | 3,941  | <b>5,190</b>  | 4,359  | 3,941  |
| Term deposits  | <b>26,231</b> | 25,678 | 26,293 | <b>26,231</b> | 25,678 | 26,293 |
| Demand deposits bearing interest   | <b>21,659</b> | 17,369 | 19,856 | <b>21,244</b> | 16,952 | 19,441 |
| Deposits not bearing interest  | <b>3,953</b>  | 4,078  | 3,919  | <b>3,953</b>  | 4,078  | 3,919  |
| Secured debenture stock  | <b>1,960</b>  | 2,119  | 2,077  |               |        |        |
| Secured deposits   | <b>200</b>    | 200    | 200    |               |        |        |
| <b>Total deposits and other borrowings recognised at amortised cost</b>                          | <b>59,193</b> | 53,803 | 56,286 | <b>56,618</b> | 51,067 | 53,594 |
| <b>Fair value through the profit or loss</b>   |               |        |        |               |        |        |
| Commercial paper   | <b>5,565</b>  | 7,913  | 6,890  |               |        |        |
| <b>Total deposits and other borrowings recognised at fair value</b>                              | <b>5,565</b>  | 7,913  | 6,890  |               |        |        |
| <b>Total deposits and other borrowings</b>   | <b>64,758</b> | 61,716 | 63,176 | <b>56,618</b> | 51,067 | 53,594 |
| <b>Included within deposits and other borrowings is the following balance:</b>                   |               |        |        |               |        |        |
| Commercial paper issued by ANZ National (Int 1) Limited guaranteed by the Bank at amortised cost | <b>5,570</b>  | 7,919  | 6,894  |               |        |        |
| <b>UDC Finance Limited secured debentures</b>  |               |        |        |               |        |        |

Registered secured debenture stock is constituted and secured by trust deeds between certain companies within the UDC Group (the Charging Group ) and independent trustees. The trust deeds create floating charges over all the assets, primarily loans and advances and operating lease assets, of those companies. As at the date of these financial statements, UDC Finance Limited is the only member of the Charging Group. Until its disposal on 31 October 2006, Truck Leasing Limited was also a member of the Charging Group.

|   |              |       |       |
|---|--------------|-------|-------|
| Carrying value of total tangible assets | <b>2,248</b> | 2,448 | 2,383 |
|---|--------------|-------|-------|

All changes in the fair value of commercial paper is attributable to changes in the benchmark interest rates (31/03/2006 all changes; 30/09/2006 all changes).

The principal at maturity of commercial paper at fair value through the profit and loss is \$5,645 million (31/03/2006 \$8,007 million; 30/09/2006 \$6,995 million).

**23. PAYABLES AND OTHER LIABILITIES**

|   | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|---|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|
| Creditors                                   | 57   | 174                            | 68                           | 35                                       | 141                            | 45                           |
| Accrued interest and unearned discounts     | 609  | 524                            | 546                          | 483                                      | 413                            | 416                          |
| Share-based payments liability              | 15   | 6                              | 33                           | 15                                       | 6                              | 33                           |
| Accrued charges                             | 131  | 160                            | 166                          | 123                                      | 145                            | 160                          |
| Security settlements                        | 312  | 247                            | 184                          | 312                                      | 247                            | 184                          |
| Equitable assignment of mortgages           | 37   | 51                             | 44                           | 37                                       | 51                             | 44                           |
| Other liabilities                           | 252  | 201                            | 199                          | 127                                      | 140                            | 133                          |
| <b>Total payables and other liabilities</b> | <b>1,413</b>                                   | 1,363                          | 1,240                        | <b>1,132</b>                             | 1,143                          | 1,015                        |

**24. DEFERRED TAX LIABILITIES****Provision for deferred income tax**

|   |            |      |      |            |      |     |
|---|------------|------|------|------------|------|-----|
| Balance at beginning of the period                    | 210        | 150  | 150  | 202        | 120  | 120 |
| Adjustment on adoption of NZ IAS 39 on 1 October 2005 |            | 21   | 21   |            | 21   | 21  |
| Transfer to deferred tax assets                       |            | (6)  | (6)  |            | (6)  | (6) |
| Transfer to held for sale liabilities                 |            |      | (29) |            |      |     |
| Charged to income statement continuing operations     | 42         | 33   | 60   | 44         | 28   | 61  |
| Charged to income statement discontinued operations   |            |      | 8    |            |      |     |
| Charged (credited) directly to equity                 | 10         | (20) | 6    | 10         | (20) | 6   |
| <b>Balance at end of the period</b>                   | <b>262</b> | 178  | 210  | <b>256</b> | 143  | 202 |

**Deferred income tax liabilities comprise the following temporary differences:**

|                                       |            |     |     |            |     |     |
|---------------------------------------|------------|-----|-----|------------|-----|-----|
| Lease finance                         | 104        | 101 | 90  | 98         | 66  | 82  |
| Share compensation                    | 8          | 5   | 4   | 8          | 5   | 4   |
| Defined benefit schemes               | 5          | 1   | 2   | 5          | 1   | 2   |
| Other                                 | 145        | 71  | 114 | 145        | 71  | 114 |
| <b>Total deferred tax liabilities</b> | <b>262</b> | 178 | 210 | <b>256</b> | 143 | 202 |

**The deferred tax charged (credited) to the income statement comprises the following temporary differences:**

|   |           |     |     |           |     |     |
|---|-----------|-----|-----|-----------|-----|-----|
| Lease finance   | 14        | 29  | 39  | 16        | 24  | 40  |
| Share compensation  | 4         | 1   |     | 4         | 1   |     |
| Defined benefit schemes   | 3         | (1) | (1) | 3         | (1) | (1) |
| Other   | 21        | 4   | 22  | 21        | 4   | 22  |
| <b>Total deferred tax charged to the income statement continuing operations</b> | <b>42</b> | 33  | 60  | <b>44</b> | 28  | 61  |

**The deferred tax charged (credited) to equity comprises the following temporary differences:**

Signatures



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|  |           |     |   |   |           |     |   |   |
|--|-----------|-----|---|---|-----------|-----|---|---|
| Cash flow hedges   | <b>10</b> | (20 | ) | 6 | <b>10</b> | (20 | ) | 6 |
| Total deferred tax charged (credited) directly to equity | <b>10</b> | (20 | ) | 6 | <b>10</b> | (20 | ) | 6 |

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**25. PROVISIONS**

|  | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|--|--|---|---------------------------------------|--|---|---------------------------------------|
| <b>Non-lending losses, frauds and forgeries</b>      | <b>3</b>   | 13                                      | 4                                     | <b>3</b>   | 13                                      | 4                                     |
| <b>Employee entitlements (Note 1)</b>                |  |   |                                       |  |   |                                       |
| Balance at beginning of the period                   | <b>107</b>   | 109                                     | 109                                   | <b>106</b>   | 107                                     | 107                                   |
| New provisions                                       | <b>28</b>  | 27                                      | 52                                    | <b>28</b>  | 27                                      | 50                                    |
| Provisions utilised                                  | <b>(29 )</b>   | (30 )                                   | (53 )                                 | <b>(29 )</b>                                       | (30 )                                   | (51 )                                 |
| Transfer to held for sale liabilities                |  |   | (1 )                                  |  |   |                                       |
| Balance at end of the period                         | <b>106</b>   | 106                                     | 107                                   | <b>105</b>   | 104                                     | 106                                   |
| <b>Personnel restructuring costs (Note 2)</b>        |  |   |                                       |  |   |                                       |
| Balance at beginning of the period                   | <b>9</b>   | 6                                       | 6                                     | <b>9</b>   | 6                                       | 6                                     |
| New provisions                                       |  | 8                                       | 8                                     |  | 8                                       | 8                                     |
| Provisions utilised                                  | <b>(3 )</b>  | (2 )                                    | (4 )                                  | <b>(3 )</b>  | (2 )                                    | (4 )                                  |
| Unused amounts reversed                              |  | (1 )                                    | (1 )                                  |  | (1 )                                    | (1 )                                  |
| Balance at end of the period                         | <b>6</b>   | 11                                      | 9                                     | <b>6</b>   | 11                                      | 9                                     |
| <b>Redundant assets restructuring costs (Note 2)</b> |  |   |                                       |  |   |                                       |
| Balance at beginning of the period                   | <b>5</b>   | 16                                      | 16                                    | <b>2</b>   | 13                                      | 13                                    |
| New provisions                                       |  |   | 1                                     |  |   | 1                                     |
| Transfers from subsidiary company                    |  |   |                                       | <b>1</b>   |   |                                       |
| Provisions utilised                                  | <b>(2 )</b>  | (1 )                                    | (4 )                                  | <b>(1 )</b>  | (1 )                                    | (3 )                                  |
| Unused amounts reversed                              |  | (6 )                                    | (8 )                                  |  | (6 )                                    | (9 )                                  |
| Balance at end of the period                         | <b>3</b>   | 9                                       | 5                                     | <b>2</b>   | 6                                       | 2                                     |
| <b>Other provisions</b>                              | <b>26</b>  | 10                                      | 10                                    | <b>11</b>  | 10                                      | 10                                    |
| <b>Total provisions</b>                              | <b>144</b>   | 149                                     | 135                                   | <b>127</b>   | 144                                     | 131                                   |

**Note1: Employee entitlements**

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

**Note 2: Personnel restructuring costs and redundant assets restructuring costs**

Restructuring cost provisions arise from exit activities relating to material changes in the scope or manner of business undertaken by the Banking Group and includes termination benefits. Provisions are made when the Banking Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated. The provisions recognised at 31 March 2007 are expected to be settled over the 2007 financial year, with the exception that provisions for losses arising from rental commitments on leased premises which have become vacant as a result of restructuring will be settled over the remaining term of the leases.

## 26. BONDS AND NOTES

|   |                   |                         |                 |                           | Consolidated | Unaudited  | Audited    | Unaudited  | Parent     | Audited    |
|---|-------------------|-------------------------|-----------------|---------------------------|--------------|------------|------------|------------|------------|------------|
|   |                   |                         |                 |                           | Unaudited    | Unaudited  | 30/09/2006 | Unaudited  | Unaudited  | Audited    |
|   |                   |                         |                 |                           | 31/03/2007   | 31/03/2006 | 30/09/2006 | 31/03/2007 | 31/03/2006 | 30/09/2006 |
|   |                   |                         |                 |                           | \$m          | \$m        | \$m        | \$m        | \$m        | \$m        |
| <b>Issued by ANZ National Bank Limited</b>    |                   |                         |                 |                           |              |            |            |            |            |            |
| <b>Denomination</b>                           | <b>Face value</b> |                         | <b>Maturity</b> | <b>Interest rate %</b>    |              |            |            |            |            |            |
| USD   | 300m              | floating rate bond      | 2006            | LIBOR + 0.05%             |              | 490        |            |            | 490        |            |
| NZD   | 150m              | fixed rate notes        | 2009            | 6.82%                     | 150          | 150        | 150        | 150        | 150        | 150        |
| NZD   | 150m              | fixed rate notes        | 2011            | 6.80%                     | 150          | 150        | 150        | 150        | 150        | 150        |
| Other bonds and notes(1)                      |                   |                         |                 |                           | 209          | 145        | 175        | 209        | 145        | 175        |
|   |                   |                         |                 |                           | <b>509</b>   | <b>935</b> | <b>475</b> | <b>509</b> | <b>935</b> | <b>475</b> |
| <b>Issued by ANZ National (Int'l) Limited</b> |                   |                         |                 |                           |              |            |            |            |            |            |
| <b>Denomination</b>                           | <b>Face value</b> |                         | <b>Maturity</b> | <b>Interest rate %</b>    |              |            |            |            |            |            |
| HKD   | 156m              | floating rate notes     | 2006            | 3 month HIBOR + 0.1125%   |              | 33         |            |            |            |            |
| HKD   | 234m              | fixed rate notes        | 2006            | 4.95%                     |              | 49         | 46         |            |            |            |
| USD   | 10m               | fixed rate notes        | 2006            | 4.045%                    |              | 16         |            |            |            |            |
| USD   | 50m               | floating rate notes     | 2006            | 3 month LIBOR 0.11%       |              | 82         |            |            |            |            |
| GBP   | 100m              | floating rate notes     | 2007            | 3 month GBP LIBOR 0.03%   |              | 285        | 288        |            |            |            |
| GBP   | 250m              | floating rate notes (2) | 2007            | 3 month LIBOR 0.01%       | 688          | 713        | 719        |            |            |            |
| USD   | 100m              | floating rate notes     | 2007            | 3 month LIBOR 0.10%       | 140          |            | 153        |            |            |            |
| EUR   | 25m               | floating rate notes     | 2007            | 3 month EURIBOR 0.08%     | 47           |            | 49         |            |            |            |
| EUR   | 100m              | floating rate notes     | 2008            | 3 month EURIBOR + 0.02%   | 187          | 199        | 195        |            |            |            |
| GBP   | 300m              | floating rate notes     | 2008            | 3 month GBP LIBOR + 0.01% | 825          | 855        | 863        |            |            |            |
| HKD   | 80m               | fixed rate notes        | 2008            | 3.93%                     | 14           | 17         | 16         |            |            |            |
| NZD   | 150m              | fixed rate notes        | 2008            | 6.50%                     | 150          | 150        | 150        |            |            |            |
| USD   | 27m               | fixed rate notes (3)    | 2008            | 4.25%                     | 38           | 44         | 41         |            |            |            |
| USD   | 120m              | floating rate notes     | 2008            | 3 month LIBOR 0.06%       | 168          |            |            |            |            |            |
| USD   | 250m              | fixed rate notes        | 2008            | 4.265%                    | 350          | 408        | 383        |            |            |            |
| USD   | 750m              | floating rate notes     | 2008            | 3 month LIBOR + 0.07%     | 1,050        | 1,225      | 1,149      |            |            |            |
| GBP   | 40m               | floating rate notes     | 2008            | 3 month GBP LIBOR 0.065%  | 110          |            | 115        |            |            |            |
| JPY   | 9,000m            | floating rate notes     | 2008            | 3 month JPY LIBOR         | 107          |            | 117        |            |            |            |
| EUR   | 750m              | floating rate notes     | 2009            | 3 month EURIBOR + 0.12%   | 1,401        | 1,490      | 1,461      |            |            |            |
| HKD   | 1,000m            | fixed rate notes        | 2009            | 4.40%                     | 179          | 211        | 197        |            |            |            |
| NZD   | 150m              | floating rate notes     | 2009            | 3 month BKBK + 0.10%      | 150          | 150        | 150        |            |            |            |
| HKD   | 300m              | fixed rate notes        | 2009            | 4.93%                     | 54           |            | 59         |            |            |            |
| HKD   | 280m              |                         | 2009            | 4.44%                     | 50           |            |            |            |            |            |

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|     |        | fixed rate notes        |      |                        |        |       |        |  |
|-----|--------|-------------------------|------|------------------------|--------|-------|--------|--|
| USD | 750m   | floating rate notes     | 2009 | 3 month LIBOR + 0.04%  | 1,050  |       | 1,150  |  |
| USD | 250m   | floating rate notes     | 2009 | 3 month Prime 2.9125%  | 350    |       |        |  |
| USD | 300m   | floating rate notes     | 2009 | 1 month LIBOR + 0.04%  | 420    |       |        |  |
| NZD | 20m    | floating rate notes     | 2009 | 3 month BKBM + 0.05%   | 20     |       | 20     |  |
| HKD | 130m   | floating rate notes (4) | 2010 | 3 month HIBOR + 0.46%  |        | 27    | 26     |  |
| HKD | 150m   | floating rate notes (5) | 2010 | 6 month HIBOR + 0.60%  | 27     | 32    | 30     |  |
| HKD | 190m   | floating rate notes (6) | 2010 | 6 month HIBOR + 0.60%  | 34     | 40    | 37     |  |
| HKD | 200m   | floating rate notes (7) | 2010 | 6 month HIBOR + 0.60%  | 36     | 42    | 39     |  |
| HKD | 200m   | floating rate notes (8) | 2010 | 3 month HIBOR + 0.405% |        | 42    | 39     |  |
| USD | 750m   | floating rate notes     | 2010 | 3 month LIBOR + 0.11%  | 1,050  | 1,225 | 1,149  |  |
| USD | 1,500m | floating rate notes (9) | 2010 | 1 month LIBOR          | 2,101  | 2,450 | 2,297  |  |
| NZD | 100m   | floating rate notes     | 2010 | 3 month BKBM + 0.05%   | 100    |       |        |  |
| USD | 75m    | fixed rate notes (10)   | 2011 | 5.182%                 |        | 123   | 115    |  |
| USD | 300m   | fixed rate notes        | 2011 | 5.50%                  | 420    |       | 460    |  |
| GBP | 350m   | floating rate notes     | 2011 | 3 month LIBOR + 0.05%  | 963    |       |        |  |
| HKD | 200m   | fixed rate notes (11)   | 2011 | 5.10%                  | 36     |       |        |  |
| HKD | 200m   | fixed rate notes (12)   | 2011 | 4.90%                  | 36     |       |        |  |
|     |        |                         |      |                        | 12,351 | 9,908 | 11,513 |  |

**Issued by NBNZ Holdings Limited**

| Denomination          | Face value |                          | Maturity | Interest rate % |        |        |        |             |
|-----------------------|------------|--------------------------|----------|-----------------|--------|--------|--------|-------------|
| NZD                   | 480m       | floating rate notes (13) | 2008     | 3 month BKBM    | 480    | 480    | 480    |             |
| Total bonds and notes |            |                          |          |                 | 13,340 | 11,323 | 12,468 | 509 935 475 |

**Included within bonds and notes is the following related party balance:**

|   |     |     |     |
|---|-----|-----|-----|
| Australia and New Zealand Banking Group Limited (Ultimate Parent Company) | 688 | 713 | 719 |
|---|-----|-----|-----|

(1) Other bonds and notes includes index linked notes, equity linked notes and other fixed rate and fixed term bonds.

(2) These notes were issued to Australia and New Zealand Banking Group Limited.

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

(4) The interest rate payable on these notes is stepped as follows: Year 1 HIBOR + 0.46%, Years 2 – 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 4.60% after Year 1 and stepping up 0.25% every 6 months. The issuer exercised their option to call the note on 6 October 2006.

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

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

(7) The interest rate payable on these notes is stepped as follows: Year 1 HIBOR + 1.26%, Years 2 – 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 4.00% after Year 1 and stepping up 0.25% every 6 months. The issuer has the right to redeem the notes on every semiannual coupon date from 26 May 2006.

(8) The interest rate payable on these notes is stepped as follows: Year 1 HIBOR + 0.405%, Years 2 – 5 HIBOR + 0.60%. For each 6 month period after Year 1, there is a maximum interest rate payable, starting at 4.60% after Year 1 and stepping up 0.25% every 6 months. The issuer exercised their option to call the note on 6 October 2006.

(9) The interest rate payable on these notes is stepped as follows: Year 1 1 month LIBOR – 0.02%, Year 2 1 month LIBOR, Year 3 1 month LIBOR + 0.01%, Year 4 1 month LIBOR + 0.02% and Year 5 1 month LIBOR + 0.03%. The investor may elect to extend the maturity of the notes for a year on a monthly basis.

(10) These notes were redeemed at the option of the issuer on 1 February 2007.

(11) The interest rate payable on these notes is stepped as follows: Year 1 5.10% per annum, Year 2 4.65% per annum, Years 3, 4 and 5 4.40% per annum. The issuer has the right to redeem the notes on every coupon date from 5 December 2007.

(12) The interest rate payable on these notes is stepped as follows: Year 1 4.90% per annum, Year 2 4.65% per annum, Years 3, 4 and 5 4.40% per annum. The issuer has the right to redeem the notes on every coupon date from 6 December 2007.

(13) These notes can be redeemed by giving not less than 30 days notice by the note holder.

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

**27. RELATED PARTY FUNDING**

|   | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|---|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|
| ANZ Holdings (New Zealand) Limited (Parent Company) | 2,764  | 2,643                          | 2,720                        | 2,764                                    | 2,643                          | 2,720                        |

The following amounts have been provided by the Parent Company:

| Date advanced  | Underlying currency |
|----------------|---------------------|
| September 2003 | AUD 1,000,000,000   |
| November 2003  | USD 1,100,000,000   |

These funds have been borrowed in New Zealand dollars on an overnight basis and are at call. Interest is payable monthly, based on New Zealand overnight deposit rates. The New Zealand dollar equivalents of the AUD and USD funds have been hedged by the Parent Company until 17 September 2007 and 15 December 2007 respectively.

**28. LOAN CAPITAL**

|   | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|---|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|
| AUD 207,450,000 term subordinated floating rate loan                        | 234  | 243                            | 238                          | 234                                      | 243                            | 238                          |
| AUD 265,740,000 perpetual subordinated floating rate loan                   | 301  | 311                            | 304                          | 301                                      | 311                            | 304                          |
| AUD 186,100,000 term subordinated floating rate loan                        | 211  | 218                            | 213                          | 211                                      | 218                            | 213                          |
| AUD 43,767,507 term subordinated floating rate loan                         | 50   |                                | 50                           | 50                                       |                                | 50                           |
| NZD term subordinated fixed rate bonds                                      | 1,243  | 750                            | 1,000                        | 1,243                                    | 750                            | 1,000                        |
| Total loan capital  | 2,039  | 1,522                          | 1,805                        | 2,039                                    | 1,522                          | 1,805                        |
| <b>Included within loan capital is the following related party balance:</b> |  |                                |                              |  |                                |                              |
| Australia and New Zealand Banking Group Limited (Ultimate Parent Company)   | 796  | 772                            | 805                          | 796                                      | 772                            | 805                          |

**AUD 207,450,000 loan**

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

**AUD 265,740,000 loan**

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

**AUD 186,100,000 loan**

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

### AUD 43,767,507 loan

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

### NZD term subordinated fixed rate bonds

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

#### *New Zealand Exchange listed bonds*

| Issue date        | Amount \$m | Coupon rate | Call date           | Maturity date     |
|-------------------|------------|-------------|---------------------|-------------------|
| 23 July 2002      | 300        | 7.05        | % 23 July 2007      | 23 July 2012      |
| 15 September 2006 | 350        | 7.16        | % 15 September 2011 | 15 September 2016 |
| 2 March 2007      | 250        | 7.60        | % 2 March 2012      | 2 March 2017      |

The Bank may elect to redeem the bonds on their call date. If the bonds are not called they will continue to pay interest to maturity at the five year interest rate swap rate plus 0.80% p.a., 0.75% p.a. and 0.76% p.a. for the \$300 million, \$350 million and \$250 million bonds, respectively. Interest is payable half yearly in arrears based on the fixed coupon rate.

As at 31 March 2007 these bonds carried an AA- rating by Standard & Poor's.

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

#### *Non listed bonds*

| Issue date       | Amount \$m | Coupon rate | Call date           | Maturity date     |
|------------------|------------|-------------|---------------------|-------------------|
| 15 March 2002    | 125        | 7.61        | % 16 April 2007     | 16 April 2012     |
| 15 July 2002     | 125        | 7.40        | % 17 September 2007 | 17 September 2012 |
| 20 February 2003 | 100        | 6.46        | % 20 August 2008    | 20 August 2013    |

The Bank may elect to redeem the bonds on their call date. If the bonds are not called they will continue to pay interest to maturity at the five year interest rate swap rate plus 1.00% p.a., apart from the 20 August 2013 bonds, which will continue to pay interest to maturity at the five year interest rate swap rate plus 0.97% p.a. Interest is payable half yearly in arrears based on the fixed coupon rate. On 16 April 2007, the Bank redeemed bonds with face value of \$125 million and a coupon rate of 7.61%.

As at 31 March 2007 these bonds carried an AA- rating by Standard & Poor's.

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.

**29. ORDINARY SHARE CAPITAL**

|   | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>Issued<br/>Shares</b> | <b>Unaudited<br/>31/03/2006<br/>Issued<br/>Shares</b> | <b>Audited<br/>30/09/2006<br/>Issued<br/>Shares</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>Issued<br/>Shares</b> | <b>Unaudited<br/>31/03/2006<br/>Issued<br/>Shares Issued</b> | <b>Audited<br/>30/09/2006<br/>Issued<br/>Shares</b> |
|---|--|---|---|--|--|---|
| Ordinary shares at beginning and end of the period        | <b>700,755,498</b>   | 700,755,498   | 700,755,498   | <b>700,755,498</b>   | 700,755,498  | 700,755,498   |
|   | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b>               | <b>Unaudited<br/>31/03/2006<br/>\$m</b>               | <b>Audited<br/>30/09/2006<br/>\$m</b>               | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b>               | <b>Unaudited<br/>31/03/2006<br/>\$m</b>                      | <b>Audited<br/>30/09/2006<br/>\$m</b>               |
| Ordinary share capital at beginning and end of the period | <b>5,943</b>   | 5,943   | 5,943   | <b>5,943</b>   | 5,943  | 5,943   |

The authorised share capital of the Bank comprises 700,755,498 ordinary shares. At beginning and end of the period 650,712 ordinary shares were uncalled (31/03/2006 650,712 shares; 30/09/2006 650,712 shares).

**Voting rights**

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

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

**30. RESERVES AND RETAINED PROFITS**

|   | <b>Consolidated<br/>Unaudited<br/>6 months to<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>6 months to<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>Year to<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>6 months to<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>6 months to<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>Year to<br/>30/09/2006<br/>\$m</b> |
|---|--|---|---|--|---|---|
| <b>Available-for-sale revaluation reserve</b>                                   |  |   |   |  |   |   |
| Balance at beginning of the period  | <b>3</b>   | n/a   | n/a   | <b>3</b>   | n/a   | n/a   |
| Adjustment on adoption of NZ IAS 39 on 1 October 2005                           |  |   |   |  |   |   |
| Valuation gain recognised after tax   |  |   | 3   |  |   | 3   |
| Cumulative gain transferred to the income statement on sale of financial assets | <b>(3 )</b>  |   |   | <b>(3 )</b>  |   |   |
| Balance at end of the period  |  |   | 3   |  |   | 3   |
| <b>Cash flow hedging reserve</b>  |  |   |   |  |   |   |
| Balance at beginning of the period  | <b>52</b>  | n/a   | n/a   | <b>52</b>  | n/a   | n/a   |



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|  |              |       |   |       |              |          |    |       |    |   |
|--|--------------|-------|---|-------|--------------|----------|----|-------|----|---|
| Adjustment on adoption of NZ IAS 39 on 1 October 2005      |              | 40    |   | 40    |              | 40       |    | 40    |    |   |
| Valuation gain recognised after tax                        | <b>21</b>    | (40   | ) | 12    | <b>21</b>    | (40      | )  | 12    |    |   |
| Balance at end of the period                               | <b>73</b>    |       |   | 52    | <b>73</b>    |          |    | 52    |    |   |
| Total reserves   | <b>73</b>    |       |   | 55    | <b>73</b>    |          |    | 55    |    |   |
| <b>Retained profits</b>                                    |              |       |   |       |              |          |    |       |    |   |
| Balance at beginning of the period                         | <b>2,235</b> | 2,003 |   | 2,003 | <b>651</b>   | 851      |    | 851   |    |   |
| Adjustment on adoption of NZ IAS 39 on 1 October 2005      |              | 61    |   | 61    |              | 90       |    | 90    |    |   |
| Profit after income tax                                    | <b>635</b>   | 520   |   | 1,072 | <b>425</b>   | 287      |    | 611   |    |   |
| Total available for appropriation                          | <b>2,870</b> | 2,584 |   | 3,136 | <b>1,076</b> | 1,228    |    | 1,552 |    |   |
| Actuarial gain (loss) on defined benefit schemes after tax | <b>6</b>     | (1    | ) | (1    | )            | <b>6</b> | (1 | )     | (1 | ) |
| Interim ordinary dividends paid                            |              |       |   | (900  | )            |          |    | (900  | )  |   |
| Balance at end of the period                               | <b>2,876</b> | 2,583 |   | 2,235 | <b>1,082</b> | 1,227    |    | 651   |    |   |

A dividend of \$400 million was declared on 13 April 2006 and paid on 5 May 2006. A dividend of \$500 million was declared on 10 August 2006 and paid on 15 September 2006.

A dividend of \$360 million was declared on 12 April 2007.

The declared dividend on ordinary shares was \$0.51 per share (31/03/2006 \$0.57 per share; 30/09/2006 \$1.28 per share).

## 31. CAPITAL ADEQUACY

|   | Consolidated<br>Unaudited<br>31/03/2007 |   | Unaudited<br>31/03/2006 |   | Audited<br>30/09/2006 |   | Registered Bank<br>Unaudited<br>31/03/2007 |   | Unaudited<br>31/03/2006 |   | Audited<br>30/09/2006 |   |
|---|---|---|-------------------------|---|-----------------------|---|--|---|-------------------------|---|-----------------------|---|
| <b>Capital Adequacy Ratios</b>              |   |   |                         |   |                       |   |  |   |                         |   |                       |   |
| Tier 1 Capital                              | <b>7.98</b>                             | % | 8.24                    | % | 7.34                  | % | <b>7.68</b>                                | % | 8.06                    | % | 7.09                  | % |
| Total Capital                               | <b>11.03</b>                            | % | 10.70                   | % | 10.14                 | % | <b>9.82</b>                                | % | 9.54                    | % | 8.96                  | % |
| Reserve Bank of New Zealand minimum ratios: |   |   |                         |   |                       |   |  |   |                         |   |                       |   |
| Tier 1 Capital                              | <b>4.00</b>                             | % | 4.00                    | % | 4.00                  | % | <b>4.00</b>                                | % | 4.00                    | % | 4.00                  | % |
| Total Capital                               | <b>8.00</b>                             | % | 8.00                    | % | 8.00                  | % | <b>8.00</b>                                | % | 8.00                    | % | 8.00                  | % |

The information contained in the table below has been derived in accordance with the Conditions of Registration imposed pursuant to section 74 (4) (b) of the Reserve Bank of New Zealand Act 1989 and the capital adequacy framework issued by the Reserve Bank of New Zealand.

For the purposes of calculating the capital adequacy ratios for the Registered Bank ( solo basis ), wholly owned and wholly funded subsidiaries of ANZ National Bank Limited are consolidated with the Bank. In this context, wholly funded by the Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Department of Inland Revenue and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary s shareholders equity. Wholly owned by the Bank means that all equity issued by the subsidiary is held by the Bank.

|  | Consolidated<br>Unaudited<br>31/03/2007<br>\$m |  | Unaudited<br>31/03/2006<br>\$m |  | Audited<br>30/09/2006<br>\$m |  | Registered Bank<br>Unaudited<br>31/03/2007<br>\$m |  | Unaudited<br>31/03/2006<br>\$m |  | Audited<br>30/09/2006<br>\$m |  |
|--|--|--|--------------------------------|--|------------------------------|--|---|--|--------------------------------|--|------------------------------|--|
| <b>Tier 1 Capital</b>                            |  |  |                                |  |                              |  |   |  |                                |  |                              |  |
| Ordinary share capital                           | <b>5,943</b>                                   |  | 5,943                          |  | 5,943                        |  | <b>5,943</b>                                      |  | 5,943                          |  | 5,943                        |  |
| Revenue and similar reserves                     | <b>2,314</b>                                   |  | 2,063                          |  | 1,218                        |  | <b>2,003</b>                                      |  | 1,823                          |  | 979                          |  |
| Current period s profit after tax                | <b>635</b>                                     |  | 520                            |  | 1,072                        |  | <b>618</b>  |  | 484                            |  | 1,001                        |  |
| <b>Less deductions from Tier 1 Capital</b>       |  |  |                                |  |                              |  |   |  |                                |  |                              |  |
| - Goodwill                                       | <b>3,265</b>                                   |  | 3,263                          |  | 3,266                        |  | <b>3,262</b>                                      |  | 3,262                          |  | 3,262                        |  |
| Other intangible assets                          | <b>28</b>                                      |  | 20                             |  | 23                           |  | <b>26</b>   |  | 20                             |  | 22                           |  |
| Defined benefit schemes surplus                  | <b>14</b>                                      |  |                                |  |                              |  | <b>14</b>   |  |                                |  |                              |  |
| - Equity investment in ING NZ                    | <b>177</b>                                     |  | 157                            |  | 167                          |  | <b>177</b>  |  | 157                            |  | 167                          |  |
| - Cash flow hedging reserve                      | <b>73</b>                                      |  |                                |  | 52                           |  | <b>73</b>   |  |                                |  | 52                           |  |
| <b>Total Tier 1 Capital</b>                      | <b>5,335</b>                                   |  | 5,086                          |  | 4,725                        |  | <b>5,012</b>                                      |  | 4,811                          |  | 4,420                        |  |
| <b>Tier 2 Capital Upper Level Tier 2 Capital</b> |  |  |                                |  |                              |  |   |  |                                |  |                              |  |
| Perpetual subordinated debt                      | <b>301</b>                                     |  | 311                            |  | 304                          |  | <b>301</b>  |  | 311                            |  | 304                          |  |
| <b>Tier 2 Capital Lower Level Tier 2 Capital</b> |  |  |                                |  |                              |  |   |  |                                |  |                              |  |

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|   |               |        |        |               |        |        |
|---|---------------|--------|--------|---------------|--------|--------|
| Term subordinated debt                              | <b>1,738</b>  | 1,211  | 1,501  | <b>1,738</b>  | 1,211  | 1,501  |
| <b>Total Tier 2 Capital</b>                         | <b>2,039</b>  | 1,522  | 1,805  | <b>2,039</b>  | 1,522  | 1,805  |
| <b>Total Tier 1 Capital<br/>Plus Tier 2 Capital</b> | <b>7,374</b>  | 6,608  | 6,530  | <b>7,051</b>  | 6,333  | 6,225  |
| <b>Less deductions from<br/>Total Capital</b>       |               |        |        |               |        |        |
| - Equity investments<br>in subsidiaries             |               |        |        | <b>642</b>    | 637    | 642    |
| <b>Capital</b>                                      | <b>7,374</b>  | 6,608  | 6,530  | <b>6,409</b>  | 5,696  | 5,583  |
| <b>Total risk-weighted<br/>exposures</b>            |               |        |        |               |        |        |
| On-balance sheet<br>exposures                       | <b>61,726</b> | 57,321 | 60,160 | <b>60,144</b> | 55,312 | 58,137 |
| Off-balance sheet<br>exposures                      | <b>5,140</b>  | 4,410  | 4,223  | <b>5,123</b>  | 4,391  | 4,185  |
|   | <b>66,866</b> | 61,731 | 64,383 | <b>65,267</b> | 59,703 | 62,322 |

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**Total Risk Weighted Exposures of the Banking Group as at 31 March 2007 (Unaudited):**

|  | Principal<br>Amount<br>\$m | Risk<br>Weight<br>% | Risk<br>Weighted<br>\$m |
|--|----------------------------|---------------------|-------------------------|
| <b>On-balance sheet exposures</b>        |                            |                     |                         |
| Cash and short term claims on Government | 4,981                      | 0                   |                         |
| Long term claims on Government           | 657                        | 10                  | 66                      |
| Claims on banks                          | 4,385                      | 20                  | 877                     |
| Claims on public sector entities         | 422                        | 20                  | 84                      |
| Residential mortgages                    | 46,399                     | 50                  | 23,200                  |
| Other                                    | 37,499                     | 100                 | 37,499                  |
| Non-risk weighted assets                 | 6,615                      | n/a                 |                         |
| <b>Total on-balance sheet exposures</b>  | <b>100,958</b>             |                     | <b>61,726</b>           |

|  | Notional<br>Principal<br>Amount<br>\$m | Credit<br>Conversion<br>Factor<br>% | Credit<br>Equivalent<br>Amount<br>\$m | Average<br>Risk<br>Weight<br>% | Risk<br>Weighted<br>\$m |
|--|--|-------------------------------------|---------------------------------------|--------------------------------|-------------------------|
| <b>Off-balance sheet exposures</b>   |  |                                     |                                       |                                |                         |
| Direct credit substitutes  | 2,177                                  | 100                                 | 2,177                                 | 45                             | 984                     |
| Commitments with certain drawdown  | 2,391                                  | 100                                 | 2,391                                 | 63                             | 1,499                   |
| Transaction related contingent liabilities   | 371                                    | 50                                  | 185                                   | 100                            | 185                     |
| Short term self liquidating trade related contingencies  | 150                                    | 20                                  | 30                                    | 71                             | 21                      |
| Other commitments to provide financial services which have an original maturity of one year or more                  | 2,013                                  | 50                                  | 1,007                                 | 100                            | 1,007                   |
| Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time | 18,089                                 | 0                                   |                                       | 100                            |                         |
| Market related contracts(1)  |  |                                     |                                       |                                |                         |
| - Foreign exchange   | 73,209                                 |                                     | 3,138                                 | 27                             | 844                     |
| - Interest rate  | 360,243                                |                                     | 2,742                                 | 22                             | 596                     |
| Equity   | 20                                     |                                     | 21                                    | 20                             | 4                       |
| <b>Total off-balance sheet exposures</b>   | <b>458,663</b>                         |                                     | <b>11,691</b>                         |                                | <b>5,140</b>            |

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

**Total Risk Weighted Exposures of the Banking Group as at 3 March 2006 (Unaudited):**

|  | <b>Principal<br/>Amount<br/>\$m</b> | <b>Risk<br/>Weight<br/>%</b> | <b>Risk<br/>Weighted<br/>\$m</b> |
|--|-------------------------------------|------------------------------|----------------------------------|
| <b>On-balance sheet exposures</b>        |                                     |                              |                                  |
| Cash and short term claims on Government | 2,053                               | 0                            |                                  |
| Long term claims on Government           | 1,004                               | 10                           | 100                              |
| Claims on banks                          | 7,342                               | 20                           | 1,468                            |
| Claims on public sector entities         | 391                                 | 20                           | 78                               |
| Residential mortgages                    | 41,072                              | 50                           | 20,536                           |
| Other                                    | 35,139                              | 100                          | 35,139                           |
| Non-risk weighted assets                 | 7,293                               | n/a                          |                                  |
| <b>Total on-balance sheet exposures</b>  | <b>94,294</b>                       |                              | <b>57,321</b>                    |

|  | <b>Notional<br/>Principal<br/>Amount<br/>\$m</b> | <b>Credit<br/>Conversion<br/>Factor<br/>%</b> | <b>Credit<br/>Equivalent<br/>Amount<br/>\$m</b> | <b>Average<br/>Risk<br/>Weight<br/>%</b> | <b>Risk<br/>Weighted<br/>\$m</b> |
|--|--|---|---|--|----------------------------------|
| <b>Off-balance sheet exposures</b>   |  |   |   |  |                                  |
| Direct credit substitutes  | 1,890  | 100   | 1,890   | 44                                       | 828                              |
| Commitments with certain drawdown  | 1,353  | 100   | 1,353   | 73                                       | 986                              |
| Transaction related contingent liabilities   | 328  | 50  | 164   | 100                                      | 164                              |
| Short term self liquidating trade related contingencies  | 279  | 20  | 56  | 84                                       | 47                               |
| Other commitments to provide financial services which have an original maturity of one year or more                  | 1,429  | 50  | 715   | 100                                      | 715                              |
| Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time | 17,469   | 0   |   | 100                                      |                                  |
| Market related contracts(1)  |  |   |   |  |                                  |
| - Foreign exchange   | 74,594   |   | 5,009   | 27                                       | 1,354                            |
| - Interest rate  | 192,537  |   | 1,264   | 25                                       | 312                              |
| - Equity   | 30   |   | 22  | 20                                       | 4                                |
| <b>Total off-balance sheet exposures</b>   | <b>289,909</b>                                   |   | <b>10,473</b>                                   |  | <b>4,410</b>                     |

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

**Total Risk Weighted Exposures of the Banking Group as at 30 September 2006 (Audited):**

|  | <b>Principal<br/>Amount<br/>\$m</b> | <b>Risk<br/>Weight<br/>%</b> | <b>Risk<br/>Weighted<br/>\$m</b> |
|--|-------------------------------------|------------------------------|----------------------------------|
| <b>On-balance sheet exposures</b>        |                                     |                              |                                  |
| Cash and short term claims on Government | 2,328                               | 0                            |                                  |
| Long term claims on Government           | 824                                 | 10                           | 82                               |
| Claims on banks                          | 6,481                               | 20                           | 1,296                            |
| Claims on public sector entities         | 425                                 | 20                           | 85                               |
| Residential mortgages                    | 43,526                              | 50                           | 21,763                           |
| Other                                    | 36,934                              | 100                          | 36,934                           |
| Non-risk weighted assets                 | 5,506                               | n/a                          |                                  |
| <b>Total on-balance sheet exposures</b>  | <b>96,024</b>                       |                              | <b>60,160</b>                    |

|  | <b>Notional<br/>Principal<br/>Amount<br/>\$m</b> | <b>Credit<br/>Conversion<br/>Factor<br/>%</b> | <b>Credit<br/>Equivalent<br/>Amount<br/>\$m</b> | <b>Average<br/>Risk<br/>Weight<br/>%</b> | <b>Risk<br/>Weighted<br/>\$m</b> |
|--|--|---|---|--|----------------------------------|
| <b>Off-balance sheet exposures</b>   |  |   |   |  |                                  |
| Direct credit substitutes  | 2,056  | 100   | 2,056   | 46                                       | 946                              |
| Commitments with certain drawdown  | 1,259  | 100   | 1,259   | 61                                       | 771                              |
| Transaction related contingent liabilities   | 376  | 50  | 188   | 100                                      | 188                              |
| Short term self liquidating trade related contingencies  | 89   | 20  | 18  | 94                                       | 17                               |
| Other commitments to provide financial services which have an original maturity of one year or more                  | 2,351  | 50  | 1,175   | 100                                      | 1,175                            |
| Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time | 17,987   | 0   |   | 100                                      |                                  |
| Market related contracts(1)  |  |   |   |  |                                  |
| - Foreign exchange   | 73,017   |   | 2,840   | 26                                       | 745                              |
| - Interest rate  | 253,530  |   | 1,665   | 23                                       | 377                              |
| - Equity   | 30   |   | 22  | 20                                       | 4                                |
| <b>Total off-balance sheet exposures</b>   | <b>350,695</b>                                   |   | <b>9,223</b>                                    |  | <b>4,223</b>                     |

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

**Total Risk Weighted Exposures of the Registered Bank as at 31 March 2007 (Unaudited):**

|  | Principal<br>Amount<br>\$m | Risk<br>Weight<br>% | Risk<br>Weighted<br>\$m |
|--|----------------------------|---------------------|-------------------------|
| <b>On-balance sheet exposures</b>        |                            |                     |                         |
| Cash and short term claims on Government | 4,681                      | 0                   |                         |
| Long term claims on Government           | 657                        | 10                  | 66                      |
| Claims on banks                          | 3,878                      | 20                  | 776                     |
| Claims on public sector entities         | 422                        | 20                  | 84                      |
| Residential mortgages                    | 46,399                     | 50                  | 23,200                  |
| Other                                    | 36,018                     | 100                 | 36,018                  |
| Non-risk weighted assets                 | 7,252                      | n/a                 |                         |
| <b>Total on-balance sheet exposures</b>  | <b>99,307</b>              |                     | <b>60,144</b>           |

|  | Notional<br>Principal<br>Amount<br>\$m | Credit<br>Conversion<br>Factor<br>% | Credit<br>Equivalent<br>Amount<br>\$m | Average<br>Risk<br>Weight<br>% | Risk<br>Weighted<br>\$m |
|--|--|-------------------------------------|---------------------------------------|--------------------------------|-------------------------|
| <b>Off-balance sheet exposures</b>   |  |                                     |                                       |                                |                         |
| Direct credit substitutes  | 2,177                                  | 100                                 | 2,177                                 | 45                             | 984                     |
| Commitments with certain drawdown  | 2,391                                  | 100                                 | 2,391                                 | 63                             | 1,499                   |
| Transaction related contingent liabilities   | 371                                    | 50                                  | 185                                   | 100                            | 185                     |
| Short term self liquidating trade related contingencies  | 148                                    | 20                                  | 30                                    | 72                             | 21                      |
| Other commitments to provide financial services which have an original maturity of one year or more                  | 1,980                                  | 50                                  | 990                                   | 100                            | 990                     |
| Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time | 17,917                                 | 0                                   |                                       | 100                            |                         |
| Market related contracts(1)  |  |                                     |                                       |                                |                         |
| - Foreign exchange   | 73,209                                 |                                     | 3,138                                 | 27                             | 844                     |
| - Interest rate  | 359,826                                |                                     | 2,741                                 | 22                             | 596                     |
| - Equity   | 20                                     |                                     | 21                                    | 20                             | 4                       |
| <b>Total off-balance sheet exposures</b>   | <b>458,039</b>                         |                                     | <b>11,673</b>                         |                                | <b>5,123</b>            |

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

**Total Risk Weighted Exposures of the Registered Bank as at 31 March 2006 (Unaudited):**

|  | <b>Principal<br/>Amount<br/>\$m</b> | <b>Risk<br/>Weight<br/>%</b> | <b>Risk<br/>Weighted<br/>\$m</b> |
|--|-------------------------------------|------------------------------|----------------------------------|
| <b>On-balance sheet exposures</b>        |                                     |                              |                                  |
| Cash and short term claims on Government | 1,753                               | 0                            |                                  |
| Long term claims on Government           | 1,004                               | 10                           | 100                              |
| Claims on banks                          | 6,786                               | 20                           | 1,357                            |
| Claims on public sector entities         | 391                                 | 20                           | 78                               |
| Residential mortgages                    | 41,040                              | 50                           | 20,520                           |
| Other                                    | 33,257                              | 100                          | 33,257                           |
| Non-risk weighted assets                 | 7,929                               | n/a                          |                                  |
| <b>Total on-balance sheet exposures</b>  | <b>92,160</b>                       |                              | <b>55,312</b>                    |

|  | <b>Notional<br/>Principal<br/>Amount<br/>\$m</b> | <b>Credit<br/>Conversion<br/>Factor<br/>%</b> | <b>Credit<br/>Equivalent<br/>Amount<br/>\$m</b> | <b>Average<br/>Risk<br/>Weight<br/>%</b> | <b>Risk<br/>Weighted<br/>\$m</b> |
|--|--|---|---|--|----------------------------------|
| <b>Off-balance sheet exposures</b>   |  |   |   |  |                                  |
| Direct credit substitutes  | 1,890  | 100   | 1,890   | 44                                       | 828                              |
| Commitments with certain drawdown  | 1,334  | 100   | 1,334   | 73                                       | 967                              |
| Transaction related contingent liabilities   | 328  | 50  | 164   | 100                                      | 164                              |
| Short term self liquidating trade related contingencies  | 277  | 20  | 55  | 85                                       | 47                               |
| Other commitments to provide financial services which have an original maturity of one year or more                  | 1,429  | 50  | 715   | 100                                      | 715                              |
| Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time | 17,000   | 0   |   | 100                                      |                                  |
| Market related contracts(1)  |  |   |   |  |                                  |
| - Foreign exchange   | 74,591   |   | 5,009   | 27                                       | 1,354                            |
| - Interest rate  | 191,771  |   | 1,264   | 25                                       | 312                              |
| Equity   | 30   |   | 22  | 20                                       | 4                                |
| <b>Total off-balance sheet exposures</b>   | <b>288,650</b>                                   |   | <b>10,453</b>                                   |  | <b>4,391</b>                     |

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



**Total Risk Weighted Exposures of the Registered Bank as at 30 September 2006 (Audited):**

|  | <b>Principal<br/>Amount<br/>\$m</b> | <b>Risk<br/>Weight<br/>%</b> | <b>Risk<br/>Weighted<br/>\$m</b> |
|--|-------------------------------------|------------------------------|----------------------------------|
| <b>On-balance sheet exposures</b>        |                                     |                              |                                  |
| Cash and short term claims on Government | 2,028                               | 0                            |                                  |
| Long term claims on Government           | 824                                 | 10                           | 82                               |
| Claims on banks                          | 5,950                               | 20                           | 1,190                            |
| Claims on public sector entities         | 425                                 | 20                           | 85                               |
| Residential mortgages                    | 43,526                              | 50                           | 21,763                           |
| Other                                    | 35,017                              | 100                          | 35,017                           |
| Non-risk weighted assets                 | 6,143                               | n/a                          |                                  |
| <b>Total on-balance sheet exposures</b>  | <b>93,913</b>                       |                              | <b>58,137</b>                    |

|  | <b>Notional<br/>Principal<br/>Amount<br/>\$m</b> | <b>Credit<br/>Conversion<br/>Factor<br/>%</b> | <b>Credit<br/>Equivalent<br/>Amount<br/>\$m</b> | <b>Average<br/>Risk<br/>Weight<br/>%</b> | <b>Risk<br/>Weighted<br/>\$m</b> |
|--|--|---|---|--|----------------------------------|
| <b>Off-balance sheet exposures</b>   |  |   |   |  |                                  |
| Direct credit substitutes  | 2,056  | 100   | 2,056   | 46                                       | 946                              |
| Commitments with certain drawdown  | 1,221  | 100   | 1,221   | 60                                       | 733                              |
| Transaction related contingent liabilities   | 376  | 50  | 188   | 100                                      | 188                              |
| Short term self liquidating trade related contingencies  | 87   | 20  | 17  | 97                                       | 17                               |
| Other commitments to provide financial services which have an original maturity of one year or more                  | 2,351  | 50  | 1,175   | 100                                      | 1,175                            |
| Other commitments with an original maturity less than one year or which can be unconditionally cancelled at any time | 17,805   | 0   |   | 100                                      |                                  |
| Market related contracts(1)  |  |   |   |  |                                  |
| - Foreign exchange   | 73,016   |   | 2,840   | 26                                       | 745                              |
| - Interest rate  | 252,713  |   | 1,665   | 23                                       | 377                              |
| Equity   | 30   |   | 22  | 20                                       | 4                                |
| <b>Total off-balance sheet exposures</b>   | <b>349,655</b>                                   |   | <b>9,184</b>                                    |  | <b>4,185</b>                     |

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

## 32. FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments.

By their nature, the Banking Group's activities are principally related to the use of financial instruments including derivatives. The Banking Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn an interest margin by investing these funds in high quality assets. The Banking Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Banking Group also seeks to raise its interest margins through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Banking Group also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Banking Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency and interest rate prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

### Credit Risk

The Banking Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Banking Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Banking Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a portion is personal lending (i.e. credit cards) where no such facilities can be obtained.

### Derivatives

The Banking Group maintains strict control limits on net open derivatives positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Banking Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Banking Group requires margin deposits from counterparties.

### Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit which represent irrecoverable assurances that the Banking Group will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Documentary and commercial letters of credit which are written undertakings by the Banking Group on behalf of a customer authorising a third party to draw drafts on the Banking Group up to a stipulated amount under specific terms and conditions are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Banking Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Banking Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

**Foreign Currency Related Risk**

The risk related to mismatching of non-traded foreign currency assets and liabilities is presented in Note 37 Foreign Currency Risk.

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**33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

The table below summarises the carrying amounts and fair values of each class of financial assets and liabilities. The methods and significant assumptions applied in determining fair values are outlined on the following page.

|  | Unaudited 31/03/2007      |                      | Unaudited 31/03/2006      |                      | Audited 30/09/2006        |                      |
|--|---------------------------|----------------------|---------------------------|----------------------|---------------------------|----------------------|
|  | Carrying<br>Amount<br>\$m | Fair<br>Value<br>\$m | Carrying<br>Amount<br>\$m | Fair<br>Value<br>\$m | Carrying<br>Amount<br>\$m | Fair<br>Value<br>\$m |
| <b>Consolidated</b>                      |                           |                      |                           |                      |                           |                      |
| <b>Financial assets</b>                  |                           |                      |                           |                      |                           |                      |
| Liquid assets                            | 5,741                     | 5,741                | 1,997                     | 1,997                | 2,698                     | 2,698                |
| Due from other financial institutions    | 3,067                     | 3,067                | 7,110                     | 7,110                | 5,617                     | 5,617                |
| Trading securities                       | 1,917                     | 1,917                | 1,652                     | 1,652                | 1,596                     | 1,596                |
| Derivative financial instruments         | 3,041                     | 3,041                | 3,648                     | 3,648                | 2,020                     | 2,020                |
| Available-for-sale assets                | 45                        | 45                   | 556                       | 556                  | 359                       | 359                  |
| Net loans and advances                   | 82,258                    | 81,807               | 74,176                    | 73,744               | 78,155                    | 77,878               |
| Other financial assets                   | 714                       | 714                  | 559                       | 559                  | 823                       | 823                  |
| <b>Total financial assets</b>            | <b>96,783</b>             | <b>96,332</b>        | <b>89,698</b>             | <b>89,266</b>        | <b>91,268</b>             | <b>90,991</b>        |
| <b>Financial liabilities</b>             |                           |                      |                           |                      |                           |                      |
| Due to other financial institutions      | 4,178                     | 4,177                | 3,936                     | 3,940                | 3,987                     | 3,987                |
| Deposits and other borrowings            | 64,758                    | 64,713               | 61,716                    | 61,693               | 63,176                    | 63,162               |
| Derivative financial instruments         | 3,168                     | 3,168                | 2,927                     | 2,927                | 1,997                     | 1,997                |
| Payables and other financial liabilities | 1,190                     | 1,190                | 1,120                     | 1,120                | 965                       | 965                  |
| Bonds and notes                          | 13,340                    | 13,341               | 11,323                    | 11,326               | 12,468                    | 12,469               |
| Related party funding                    | 2,764                     | 2,764                | 2,643                     | 2,643                | 2,720                     | 2,720                |
| Loan capital                             | 2,039                     | 2,034                | 1,522                     | 1,522                | 1,805                     | 1,802                |
| <b>Total financial liabilities</b>       | <b>91,437</b>             | <b>91,387</b>        | <b>85,187</b>             | <b>85,171</b>        | <b>87,118</b>             | <b>87,102</b>        |
| <b>Parent</b>                            |                           |                      |                           |                      |                           |                      |
| <b>Financial assets</b>                  |                           |                      |                           |                      |                           |                      |
| Liquid assets                            | 5,740                     | 5,740                | 1,997                     | 1,997                | 2,698                     | 2,698                |
| Due from other financial institutions    | 2,580                     | 2,580                | 6,510                     | 6,510                | 5,111                     | 5,111                |
| Trading securities                       | 1,916                     | 1,916                | 1,652                     | 1,652                | 1,596                     | 1,596                |
| Derivative financial instruments         | 3,066                     | 3,066                | 3,648                     | 3,648                | 2,019                     | 2,019                |
| Available-for-sale assets                | 35                        | 35                   | 546                       | 546                  | 349                       | 349                  |
| Net loans and advances                   | 78,570                    | 78,123               | 70,462                    | 70,074               | 74,453                    | 74,192               |
| Due from subsidiary companies            | 1,543                     | 1,543                | 1,577                     | 1,577                | 1,505                     | 1,505                |
| Other financial assets                   | 606                       | 606                  | 464                       | 464                  | 737                       | 737                  |
| <b>Total financial assets</b>            | <b>94,056</b>             | <b>93,609</b>        | <b>86,856</b>             | <b>86,468</b>        | <b>88,468</b>             | <b>88,207</b>        |
| <b>Financial liabilities</b>             |                           |                      |                           |                      |                           |                      |
| Due to other financial institutions      | 1,741                     | 1,741                | 2,357                     | 2,357                | 2,828                     | 2,828                |
| Deposits and other borrowings            | 56,618                    | 56,578               | 51,067                    | 51,046               | 53,594                    | 53,583               |
| Due to subsidiary companies              | 30,185                    | 30,185               | 29,347                    | 29,354               | 28,648                    | 28,656               |
| Derivative financial instruments         | 3,165                     | 3,165                | 2,916                     | 2,916                | 1,992                     | 1,992                |
| Payables and other financial liabilities | 924                       | 924                  | 920                       | 920                  | 755                       | 755                  |
| Bonds and notes                          | 509                       | 509                  | 935                       | 937                  | 475                       | 472                  |
| Related party funding                    | 2,764                     | 2,764                | 2,643                     | 2,643                | 2,720                     | 2,720                |

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|                             |               |               |        |        |        |        |
|-----------------------------|---------------|---------------|--------|--------|--------|--------|
| Loan capital                | <b>2,039</b>  | <b>2,034</b>  | 1,522  | 1,522  | 1,805  | 1,802  |
| Total financial liabilities | <b>97,945</b> | <b>97,900</b> | 91,707 | 91,695 | 92,817 | 92,808 |

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## Methodologies

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Quoted market prices, where available, are used as the measure of fair value. In cases where quoted market prices are not available, fair values are based on present value estimates or other valuation techniques. For the majority of short-term financial instruments, defined as those which reprice or mature within 90 days or less, with no significant change in credit risk, the fair value was assumed to equate to the carrying amount in the balance sheet.

The fair values are based on relevant information available as at balance date. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement, and changes in underlying assumptions could significantly affect these estimates. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

### *Liquid assets and Due from other financial institutions*

The carrying values of these financial instruments are considered to approximate their fair values where they are short term in nature or receivable on demand. Where financial instruments reprice or mature over 90 days, fair values are based on quoted market prices or present value estimates.

### *Trading securities*

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

### *Derivative financial instruments*

Derivative financial instruments are carried at fair value. The fair values of derivative financial instruments such as interest rate swaps and currency swaps were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. Foreign exchange contracts and interest rate option contracts were valued using market prices and options valuation models as appropriate.

### *Available-for-sale assets*

Available-for-sale assets are carried at fair value. Fair value is based on quoted market prices, or broker or dealer price quotations. If this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

### *Net Loans and advances*

The carrying value of net loans and advances includes deferred fees and expenses, and is net of provision for credit impairment and income yet to mature. The estimated fair value of net loans and advances is based on the discounted amount of estimated future cash flows and accordingly has been adjusted for provision for credit impairment.

Estimated contractual cash flows for performing loans are discounted at estimated current bank credit spreads to determine fair value. For loans with doubt as to collection, expected cash flows (inclusive of the value of security) are discounted using a rate which includes a premium for the uncertainty of the flows.

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

### *Other financial assets*

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The carrying value of accrued interest and fees receivable approximate their fair values, as they are short term in nature or are receivable on demand. Deferred tax assets and prepaid expenses are not considered financial assets.

### *Due to other financial institutions*

The carrying value of amounts due to other financial institutions is considered to approximate their fair value where they are short term in nature or payable on demand. Where financial instruments reprice or mature over 90 days, fair values are based on quoted market prices or present value estimates.

### *Deposits and other borrowings*

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

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

### *Payables and other financial liabilities*

This category includes accrued interest and fees payable for which the carrying amount is considered to approximate their fair value. Income tax liabilities, other provisions and accrued charges are not considered financial liabilities.

### *Bonds and notes, related party funding and loan capital*

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

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**34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

Liquidity risk is the risk that the Banking Group and Bank will encounter difficulty in meeting commitments associated with its financial liabilities, e.g. overnight deposits, current accounts, and maturing deposits; and future commitments, e.g. loan draw-downs and guarantees. The Banking Group manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitments based on historical and forecasted cash flow requirements.

The following maturity analysis of assets and liabilities has been prepared on the basis of the remaining period to contractual maturity or expected maturity, where known, as at balance date. The majority of the longer term loans and advances are housing loans, which are likely to be repaid earlier than their contractual terms. Deposits include substantial customer deposits which are repayable on demand. However, historical experience has shown such balances to provide a stable source of long term funding for the Banking Group. When managing liquidity risks, the Banking Group adjusts this contractual profile for expected customer behaviour.

|   | Total<br>Carrying<br>Value<br>\$m | Less Than<br>3 Months<br>\$m | 3-12<br>Months<br>\$m | 1-5<br>Years<br>\$m | Beyond<br>5 Years<br>\$m | No Specified<br>Maturity<br>\$m |
|---|-----------------------------------|------------------------------|-----------------------|---------------------|--------------------------|---------------------------------|
| <b>Consolidated 31/03/2007<br/>(Unaudited):</b> |                                   |                              |                       |                     |                          |                                 |
| <b>Assets</b>                                   |                                   |                              |                       |                     |                          |                                 |
| Liquid assets                                   | 5,741                             | 5,728                        | 13                    |                     |                          |                                 |
| Due from other financial institutions           | 3,067                             | 2,581                        |                       | 200                 | 286                      |                                 |
| Trading securities                              | 1,917                             | 1,490                        | 94                    | 107                 | 226                      |                                 |
| Derivative financial instruments                | 3,041                             |                              |                       |                     |                          | 3,041                           |
| Available-for-sale assets                       | 45                                | 32                           |                       | 13                  |                          |                                 |
| Net loans and advances                          | 82,258                            | 9,230                        | 9,051                 | 22,086              | 42,229                   | (338)                           |
| Other assets                                    | 4,889                             |                              |                       |                     |                          | 4,889                           |
| <b>Total assets</b>                             | <b>100,958</b>                    | <b>19,061</b>                | <b>9,158</b>          | <b>22,406</b>       | <b>42,741</b>            | <b>7,592</b>                    |
| <b>Liabilities</b>                              |                                   |                              |                       |                     |                          |                                 |
| Due to other financial institutions             | 4,178                             | 2,885                        | 816                   | 48                  | 429                      |                                 |
| Deposits and other borrowings                   | 64,758                            | 48,713                       | 13,734                | 2,311               |                          |                                 |
| Derivative financial instruments                | 3,168                             |                              |                       |                     |                          | 3,168                           |
| Other liabilities                               | 1,819                             | 261                          | 11                    |                     |                          | 1,547                           |
| Bonds and notes                                 | 13,340                            | 148                          | 1,186                 | 12,006              |                          |                                 |
| Related party funding                           | 2,764                             | 2,764                        |                       |                     |                          |                                 |
| Loan capital                                    | 2,039                             | 118                          | 425                   | 1,195               | 301                      |                                 |
| <b>Total liabilities</b>                        | <b>92,066</b>                     | <b>54,889</b>                | <b>16,172</b>         | <b>15,560</b>       | <b>730</b>               | <b>4,715</b>                    |
| Net liquidity gap                               | 8,892                             | (35,828)                     | (7,014)               | 6,846               | 42,011                   | 2,877                           |
| Net liquidity gap cumulative                    | 8,892                             | (35,828)                     | (42,842)              | (35,996)            | 6,015                    | 8,892                           |

**Consolidated 31/03/2006  
(Unaudited):**

|                                       |               |               |              |               |               |              |
|---------------------------------------|---------------|---------------|--------------|---------------|---------------|--------------|
| <b>Assets</b>                         |               |               |              |               |               |              |
| Liquid assets                         | 1,997         | 1,997         |              |               |               |              |
| Due from other financial institutions | 7,110         | 6,122         | 737          | 251           |               |              |
| Trading securities                    | 1,652         | 1,289         | 148          | 162           | 53            |              |
| Derivative financial instruments      | 3,648         |               |              |               |               | 3,648        |
| Available-for-sale assets             | 556           | 342           | 181          | 33            |               |              |
| Net loans and advances                | 74,176        | 10,954        | 3,824        | 21,705        | 37,979        | (286)        |
| Other assets                          | 5,155         |               |              |               |               | 5,155        |
| <b>Total assets</b>                   | <b>94,294</b> | <b>20,704</b> | <b>4,890</b> | <b>22,151</b> | <b>38,032</b> | <b>8,517</b> |



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| <b>Liabilities</b>                  |               |               |               |               |              |              |
|-------------------------------------|---------------|---------------|---------------|---------------|--------------|--------------|
| Due to other financial institutions | 3,936         | 3,407         | 512           | 15            | 2            |              |
| Deposits and other borrowings       | 61,716        | 45,613        | 13,370        | 1,583         | 1,150        |              |
| Derivative financial instruments    | 2,927         |               |               |               |              | 2,927        |
| Other liabilities                   | 1,701         | 133           |               |               |              | 1,568        |
| Bonds and notes                     | 11,323        | 622           | 350           | 10,351        |              |              |
| Related party funding               | 2,643         | 2,643         |               |               |              |              |
| Loan capital                        | 1,522         | 100           |               | 1,118         | 304          |              |
| <b>Total liabilities</b>            | <b>85,768</b> | <b>52,518</b> | <b>14,232</b> | <b>13,067</b> | <b>1,456</b> | <b>4,495</b> |
| Net liquidity gap                   | 8,526         | (31,814 )     | (9,342 )      | 9,084         | 36,576       | 4,022        |
| Net liquidity gap cumulative        | 8,526         | (31,814 )     | (41,156 )     | (32,072 )     | 4,504        | 8,526        |

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|   | Total<br>Carrying<br>Value<br>\$m | Less Than<br>3 Months<br>\$m | 3-12<br>Months<br>\$m | 1-5<br>Years<br>\$m | Beyond<br>5 Years<br>\$m | No<br>Specified<br>Maturity<br>\$m |
|---|-----------------------------------|------------------------------|-----------------------|---------------------|--------------------------|------------------------------------|
| <b>Consolidated 30/09/2006<br/>(Audited):</b> |                                   |                              |                       |                     |                          |                                    |
| <b>Assets</b>                                 |                                   |                              |                       |                     |                          |                                    |
| Liquid assets                                 | 2,698                             | 2,677                        | 21                    |                     |                          |                                    |
| Due from other financial institutions         | 5,617                             | 5,010                        | 378                   | 229                 |                          |                                    |
| Trading securities                            | 1,596                             | 1,239                        | 211                   | 51                  | 95                       |                                    |
| Derivative financial instruments              | 2,020                             |                              |                       |                     |                          | 2,020                              |
| Available-for-sale assets                     | 359                               | 313                          |                       | 42                  |                          | 4                                  |
| Net loans and advances                        | 78,155                            | 10,537                       | 7,942                 | 20,621              | 39,364                   | (309)                              |
| Other assets                                  | 5,579                             | 535                          |                       |                     |                          | 5,044                              |
| <b>Total assets</b>                           | <b>96,024</b>                     | <b>20,311</b>                | <b>8,552</b>          | <b>20,943</b>       | <b>39,459</b>            | <b>6,759</b>                       |
| <b>Liabilities</b>                            |                                   |                              |                       |                     |                          |                                    |
| Due to other financial institutions           | 3,987                             | 3,987                        |                       |                     |                          |                                    |
| Deposits and other borrowings                 | 63,176                            | 47,095                       | 13,186                | 2,895               |                          |                                    |
| Derivative financial instruments              | 1,997                             |                              |                       |                     |                          | 1,997                              |
| Other liabilities                             | 1,638                             | 53                           |                       |                     |                          | 1,585                              |
| Bonds and notes                               | 12,468                            | 111                          | 725                   | 11,632              |                          |                                    |
| Related party funding                         | 2,720                             | 2,720                        |                       |                     |                          |                                    |
| Loan capital                                  | 1,805                             |                              | 550                   | 951                 | 304                      |                                    |
| <b>Total liabilities</b>                      | <b>87,791</b>                     | <b>53,966</b>                | <b>14,461</b>         | <b>15,478</b>       | <b>304</b>               | <b>3,582</b>                       |
| Net liquidity gap                             | 8,233                             | (33,655)                     | (5,909)               | 5,465               | 39,155                   | 3,177                              |
| Net liquidity gap cumulative                  | 8,233                             | (33,655)                     | (39,564)              | (34,099)            | 5,056                    | 8,233                              |
| <b>Parent 31/03/2007 (Unaudited):</b>         |                                   |                              |                       |                     |                          |                                    |
| <b>Assets</b>                                 |                                   |                              |                       |                     |                          |                                    |
| Liquid assets                                 | 5,740                             | 5,727                        | 13                    |                     |                          |                                    |
| Due from other financial institutions         | 2,580                             | 2,580                        |                       |                     |                          |                                    |
| Trading securities                            | 1,916                             | 1,489                        | 94                    | 107                 | 226                      |                                    |
| Derivative financial instruments              | 3,066                             |                              |                       |                     |                          | 3,066                              |
| Available-for-sale assets                     | 35                                | 32                           |                       | 3                   |                          |                                    |
| Net loans and advances                        | 78,570                            | 8,930                        | 8,498                 | 19,253              | 42,206                   | (317)                              |
| Due from subsidiary companies                 | 1,543                             | 609                          | 5                     | 758                 | 171                      |                                    |
| Other assets                                  | 12,184                            |                              |                       |                     |                          | 12,184                             |
| <b>Total assets</b>                           | <b>105,634</b>                    | <b>19,367</b>                | <b>8,610</b>          | <b>20,121</b>       | <b>42,603</b>            | <b>14,933</b>                      |
| <b>Liabilities</b>                            |                                   |                              |                       |                     |                          |                                    |
| Due to other financial institutions           | 1,741                             | 1,598                        |                       | 48                  | 95                       |                                    |
| Deposits and other borrowings                 | 56,618                            | 44,931                       | 9,941                 | 1,746               |                          |                                    |
| Due to subsidiary companies                   | 30,185                            | 13,517                       | 5,500                 | 11,168              |                          |                                    |
| Derivative financial instruments              | 3,165                             |                              |                       |                     |                          | 3,165                              |
| Other liabilities                             | 1,515                             | 261                          | 11                    |                     |                          | 1,243                              |
| Bonds and notes                               | 509                               | 10                           | 70                    | 429                 |                          |                                    |
| Related party funding                         | 2,764                             | 2,764                        |                       |                     |                          |                                    |
| Loan capital                                  | 2,039                             | 118                          | 425                   | 1,195               | 301                      |                                    |

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|                              |               |                  |                  |                  |                 |               |
|------------------------------|---------------|------------------|------------------|------------------|-----------------|---------------|
| Total liabilities            | <b>98,536</b> | <b>63,199</b>    | <b>15,947</b>    | <b>14,586</b>    | <b>396</b>      | <b>4,408</b>  |
| Net liquidity gap            | <b>7,098</b>  | <b>(43,832 )</b> | <b>(7,337 )</b>  | <b>5,535</b>     | <b>42,207</b>   | <b>10,525</b> |
| Net liquidity gap cumulative | <b>7,098</b>  | <b>(43,832 )</b> | <b>(51,169 )</b> | <b>(45,634 )</b> | <b>(3,427 )</b> | <b>7,098</b>  |

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|                                       | Total<br>Carrying<br>Value<br>\$m | Less Than<br>3 Months<br>\$m | 3-12<br>Months<br>\$m | 1-5<br>Years<br>\$m | Beyond<br>5 Years<br>\$m | No<br>Specified<br>Maturity<br>\$m |
|---------------------------------------|-----------------------------------|------------------------------|-----------------------|---------------------|--------------------------|------------------------------------|
| <b>Parent 31/03/2006 (Unaudited):</b> |                                   |                              |                       |                     |                          |                                    |
| <b>Assets</b>                         |                                   |                              |                       |                     |                          |                                    |
| Liquid assets                         | 1,997                             | 1,997                        |                       |                     |                          |                                    |
| Due from other financial institutions | 6,510                             | 6,112                        | 398                   |                     |                          |                                    |
| Trading securities                    | 1,652                             | 1,289                        | 148                   | 162                 | 53                       |                                    |
| Derivative financial instruments      | 3,648                             |                              |                       |                     |                          | 3,648                              |
| Available-for-sale assets             | 546                               | 342                          | 181                   | 23                  |                          |                                    |
| Net loans and advances                | 70,462                            | 10,794                       | 3,364                 | 19,145              | 37,417                   | (258)                              |
| Due from subsidiary companies         | 1,577                             | 47                           | 589                   | 941                 |                          |                                    |
| Other assets                          | 12,995                            |                              |                       |                     |                          | 12,995                             |
| <b>Total assets</b>                   | <b>99,387</b>                     | <b>20,581</b>                | <b>4,680</b>          | <b>20,271</b>       | <b>37,470</b>            | <b>16,385</b>                      |
| <b>Liabilities</b>                    |                                   |                              |                       |                     |                          |                                    |
| Due to other financial institutions   | 2,357                             | 2,337                        | 3                     | 15                  | 2                        |                                    |
| Deposits and other borrowings         | 51,067                            | 38,634                       | 10,120                | 1,163               | 1,150                    |                                    |
| Due to subsidiary companies           | 29,347                            | 7,067                        | 7,125                 | 13,901              | 1,254                    |                                    |
| Derivative financial instruments      | 2,916                             |                              |                       |                     |                          | 2,916                              |
| Other liabilities                     | 1,430                             | 133                          |                       |                     |                          | 1,297                              |
| Bonds and notes                       | 935                               | 507                          |                       | 428                 |                          |                                    |
| Related party funding                 | 2,643                             | 2,643                        |                       |                     |                          |                                    |
| Loan capital                          | 1,522                             | 100                          |                       | 1,118               | 304                      |                                    |
| <b>Total liabilities</b>              | <b>92,217</b>                     | <b>51,421</b>                | <b>17,248</b>         | <b>16,625</b>       | <b>2,710</b>             | <b>4,213</b>                       |
| Net liquidity gap                     | 7,170                             | (30,840)                     | (12,568)              | 3,646               | 34,760                   | 12,172                             |
| Net liquidity gap cumulative          | 7,170                             | (30,840)                     | (43,408)              | (39,762)            | (5,002)                  | 7,170                              |
| <b>Parent 30/09/2006 (Audited):</b>   |                                   |                              |                       |                     |                          |                                    |
| <b>Assets</b>                         |                                   |                              |                       |                     |                          |                                    |
| Liquid assets                         | 2,698                             | 2,677                        | 21                    |                     |                          |                                    |
| Due from other financial institutions | 5,111                             | 4,728                        | 378                   | 5                   |                          |                                    |
| Trading securities                    | 1,596                             | 1,239                        | 211                   | 51                  | 95                       |                                    |
| Derivative financial instruments      | 2,019                             |                              |                       |                     |                          | 2,019                              |
| Available-for-sale assets             | 349                               | 313                          |                       | 32                  |                          | 4                                  |
| Net loans and advances                | 74,453                            | 10,318                       | 7,483                 | 17,594              | 39,344                   | (286)                              |
| Due from subsidiary companies         | 1,505                             | 691                          | 5                     | 809                 |                          |                                    |
| Other assets                          | 12,328                            |                              |                       |                     |                          | 12,328                             |
| <b>Total assets</b>                   | <b>100,059</b>                    | <b>19,966</b>                | <b>8,098</b>          | <b>18,491</b>       | <b>39,439</b>            | <b>14,065</b>                      |
| <b>Liabilities</b>                    |                                   |                              |                       |                     |                          |                                    |
| Due to other financial institutions   | 2,828                             | 2,828                        |                       |                     |                          |                                    |
| Deposits and other borrowings         | 53,594                            | 41,532                       | 9,340                 | 2,722               |                          |                                    |
| Due to subsidiary companies           | 28,648                            | 13,580                       | 3,376                 | 11,692              |                          |                                    |
| Derivative financial instruments      | 1,992                             |                              |                       |                     |                          | 1,992                              |
| Other liabilities                     | 1,348                             |                              |                       |                     |                          | 1,348                              |
| Bonds and notes                       | 475                               |                              | 10                    | 465                 |                          |                                    |
| Related party funding                 | 2,720                             | 2,720                        |                       |                     |                          |                                    |
| Loan capital                          | 1,805                             |                              | 550                   | 951                 | 304                      |                                    |
| <b>Total liabilities</b>              | <b>93,410</b>                     | <b>60,660</b>                | <b>13,276</b>         | <b>15,830</b>       | <b>304</b>               | <b>3,340</b>                       |

|                              |       |         |   |         |   |         |        |        |   |       |
|------------------------------|-------|---------|---|---------|---|---------|--------|--------|---|-------|
| Net liquidity gap            | 6,649 | (40,694 | ) | (5,178  | ) | 2,661   | 39,135 | 10,725 |   |       |
| Net liquidity gap cumulative | 6,649 | (40,694 | ) | (45,872 | ) | (43,211 | )      | (4,076 | ) | 6,649 |

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**35. INTEREST SENSITIVITY GAP AND WEIGHTED AVERAGE INTEREST RATES**

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

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.

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

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

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

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

Effective interest rates on hedged transactions within classes of financial assets or liabilities are disclosed inclusive of the impact of the hedging transaction. However, the financial assets or liabilities carrying values do not incorporate the values of the hedging transactions.

|  | Weighted<br>Effective<br>Interest<br>Rate | Total<br>Carrying<br>Value<br>\$m | At Call Or<br>Less Than<br>3 Months<br>\$m | 3-6<br>Months<br>\$m | 6-12<br>Months<br>\$m | 1-5<br>Years<br>\$m | Beyond<br>5 Years<br>\$m | Not Bearing<br>Interest<br>\$m |
|--|---|-----------------------------------|--|----------------------|-----------------------|---------------------|--------------------------|--------------------------------|
| <b>Consolidated</b>                      | <b>Unaudited</b>                          |                                   |  |                      |                       |                     |                          |                                |
| <b>31/03/2007</b>                        |   |                                   |  |                      |                       |                     |                          |                                |
| <b>Assets</b>                            |   |                                   |  |                      |                       |                     |                          |                                |
| Liquid assets                            | 7.25                                      | % 5,741                           | 5,482                                      | 6                    | 8                     |                     |                          | 245                            |
| Due from other financial institutions    | 6.64                                      | % 3,067                           | 2,567                                      |                      |                       | 200                 |                          | 300                            |
| Trading securities                       | 7.53                                      | % 1,917                           | 1,591                                      | 79                   | 3                     | 43                  | 201                      |                                |
| Derivative financial instruments         | n/a                                       | 3,041                             |  |                      |                       |                     |                          | 3,041                          |
| Available-for-sale assets                | 13.01                                     | % 45                              | 32   |                      |                       | 13                  |                          |                                |
| Net loans and advances                   | 9.08                                      | % 82,258                          | 32,963                                     | 4,983                | 6,241                 | 38,280              | 129                      | (338)                          |
| Other financial assets                   | n/a                                       | 714                               |  |                      |                       |                     |                          | 714                            |
| <b>Total financial assets</b>            |   | <b>96,783</b>                     | <b>42,635</b>                              | <b>5,068</b>         | <b>6,252</b>          | <b>38,536</b>       | <b>330</b>               | <b>3,962</b>                   |
| Non-financial assets                     | n/a                                       | 4,175                             |  |                      |                       |                     |                          | 4,175                          |
| <b>Total assets</b>                      |   | <b>100,958</b>                    | <b>42,635</b>                              | <b>5,068</b>         | <b>6,252</b>          | <b>38,536</b>       | <b>330</b>               | <b>8,137</b>                   |
| <b>Liabilities</b>                       |   |                                   |  |                      |                       |                     |                          |                                |
| Due to other financial institutions      | 6.35                                      | % 4,178                           | 2,535                                      | 175                  | 641                   | 48                  | 429                      | 350                            |
| Deposits and other borrowings            | 6.44                                      | % 64,758                          | 43,816                                     | 7,423                | 6,142                 | 3,424               |                          | 3,953                          |
| Derivative financial instruments         | n/a                                       | 3,168                             |  |                      |                       |                     |                          | 3,168                          |
| Payables and other financial liabilities | n/a                                       | 1,190                             | 261  | 11                   |                       |                     | 60                       | 858                            |

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|   |      |          |          |         |       |          |       |         |
|---|------|----------|----------|---------|-------|----------|-------|---------|
| Bonds and notes                           | 7.83 | % 13,340 | 11,340   | 350     | 150   | 1,500    |       |         |
| Related party funding                     | 7.50 | % 2,764  | 2,764    |         |       |          |       |         |
| Loan capital                              | 7.90 | % 2,039  | 329      | 1,010   |       | 700      |       |         |
| Total financial liabilities               |      | 91,437   | 61,045   | 8,969   | 6,933 | 5,672    | 489   | 8,329   |
| Non-financial liabilities                 | n/a  | 629      |          |         |       |          |       | 629     |
| Equity                                    | n/a  | 8,892    |          |         |       |          |       | 8,892   |
| Total liabilities and equity              |      | 100,958  | 61,045   | 8,969   | 6,933 | 5,672    | 489   | 17,850  |
| On-balance sheet interest sensitivity gap |      |          | (18,410) | (3,901) | (681) | 32,864   | (159) | (9,713) |
| Hedging instruments                       | n/a  |          | 22,438   | 5,988   | 3,680 | (32,872) | 766   |         |
| Interest sensitivity gap net              |      |          | 4,028    | 2,087   | 2,999 | (8)      | 607   | (9,713) |
| Interest sensitivity gap cumulative       |      |          | 4,028    | 6,115   | 9,114 | 9,106    | 9,713 |         |

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|   | Weighted<br>Effective<br>Interest<br>Rate | Total<br>Carrying<br>Value<br>\$m | At Call Or<br>Less Than<br>3 Months<br>\$m | 3-6<br>Months<br>\$m | 6-12<br>Months<br>\$m | 1-5<br>Years<br>\$m | Beyond<br>5 Years<br>\$m | Not Bearing<br>Interest<br>\$m |
|---|---|-----------------------------------|--|----------------------|-----------------------|---------------------|--------------------------|--------------------------------|
| <b>Consolidated</b>                       |   |                                   |  |                      |                       |                     |                          |                                |
| <b>Unaudited</b>                          |   |                                   |  |                      |                       |                     |                          |                                |
| <b>31/03/2006</b>                         |   |                                   |  |                      |                       |                     |                          |                                |
| <b>Assets</b>                             |   |                                   |  |                      |                       |                     |                          |                                |
| Liquid assets                             | 6.50                                      | % 1,997                           | 1,789                                      |                      |                       |                     |                          | 208                            |
| Due from other financial institutions     | 7.08                                      | % 7,110                           | 5,916                                      | 520                  | 217                   | 251                 |                          | 206                            |
| Trading securities                        | 7.27                                      | % 1,652                           | 1,289                                      | 134                  | 14                    | 162                 | 53                       |                                |
| Derivative financial instruments          | n/a                                       | 3,648                             |  |                      |                       |                     |                          | 3,648                          |
| Available-for-sale assets                 | 6.69                                      | % 556                             | 355  | 113                  | 68                    | 20                  |                          |                                |
| Net loans and advances                    | 8.78                                      | % 74,176                          | 32,253                                     | 4,421                | 10,139                | 26,944              | 705                      | (286 )                         |
| Other financial assets                    | n/a                                       | 559                               |  |                      |                       |                     |                          | 559                            |
| <b>Total financial assets</b>             |   | 89,698                            | 41,602                                     | 5,188                | 10,438                | 27,377              | 758                      | 4,335                          |
| Non-financial assets                      | n/a                                       | 4,596                             |  |                      |                       |                     |                          | 4,596                          |
| <b>Total assets</b>                       |   | 94,294                            | 41,602                                     | 5,188                | 10,438                | 27,377              | 758                      | 8,931                          |
| <b>Liabilities</b>                        |   |                                   |  |                      |                       |                     |                          |                                |
| Due to other financial institutions       | 6.03                                      | % 3,936                           | 3,282                                      | 509                  |                       |                     |                          | 145                            |
| Deposits and other borrowings             | 6.01                                      | % 61,716                          | 40,190                                     | 9,165                | 4,750                 | 2,383               | 1,150                    | 4,078                          |
| Derivative financial instruments          | n/a                                       | 2,927                             |  |                      |                       |                     |                          | 2,927                          |
| Payables and other financial liabilities  | n/a                                       | 1,120                             | 133  |                      |                       |                     |                          | 987                            |
| Bonds and notes                           | 7.54                                      | % 11,323                          | 9,910                                      | 16                   | 49                    | 1,348               |                          |                                |
| Related party funding                     | 7.25                                      | % 2,643                           | 2,643                                      |                      |                       |                     |                          |                                |
| Loan capital                              | 7.92                                      | % 1,522                           | 318  | 554                  |                       | 650                 |                          |                                |
| <b>Total financial liabilities</b>        |   | 85,187                            | 56,476                                     | 10,244               | 4,799                 | 4,381               | 1,150                    | 8,137                          |
| Non-financial liabilities                 | n/a                                       | 581                               |  |                      |                       |                     |                          | 581                            |
| Equity                                    | n/a                                       | 8,526                             |  |                      |                       |                     |                          | 8,526                          |
| <b>Total liabilities and equity</b>       |   | 94,294                            | 56,476                                     | 10,244               | 4,799                 | 4,381               | 1,150                    | 17,244                         |
| On-balance sheet interest sensitivity gap |   |                                   | (14,874 )                                  | (5,056 )             | 5,639                 | 22,996              | (392 )                   | (8,313 )                       |
| Hedging instruments                       | n/a                                       |                                   | 25,643                                     | 5,167                | (14,437 )             | (16,291 )           | (82 )                    |                                |
| <b>Interest sensitivity gap net</b>       |   |                                   | 10,769                                     | 111                  | (8,798 )              | 6,705               | (474 )                   | (8,313 )                       |
| Interest sensitivity gap cumulative       |   |                                   | 10,769                                     | 10,880               | 2,082                 | 8,787               | 8,313                    |                                |



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|   | Weighted<br>Effective<br>Interest<br>Rate | Total<br>Carrying<br>Value<br>\$m | At Call Or<br>Less Than<br>3 Months<br>\$m | 3-6<br>Months<br>\$m | 6-12<br>Months<br>\$m | 1-5<br>Years<br>\$m | Beyond<br>5 Years<br>\$m | Not Bearing<br>Interest<br>\$m |
|---|---|-----------------------------------|--|----------------------|-----------------------|---------------------|--------------------------|--------------------------------|
| <b>Consolidated Audited</b>               |   |                                   |  |                      |                       |                     |                          |                                |
| <b>30/09/2006</b>                         |   |                                   |  |                      |                       |                     |                          |                                |
| <b>Assets</b>                             |   |                                   |  |                      |                       |                     |                          |                                |
| Liquid assets                             | 6.60                                      | % 2,698                           | 2,384                                      | 13                   | 8                     |                     |                          | 293                            |
| Due from other financial institutions     | 7.28                                      | % 5,617                           | 5,021                                      | 320                  | 8                     | 229                 |                          | 39                             |
| Trading securities                        | 7.38                                      | % 1,596                           | 1,245                                      | 209                  | 1                     | 46                  | 95                       |                                |
| Derivative financial instruments          | n/a                                       | 2,020                             |  |                      |                       |                     |                          | 2,020                          |
| Available-for-sale assets                 | 6.96                                      | % 359                             | 342  |                      |                       | 13                  |                          | 4                              |
| Net loans and advances                    | 8.81                                      | % 78,155                          | 32,359                                     | 4,822                | 9,736                 | 31,399              | 148                      | (309 )                         |
| Other financial assets                    | n/a                                       | 823                               |  |                      |                       |                     |                          | 823                            |
| <b>Total financial assets</b>             |   | <b>91,268</b>                     | <b>41,351</b>                              | <b>5,364</b>         | <b>9,753</b>          | <b>31,687</b>       | <b>243</b>               | <b>2,870</b>                   |
| Non-financial assets                      | n/a                                       | 4,756                             |  |                      |                       |                     |                          | 4,756                          |
| <b>Total assets</b>                       |   | <b>96,024</b>                     | <b>41,351</b>                              | <b>5,364</b>         | <b>9,753</b>          | <b>31,687</b>       | <b>243</b>               | <b>7,626</b>                   |
| <b>Liabilities</b>                        |   |                                   |  |                      |                       |                     |                          |                                |
| Due to other financial institutions       | 5.86                                      | % 3,987                           | 3,906                                      |                      |                       |                     |                          | 81                             |
| Deposits and other borrowings             | 6.20                                      | % 63,176                          | 41,973                                     | 7,540                | 5,845                 | 3,899               |                          | 3,919                          |
| Derivative financial instruments          | n/a                                       | 1,997                             |  |                      |                       |                     |                          | 1,997                          |
| Payables and other financial liabilities  | n/a                                       | 965                               | 5  | 10                   |                       | 32                  | 90                       | 828                            |
| Bonds and notes                           | 7.60                                      | % 12,468                          | 10,681                                     | 115                  | 41                    | 1,631               |                          |                                |
| Related party funding                     | 7.25                                      | % 2,720                           | 2,720                                      |                      |                       |                     |                          |                                |
| Loan capital                              | 7.88                                      | % 1,805                           | 213  | 592                  | 550                   | 450                 |                          |                                |
| <b>Total financial liabilities</b>        |   | <b>87,118</b>                     | <b>59,498</b>                              | <b>8,257</b>         | <b>6,436</b>          | <b>6,012</b>        | <b>90</b>                | <b>6,825</b>                   |
| Non-financial liabilities                 | n/a                                       | 673                               |  |                      |                       |                     |                          | 673                            |
| Equity                                    | n/a                                       | 8,233                             |  |                      |                       |                     |                          | 8,233                          |
| <b>Total liabilities and equity</b>       |   | <b>96,024</b>                     | <b>59,498</b>                              | <b>8,257</b>         | <b>6,436</b>          | <b>6,012</b>        | <b>90</b>                | <b>15,731</b>                  |
| On-balance sheet interest sensitivity gap |   |                                   | (18,147 )                                  | (2,893 )             | 3,317                 | 25,675              | 153                      | (8,105 )                       |
| Hedging instruments                       |   |                                   | 24,662                                     | 1,627                | (2,901 )              | (23,568 )           | 180                      |                                |
| <b>Interest sensitivity gap net</b>       |   |                                   | <b>6,515</b>                               | <b>(1,266 )</b>      | <b>416</b>            | <b>2,107</b>        | <b>333</b>               | <b>(8,105 )</b>                |
| Interest sensitivity gap cumulative       |   |                                   | 6,515                                      | 5,249                | 5,665                 | 7,772               | 8,105                    |                                |

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|   | Weighted<br>Effective<br>Interest<br>Rate | Total<br>Carrying<br>Value<br>\$m | At Call Or<br>Less Than<br>3 Months<br>\$m | 3-6<br>Months<br>\$m | 6-12<br>Months<br>\$m | 1-5<br>Years<br>\$m | Beyond<br>5 Years<br>\$m | Not Bearing<br>Interest<br>\$m |
|---|---|-----------------------------------|--|----------------------|-----------------------|---------------------|--------------------------|--------------------------------|
| <b>Parent Unaudited<br/>31/03/2007</b>    |   |                                   |  |                      |                       |                     |                          |                                |
| <b>Assets</b>                             |   |                                   |  |                      |                       |                     |                          |                                |
| Liquid assets                             | 7.25                                      | % 5,740                           | 5,481                                      | 6                    | 8                     |                     |                          | 245                            |
| Due from other financial institutions     | 6.51                                      | % 2,580                           | 2,280                                      |                      |                       |                     |                          | 300                            |
| Trading securities                        | 7.53                                      | % 1,916                           | 1,590                                      | 79                   | 3                     | 43                  | 201                      |                                |
| Derivative financial instruments          | n/a                                       | 3,066                             |  |                      |                       |                     |                          | 3,066                          |
| Available-for-sale assets                 | 14.61                                     | % 35                              | 32   |                      |                       | 3                   |                          |                                |
| Net loans and advances                    | 9.09                                      | % 78,570                          | 32,288                                     | 4,821                | 5,929                 | 35,735              | 114                      | (317)                          |
| Due from subsidiary companies             | 4.18                                      | % 1,543                           | 243  |                      |                       | 476                 | 171                      | 653                            |
| Other financial assets                    | n/a                                       | 606                               |  |                      |                       |                     |                          | 606                            |
| Total financial assets                    |   | 94,056                            | 41,914                                     | 4,906                | 5,940                 | 36,257              | 486                      | 4,553                          |
| Non-financial assets                      | n/a                                       | 11,578                            |  |                      |                       |                     |                          | 11,578                         |
| Total assets                              |   | 105,634                           | 41,914                                     | 4,906                | 5,940                 | 36,257              | 486                      | 16,131                         |
| <b>Liabilities</b>                        |   |                                   |  |                      |                       |                     |                          |                                |
| Due to other financial institutions       | 5.10                                      | % 1,741                           | 1,245                                      |                      |                       | 48                  | 95                       | 353                            |
| Deposits and other borrowings             | 6.36                                      | % 56,618                          | 40,036                                     | 5,010                | 4,760                 | 2,859               |                          | 3,953                          |
| Due to subsidiary companies               | 7.73                                      | % 30,185                          | 23,397                                     | 2,575                | 2,457                 | 1,756               |                          |                                |
| Derivative financial instruments          | n/a                                       | 3,165                             |  |                      |                       |                     |                          | 3,165                          |
| Payables and other financial liabilities  | n/a                                       | 924                               | 261  | 11                   |                       |                     |                          | 652                            |
| Bonds and notes                           | 7.05                                      | % 509                             | 209  |                      |                       | 300                 |                          |                                |
| Related party funding                     | 7.50                                      | % 2,764                           | 2,764                                      |                      |                       |                     |                          |                                |
| Loan capital                              | 7.90                                      | % 2,039                           | 329  | 1,010                |                       | 700                 |                          |                                |
| Total financial liabilities               |   | 97,945                            | 68,241                                     | 8,606                | 7,217                 | 5,663               | 95                       | 8,123                          |
| Non-financial liabilities                 | n/a                                       | 591                               |  |                      |                       |                     |                          | 591                            |
| Equity                                    | n/a                                       | 7,098                             |  |                      |                       |                     |                          | 7,098                          |
| Total liabilities and equity              |   | 105,634                           | 68,241                                     | 8,606                | 7,217                 | 5,663               | 95                       | 15,812                         |
| On-balance sheet interest sensitivity gap |   |                                   | (26,327)                                   | (3,700)              | (1,277)               | 30,594              | 391                      | 319                            |
| Hedging instruments                       | n/a                                       |                                   | 22,843                                     | 5,988                | 3,685                 | (32,893)            | 377                      |                                |
| Interest sensitivity gap net              |   |                                   | (3,484)                                    | 2,288                | 2,408                 | (2,299)             | 768                      | 319                            |
| Interest sensitivity gap cumulative       |   |                                   | (3,484)                                    | (1,196)              | 1,212                 | (1,087)             | (319)                    |                                |

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|  | Weighted<br>Effective<br>Interest<br>Rate | Total<br>Carrying<br>Value<br>\$m | At Call Or<br>Less Than<br>3 Months<br>\$m | 3-6<br>Months<br>\$m | 6-12<br>Months<br>\$m | 1-5<br>Years<br>\$m | Beyond<br>5 Years<br>\$m | Not Bearing<br>Interest<br>\$m |
|--|---|-----------------------------------|--|----------------------|-----------------------|---------------------|--------------------------|--------------------------------|
| <b>Parent Unaudited<br/>31/03/2006</b>     |   |                                   |  |                      |                       |                     |                          |                                |
| <b>Assets</b>                              |   |                                   |  |                      |                       |                     |                          |                                |
| Liquid assets                              | 6.50                                      | % 1,997                           | 1,789                                      |                      |                       |                     |                          | 208                            |
| Due from other financial institutions      | 6.93                                      | % 6,510                           | 5,906                                      | 249                  | 149                   |                     |                          | 206                            |
| Trading securities                         | 7.26                                      | % 1,652                           | 1,289                                      | 134                  | 14                    | 162                 | 53                       |                                |
| Derivative financial instruments           | n/a                                       | 3,648                             |  |                      |                       |                     |                          | 3,648                          |
| Available-for-sale assets                  | 6.69                                      | % 546                             | 345  | 113                  | 68                    | 20                  |                          |                                |
| Net loans and advances                     | 8.79                                      | % 70,462                          | 30,755                                     | 4,276                | 9,894                 | 25,648              | 147                      | (258)                          |
| Due from subsidiary companies              | 4.00                                      | % 1,577                           | 300  |                      |                       | 624                 |                          | 653                            |
| Other financial assets                     | n/a                                       | 464                               |  |                      |                       |                     |                          | 464                            |
| <b>Total financial assets</b>              |   | <b>86,856</b>                     | <b>40,384</b>                              | <b>4,772</b>         | <b>10,125</b>         | <b>26,454</b>       | <b>200</b>               | <b>4,921</b>                   |
| Non-financial assets                       | n/a                                       | 12,531                            |  |                      |                       |                     |                          | 12,531                         |
| <b>Total assets</b>                        |   | <b>99,387</b>                     | <b>40,384</b>                              | <b>4,772</b>         | <b>10,125</b>         | <b>26,454</b>       | <b>200</b>               | <b>17,452</b>                  |
| <b>Liabilities</b>                         |   |                                   |  |                      |                       |                     |                          |                                |
| Due to other financial institutions        | 5.30                                      | % 2,357                           | 2,209                                      |                      |                       |                     |                          | 148                            |
| Deposits and other borrowings              | 5.80                                      | % 51,067                          | 33,211                                     | 7,263                | 3,402                 | 1,963               | 1,150                    | 4,078                          |
| Due to subsidiary companies                | 7.33                                      | % 29,347                          | 25,020                                     | 2,815                |                       | 858                 | 654                      |                                |
| Derivative financial instruments           | n/a                                       | 2,916                             |  |                      |                       |                     |                          | 2,916                          |
| Payables and other financial liabilities   | n/a                                       | 920                               | 133  |                      |                       |                     |                          | 787                            |
| Bonds and notes                            | 6.96                                      | % 935                             | 495  |                      |                       | 440                 |                          |                                |
| Related party funding                      | 7.25                                      | % 2,643                           | 2,643                                      |                      |                       |                     |                          |                                |
| Loan capital                               | 7.92                                      | % 1,522                           | 318  | 554                  |                       | 650                 |                          |                                |
| <b>Total financial liabilities</b>         |   | <b>91,707</b>                     | <b>64,029</b>                              | <b>10,632</b>        | <b>3,402</b>          | <b>3,911</b>        | <b>1,804</b>             | <b>7,929</b>                   |
| Non-financial liabilities                  | n/a                                       | 510                               |  |                      |                       |                     |                          | 510                            |
| Equity                                     | n/a                                       | 7,170                             |  |                      |                       |                     |                          | 7,170                          |
| <b>Total liabilities and equity</b>        |   | <b>99,387</b>                     | <b>64,029</b>                              | <b>10,632</b>        | <b>3,402</b>          | <b>3,911</b>        | <b>1,804</b>             | <b>15,609</b>                  |
| On-balance sheet interest sensitivity gap  |   |                                   | (23,645)                                   | (5,860)              | 6,723                 | 22,543              | (1,604)                  | 1,843                          |
| Hedging instruments                        | n/a                                       |                                   | 24,443                                     | 5,133                | (14,437)              | (15,657)            | 518                      |                                |
| <b>Interest sensitivity gap net</b>        |   |                                   | <b>798</b>                                 | <b>(727)</b>         | <b>(7,714)</b>        | <b>6,886</b>        | <b>(1,086)</b>           | <b>1,843</b>                   |
| <b>Interest sensitivity gap cumulative</b> |   |                                   | <b>798</b>                                 | <b>71</b>            | <b>(7,643)</b>        | <b>(757)</b>        | <b>(1,843)</b>           | <b></b>                        |

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|   | Weighted<br>Effective<br>Interest<br>Rate | Total<br>Carrying<br>Value<br>\$m | At Call Or<br>Less Than<br>3 Months<br>\$m | 3-6<br>Months<br>\$m | 6-12<br>Months<br>\$m | 1-5<br>Years<br>\$m | Beyond<br>5 Years<br>\$m | Not Bearing<br>Interest<br>\$m |
|---|---|-----------------------------------|--|----------------------|-----------------------|---------------------|--------------------------|--------------------------------|
| <b>Parent Audited<br/>30/09/2006</b>      |   |                                   |  |                      |                       |                     |                          |                                |
| <b>Assets</b>                             |   |                                   |  |                      |                       |                     |                          |                                |
| Liquid assets                             | 6.60                                      | % 2,698                           | 2,384                                      | 13                   | 8                     |                     |                          | 293                            |
| Due from other financial institutions     | 7.18                                      | % 5,111                           | 4,739                                      | 320                  | 8                     | 5                   |                          | 39                             |
| Trading securities                        | 7.38                                      | % 1,596                           | 1,245                                      | 209                  | 1                     | 46                  | 95                       |                                |
| Derivative financial instruments          | n/a                                       | 2,019                             |  |                      |                       |                     |                          | 2,019                          |
| Available-for-sale assets                 | 6.96                                      | % 349                             | 342  |                      |                       | 3                   |                          | 4                              |
| Net loans and advances                    | 8.80                                      | % 74,453                          | 31,649                                     | 4,691                | 9,493                 | 28,772              | 134                      | (286 )                         |
| Due from subsidiary companies             | 4.23                                      | % 1,505                           | 472  | 140                  |                       | 240                 |                          | 653                            |
| Other financial assets                    | n/a                                       | 737                               |  |                      |                       |                     |                          | 737                            |
| <b>Total financial assets</b>             |   | <b>88,468</b>                     | <b>40,831</b>                              | <b>5,373</b>         | <b>9,510</b>          | <b>29,066</b>       | <b>229</b>               | <b>3,459</b>                   |
| Non-financial assets                      | n/a                                       | 11,591                            |  |                      |                       |                     |                          | 11,591                         |
| <b>Total assets</b>                       |   | <b>100,059</b>                    | <b>40,831</b>                              | <b>5,373</b>         | <b>9,510</b>          | <b>29,066</b>       | <b>229</b>               | <b>15,050</b>                  |
| <b>Liabilities</b>                        |   |                                   |  |                      |                       |                     |                          |                                |
| Due to other financial institutions       | 5.40                                      | % 2,828                           | 2,744                                      |                      |                       |                     |                          | 84                             |
| Deposits and other borrowings             | 6.03                                      | % 53,594                          | 36,206                                     | 5,818                | 4,125                 | 3,526               |                          | 3,919                          |
| Due to subsidiary companies               | 7.49                                      | % 28,648                          | 23,698                                     | 1,607                | 1,211                 | 2,132               |                          |                                |
| Derivative financial instruments          | n/a                                       | 1,992                             |  |                      |                       |                     |                          | 1,992                          |
| Payables and other financial liabilities  | n/a                                       | 755                               | 5  | 10                   |                       | 32                  | 90                       | 618                            |
| Bonds and notes                           | 7.07                                      | % 475                             | 175  |                      |                       | 300                 |                          |                                |
| Related party funding                     | 7.25                                      | % 2,720                           | 2,720                                      |                      |                       |                     |                          |                                |
| Loan capital                              | 7.88                                      | % 1,805                           | 213  | 592                  | 550                   | 450                 |                          |                                |
| <b>Total financial liabilities</b>        |   | <b>92,817</b>                     | <b>65,761</b>                              | <b>8,027</b>         | <b>5,886</b>          | <b>6,440</b>        | <b>90</b>                | <b>6,613</b>                   |
| Non-financial liabilities                 | n/a                                       | 59                                |  |                      |                       |                     |                          | 593                            |
| Equity                                    | n/a                                       | 6,649                             |  |                      |                       |                     |                          | 6,649                          |
| <b>Total liabilities and equity</b>       |   | <b>100,059</b>                    | <b>65,761</b>                              | <b>8,027</b>         | <b>5,886</b>          | <b>6,440</b>        | <b>90</b>                | <b>13,855</b>                  |
| On-balance sheet interest sensitivity gap |   |                                   | (24,930 )                                  | (2,654 )             | 3,624                 | 22,626              | 139                      | 1,195                          |
| Hedging instruments                       |   |                                   | 24,785                                     | 1,627                | (2,901 )              | (23,691 )           | 180                      |                                |
| <b>Interest sensitivity gap net</b>       |   |                                   | <b>(145 )</b>                              | <b>(1,027 )</b>      | <b>723</b>            | <b>(1,065 )</b>     | <b>319</b>               | <b>1,195</b>                   |
| Interest sensitivity gap cumulative       |   |                                   | (145 )                                     | (1,172 )             | (449 )                | (1,514 )            | (1,195 )                 |                                |

**36. CONCENTRATIONS OF CREDIT RISK**

The maximum credit risk of on-balance sheet financial assets is best represented by the carrying amount of the assets, net of any provision for credit impairment. The credit risk exposure does not take into account the fair value of any collateral, in the event of other parties failing to perform their obligations under financial instruments.

|  | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|--|--|---|---------------------------------------|--|---|---------------------------------------|
| <b>On-balance sheet credit exposures</b> |  |   |                                       |  |   |                                       |
| Liquid assets                            | 5,741  | 1,997                                   | 2,698                                 | 5,740  | 1,997                                   | 2,698                                 |
| Due from other financial institutions    | 3,067  | 7,110                                   | 5,617                                 | 2,580  | 6,510                                   | 5,111                                 |
| Trading securities                       | 1,917  | 1,652                                   | 1,596                                 | 1,916  | 1,652                                   | 1,596                                 |
| Derivative financial instruments         | 3,041  | 3,648                                   | 2,020                                 | 3,066  | 3,648                                   | 2,019                                 |
| Available-for-sale assets                | 45   | 556                                     | 359                                   | 35   | 546                                     | 349                                   |
| Net loans and advances                   | 82,258   | 74,176                                  | 78,155                                | 78,570   | 70,462                                  | 74,453                                |
| Due from subsidiary companies            |  |   |                                       | 1,543  | 1,577                                   | 1,505                                 |
| Other financial assets                   | 714  | 559                                     | 823                                   | 606  | 464                                     | 737                                   |
| Total on-balance sheet credit exposures  | 96,783   | 89,698                                  | 91,268                                | 94,056   | 86,856                                  | 88,468                                |

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Analyses of financial assets by industry sector using Australian and New Zealand Standard Industrial Classification (ANZSIC) codes are as follows:

|  | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|--|--|---|---------------------------------------|--|---|---------------------------------------|
| <b>Concentrations of credit risk by industry</b> |  |   |                                       |  |   |                                       |
| Instalment and personal lending                  | 3,108  | 2,927                                   | 2,906                                 | 2,518  | 2,371                                   | 2,354                                 |
| Real estate mortgages                            | 49,850   | 43,508                                  | 46,540                                | 49,850   | 43,476                                  | 46,540                                |
| Agriculture, forestry and fishing                | 13,122   | 11,691                                  | 12,604                                | 12,872   | 11,451                                  | 12,370                                |
| Mining   | 202  | 103                                     | 144                                   | 181  | 80                                      | 122                                   |
| Manufacturing                                    | 2,802  | 3,010                                   | 3,041                                 | 2,437  | 2,579                                   | 2,642                                 |
| Construction                                     | 855  | 673                                     | 713                                   | 678  | 523                                     | 558                                   |
| Retail and wholesale                             | 2,774  | 2,397                                   | 2,566                                 | 2,692  | 2,319                                   | 2,491                                 |
| Transport  | 1,459  | 1,205                                   | 1,150                                 | 1,057  | 817                                     | 749                                   |
| Communications                                   | 224  | 179                                     | 279                                   | 200  | 148                                     | 251                                   |
| Finance, investment and insurance                | 13,370   | 18,863                                  | 15,097                                | 13,014   | 18,388                                  | 14,609                                |
| Business and personal services                   | 1,418  | 1,363                                   | 1,393                                 | 1,302  | 1,277                                   | 1,299                                 |
| Government and local authority                   | 5,773  | 2,058                                   | 2,836                                 | 5,678  | 1,964                                   | 2,742                                 |
| Electricity, gas and water                       | 833  | 794                                     | 1,008                                 | 605  | 550                                     | 764                                   |
| Entertainment, leisure and tourism               | 963  | 904                                     | 989                                   | 944  | 890                                     | 975                                   |
| Other  | 30   | 23                                      | 2                                     | 28   | 23                                      | 2                                     |
| Total on-balance sheet credit exposures          | 96,783   | 89,698                                  | 91,268                                | 94,056   | 86,856                                  | 88,468                                |

Analyses of financial assets by geographic area are based on the Reserve Bank M3 Institutions Standard Statistical Return criteria.

Consolidated

Parent

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|   | Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|---|--------------------------------|--------------------------------|------------------------------|--------------------------------|--------------------------------|------------------------------|
| <b>Concentrations of credit risk by geographical area</b> |                                |                                |                              |                                |                                |                              |
| New Zealand   | <b>88,469</b>                  | 79,369                         | 82,350                       | <b>87,654</b>                  | 78,575                         | 81,507                       |
| Overseas  | <b>4,202</b>                   | 5,890                          | 5,891                        | <b>2,373</b>                   | 3,939                          | 4,021                        |
| Exposures not classified in Reserve Bank M3 Return        | <b>4,112</b>                   | 4,439                          | 3,027                        | <b>4,029</b>                   | 4,342                          | 2,940                        |
| Total on-balance sheet credit exposures                   | <b>96,783</b>                  | 89,698                         | 91,268                       | <b>94,056</b>                  | 86,856                         | 88,468                       |

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**Concentrations of credit risk to individual counterparties**

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

|                      | Consolidated<br>31/03/2007 |                      | 31/03/2006               |                      | 30/09/2006               |                      |
|----------------------|----------------------------|----------------------|--------------------------|----------------------|--------------------------|----------------------|
|                      | Number of Counterparties   |                      | Number of Counterparties |                      | Number of Counterparties |                      |
|                      | As at                      | Peak for the quarter | As at                    | Peak for the quarter | As at                    | Peak for the quarter |
| 10% to 20% of equity | 2                          | 2                    | 1                        | 1                    | 2                        | 2                    |

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

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

|  | Consolidated<br>31/03/2007 |                                  | 31/03/2006    |                                  | 30/09/2006    |                                  |
|--|----------------------------|----------------------------------|---------------|----------------------------------|---------------|----------------------------------|
|  | Amount<br>\$m              | % of Total<br>Credit<br>Exposure | Amount<br>\$m | % of Total<br>Credit<br>Exposure | Amount<br>\$m | % of Total<br>Credit<br>Exposure |
|  |                            |                                  |               |                                  |               |                                  |
| <b>As at</b>                               |                            |                                  |               |                                  |               |                                  |
| Investment grade credit rating<br>(Note 1) | 2,500                      | 100.0 %                          | 1,301         | 100.0 %                          | 2,281         | 100.0 %                          |
| <b>Peak for the quarter</b>                |                            |                                  |               |                                  |               |                                  |
| Investment grade credit rating<br>(Note 1) | 2,610                      | 100.0 %                          | 1,301         | 100.0 %                          | 2,286         | 100.0 %                          |

**Concentrations of credit risk to bank counterparties**

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

|                      | Consolidated<br>31/03/2007 |                      | 31/03/2006               |                      | 30/09/2006               |                      |
|----------------------|----------------------------|----------------------|--------------------------|----------------------|--------------------------|----------------------|
|                      | Number of Counterparties   |                      | Number of Counterparties |                      | Number of Counterparties |                      |
|                      | As at                      | Peak for the quarter | As at                    | Peak for the quarter | As at                    | Peak for the quarter |
| 10% to 20% of equity | 1                          | 2                    | 1                        |                      | 2                        | 3                    |
| 20% to 30% of equity |                            |                      |                          | 1                    |                          |                      |

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

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|  | Consolidated<br>31/03/2007 |                                  | 31/03/2006    |                                  |               | 30/09/2006                       |  |
|--|----------------------------|----------------------------------|---------------|----------------------------------|---------------|----------------------------------|--|
|  | Amount<br>\$m              | % of Total<br>Credit<br>Exposure | Amount<br>\$m | % of Total<br>Credit<br>Exposure | Amount<br>\$m | % of Total<br>Credit<br>Exposure |  |
| <b>As at</b>                               |                            |                                  |               |                                  |               |                                  |  |
| Investment grade credit rating<br>(Note 1) | 1,343                      | 100.0 %                          | 1,185         | 100.0 %                          | 1,700         | 100.0 %                          |  |
| <b>Peak for the quarter</b>                |                            |                                  |               |                                  |               |                                  |  |
| Investment grade credit rating<br>(Note 1) | 2,516                      | 100.0 %                          | 1,773         | 100.0 %                          | 2,546         | 100.0 %                          |  |

Note 1

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



**Concentrations of credit risk to connected persons**

|   | Consolidated<br>Unaudited 31/03/2007 |                                 |   | Unaudited 31/03/2006 |                                 |   | Audited 30/09/2006 |                                 |   |
|---|--------------------------------------|---------------------------------|---|----------------------|---------------------------------|---|--------------------|---------------------------------|---|
|   | Amount<br>\$m                        | % of Group<br>Tier 1<br>Capital |   | Amount<br>\$m        | % of Group<br>Tier 1<br>Capital |   | Amount<br>\$m      | % of Group<br>Tier 1<br>Capital |   |
| Aggregate at end of period                  |                                      |                                 |   |                      |                                 |   |                    |                                 |   |
| Connected persons (Note 2)                  | 1,454                                | 27.3                            | % | 1,595                | 31.4                            | % | 1,191              | 25.2                            | % |
| Non-bank connected persons<br>(Note 3)      |                                      | 0.0                             | % |                      | 0.0                             | % |                    | 0.0                             | % |
| Peak end-of-day for the quarter<br>(Note 4) |                                      |                                 |   |                      |                                 |   |                    |                                 |   |
| Connected persons                           | 1,612                                | 30.2                            | % | 1,641                | 32.3                            | % | 1,826              | 38.6                            | % |
| Non-bank connected persons                  |                                      | 0.0                             | % |                      | 0.0                             | % |                    | 0.0                             | % |
| Rating-contingent limit<br>(Note 5)         |                                      |                                 |   |                      |                                 |   |                    |                                 |   |
| Connected persons                           | n/a                                  | 70.0                            | % | n/a                  | 70.0                            | % | n/a                | 70.0                            | % |
| Non-bank connected persons                  | n/a                                  | 15.0                            | % | n/a                  | 15.0                            | % | n/a                | 15.0                            | % |

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The credit exposure concentrations disclosed for connected persons are on the basis of actual gross exposures and exclusive of exposures of a capital nature. The peak end-of-day credit exposures for the quarter to connected persons are measured over Tier 1 Capital as at the end of the quarter. There were no individual provisions provided against credit exposures to connected persons as at 31 March 2007 (31/03/2006 \$nil; 30/09/2006 \$nil). The Banking Group had no contingent exposures arising from risk lay-off arrangements to connected persons as at 31 March 2007 (31/03/2006 \$nil; (30/09/2006 \$nil).

**Note 2**

The Banking Group has amounts due from its Parent Company and Ultimate Parent Company and other entities within the Ultimate Parent Group arising from the ordinary course of its business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank.

**Note 3**

Non-bank connected persons exposures consist of loans to directors of the Bank. All loans were made in the ordinary course of business of the Bank, on an arm's length basis and on normal commercial terms and conditions. There are no loans made to other directors of the Banking Group.

**Note 4**

The method of calculating the peak end-of-day disclosure above differs from that applied in determining the connected persons' limit under the Bank's Conditions of Registration. The peak end-of-day disclosure is measured against Tier 1 Capital at quarter end whereas the connected persons' exposure under the Conditions of Registration is measured against Tier 1 Capital on a continuous basis. The Banking Group has complied with the limits on aggregate credit exposures (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, as set out in the Conditions of Registration, at all times during the quarter.

**Note 5**

Represents the maximum peak end-of-day aggregate credit exposures limit (exclusive of exposures of a capital nature and net of individual provisions) to all connected persons. This is based on the rating applicable to the Bank's long term senior unsecured NZD obligations payable in New Zealand, in New Zealand dollars (refer page 90 for the credit rating). Within the overall limit a sub-limit of 15% of Tier 1 Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons. While the Bank received a revised rating from Standard & Poor's during the quarter, no changes to the rating-contingent limit have occurred, as where the Bank has more than one credit rating, the lowest rating is used in determining the connected exposure limit.

**37. FOREIGN CURRENCY RISK**

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

|                          | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|--------------------------|--|---|---------------------------------------|--|---|---------------------------------------|
| <b>Net open position</b> |  |   |                                       |  |   |                                       |
| Australian dollar        | <b>13</b>  | (15 )                                   | 33                                    | <b>13</b>  | (15 )                                   | 33                                    |
| Euro                     |  | (4 )                                    | (9 )                                  |  | (4 )                                    | (9 )                                  |
| Japanese yen             |  | (8 )                                    |                                       |  | (8 )                                    |                                       |
| Pound sterling           | <b>18</b>  | (3 )                                    | (1 )                                  | <b>18</b>  | (3 )                                    | (1 )                                  |
| US dollar                | <b>(31 )</b>   | (31 )                                   | 35                                    | <b>(31 )</b>                                       | (31 )                                   | 35                                    |
| Other                    | <b>5</b>   | (7 )                                    |                                       | <b>5</b>   | (7 )                                    |                                       |
|                          | <b>4</b>   | (68 )                                   | 58                                    | <b>4</b>   | (68 )                                   | 58                                    |

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**38. CONCENTRATIONS OF FUNDING**

|   | Consolidated<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
|---|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|
| <b>Concentrations of funding by industry</b>          |  |                                |                              |  |                                |                              |
| Agriculture, forestry and fishing                     | 1,879  | 1,651                          | 1,749                        | 1,879                                    | 1,651                          | 1,749                        |
| Mining  | 1,357  | 1,252                          | 1,301                        | 1,357                                    | 1,252                          | 1,301                        |
| Manufacturing   | 1,220  | 1,274                          | 1,346                        | 1,220                                    | 1,274                          | 1,346                        |
| Construction  | 642  | 622                            | 661                          | 642                                      | 622                            | 661                          |
| Retail and wholesale                                  | 1,196  | 1,136                          | 1,181                        | 1,196                                    | 1,136                          | 1,181                        |
| Transport   | 579  | 521                            | 577                          | 579                                      | 521                            | 577                          |
| Communications  | 153  | 62                             | 92                           | 153                                      | 62                             | 92                           |
| Finance, investment and insurance                     | 39,714   | 38,040                         | 38,095                       | 48,676                                   | 47,090                         | 46,283                       |
| Business and personal services                        | 5,049  | 4,495                          | 4,909                        | 5,049                                    | 4,495                          | 4,909                        |
| Government and local authority                        | 1,537  | 1,370                          | 1,295                        | 1,537                                    | 1,370                          | 1,295                        |
| Electricity, gas and water                            | 370  | 543                            | 602                          | 170                                      | 343                            | 402                          |
| Entertainment, leisure and tourism                    | 502  | 524                            | 507                          | 502                                      | 524                            | 507                          |
| Households  | 32,881   | 29,650                         | 31,841                       | 30,896                                   | 27,531                         | 29,767                       |
| Total concentrations of funding by industry           | 87,079   | 81,140                         | 84,156                       | 93,856                                   | 87,871                         | 90,070                       |
| <b>Concentrations of funding by product</b>           |  |                                |                              |  |                                |                              |
| Due to other financial institutions                   | 4,178  | 3,936                          | 3,987                        | 1,741                                    | 2,357                          | 2,828                        |
| Certificates of deposits                              | 5,190  | 4,359                          | 3,941                        | 5,190                                    | 4,359                          | 3,941                        |
| Term deposits   | 26,231   | 25,678                         | 26,293                       | 26,231                                   | 25,678                         | 26,293                       |
| Other deposits bearing interest                       | 21,659   | 17,369                         | 19,856                       | 21,244                                   | 16,952                         | 19,441                       |
| Deposits not bearing interest                         | 3,953  | 4,078                          | 3,919                        | 3,953                                    | 4,078                          | 3,919                        |
| Commercial paper                                      | 5,565  | 7,913                          | 6,890                        |  |                                |                              |
| Secured debenture stock                               | 1,960  | 2,119                          | 2,077                        |  |                                |                              |
| Secured deposits                                      | 200  | 200                            | 200                          |  |                                |                              |
| Due to subsidiary companies                           |  |                                |                              | 30,185                                   | 29,347                         | 28,648                       |
| Bonds and notes                                       | 13,340   | 11,323                         | 12,468                       | 509                                      | 935                            | 475                          |
| Related party funding                                 | 2,764  | 2,643                          | 2,720                        | 2,764                                    | 2,643                          | 2,720                        |
| Loan capital  | 2,039  | 1,522                          | 1,805                        | 2,039                                    | 1,522                          | 1,805                        |
| Total concentrations of funding by product            | 87,079   | 81,140                         | 84,156                       | 93,856                                   | 87,871                         | 90,070                       |
| <b>Concentrations of funding by geographical area</b> |  |                                |                              |  |                                |                              |
| New Zealand   | 57,077   | 51,170                         | 54,416                       | 65,220                                   | 59,037                         | 61,460                       |
| Overseas  | 30,002   | 29,970                         | 29,740                       | 28,636                                   | 28,834                         | 28,610                       |
| Total concentrations of funding by geographical area  | 87,079   | 81,140                         | 84,156                       | 93,856                                   | 87,871                         | 90,070                       |

Analyses of funding by geographic area are based on the Reserve Bank M3 Institutions Standard Statistical Return criteria.

**39. MARKET RISK**

Signatures

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Market risk is the risk to earnings arising from changes in interest rates, currency exchange rates, or from fluctuations in bond, commodity or equity prices.

### RBNZ Market Risk Disclosure

The aggregate market risk exposures below have been calculated in accordance with clause 1 (1) (a) of Schedule 7 of the Order. Aggregate foreign currency risk exposures have been calculated in accordance with clause 8 (a) of Schedule 8 of the Order. Aggregate interest rate risk exposures have been calculated in accordance with clause 1 (b) of Schedule 8 of the Order. Aggregate equity risk exposures have been calculated in accordance with clause 11 (a) of Schedule 8 of the Order. The peak end-of-day market risk exposures for the quarter are measured over equity at the end of the quarter.

|  | Consolidated<br>Unaudited 31/03/2007 |   |                      |   | Unaudited 31/03/2006     |   |                      |   | Audited 30/09/2006       |   |                      |   |
|--|--------------------------------------|---|----------------------|---|--------------------------|---|----------------------|---|--------------------------|---|----------------------|---|
|  | Number of Counterparties             |   | Peak for the quarter |   | Number of Counterparties |   | Peak for the quarter |   | Number of Counterparties |   | Peak for the quarter |   |
|  | As at                                |   |                      |   | As at                    |   |                      |   | As at                    |   |                      |   |
| <b>Exposures to market risk</b>                                |                                      |   |                      |   |                          |   |                      |   |                          |   |                      |   |
| Aggregate foreign currency exposures (\$ million)              | <b>7.6</b>                           |   | 13.3                 |   | 3.1                      |   | <b>12.0</b>          |   | 6.0                      |   | 19.3                 |   |
| Aggregate foreign currency exposures as a percentage of equity | <b>0.1</b>                           | % | 0.1                  | % | 0.0                      | % | <b>0.1</b>           | % | 0.1                      | % | 0.2                  | % |
| Aggregate interest rate exposures (\$ million)                 | <b>313.8</b>                         |   | 327.4                |   | 189.4                    |   | <b>189.4</b>         |   | 250.9                    |   | 318.9                |   |
| Aggregate interest rate exposures as a percentage of equity    | <b>3.5</b>                           | % | 3.7                  | % | 2.2                      | % | <b>2.2</b>           | % | 3.1                      | % | 3.9                  | % |
| Aggregate equity exposures (\$ million)                        | <b>0.2</b>                           |   | 0.5                  |   | 0.2                      |   | <b>0.7</b>           |   | 0.5                      |   | 0.5                  |   |
| Aggregate equity exposures as a percentage of equity           | <b>0.0</b>                           | % | 0.0                  | % | 0.0                      | % | <b>0.0</b>           | % | 0.0                      | % | 0.0                  | % |

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

The Banking Group has not securitised any of its own assets. The Banking Group is involved in providing banking services to customers who securitise assets.

**Funds management**

Certain subsidiaries of the Bank and officers of the bank act as trustee and/or manager for a number of unit trusts and superannuation funds. The Bank 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.

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

As funds under management are not owned 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 superannuation bonds and superannuation schemes, unit trusts and the provision of private banking services to a number of clients.

Some funds under management are invested in products owned by the Banking Group and are recorded as liabilities in the balance sheet. At 31 March 2007, \$1,025 million of funds under management were invested in the Banking Group's own products (31/03/2006 \$992 million; 30/09/2006 \$815 million).

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

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

|                                      | <b>Consolidated</b> |                   |                   |
|--------------------------------------|---------------------|-------------------|-------------------|
|                                      | <b>31/03/2007</b>   | <b>31/03/2006</b> | <b>30/09/2006</b> |
|                                      | <b>\$m</b>          | <b>\$m</b>        | <b>\$m</b>        |
| Superannuation schemes               | <b>180</b>          | 11                | 170               |
| Bonus Bonds                          | <b>2,420</b>        | 2,308             | 2,397             |
| Discretionary funds                  | <b>1,865</b>        | 1,493             | 1,655             |
| <b>Totals funds under management</b> | <b>4,465</b>        | 3,812             | 4,222             |

No funding was provided to funds managed by the Banking Group during the quarter ended 31 March 2007 (31/03/2006 \$nil; 30/09/2006 \$nil).

**Custodial services**

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

**Marketing and distribution of insurance products**

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

The Banking Group mitigates its exposure to implicit risk by meeting the RBNZ minimum separation requirements. In particular, the Banking Group discloses as required that it does not guarantee any issuer of insurance products nor the products issued, that the insurance policies do not represent deposits or other liabilities of the Banking Group, that the insurance policies are subject to investment risk, including possible loss of income and principal, and that the Banking Group does not guarantee the capital value or performance of the policies.

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Any financial services (including funding and liquidity support) provided by the Banking Group to securitisation, funds management and custodial services entities, or issuers of marketed and distributed insurance products are made on an arm's length basis and at fair value. Any securities or assets purchased from such entities have been purchased on an arm's length basis and at fair value.

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**41. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS**

The credit risk exposure of contingent liabilities and credit related commitments has been based upon the risk weighted credit equivalent amounts determined in accordance with the Reserve Bank of New Zealand's capital adequacy guidelines. The estimated face or contract values and credit equivalent amounts are as follows:

|   | Unaudited 31/03/2007          |                                 | Unaudited 31/03/2006          |                                 | Audited 30/09/2006            |                                 |
|---|-------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
|   | Face or Contract Value<br>\$m | Credit Equivalent Amount<br>\$m | Face or Contract Value<br>\$m | Credit Equivalent Amount<br>\$m | Face or Contract Value<br>\$m | Credit Equivalent Amount<br>\$m |
| <b>Credit related commitments</b>                     |                               |                                 |                               |                                 |                               |                                 |
| <b>Consolidated</b>                                   |                               |                                 |                               |                                 |                               |                                 |
| Commitments with certain drawdown due within one year | 2,375                         | 2,375                           | 1,316                         | 1,316                           | 1,221                         | 1,221                           |
| Commitments to provide financial services             | 20,102                        | 1,007                           | 18,898                        | 715                             | 20,338                        | 1,175                           |
| <b>Total credit related commitments</b>               | <b>22,477</b>                 | <b>3,382</b>                    | <b>20,214</b>                 | <b>2,031</b>                    | <b>21,559</b>                 | <b>2,396</b>                    |
| <b>Parent</b>   |                               |                                 |                               |                                 |                               |                                 |
| Commitments with certain drawdown due within one year | 2,375                         | 2,375                           | 1,316                         | 1,316                           | 1,221                         | 1,221                           |
| Commitments to provide financial services             | 19,897                        | 990                             | 18,429                        | 715                             | 20,156                        | 1,175                           |
| <b>Total credit related commitments</b>               | <b>22,272</b>                 | <b>3,365</b>                    | <b>19,745</b>                 | <b>2,031</b>                    | <b>21,377</b>                 | <b>2,396</b>                    |
| <b>Contingent liabilities</b>                         |                               |                                 |                               |                                 |                               |                                 |
| <b>Consolidated</b>                                   |                               |                                 |                               |                                 |                               |                                 |
| Financial guarantees(1)                               | 1,815                         | 1,815                           | 1,507                         | 1,507                           | 1,688                         | 1,688                           |
| Standby letters of credit                             | 362                           | 362                             | 383                           | 383                             | 368                           | 368                             |
| Transaction related contingent items                  | 371                           | 185                             | 328                           | 164                             | 376                           | 188                             |
| Trade related contingent liabilities                  | 150                           | 30                              | 279                           | 56                              | 89                            | 18                              |
| <b>Total contingent liabilities</b>                   | <b>2,698</b>                  | <b>2,392</b>                    | <b>2,497</b>                  | <b>2,110</b>                    | <b>2,521</b>                  | <b>2,262</b>                    |
| <b>Parent</b>   |                               |                                 |                               |                                 |                               |                                 |
| Financial guarantees                                  | 1,815                         | 1,815                           | 1,507                         | 1,507                           | 1,688                         | 1,688                           |
| Standby letters of credit                             | 362                           | 362                             | 383                           | 383                             | 368                           | 368                             |
| Transaction related contingent items                  | 371                           | 185                             | 328                           | 164                             | 376                           | 188                             |
| Trade related contingent liabilities                  | 148                           | 30                              | 277                           | 55                              | 87                            | 17                              |
| <b>Total contingent liabilities</b>                   | <b>2,696</b>                  | <b>2,392</b>                    | <b>2,495</b>                  | <b>2,109</b>                    | <b>2,519</b>                  | <b>2,261</b>                    |

The Banking Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including its ultimate parent. 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.

(1) With effect from 1 October 2006, financial guarantee contracts are recognised initially at fair value. After initial recognition, such contracts are measured at the higher of the amount determined in accordance with NZ IAS 37: Provisions, Contingent Liabilities and Contingent Assets, or the amount initially recognised. There was no financial

impact on adoption of this amendment to NZ IAS 39: Financial Instruments: Recognition and Measurement.

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

#### **Contingent tax liability**

As previously disclosed, the New Zealand Inland Revenue Department ( IRD ) is reviewing a number of structured finance transactions as part of an audit of the 2000 2003 tax years. This is part of an industry-wide review by the IRD of these transactions undertaken in New Zealand.

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

As expected in March 2007 the IRD issued amended tax assessments as a follow up to the Notices in respect of five of these transactions for the 2002 tax year (prior to that tax year becoming statute-barred). The IRD has previously issued tax assessments as a follow up to the Notices in respect of two transactions for the 2000 tax year and in respect of four transactions for the 2001 tax year (in each case prior to that tax year becoming statute-barred). Proceedings disputing the amended tax assessments with respect to the 2000 and 2001 tax years have been commenced.

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

The tax adjustments proposed so far by the IRD cover the 2000 to 2003 tax years and imply a maximum potential liability of \$159 million (\$229 million with interest tax effected).

The IRD is also investigating other transactions undertaken by the Banking Group, which have been subject to the same tax treatment. Should the same position be taken by the IRD for all years on all these transactions, including those that the Notices cover, the maximum potential liability would be approximately \$365 million (\$484 million with interest tax effected) as at 31 March 2007.

Of the maximum potential tax liability in dispute, it has been estimated that approximately \$99 million (\$137 million with interest tax effected) is subject to indemnities given by Lloyds TSB Bank plc under the agreement by which the Bank acquired the NBNZ Holdings Limited Group, and which relate to transactions undertaken by NBNZ Group before December 2003.

This leaves a net potential tax liability as at 31 March 2007 of \$266 million (\$347 million with interest tax effected).

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

#### **Other contingent liabilities**

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

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

ANZ National Bank Limited is defending the proceedings. At this stage, the risks and any potential liabilities cannot be assessed.

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**42. COMMITMENTS**

|   | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|---|--|---|---------------------------------------|--|---|---------------------------------------|
| <b>Capital expenditure</b>  |  |   |                                       |  |   |                                       |
| Contracts for outstanding capital expenditure:                        |  |   |                                       |  |   |                                       |
| <b>Premises and equipment</b>   |  |   |                                       |  |   |                                       |
| Not later than 1 year   | <b>16</b>  | 37                                      | 38                                    |  |   |                                       |
| Total capital expenditure commitments                                 | <b>16</b>  | 37                                      | 38                                    |  |   |                                       |
| <b>Lease rentals</b>  |  |   |                                       |  |   |                                       |
| Future minimum lease payments under non-cancellable operating leases: |  |   |                                       |  |   |                                       |
| <b>Premises and equipment</b>   |  |   |                                       |  |   |                                       |
| Not later than 1 year   | <b>84</b>  | 81                                      | 79                                    | <b>22</b>  | 19                                      | 19                                    |
| Later than 1 year but not later than 5 years                          | <b>162</b>   | 180                                     | 172                                   | <b>37</b>  | 42                                      | 39                                    |
| Later than 5 years  | <b>29</b>  | 42                                      | 39                                    |  | 3                                       |                                       |
| Total lease rental commitments  | <b>275</b>   | 303                                     | 290                                   | <b>59</b>  | 64                                      | 58                                    |
| Total commitments   | <b>291</b>   | 340                                     | 328                                   | <b>59</b>  | 64                                      | 58                                    |

The Banking Group leases land and buildings under operating leases expiring from one to thirty years. Leases generally provide the Banking Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria. Contingent rentals are not included in lease rental commitments, are not provisioned for due to their immateriality, therefore are expensed as incurred.

**43. INTEREST EARNING AND DISCOUNT BEARING ASSETS AND LIABILITIES**

|  | <b>Consolidated<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> | <b>Parent<br/>Unaudited<br/>31/03/2007<br/>\$m</b> | <b>Unaudited<br/>31/03/2006<br/>\$m</b> | <b>Audited<br/>30/09/2006<br/>\$m</b> |
|--|--|---|---------------------------------------|--|---|---------------------------------------|
| Interest earning and discount bearing assets | <b>92,821</b>  | 85,363                                  | 88,398                                | <b>89,503</b>                                      | 81,935                                  | 85,009                                |
| Interest and discount bearing liabilities    | <b>83,108</b>  | 77,050                                  | 80,293                                | <b>89,822</b>                                      | 83,778                                  | 86,204                                |

#### 44. SEGMENTAL ANALYSIS

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

A summarised description of each business segment is shown below:

|                             |  |
|-----------------------------|--|
| <b>Retail Banking</b>       | Provides banking products and services to the personal banking segment and the small business segment through separate ANZ and The National Bank branded distribution channels. Personal banking customers have access to a wide range of financial services and products. Small business banking services are offered to enterprises with annual revenues of less than \$5 million. Included in this segment is Private Banking, a stand-alone business unit, which offers a fully inclusive banking and investment service to high net worth individuals. Includes minor profit centres supporting the Retail Banking segment (e.g. Direct Banking and the ING joint venture).   |
| <b>Relationship Banking</b> | This segment provides services to rural, commercial and corporate customers. A full range of banking products and services are provided to Rural customers. Corporate and Commercial customers consist of medium to large businesses with annual revenues from \$5 million to \$150 million. The Banking Group's relationship with these businesses ranges from simple banking requirements with revenue from traditional lending and deposit products, to more complex arrangements with revenue sourced from a wider range of products and services.   |
| <b>Institutional</b>        | Comprises businesses that provide a full range of financial services to the Banking Group's largest corporate and institutional customers. The Institutional business unit is made up of the following specialised units: <p style="margin-left: 40px;">Institutional Banking manages customer relationships along industry segment lines, typically with wholesale clients with turnover greater than \$100 million.</p> <p style="margin-left: 40px;">Corporate and Structured Finance provides specialist lending, underwriting and capital structuring and solutions to corporates, institutions and governments.</p> <p style="margin-left: 40px;">Markets provides securities, derivatives and foreign exchange products and services to the Banking Group's client base.</p> <p style="margin-left: 40px;">Working Capital provides trade finance, cash management, international payments, clearing and custodian services to the Banking Group's client base.</p> |
| <b>UDC</b>                  | UDC is primarily involved in the financing and leasing of equipment, plant and machinery for small and medium sized businesses.  |
| <b>Other</b>                | Includes Treasury and back office support functions, none of which constitutes a separately reportable segment.  |

Truck Leasing Limited (trading as Esanda FleetPartners) is classified as a discontinued operation, and is included in the Other segment.

As the composition of segments has changed over time, prior period comparatives have been adjusted to be consistent with the 2007 segment definitions.

#### Consolidated Unaudited 6 months to 31/03/2007

|                                    | Retail Banking<br>\$m | Relationship<br>Banking<br>\$m | Institutional<br>\$m | UDC<br>\$m | Other<br>\$m | Total<br>\$m |
|------------------------------------|-----------------------|--------------------------------|----------------------|------------|--------------|--------------|
| <b>Continuing operation(1),(2)</b> |                       |                                |                      |            |              |              |
| External interest income           | 1,937                 | 1,129                          | 763                  | 85         | 9            | 3,923        |
| External interest expense          | (915)                 | (245)                          | (689)                | (72)       | (895)        | (2,816)      |
| Net intersegment interest          | (421)                 | (604)                          | 24                   | 22         | 979          |              |
| Net interest income                | 601                   | 280                            | 98                   | 35         | 93           | 1,107        |
| Other external operating income    | 241                   | 32                             | 119                  | 1          | 18           | 411          |

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|  |        |        |        |       |        |         |
|--|--------|--------|--------|-------|--------|---------|
| Share of profit of equity accounted associates and jointly controlled entities | 10     |        | 1      |       |        | 11      |
| Net operating income   | 852    | 312    | 218    | 36    | 111    | 1,529   |
| Other external expenses  | 278    | 51     | 44     | 13    | 233    | 619     |
| Net intersegment expenses(3)   | 181    | 53     | 23     | 3     | (226)  | 34      |
| Operating expenses   | 459    | 104    | 67     | 16    | 7      | 653     |
| Profit before provision for credit impairment and income tax                   | 393    | 208    | 151    | 20    | 104    | 876     |
| Provision for credit impairment  | 25     | 11     | (7)    | 1     |        | 30      |
| Profit before income tax   | 368    | 97     | 58     | 9     | 104    | 846     |
| Income tax expense   | 116    | 65     | 45     | 6     | 55     | 287     |
| Profit after income tax from continuing operations                             | 252    | 132    | 113    | 13    | 49     | 559     |
| <b>Discontinued operation</b>  |        |        |        |       |        |         |
| Profit from discontinued operation (net of income tax)                         |        |        |        |       | 76     | 76      |
| Profit after income tax  | 252    | 132    | 113    | 13    | 125    | 635     |
| <b>Non-cash expenses</b>   |        |        |        |       |        |         |
| Depreciation and amortisation  | 5      |        | 1      |       | 26     | 32      |
| <b>Balance sheet</b>   |        |        |        |       |        |         |
| Total external assets  | 48,398 | 26,885 | 19,834 | 1,692 | 4,149  | 100,958 |
| Share in associates and jointly controlled entities                            | 196    |        | 11     |       | (17)   | 190     |
| Total external liabilities   | 32,910 | 8,146  | 22,239 | 2,042 | 26,729 | 92,066  |

**Geographic segment analysis**

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

(1) Results are equity standardised

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

(3) Net intersegment expenses are eliminated at the ultimate parent bank level.

**Consolidated Unaudited 6 months to 31/03/2006**

|  | Retail Banking<br>\$m | Relationship<br>Banking<br>\$m | Institutional<br>\$m | UDC<br>\$m | Other<br>\$m | Total<br>\$m |
|--|-----------------------|--------------------------------|----------------------|------------|--------------|--------------|
| <b>Continuing operations(1),(2)</b>  |                       |                                |                      |            |              |              |
| External interest income   | 1,673                 | 948                            | 746                  | 86         | 2            | 3,455        |
| External interest expense  | (785)                 | (213)                          | (732)                | (74)       | (633)        | (2,437)      |
| Net intersegment interest  | (335)                 | (486)                          | 88                   | 22         | 711          |              |
| Net interest income  | 553                   | 249                            | 102                  | 34         | 80           | 1,018        |
| Other external operating income  | 224                   | 31                             | 149                  | 2          | 20           | 426          |
| Share of profit of equity accounted associates and jointly controlled entities | 12                    |                                |                      |            |              | 12           |
| Net operating income   | 789                   | 280                            | 251                  | 36         | 100          | 1,456        |
| Other external expenses  | 274                   | 49                             | 42                   | 14         | 256          | 635          |
| Net intersegment expenses(3)   | 172                   | 50                             | 22                   | 3          | (199)        | 48           |
| Operating expenses   | 446                   | 99                             | 64                   | 17         | 57           | 683          |
| Profit before provision for credit impairment and income tax                   | 343                   | 181                            | 187                  | 19         | 43           | 773          |
| Provision for credit impairment  | 3                     |                                | 9                    | 1          |              | 13           |
| Profit before income tax   | 340                   | 181                            | 178                  | 18         | 43           | 760          |
| Income tax expense   | 109                   | 60                             | 53                   | 6          | 14           | 242          |
| Profit after income tax from continuing operations                             | 231                   | 121                            | 125                  | 12         | 29           | 518          |
| <b>Discontinued operation</b>  |                       |                                |                      |            |              |              |
| Profit from discontinued operation (net of income tax)                         |                       |                                |                      |            | 2            | 2            |
| Profit after income tax  | <b>231</b>            | 121                            | 125                  | 12         | 31           | 520          |
| <b>Non-cash expenses</b>   |                       |                                |                      |            |              |              |
| Depreciation and amortisation  | 5                     |                                |                      |            | 65           | 70           |
| <b>Balance sheet</b>   |                       |                                |                      |            |              |              |
| Total external assets  | 43,021                | 23,372                         | 21,813               | 1,681      | 4,407        | 94,294       |
| Share in associates and jointly controlled entities                            | 176                   |                                | 16                   |            | (18)         | 174          |
| Total external liabilities   | 29,788                | 7,647                          | 21,872               | 2,224      | 24,237       | 85,768       |

(1) Results are equity standardised

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

(3) Net intersegment expenses are eliminated at the ultimate parent bank level.



**Consolidated Audited year to 30/09/2006**

|  | Retail Banking<br>\$m | Relationship<br>Banking<br>\$m | Institutional<br>\$m | UDC<br>\$m | Other<br>\$m | Total<br>\$m |
|--|-----------------------|--------------------------------|----------------------|------------|--------------|--------------|
| <b>Continuing operations(1),(2)</b>  |                       |                                |                      |            |              |              |
| External interest income   | 3,489                 | 1,991                          | 1,369                | 170        | 187          | 7,206        |
| External interest expense  | (1,645)               | (452)                          | (1,039)              | (149)      | (1,792)      | (5,077)      |
| Net intersegment interest  | (713)                 | (1,021)                        | (90)                 | 47         | 1,777        |              |
| Net interest income  | 1,131                 | 518                            | 240                  | 68         | 172          | 2,129        |
| Other external operating income  | 462                   | 62                             | 231                  | 2          | 23           | 780          |
| Share of profit of equity accounted associates and jointly controlled entities | 22                    |                                |                      |            |              | 22           |
| Net operating income   | 1,615                 | 580                            | 471                  | 70         | 195          | 2,931        |
| Other external expenses  | 547                   | 100                            | 83                   | 34         | 483          | 1,247        |
| Net intersegment expenses(3)   | 345                   | 100                            | 45                   | 1          | (415)        | 76           |
| Operating expenses   | 892                   | 200                            | 128                  | 35         | 68           | 1,323        |
| Profit before provision for credit impairment and income tax                   | 723                   | 380                            | 343                  | 35         | 127          | 1,608        |
| Provision for credit impairment  | 14                    | (10)                           | 12                   | 2          |              | 18           |
| Profit before income tax   | 709                   | 390                            | 331                  | 33         | 127          | 1,590        |
| Income tax expense   | 225                   | 130                            | 101                  | 11         | 56           | 523          |
| Profit after income tax from continuing operations                             | 484                   | 260                            | 230                  | 22         | 71           | 1,067        |
| <b>Discontinued operation</b>  |                       |                                |                      |            |              |              |
| Profit from discontinued operation (net of income tax)                         |                       |                                |                      |            | 5            | 5            |
| Profit after income tax  | 484                   | 260                            | 230                  | 22         | 76           | 1,072        |
| <b>Non-cash expenses</b>   |                       |                                |                      |            |              |              |
| Depreciation and amortisation  | 10                    |                                | 1                    | 1          | 128          | 140          |
| <b>Balance sheet</b>   |                       |                                |                      |            |              |              |
| Total external assets  | 45,399                | 25,291                         | 18,459               | 1,627      | 5,248        | 96,024       |
| Share in associates and jointly controlled entities                            | 186                   |                                | 8                    |            | (17)         | 177          |
| Total external liabilities   | 31,653                | 8,026                          | 20,656               | 2,149      | 25,307       | 87,791       |

(1) Results are equity standardised

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

(3) Net intersegment expenses are eliminated at the ultimate parent bank level.





## 45. NOTES TO THE CASH FLOW STATEMENTS

|   | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m |
|---|---|---|---|---|---|---|
| <b>Reconciliation of profit after income tax to net cash flows used in operating activities</b> |   |   |   |   |   |   |
| Profit after income tax   | 635   | 520   | 1,072                                   | 425   | 287   | 611                                     |
| <b>Non-cash items:</b>  |   |   |   |   |   |   |
| Depreciation and amortisation   | 32  | 70  | 140                                     | 13  | 17  | 31                                      |
| Provision for credit impairment   | 30  | 14  | 19                                      | 29  | 12  | 16                                      |
| Writedown of investment in subsidiary company   |   |   |   |   |   | 1                                       |
| Amortisation of premiums and discounts  | 32  | (7 )  | 12                                      | 32  | (7 )  | 12                                      |
| Deferred fee revenue and expenses   |   | 7   | 6                                       | (1 )  | 6   | 7                                       |
| Share-based payment expense   | 7   | 5   | 10                                      | 7   | 5   | 10                                      |
| <b>Deferrals or accruals of past or future operating cash receipts or payments:</b>             |   |   |   |   |   |   |
| Increase in operating assets and liabilities  | (954 )  | (4,129 )                                      | (5,728 )                                | (805 )  | (3,212 )                                      | (3,320 )                                |
| (Increase) decrease in interest receivable  | (38 )   | (68 )   | (88 )                                   | (31 )   | (39 )   | (65 )                                   |
| Increase in interest payable  | 63  | 52  | 74                                      | 67  | 23  | 26                                      |
| (Increase) decrease in accrued income   | (16 )   | (14 )   | (27 )                                   | (16 )   | (12 )   | (25 )                                   |
| (Decrease) increase in accrued expenses   | (35 )   | (6 )  | 2                                       | (37 )   | (7 )  | 8                                       |
| (Decrease) increase in provisions   | (6 )  | 7   | (6 )                                    | (4 )  | 7   | (6 )                                    |
| Decrease (increase) in income tax assets  | 72  | 109   | (3 )                                    | 17  | 111   | (31 )                                   |
| Increase (decrease) in income tax liabilities   | 39  | 18  | 63                                      | 41  | 2   | 56                                      |
| <b>Items classified as investing/financing:</b>   |   |   |   |   |   |   |
| Share of profit of equity accounted associates and jointly controlled entities                  | (11 )   | (12 )   | (22 )                                   | (11 )   | (12 )   | (22 )                                   |
| Gain on disposal of controlled entities   | (76 )   |   |   |   |   |   |
| Gain on disposal of associates and jointly controlled entities                                  |   |   | (2 )                                    |   |   |   |
| Gain on disposal of premises and equipment  |   |   |   |   |   | (1 )                                    |
| <b>Net cash flows used in operating activities</b>  | <b>(226 )</b>   | <b>(3,434 )</b>                               | <b>(4,478 )</b>                         | <b>(274 )</b>   | <b>(2,819 )</b>                               | <b>(2,692 )</b>                         |

**46. RELATED PARTY TRANSACTIONS**

|  | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$ 000 | Unaudited<br>6 months to<br>31/03/2006<br>\$ 000 | Audited<br>Year to<br>30/09/2006<br>\$ 000 | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$ 000 | Unaudited<br>6 months to<br>31/03/2006<br>\$ 000 | Audited<br>Year to<br>30/09/2006<br>\$ 000 |
|--|--|--|--|--|--|--|
| <b>Key management personnel</b>                |  |  |  |  |  |  |
| <i>Key management personnel compensation</i>   |  |  |  |  |  |  |
| Salaries and short-term employee benefits      | 4,941  | 5,176  | 10,744                                     | 4,701  | 5,032  | 10,473                                     |
| Post-employment benefits                       | 168  | 212  | 364  | 166  | 211  | 364  |
| Other long-term benefits                       | 82   | 88   | 147  | 64   | 86   | 144  |
| Termination benefits                           |  | 2,218  | 2,218                                      |  | 1,931  | 1,931                                      |
| Share-based payments                           | 1,050  | 969  | 1,992                                      | 1,038  | 960  | 1,974                                      |
| Total compensation of key management personnel | 6,241  | 8,663  | 15,465                                     | 5,969  | 8,220  | 14,886                                     |
| Loans to key management personnel              | 8,279  | 5,991  | 7,308                                      | 8,279  | 5,991  | 7,304                                      |
| Deposits from key management personnel         | 3,699  | 4,811  | 4,500                                      | 3,692  | 4,811  | 4,495                                      |

Loans made to and deposits held by key management personnel (including personally related parties) are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed, variable and interest only, all of which have been made in accordance with the Bank's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (31/03/2006 \$nil; 30/09/2006 \$nil).

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

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including directors (whether executive or otherwise).

**Transactions with the Parent Company, Ultimate Parent Company and subsidiaries**

Details of amounts provided by/to the Parent Company, Ultimate Parent Company and subsidiaries of the Banking Group during the ordinary course of business are set out in the relevant notes to these financial statements. No provision for credit impairment has been recognised during the six months ended 31 March 2007 (31/03/2006 \$nil; 30/09/2006 \$nil).

|                         | Consolidated<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m | Parent<br>Unaudited<br>6 months to<br>31/03/2007<br>\$m | Unaudited<br>6 months to<br>31/03/2006<br>\$m | Audited<br>Year to<br>30/09/2006<br>\$m |
|-------------------------|---|---|---|---|---|---|
| <b>Interest income</b>  |   |   |   |   |   |   |
| Subsidiary companies    |   |   |   | 29  | 24  | 79                                      |
| Parent Company          | 7   | 6   | 11                                      | 7   | 6   | 11                                      |
| Ultimate Parent Company | 2   |   |   | 2   |   |   |
| <b>Interest expense</b> |   |   |   |   |   |   |
| Subsidiary companies    |   |   |   | 974   | 769   | 1,824                                   |
| Parent Company          | 100   | 94  | 190                                     | 100   | 94  | 190                                     |
| Ultimate Parent Company | 89  | 66  | 141                                     | 27  | 28  | 48                                      |

|                           |           |    |    |           |      |      |
|---------------------------|-----------|----|----|-----------|------|------|
| <b>Operating expenses</b> |           |    |    |           |      |      |
| Ultimate Parent Company   | <b>34</b> | 46 | 76 | <b>34</b> | 46   | 76   |
| Arawata Assets Limited    |           |    |    | <b>49</b> | 39   | 88   |
| UDC Finance Limited       |           |    |    | <b>(2</b> | ) (5 | ) (9 |
| Truck Leasing Limited     |           |    |    |           | 2    | 4    |

**Transactions with associates and joint venture entities**

During the period the Banking Group conducted transactions with associates and joint venture entities on normal commercial terms and conditions as shown below:

**Aggregate**

|   |           |     |     |           |     |     |
|---|-----------|-----|-----|-----------|-----|-----|
| <b>Amounts receivable</b>                                     |           |     |     |           |     |     |
| associates  | <b>25</b> | 43  | 18  | <b>18</b> | 31  | 18  |
| joint venture entities  | <b>29</b> | 103 | 140 | <b>11</b> | 103 | 121 |
| <b>Interest income</b>  |           |     |     |           |     |     |
| associates  |           | 1   | 2   |           | 1   | 1   |
| joint venture entities  | <b>5</b>  | 2   | 7   | <b>3</b>  | 2   | 6   |
| <b>Commission received from ING New Zealand joint venture</b> |           |     |     |           |     |     |
|   | <b>10</b> | 11  | 23  | <b>10</b> | 11  | 23  |
| <b>Costs recovered from ING New Zealand joint venture</b>     |           |     |     |           |     |     |
|   | <b>1</b>  | 1   | 2   | <b>1</b>  | 1   | 2   |

The Banking Group provides registry services to the ING New Zealand joint venture in connection with the business of ING Managed Funds (NZ) Limited until 31 December 2006.

During the period the Banking Group provided payroll, tax accounting and compliance services, and premises in connection with and for the purpose of ING Insurance Services (NZ) Limited and ING Managed Funds (NZ) Limited.

A provision for credit impairment of \$9 million is recognised for amounts outstanding from associates as at 31 March 2007 (31/03/2006 \$11 million; 30/09/2006 \$16 million).

No credit impairment loss was recognised on amounts outstanding from associates during the six months ended 31 March 2007 (31/03/2006 \$4 million; 30/09/2006 \$6 million).

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## 47. CONTROLLED ENTITIES, ASSOCIATES AND INTERESTS IN JOINTLY CONTROLLED ENTITIES

| Controlled entities   | Ownership Interest % | Balance Dates | Nature of business                  |
|---|----------------------|---------------|-------------------------------------|
| Airlie Investments Limited                                  | 100                  | 30 September  | Investment company                  |
| Alos Holdings Limited                                       | 100                  | 30 September  | Investment company                  |
| Amberley Investments  | 50                   | 31 December   | Finance company                     |
| ANZ Capital NZ Limited                                      | 100                  | 30 September  | Investment company                  |
| ANZ Investment Services (New Zealand) Limited               | 100                  | 30 September  | Funds management company            |
| ANZ National (Int 1) Limited                                | 100                  | 30 September  | Finance company                     |
| ANZ National Staff Superannuation Limited                   | 100                  | 30 September  | Staff superannuation scheme trustee |
| APAC Investments Limited                                    | 65                   | 30 September  | Finance company                     |
| Arawata Assets Limited                                      | 100                  | 30 September  | Property company                    |
| Arawata Capital Limited                                     | 100                  | 30 September  | Investment company                  |
| Arawata Finance Limited                                     | 100                  | 30 September  | Investment company                  |
| Arawata Funding Limited                                     | 100                  | 30 September  | Investment company                  |
| Arawata Holdings Limited                                    | 100                  | 30 September  | Investment company                  |
| Arawata Securities Limited                                  | 100                  | 30 September  | Finance company                     |
| Arawata Trust   | 100                  | 30 September  | Finance entity                      |
| Arawata Trust Company                                       | 100                  | 30 September  | Investment company                  |
| BHI Limited   | 100                  | 30 September  | Investment company                  |
| CBC Finance Limited (incorporated in United Kingdom)        | 100                  | 31 December   | Finance company                     |
| Control Nominees Limited                                    | 100                  | 30 September  | Finance company                     |
| Cortland Finance Limited                                    | 100                  | 30 September  | Investment company                  |
| Corvine Investments Limited                                 | 100                  | 30 September  | Investment company                  |
| Culver Finance Limited                                      | 100                  | 30 September  | Investment company                  |
| Direct Broking Limited                                      | 100                  | 30 September  | On-line share broker                |
| Direct Nominees Limited                                     | 100                  | 30 September  | Non operative                       |
| EFTPOS New Zealand Limited                                  | 100                  | 30 September  | Eftpos service provider             |
| Endeavour Caterpillar New Zealand Finance Company           | 50                   | 30 September  | Investment company                  |
| Endeavour Finance Limited                                   | 100                  | 30 September  | Investment company                  |
| Endeavour Securities Limited                                | 100                  | 30 September  | Investment company                  |
| General Finance Custodians Limited                          | 100                  | 31 March      | Mortgage finance                    |
| Harcourt Corporation Limited                                | 100                  | 30 September  | Investment company                  |
| Harcourt Investments Limited                                | 100                  | 30 September  | Investment company                  |
| Karapiro Investments Limited                                | 100                  | 30 September  | Non operative                       |
| Marmion Trust   |                      | 31 December   | Finance entity                      |
| National Bank of New Zealand Custodians Limited             | 100                  | 30 September  | Nominee and custody services        |
| NBNZ Finance Limited  | 100                  | 30 September  | Finance company                     |
| NBNZ Holdings Hong Kong Limited (incorporated in Hong Kong) | 100                  | 31 December   | Non operative                       |
| NBNZ Holdings Limited                                       | 100                  | 30 September  | Finance company                     |
| Nerine Finance No. 2  | 65                   | 31 December   | Finance entity                      |
| Origin Mortgage Management Services Limited                 | 100                  | 31 March      | Mortgage finance                    |
| Pioneer First Limited                                       | 100                  | 31 March      | Mortgage finance                    |
| Private Nominees Limited                                    | 100                  | 30 September  | Nominee company                     |
| Sefton Finance Limited                                      | 100                  | 30 September  | Investment company                  |
| South Pacific Merchant Finance Limited                      | 100                  | 30 September  | Investment company                  |
| Southpac Corporation Limited                                | 100                  | 30 September  | Investment company                  |
| Trillium Holdings Limited                                   | 100                  | 30 September  | Finance company                     |
| Tui Endeavour Limited                                       | 100                  | 30 September  | Investment company                  |
| Tui Securities Limited                                      | 100                  | 30 September  | Investment company                  |
| UDC Finance Limited   | 100                  | 30 September  | Finance company                     |



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

For all controlled entities, with the exception of Amberley Investments, the ownership interest percentage equates to the voting power held. A voting interest of 90% is held in Amberley Investments.

In relation to Endeavour Caterpillar New Zealand Finance Company, control exists through the ability to cast, or control the casting of more than half of the votes that are likely to be cast at a general meeting over significant matters.

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

On 31 October 2006, UDC Finance Limited sold Truck Leasing Limited for consideration of \$147 million. A gain on sale of \$76 million was realised. Refer to Note 10 for full disclosure of the financial impact of the sale.

On 7 November 2006, the Banking Group exited its controlling interest in Starz Trust (65% ownership).

On 20 December 2006, the Banking Group entered into a transaction via its subsidiary, Arawata Funding Limited, resulting in the consolidation of Marmion Trust.

| <b>Associates</b>                       | <b>Voting Interest %</b> | <b>Ownership Interest %</b> | <b>Balance Dates</b> | <b>Nature of business</b>            |
|---|--------------------------|-----------------------------|----------------------|--------------------------------------|
| Cards NZ Limited                        | 25                       | 17                          | 30 September         | Card services                        |
| Chequer Corporation Limited             | 45                       | 81                          | 30 September         | Plastics manufacturing and recycling |
| Electronic Transaction Services Limited | 25                       | 25                          | 31 March             | Eftpos settlements                   |
| Green Acres Franchise Group Limited     | 43                       | 43                          | 31 March             | Home maintenance franchise           |
| Mondex New Zealand Limited              | 40                       | 40                          | 31 December          | Card services                        |
| Wyma Engineering (NZ) Limited           | 31                       | 31                          | 31 March             | Agricultural machinery supplier      |

All associates are incorporated in New Zealand.

On 8 March 2007, ANZ Capital NZ Limited acquired a 31% ownership interest in Wyma Engineering (NZ) Limited.

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| Jointly controlled entities | Voting Interest % | Ownership Interest % | Balance Dates | Nature of business                           |
|-----------------------------|-------------------|----------------------|---------------|--|
| Argenta Limited             | 25                | 25                   | 31 July       | Manufacture and marketing of animal remedies |
| BCS Group Limited           | 39                | 39                   | 30 June       | Manufacturer of baggage handling systems     |
| ING (NZ) Holdings Limited   | 50                | 49                   | 31 December   | Funds management and insurance               |
| JMI Aerospace Limited       | 33                | 33                   | 31 March      | Airline maintenance and service provider     |

All jointly controlled entities are incorporated in New Zealand.

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

The joint ventures will adopt NZ IFRS in 2007. The ING New Zealand Joint Venture adopted NZ IFRS on 1 January 2007. There are not expected to be any material impacts on the Banking Group when the joint ventures adopt NZ IFRS.

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

|   | Parent and Consolidated        |                                |                              |
|---|--------------------------------|--------------------------------|------------------------------|
|   | Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
| <b>Share of assets and liabilities</b>        |                                |                                |                              |
| Investments                                   | 81                             | 92                             | 80                           |
| Other assets                                  | 156                            | 163                            | 176                          |
| Total assets                                  | 237                            | 255                            | 256                          |
| Life insurance policy liabilities             | 31                             | 63                             | 52                           |
| Other liabilities                             | 10                             | 16                             | 18                           |
| Total liabilities                             | 41                             | 79                             | 70                           |
| Net assets                                    | 196                            | 176                            | 186                          |
| <b>Share of revenue, expenses and results</b> |                                |                                |                              |
| Net underwriting result                       | 26                             | 5                              | 32                           |
| Other revenue                                 | 14                             | 17                             | 35                           |
| Total revenue                                 | 40                             | 22                             | 67                           |
| Expenses                                      | 30                             | 11                             | 44                           |
| Profit before income tax                      | 10                             | 11                             | 23                           |
| Income tax (credit) / expense                 |                                | (1)                            | 1                            |
| Profit after tax                              | 10                             | 12                             | 22                           |
| <b>Share of commitments</b>                   |                                |                                |                              |
| Lease commitments                             | 2                              | 4                              | 3                            |

There are no unrecognised losses in respect of any of the Banking Group's jointly controlled entities. The Banking Group's share of the contingent liabilities of its joint ventures are incurred jointly with other investors. There were no contingent liabilities as at 31 March 2007 (31/03/2006 \$nil; 30/09/2006 \$nil).

**48. PARENT COMPANY AND ULTIMATE PARENT COMPANY**

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

The Ultimate Parent Company is required to hold minimum capital at least equal to that specified under the Basel I framework. The capital adequacy ratios are:

|                | Unaudited<br>31/03/2007 | Unaudited<br>31/03/2006 | Audited<br>30/09/2006 |   |
|----------------|-------------------------|-------------------------|-----------------------|---|
| Tier 1 Capital | <b>6.7</b>              | % 6.8                   | % 6.8                 | % |
| Total Capital  | <b>10.3</b>             | % 10.4                  | % 10.6                | % |

The Ultimate Parent Company meets those requirements imposed on it by its home supervisor as at 31 March 2007 whereby banks must maintain a ratio of qualifying capital to risk weighted assets of at least 8 per cent.

The Australian Prudential Regulatory Authority (APRA) introduced new prudential capital standards as at 1 July 2006 which contain various transitional rules which run through to different dates in 2008 and 2010 to coincide with Basel II implementation.

**49. SUBSEQUENT EVENTS**

The financial statements were authorised for issue by the Directors on 1 May 2007.

On 12 April 2007, an interim ordinary dividend of \$360 million was declared, to be paid to the parent company, ANZ Holdings (New Zealand) Limited. The dividend per share was \$0.51.

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## 50. EMPLOYEE SHARE AND OPTION PLANS

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

The closing market price of one ordinary share of ANZ quoted on the ASX (Australian Stock Exchange) at 31 March 2007 was A\$29.70 (31/03/2006 A\$26.50; 30/09/2006 A\$26.86).

### ANZ EMPLOYEE SHARE ACQUISITION PLAN

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

#### A\$1,000 share plan

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

The Banking Group's employees are required to pay NZ 1 cent per share at the time the shares are transferred to them. During the period to 31 March 2007, 269,025 shares with an average issue price of A\$27.88 were issued under the A\$1,000 Share Plan (31/03/2006 308,919 shares with an average issue price of A\$23.67 were issued; 30/09/2006 308,919 shares with an average issue price of A\$23.67 were issued).

#### Deferred share plan

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

During the period to 31 March 2007, no shares were issued under the deferred share plan (31/03/2006 no shares were issued; 30/09/2006 no shares were issued).

#### Restricted share plan

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

#### Shares valuations

The fair value of services received in return for shares in the ANZ Employee Share Acquisition Plan are measured by referring to the fair value of ANZ shares granted. The fair value of shares granted in the current period, measured at the date of grant of the shares, is NZ \$9 million based on 269,025 shares at a weighted average price of A\$27.88 converted at the exchange rate of 0.8391 (31/03/2006: \$8 million based on 308,919 shares at a weighted average price of A\$23.67 converted at the exchange rate of 0.9015 were issued; 30/09/2006: \$8 million based on 308,919 shares at a weighted average price of A\$23.67 converted at the exchange rate of 0.9015 were issued).

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

### ANZ SHARE OPTION PLAN

Selected employees may be granted options, which entitle them to purchase ordinary fully paid shares in ANZ at a price fixed at the time when the options were issued. Voting and dividend rights will be attached to the unissued ordinary shares when the options have been exercised. Each

option entitles a holder to purchase one ordinary share subject to any terms and conditions imposed on issue. The exercise price of the options (excluding zero-priced options) is determined in accordance with the rules of the plan, and is based on the weighted average price of the Ultimate Parent Bank's shares traded during the five business days preceding the date of granting the options.

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

### **Current Option Plans**

#### **Performance rights plan**

This scheme is a long term incentive program available to certain Banking Group employees since November 2005 and grants the right to acquire ANZ shares at nil cost, subject to a three year vesting period and a Total Shareholder Return (TSR) performance hurdle. The proportion of rights that will become exercisable will depend upon the TSR achieved by ANZ relative to the companies in the comparator group, which consists of selected major financial services companies in the Standard & Poor's and ASX 100 Index. Performance equal to the median TSR of the comparator group will result in half the rights becoming exercisable. Performance above the median will result in further performance rights becoming exercisable, increasing on a straight line basis until all of the rights become exercisable where ANZ's TSR is at or above the 75th percentile in the comparator group. The TSR hurdle will only be tested once at the end of the three-year vesting period. If the rights do not pass the hurdle on testing date, or if they pass the hurdle on testing date and are not exercised by the end of five years from the grant date, the rights will lapse. In the case of resignation or termination on notice, only rights that become exercisable by the end of the notice period may be exercised. A grace period is provided in which to exercise the rights. All other rights will lapse. In the case of retrenchment or retirement, performance rights will be performance tested at the date of termination and where performance hurdles have been met, performance rights will be pro-rated and a grace period provided in which to exercise the rights. In case of death or total and permanent disablement, a grace period is provided in which to exercise all performance rights.

#### **Deferred share rights**

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

## Legacy Option Plans

### Performance options plan

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

### Zero-price options (ZPO)

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

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

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

|   | Consolidated/Parent<br>31 /03/2007 |  | 31/03/2006          |  | 30/09/2006          |  |
|---|------------------------------------|--|---------------------|--|---------------------|--|
|   | Number<br>of shares                | Weighted<br>average<br>exercise<br>price(1)<br>A\$ | Number<br>of shares | Weighted<br>average<br>exercise<br>price(1)<br>A\$ | Number<br>of shares | Weighted<br>average<br>exercise<br>price(1)<br>A\$ |
| Share options at beginning of the period  | 1,668,436                          | 17.49  | 1,590,402           | 18.20  | 1,590,402           | 18.20  |
| Share options granted   | 293,864                            |  | 439,415             | 14.75  | 439,415             | 14.75  |
| Share options exercised   | (153,990 )                         | 17.38  | (131,363 )          | 16.27  | (248,243 )          | 17.07  |
| Share options forfeited and expired   | (15,801 )                          | 18.60  | (63,544 )           | 17.93  | (113,138 )          | 18.65  |
| Share options at end of the period  | 1,792,509                          | 14.57  | 1,834,910           | 17.59  | 1,668,436           | 17.49  |
| Weighted average share price during the period                                    |                                    | 28.49  |                     | 24.30  |                     | 25.25  |
| Range of exercise prices on share options at end of the period                    |                                    | 0.00 23.49   |                     | 0.00 23.49   |                     | 0.00 23.49   |
| Weighted average remaining contractual life on share options at end of the period |                                    | 50 months  |                     | 60 months  |                     | 55 months  |

### Options valuations

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

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

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

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

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

| Option type                 | Special deferred<br>share<br>rights (b) | STI deferred<br>share<br>rights (b) | LTI deferred<br>share<br>rights (b) | Performance<br>rights (b) |
|-----------------------------|---|-------------------------------------|-------------------------------------|---------------------------|
| Grant date                  | 1-Nov-2006                              | 1-Nov-2006                          | 1-Nov-2006                          | 24-Oct-2006               |
| Number of Options           | 4,060                                   | 69,234                              | 28,516                              | 192,054                   |
| Option value                | \$ 27.54                                | \$ 26.89                            | \$ 25.66                            | \$ 13.08                  |
| Exercise price (5 day VWAP) | \$ nil                                  | \$ nil                              | \$ nil                              | \$ nil                    |
| Share price at grant        | \$ 29.54                                | \$ 29.54                            | \$ 29.54                            | \$ 28.15                  |
| ANZ expected volatility(2)  | 15                                      | % 15                                | % 15                                | % 15                      |
| Option term                 | 5 years                                 | 5 years                             | 5 years                             | 5 years                   |
| Vesting period              | 18 months                               | 2 years                             | 3 years                             | 3 years                   |
| Expected life               | 18 months                               | 2 years                             | 3 years                             | 4 years                   |
| Expected dividends          | 4.80                                    | % 4.80                              | % 4.80                              | % 4.80                    |
| Risk free interest rate     | 6.11                                    | % 6.11                              | % 6.02                              | % 6.00                    |

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\*For modelling purposes a 10% p.a. turnover rate (post vesting) has been assumed and that option holders will exercise their options if the share price is greater than twice the exercise price.

- (1) Calculation of weighted average exercise prices are affected by performance rights, deferred share rights and ZPO plans which have nil exercise prices.
- (2) Expected volatility is based on ANZ's historic volatility.

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**51. RETIREMENT BENEFIT OBLIGATIONS**

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

| Scheme   | Scheme type  | Contribution levels<br>Employee            | Employer                                     |
|--|--|--|--|
| ANZ Group (New Zealand) Staff Superannuation Scheme(1) | Defined Benefit Scheme(2)<br>or<br>Defined Contribution Scheme | Nil<br><br>2.5% minimum of salary          | Balance of cost(4)<br><br>7.5% of salary(6)  |
| The National Bank Staff Superannuation Fund(1)         | Defined Benefit Scheme(3)<br>or<br>Defined Contribution Scheme | 5% of salary<br><br>2.0% minimum of salary | Balance of cost(5)<br><br>11.2% of salary(7) |

**Details of the defined benefit schemes are as follows:**

Actuarial valuations are undertaken every six months. The latest valuations were carried out as at 31 March 2007.

The amounts recognised in the balance sheet arising from the Banking Group's obligation in respect of its defined benefit schemes are determined as follows:

|  | Consolidated/Parent            |                                |                              |
|--|--------------------------------|--------------------------------|------------------------------|
|  | Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m | Audited<br>30/09/2006<br>\$m |
| Defined benefit obligation at beginning of the period  | 190                            | 187                            | 187                          |
| Current service cost                                   | 2                              | 2                              | 4                            |
| Interest cost  | 6                              | 6                              | 11                           |
| Contributions by scheme participants                   | 1                              | 1                              | 1                            |
| Actuarial losses                                       | 3                              | 10                             | 7                            |
| Benefits paid  | (7 )                           | (12 )                          | (20 )                        |
| Present value of funded defined benefit obligations    | 195                            | 194                            | 190                          |
| Fair value of scheme assets at beginning of the period | 196                            | 195                            | 195                          |
| Expected return on scheme assets (net of tax)          | 5                              | 6                              | 11                           |
| Actuarial gains  | 12                             | 8                              | 5                            |
| Contributions by employer                              | 2                              | 2                              | 4                            |
| Contributions by scheme participants                   | 1                              | 1                              | 1                            |
| Benefits paid  | (7 )                           | (12 )                          | (20 )                        |
| Fair value of scheme assets                            | 209                            | 200                            | 196                          |
| Net defined benefit asset recognised on balance sheet  | 14                             | 6                              | 6                            |

The fair value of scheme assets include cash deposits and fixed interest investments of \$5 million with the Banking Group (31/03/2006 \$4 million; 30/09/2006 \$9 million).

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

|                      |   |   |   |
|----------------------|---|---|---|
| Current service cost | 2 | 2 | 4 |
|----------------------|---|---|---|

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|   |     |     |      |
|---|-----|-----|------|
| Interest cost   | 6   | 6   | 11   |
| Expected return on scheme assets (net of tax)   | (5) | (6) | (11) |
| Contribution withholding tax  |     | 1   | 2    |
| Total pension costs recognised in the income statement defined benefit superannuation schemes | 3   | 3   | 6    |

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(1) These schemes provide for pension benefits and provide for lump sum benefits.

(2) Closed to new members on 31 March 1990. Operates to make pension payments to retirees who were members of that section of the scheme or to dependents of the members.

(3) Closed to new members on 1 October 1991.

(4) As recommended by the actuary, currently \$nil (31/03/2006 \$nil; 30/09/2006 \$nil).

(5) As recommended by the actuary, currently 22.3% (31/03/2006 22.3%; 30/09/2006 22.3%) of members' salaries.

(6) 2007: 7.5% (31/03/2006 7.5%; 30/09/2006 7.5%) of members' salaries.

(7) 2007: 11.2% (31/03/2006 11.2%; 30/09/2006 11.2%) of members' salaries.

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The actuarial gains and losses recognised directly in equity via the statement of recognised income and expense are as follows:

|  | Consolidated/Parent     |                         |                       |
|--|-------------------------|-------------------------|-----------------------|
|  | Unaudited<br>31/03/2007 | Unaudited<br>31/03/2006 | Audited<br>30/09/2006 |
| Actuarial gains (pre-tax) at beginning of the period       | 4                       | 6                       | 6                     |
| Actuarial gain (loss) (pre-tax) incurred during the period | 9                       | (2)                     | (2)                   |
| Balance of actuarial gains (pre-tax) at end of the period  | 13                      | 4                       | 4                     |
| Income tax expense recognised directly in equity           | (4)                     | (1)                     | (1)                   |
| Balance of actuarial gains at end of the period            | 9                       | 3                       | 3                     |

The principal actuarial assumptions used were as follows:

|   | The National Bank<br>Staff Superannuation Fund |            |            | ANZ Group (New Zealand)<br>Staff Superannuation Scheme |            |            |
|---|--|------------|------------|--|------------|------------|
|   | 31/03/2007                                     | 31/03/2006 | 30/09/2006 | 31/03/2007   | 31/03/2006 | 30/09/2006 |
| <i>Defined benefits calculation</i>           |  |            |            |  |            |            |
| Discount rate (gross of tax)                  | 6.0  | %          | 6.0        | %  | 6.0        | %          |
| Future price inflation                        | 2.5  | %          | 2.5        | %  | 2.5        | %          |
| Future pension increases                      | 2.5  | %          | 2.5        | %  | 2.5        | %          |
| Future salary increases                       | 3.0  | %          | 3.0        | %  | 3.7        | %          |
| <i>Scheme assets calculation</i>              |  |            |            |  |            |            |
| Expected return on scheme assets (net of tax) | 5.5  | %          | 5.5        | %  | 5.5        | %          |

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

The actual return on scheme assets (net of tax) for The National Bank Staff Superannuation Fund was 4.2% for the six months ended 31 March 2007 (31/03/2006 6.5%; 30/09/2006 9.1%). The actual return on scheme assets (net of tax) for the ANZ Group (New Zealand) Staff Superannuation Scheme was 2.6% for the six months ended 31 March 2007 (31/03/2006 2.6%; 30/09/2006 7.6%).

The investment return on scheme assets is taxed at 33% (31/03/2006 33%; 30/09/2006 33%).

The major categories of scheme assets as a percentage of the fair value of scheme plan assets are as follows:

|                                      | The National Bank<br>Staff Superannuation Fund |            |            | ANZ Group (New Zealand)<br>Staff Superannuation Scheme |            |            |
|--------------------------------------|--|------------|------------|--|------------|------------|
|                                      | 31/03/2007                                     | 31/03/2006 | 30/09/2006 | 31/03/2007   | 31/03/2006 | 30/09/2006 |
| Cash and short term debt instruments | 15.0   | %          | 19.0       | %  | 15.0       | %          |
| New Zealand fixed interest           | 22.0   | %          | 25.0       | %  | 22.0       | %          |
| Overseas fixed interest              | 16.0   | %          | 11.0       | %  | 17.0       | %          |
| New Zealand equities                 | 12.0   | %          | 11.0       | %  | 11.0       | %          |
| Overseas equities                    | 35.0   | %          | 34.0       | %  | 35.0       | %          |
| Property                             | 0.0  | %          | 0.0        | %  | 0.0        | %          |
|                                      | 100.0  | %          | 100.0      | %  | 100.0      | %          |

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



## Historical Summary

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

|  | Consolidated/Parent            |                                | Audited<br>30/09/2006<br>\$m | Audited<br>30/09/2005<br>\$m |
|--|--------------------------------|--------------------------------|------------------------------|------------------------------|
|  | Unaudited<br>31/03/2007<br>\$m | Unaudited<br>31/03/2006<br>\$m |                              |                              |
| Defined benefit obligation                   | (195 )                         | (194 )                         | (190 )                       | (187 )                       |
| Fair value of scheme assets                  | 209                            | 200                            | 196                          | 195                          |
| Net benefit asset                            | 14                             | 6                              | 6                            | 8                            |
| Experience adjustments on scheme liabilities | 3                              |                                | 3                            |                              |
| Experience adjustment on scheme assets       | 12                             | 8                              | 5                            | 11                           |

## Employer contributions

To ensure the defined benefit schemes remain solvent, the schemes' independent actuaries recommend an employer contribution rate to the Banking Group, annually for The National Bank Staff Superannuation Fund and every three years for the ANZ Group (New Zealand) Staff Superannuation Scheme. The funding methods and current contribution rates of the individual schemes are determined in accordance with FRS 32 Financial Reporting by Superannuation Schemes and differ to the actuarial valuations undertaken for NZ IFRS purposes.

The National Bank Staff Superannuation Fund deficit was valued at \$5 million in the most recent actuarial valuation, 1 April 2006. The most recent actuarial valuation for the ANZ Group (New Zealand) Staff Superannuation undertaken at 31 December 2004 was \$0.2 million surplus.

The Banking Group expects to contribute \$4 million (net of contributions withholding tax) to its defined benefit schemes in the year to 30 September 2007 (30/09/2006 \$4 million). Employer contributions are taxed at a rate of 33% (31/03/2006 33%; 30/09/2006 33%).

## Contingent liabilities

### The National Bank Staff Superannuation Fund

The Banking Group has no present liability under the Fund's Trust Deed to fund the deficit, but it does have a contingent liability if the Fund was wound up. Under the Fund's Trust Deed, if this scheme were wound up, the Banking Group is required to pay the Trustee of the Fund an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled.

### ANZ Group (New Zealand) Staff Superannuation Scheme

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

**ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES**

**DIRECTORATE AND AUDITORS**

**Directorate and Auditors**

The address to which any document or communication may be sent to any Director is ANZ National Bank Limited, Level 14, 215-229 Lambton Quay, PO Box 1492, Wellington, New Zealand. The document or communication should be marked for the attention of that Director.

***Directors' Interests***

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

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

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

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

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

***Transactions with Directors***

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

***Changes to Directorships***

There have been no changes in the Bank's Board of Directors since the authorisation date of the previous Disclosure Statement on 15 February 2007

***Board Members as at 1 May 2007***

***Independent Non-Executive Director, Chairman***

Sir Dryden Spring

DSc

Company Director

Matamata, New Zealand

*Directorships*

*Director:* Sky City Entertainment Group Limited, Port of Tauranga Limited, Fletcher Building Limited, Fletcher Building Finance Limited, Northport Limited

***Executive Director***

Graham Kennedy Hodges

BEC (Hons)

Chief Executive

ANZ National Bank Limited

*Wellington, New Zealand*

*Directorships*

Nil

***Non-Executive Directors***

Dr Bob Edgar

Ph.D, BEc (Hons)

Senior Managing Director

Australia and New Zealand Banking Group Limited

*Melbourne, Australia*

*Directorships*

*Chairman:* Esanda Finance Corporation Limited, ING Australia Limited

*Director:* ANZ In sage Pty Limited, ANZ Royal Bank (Cambodia) Limited, ANZIB Specialist Asset Management Limited, Tianjin City Commercial Bank, ANZ Business Equity Fund Ltd (Alternative Director)

John McFarlane, OBE

MA, MBA

Chief Executive Officer

Australia and New Zealand Banking Group Limited

*Melbourne, Australia*

*Directorships*

Signatures

*Director:* Australia and New Zealand Banking Group Limited, Ballimore Pty Limited

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Peter Ralph Marriott

BEd (Hons), FCA

Chief Financial Officer

Australia and New Zealand Banking Group Limited

*Melbourne, Australia*

*Directorships*

*Director:* Binnstone Traders Pty Limited, ANZ Capital Hedging Pty Limited, ANZ (Delaware) Inc., ANZ Holdings (New Zealand) Limited, Deori Pty Limited, Esanda Finance Corporation Limited, ANZEST Pty Limited, ANZ Funds Pty Limited, GNPL Pty Limited, ANZ Investment Holdings Pty Limited, ANZ Investments Pty Limited, LFD Limited, ANZ Orchard Investments Pty Limited, RFDL Pty Limited, Ballimore Pty Limited

***Independent Non-Executive Directors***

Norman Michael Thomas Geary, CBE

B Com, FACA, FNZIM, FCIT

Company Director

*Auckland, New Zealand*

*Directorships*

*Chairman:* Gough Holdings Limited, Gough Gough & Hamer Investments Limited, Gough Gough & Hamer Limited, Gough Gough & Hamer Properties Limited, Gough Finance Limited, Gough Transport Supplies Limited, Transport Specialities Limited, Transport Wholesale Limited, Heavy Duty Transport Equipment Pty Limited, Reyco Australia Pty Limited, Australian Tipping Systems Pty Limited

*Director:* Fisher & Paykel Appliances Holdings Limited, Otago Innovation Limited, DB Breweries Limited

Robert Arnold McLeod

B Com, LLB, FCA

Company Director

*Auckland, New Zealand*

*Directorships*

*Chairman:* Sealord Group Limited, Aotearoa Fisheries Limited, Raukura Moana Fisheries Limited

*Director:* North East NZ Limited, North East Trustee Limited, North East Statutory Supervisor Limited, Credit and Debit Limited, Debit and Credit (Wellington) Limited, Gullivers Travel Group Limited, Sky City Entertainment Group Limited, Steward Limited, Tainui Group Holdings Limited, Te Ohu Kai Moana Trustee Limited, Robert A McLeod Limited, McLeod Custodian Limited, RAM Custodian Limited, Telecom Corporation of New Zealand

Signatures

Limited, Kura Limited

**Audit Committee Members as at 1 May 2007**

|                       |                                    |
|-----------------------|------------------------------------|
| R A McLeod (Chairman) | Independent Non-Executive Director |
| Sir Dryden Spring     | Independent Non-Executive Director |
| P R Marriott          | Non-Executive Director             |
| N M T Geary           | Independent Non-Executive Director |

The Audit Committee, which is a sub-committee of the Board, has responsibility for reviewing all aspects of published financial statements. The Audit Committee Charter provides that the membership of the Audit Committee shall be not less than three non-executive Directors. The quorum shall be not less than two non-executive Director members.

***Responsible Persons***

Sir Dryden Spring has been authorised in writing in accordance with section 82 of the Reserve Bank Act of New Zealand 1989 to sign this General Disclosure Statement on behalf of the following Directors of the Bank, as a responsible person under the Order: Dr R J Edgar, N M T Geary, CBE, G K Hodges, J McFarlane, OBE, R A McLeod and P R Marriott.

***Auditors***

KPMG

Chartered Accountants

10 Customhouse Quay

P O Box 996

*Wellington, New Zealand*

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**ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES**

**CONDITIONS OF REGISTRATION**

*Conditions of Registration, applicable as at 1 May 2007. These Conditions of Registration have applied from 30 March 2007.*

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

1. That the Banking Group complies with the following requirements at all times:
  - Capital of the Banking Group is not less than 8 percent of risk weighted exposures.
  - Tier 1 capital of the Banking Group is not less than 4 percent of risk weighted exposures.
  - Capital of the Banking Group is not less than NZ \$15 million.

That the Bank complies with the following requirements at all times:

- Capital of the Bank is not less than 8 percent of risk weighted exposures.
- Tier 1 capital of the Bank is not less than 4 percent of risk weighted exposures.
- Capital of the Bank is not less than NZ \$15 million.

For the purposes of this condition of registration, capital, Tier 1 capital and risk weighted exposures shall be calculated in accordance with the Reserve Bank of New Zealand document entitled "Capital Adequacy Framework" (BS2) dated March 2007.

In its disclosure statements under the Registered Bank Disclosure Statement (Off-Quarter New Zealand Incorporated Registered Banks) Order 2007, the Bank must include all of the information relating to the capital position of both the Bank and the Banking Group which would be required if the second schedule of that Order was replaced by the second schedule of the Registered Bank Disclosure Statement (Full and Half-Year New Zealand Incorporated Registered Banks) Order 2007 in respect of the relevant quarter.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:

(i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

(ii) In measuring the size of the Banking Group's insurance business:

(a) Where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:

- The total consolidated assets of the group headed by that entity;
- Or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the

total consolidated assets of the group headed by the latter entity;

(b) Otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;

(c) The amounts measured in relation to parts a) and b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts a) and b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;

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

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

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

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of specific provisions) to non-bank connected persons shall not exceed 15 percent of the Banking Group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled Connected Exposure Policy (BS8) dated March 2007.

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

6. That the board of the Bank contains at least two independent directors and that alternates for those directors, if any, are also independent. In this context an independent director (or alternate) is a director (or alternate) who is not an employee of the Bank, and who is not a director, trustee, or employee of any holding company (as that term is defined in section 5 of the Companies Act 1993) of the Bank, or any other entity capable of controlling or significantly influencing the Bank.

7. That the chairperson of the Bank's board is not an employee of the Bank.

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

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

10. That none of the following actions may be taken except with the consent of the Reserve Bank:

(i) Any transfer to another person or entity (other than the Bank or any member of the Banking Group which is incorporated in, and operating in, New Zealand) of all or a material part of any business (which term shall include the customers of the business) carried on by the Bank (or any member of the Banking Group); and

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(ii) Any transfer or change by which all or a material part of the management, operational capacity or systems of the Bank (or any member of the Banking Group) is transferred to, or is to be performed by, another person or entity other than the Bank (or any member of the Banking Group which is incorporated in, and operating in, New Zealand); and

(iii) Any action affecting, or other change in, the arrangements by which any function relating to any business carried on by the Bank (or any member of the Banking Group) is performed, which has or may have the effect that all or a material part of any such function will be performed by another person or entity other than the Bank (or any member of the Banking Group which is incorporated in, and operating in, New Zealand); and

(iv) Any action that prohibits, prevents or restricts the authority or ability of the board of the Bank or any statutory manager of the Bank (or the board of any member of the Banking Group or any statutory manager of any member of the Banking Group) to have unambiguous legal authority and practical ability to control and operate any business or activity of the Bank (or any member of the Banking Group).

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

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

(ii) The Reserve Bank has advised that it has no objection to that appointment.

12. (i) That the management of the Bank by its chief executive officer shall be carried out solely under the direction and supervision of the board of directors of the Bank.

(ii) That the employment contract of the chief executive officer of the Bank shall be with the Bank. The chief executive officer's responsibilities shall be owed solely to the Bank and the terms and conditions of the chief executive officer's employment agreement shall be determined by, and any decision relating to the employment or termination of employment of the chief executive officer shall be made by, the board of directors of the Bank.

(iii) That all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the chief executive officer of the Bank and be accountable (directly or indirectly) solely to the chief executive officer of the Bank.

13. (i) That no later than 31 December 2005 the Bank shall locate and continue to operate in New Zealand the Bank's domestic system and the board of directors of the Bank will have legal and practical ability to control the management and operation of the domestic system.

(ii) That in respect of the international system the board of directors of the Bank will, no later than 30 June 2007, have legal and practical ability to control the management and operation of the international system.

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

For the purposes of these conditions of registration, the term "domestic system" means all property, assets, systems and resources (including in particular (but without limitation) the management, administrative and information technology systems) owned, operated, or used, by the Bank supporting, relating to, or connected with:

(a) the New Zealand dollar accounts and channels servicing the consumer banking market (but potentially also other customer segments); and

(b) the general ledger covering subsidiary ledgers for (a) above, together with a daily updated summary of the subsidiary ledgers running on the international system; and

(c) any other functions, operations or business of, or carried on by, the Bank (now or at any time in the future) that are not included in, or form part of, the international system;

other than property, assets, systems and resources that are not material to the domestic system, both individually and in aggregate.

For the purposes of these conditions of registration the term international system means those systems of the Bank generally having one or more of the following characteristics:

- (a) supports foreign currency accounts/transactions;
- (b) supports cross-border trade, payments and other transactions;
- (c) supports businesses that operate in global markets;
- (d) supports accounts and transactions undertaken by institutions, corporates and banks;
- (e) used to manage large, volatile risk businesses which operate on a global basis;
- (f) used to service customers who conduct accounts and transactions with the Bank in multiple countries;
- (g) used by the non-Bank subsidiary companies

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**ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES**

**CREDIT RATING INFORMATION**

The Bank has two current credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. The credit ratings are:

Standard & Poor's **AA**

Moody's Investors Service **Aa3**

The Standard & Poor's rating was issued on 22 February 2007. On this date Standard & Poor's revised the Bank's rating to AA from AA-. There have been no other changes in the credit rating issued in the past two years ended 31 March 2007. The rating is not subject to any qualifications.

The Moody's Investors Service rating was issued on 31 July 2000. There have been no changes in the credit rating issued in the past two years ended 31 March 2007. The rating is not subject to any qualifications.

*The following is a description of the major ratings categories by Ratings Agency:*

**Standard & Poor's Credit rating scale for long-term ratings:**

| Ratings scale | Description   |
|---------------|---|
| <b>AAA</b>    | Extremely strong capacity to pay interest and repay principal in a timely manner. Highest rating assigned.  |
| <b>AA</b>     | Very strong capacity to pay interest and repay principal in a timely manner. This differs from the highest rating only in a small degree.   |
| <b>A</b>      | Strong capacity to pay interest and repay principal in a timely manner, but may be more susceptible to the adverse effects of changes in circumstances and economic conditions than higher rated entities.  |
| <b>BBB</b>    | Adequate capacity to pay interest and repay principal in a timely manner, however adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet debt servicing commitments than higher rated entities.   |
| <b>BB</b>     | A degree of speculation exists with respect to the ability of an entity with this credit rating to pay interest and repay principal in a timely manner. Adverse business, financial, or economic conditions could impair the borrower's capacity to meet debt service commitments in a timely manner.   |
| <b>B</b>      | Entities rated B are more vulnerable to adverse business, financial or economic conditions than entities in higher rating categories. Adverse business, financial or economic conditions will likely impair the borrower's capacity or willingness to meet debt service commitments in a timely manner. |
| <b>CCC</b>    | Entities rated CCC are currently vulnerable to default and are dependent on favourable business, financial and economic conditions to meet debt service commitments in a timely manner. In the event of adverse business, financial or economic conditions the entity is likely to default.             |
| <b>CC</b>     | Entities rated CC are currently highly vulnerable to non-payment of interest and principal.   |
| <b>C</b>      | Entities rated C have filed a bankruptcy petition or taken similar action, but payment of obligations are being continued.  |

**D** D rated entities are in default. This is assigned when interest or principal payments are not made on the date due or when an insolvency petition or a request to appoint a receiver is filed.

Plus (+) or Minus (-): The ratings from **AA** to **CCC** may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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Moody's Investors Service Credit rating scale for long-term ratings:

| Ratings scale | Description   |
|---------------|---|
| <b>Aaa</b>    | Judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as 'gilt edged'. Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualised are most unlikely to impair the fundamentally strong position of such issues.                       |
| <b>Aa</b>     | Judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the Aaa securities. |
| <b>A</b>      | Possess many favourable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.  |
| <b>Baa</b>    | Considered as medium-grade obligations (i.e. they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.                               |
| <b>Ba</b>     | Judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterises bonds in this class.   |
| <b>B</b>      | Generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.  |
| <b>Caa</b>    | These bonds are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.   |
| <b>Ca</b>     | Represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.   |
| <b>C</b>      | These are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.   |

Moody's Investors Service bond ratings, where specified, are applied to financial contracts, senior bank obligations and insurance company senior policyholder and claims obligations with an original maturity in excess of one year.

Moody's Investors Service applies numerical modifiers **1**, **2** and **3** in each generic rating classification from **Aa** through **Caa**. The modifier **1** indicates that the obligation ranks in the higher end of its generic rating category; the modifier **2** indicates a mid-range ranking; and the modifier **3** indicates a ranking in the lower end of that generic rating category.





**ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES**

**DIRECTORS STATEMENT for the six months ended 31 March 2007**

**Directors Statement**

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

- (i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half Year New Zealand Incorporated Registered Banks) Order 2007;
- (ii) The Disclosure Statement is not false or misleading.

Over the six months ended 31 March 2007, after due enquiry, each Director believes that:

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

**This General Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on, 1 May 2007. On that date, the Directors of the Bank were:**

**Dr R J Edgar**

**N M T Geary, CBE**

**G K Hodges**

**J McFarlane, OBE**

**R A McLeod**

**P R Marriott**

**Sir Dryden Spring**

**ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES**

**INDEPENDENT REVIEW REPORT for the six months ended 31 March 2007**

**Independent Review Report to the Directors of ANZ National Bank Limited**

We have reviewed the interim financial statements, including supplementary information, on pages 4 to 85 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. The interim financial statements and supplementary information provide information about the past financial performance and financial position of ANZ National Bank Limited (the Registered Bank ) and its subsidiary companies (the Banking Group ) as at 31 March 2007. This information is stated in accordance with accounting policies set out on pages 8 to 15.

The supplementary information is disclosed in accordance with clauses 12(3), 12(4) and 14A of the Registered Bank Disclosure Statement (Full and Half Year New Zealand Incorporated Registered Banks) Order 2007 (the Order ).

**Directors responsibilities**

The Directors are responsible for the preparation of interim financial statements in accordance with clause 12(2) of the Order which give a true and fair view of the financial position of the Registered Bank and Banking Group as at 31 March 2007 and the results of its operations and cash flows for the six months ended on that date.

They are also responsible for the preparation of supplementary information which:

- gives a true and fair view, in accordance with clause 12(3) and 14A of the Order, of the matters to which it relates; and
- complies with Schedules 7 and 8, in accordance with clause 12(4) of the Order.

**Reviewers responsibilities**

It is our responsibility to independently review the interim financial statements including supplementary information presented by the Directors and state to you whether anything has come to our attention that would cause us to believe that the interim financial statements or supplementary information do not present a true and fair view of the matters to which they relate, in accordance with clause 15(2) of the Order.

**Basis of opinion**

**Signatures**

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

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

### Review Opinion

Based on our review nothing has come to our attention that would cause us to believe that:

- the interim financial statements on pages 4 to 85 do not present a true and fair view of the financial position of the Registered Bank and Banking Group as at 31 March 2007 and the results of their operations and cash flows for the six months ended on that date in accordance with New Zealand equivalent to International Accounting Standard 34, Interim Financial Reporting; and
- the supplementary information disclosed in accordance with clause 12(3) and 14A of the Order does not present a true and fair view of the matters to which it relates; and
- the supplementary information disclosed in accordance with clause 12(4) of the Order does not comply with Schedules 7 and 8 of the Order.

Our review was completed on 1 May 2007 and our review opinion is expressed as at that date.

Wellington

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ANZ NATIONAL BANK LIMITED AND SUBSIDIARY COMPANIES

GENERAL DISCLOSURE STATEMENT for the six months ended 31 March 2007

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