



ANZ Bank New Zealand Limited
(incorporated with limited liability in New Zealand)
as Issuer and Guarantor

ANZ New Zealand (Int'l) Limited
(incorporated with limited liability in New Zealand)
as Issuer

US\$10,000,000,000
Medium-Term Notes

Series A Notes
Due One Year or More from Date of Issue

ANZ Bank New Zealand Limited ("**ANZ New Zealand**") and ANZ New Zealand (Int'l) Limited ("**ANZNIL**") (each, an "**Issuer**" and, together, the "**Issuers**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium-term notes, due one year or more from the date of issue. Notes of ANZ New Zealand are referred to as "**ANZ NZ Notes**", notes of ANZNIL are referred to as "**ANZNIL Notes**" and ANZ NZ Notes and ANZNIL Notes are collectively referred to as "**Notes**". The payment of all amounts due in respect of any ANZNIL Notes will be unconditionally and irrevocably guaranteed by ANZ New Zealand (the "**Guarantee**"). Other than as set forth in the preceding sentence, the Notes are not guaranteed by any person, including ANZ New Zealand's ultimate parent Australia and New Zealand Banking Group Limited. The following terms may apply to the Notes:

- mature one year or more from the date of issue;
- may be subject to redemption at the Issuer's option or require repurchase at the holder's option;
- a fixed interest rate, which may be zero if Notes are issued at a discount from the principal amount due at maturity and may be reset if specified in the relevant Final Terms, or a floating interest rate, or both fixed and floating rate;
- floating interest rates may include:
 - Federal Funds Rate
 - LIBOR
 - SOFR
- book-entry only form; and
- minimum denomination of US\$200,000, and integral multiples of US\$1,000 (or the equivalent thereof in another currency or composite currency) in excess thereof.

The final terms of each Note will be specified in the relevant Final Terms (as defined herein). For more information, see "Description of the Notes and the Guarantee".

Investing in the Notes involves risks. See "Risk Factors" section on pages 10-34 of this Offering Memorandum.

Each initial and subsequent purchaser of the Notes offered hereby in making its purchase will be deemed to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of such Notes and may in certain circumstances be required to provide confirmation of compliance with such resale or other transfer restrictions below and as set forth under "Notice to Purchasers" and "Plan of Distribution".

The Notes and the Guarantee are being offered and sold without registration under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"): (A) to "qualified institutional buyers" ("**QIBs**") as defined in Rule 144A under the Securities Act ("**Rule 144A**") in reliance upon the exemptions provided by Section 4(a)(2) of the Securities Act and Rule 144A and (B) to certain persons in reliance upon Regulation S under the Securities Act ("**Regulation S**").

Prospective purchasers are hereby notified that the seller of the Notes may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resales and transfers, see "Notice to Purchasers" and "Plan of Distribution".

The Notes are not protected accounts or deposit liabilities of the Issuers and, except as expressly stated in this Offering Memorandum, are not insured or guaranteed by (1) the Crown or any governmental agency of New Zealand, (2) the United States of America, the Federal Deposit Insurance Corporation (the "**FDIC**") or any other governmental agency of the United States or (3) the government or any government agency of any other jurisdiction.

This Offering Memorandum supersedes and replaces in its entirety all previous offering memoranda relating to this program. This Offering Memorandum has been approved by the United Kingdom's Financial Conduct Authority (the "**FCA**"), as competent authority under Regulation (EU) 2017/1129 as it forms part of domestic law of the United Kingdom (the "**UK**") by virtue of the European Union (Withdrawal) Act 2018, as amended by the European Union (Withdrawal Agreement) Act 2020 (the "**EUWA**") and the regulations made under the EUWA (the "**UK Prospectus Regulation**") as a base prospectus for the purposes of the UK Prospectus Regulation. The FCA only approves this Offering Memorandum as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuers, the Guarantor and the quality of the securities that are the subject of this Offering Memorandum. Investors should make their own assessment as to the suitability of investing in any such Notes.

Application has been made to the FCA in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (the "**FSMA**"), for Notes issued within the period of 12 months from the date of this Offering Memorandum to be admitted to the official list of the FCA (the "**Official List**") and an application will be made to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Main Market (the "**Main Market**"). In this Offering Memorandum, references to Notes being "**listed**" will mean that such Notes have been admitted to the Official List and have been admitted to trading on the London Stock Exchange's Main Market. The Main Market of the London Stock Exchange is a UK regulated market for the purposes of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA ("**UK MiFIR**").

The Notes will be issued in registered, book-entry only form and will be eligible for clearance through the facilities of The Depository Trust Company ("DTC") and its participants, including Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, S.A. ("Clearstream, Luxembourg").

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions which are applicable to a particular issuance of Notes (each, a "Tranche") will be set out in the relevant Final Terms relating to such Notes which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange on or before the date of issuance of the Notes of such Tranche.

In the case of any Notes which are to be offered to the public in a Member State of the European Economic Area (the "EEA") (each, a "Member State") in circumstances which would otherwise require the publication of a prospectus under Regulation (EU) 2017/1129 (the "EU Prospectus Regulation"), or in the UK in circumstances which would otherwise require the publication of a prospectus under the UK Prospectus Regulation, the minimum denomination at the issue date shall be no less than €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The credit ratings referred to in this Offering Memorandum in respect of ANZ New Zealand have been issued, and the credit ratings in respect of the Notes (when issued) will be issued, by one or more of S&P Global Ratings Australia Pty Ltd. ("S&P"), Moody's Investors Service Pty Limited ("Moody's"), and Fitch Australia Pty Ltd ("Fitch"). None of S&P, Moody's and Fitch is established in the UK nor registered under Regulation (EC) No. 1060/2009 as it forms part of UK domestic law by virtue of the EUWA and the regulations made by the EUWA (the "UK CRA Regulation") or established in the European Union ("EU") nor registered under Regulation (EC) No. 1060/2009 (as amended, the "EU CRA Regulation"). S&P Global Ratings UK Limited currently endorses the global scale credit ratings issued by S&P, Fitch Ratings Ltd currently endorses the international credit ratings published by Fitch and Moody's Investors Service Limited currently endorses global scale credit ratings issued by Moody's, for regulatory purposes in the UK in accordance with the UK CRA Regulation. Each of S&P Global Ratings UK Limited, Fitch Ratings Ltd and Moody's Investors Service Limited have been registered under the UK CRA Regulation and, as such are included in the list of credit rating agencies published by the FCA on its website, in accordance with the UK CRA Regulation. S&P Global Ratings Europe Limited currently endorses the global scale credit ratings issued by S&P, Fitch Ratings Ireland Limited currently endorses the international credit ratings published by Fitch and Moody's Deutschland GmbH currently endorses global scale credit ratings issued by Moody's, for regulatory purposes in the EU in accordance with the EU CRA Regulation. Each of S&P Global Ratings Europe Limited, Fitch Ratings Ireland Limited and Moody's Deutschland GmbH have been registered under the EU CRA Regulation and, as such are included in the list of registered credit rating agencies published by the European Securities and Markets Authority ("ESMA"). There can be no assurance that such endorsement of the credit ratings of S&P, Moody's and Fitch will continue.

The credit rating of any Notes may be specified in the applicable Final Terms.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the EU CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the EU CRA Regulation. Similarly, in general, regulated investors in the UK are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the UK and registered under the UK CRA Regulation or (1) the rating is provided by a credit rating agency not established in the UK but is endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation or (2) the rating is provided by a credit rating agency not established in the UK which is certified under the UK CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

Arranger and Lead Agent

J.P. Morgan

Agents

**ANZ Securities
Barclays
BofA Securities**

**Citigroup
Deutsche Bank Securities
Goldman Sachs & Co. LLC
HSBC**

**Morgan Stanley
RBC Capital Markets
Wells Fargo Securities**

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NOTICE TO PURCHASERS

NEITHER THE NOTES NOR THE GUARANTEE OFFERED HEREBY HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OR APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES AUTHORITY. NEITHER THE SEC NOR ANY STATE SECURITIES AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE NOTES AND THE GUARANTEE ARE BEING OFFERED AND SOLD TO QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF AND IN RELIANCE UPON THE EXEMPTIONS PROVIDED BY SECTION 4(a)(2) OF THE SECURITIES ACT, AND RULE 144A AND TO CERTAIN PERSONS IN RELIANCE ON REGULATION S.

Each initial and subsequent purchaser of a Note or Notes will be deemed to have acknowledged, represented and agreed as follows:

- (1) The Notes and the Guarantee have not been and will not be registered under the Securities Act or any other applicable securities law and, accordingly, neither the Notes nor the Guarantee may be offered, sold, transferred, pledged, encumbered or otherwise disposed of unless in a transaction exempt from registration under the Securities Act and any other applicable securities law.
- (2) (A) It is a QIB, and is purchasing for its own account or solely for the account of one or more QIBs for which it acts as a fiduciary or agent, and such purchaser acknowledges that it is aware that the seller may rely upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereunder or (B) it is a purchaser acquiring such Notes in an offshore transaction within the meaning of Regulation S that is not a "U.S. person" (and is not acquiring such Notes for the account or benefit of a U.S. person) within the meaning of Regulation S.
- (3) It agrees on its own behalf and on behalf of any account for which it is purchasing Notes, to offer, sell or otherwise transfer such Notes (A) only in minimum principal amounts of US\$200,000 or such larger principal amounts as shall be specified in the relevant Final Terms as the minimum denomination for the Notes of a relevant Tranche (or, in either case, the equivalent thereof in another currency or composite currency) and (B) prior to the date that is one year after the later of (i) the issue date of such Notes and (ii) the last date on which the Issuer thereof or any affiliate of the Issuer was the beneficial owner of such Notes (or any predecessor of such Notes) only (a) pursuant to the exemption from the registration requirements of the Securities Act provided by either Rule 144A or Regulation S, (b) to the Issuer, ANZ New Zealand (in the case of ANZNIL Notes) or any of their respective subsidiaries or an Agent that is a party to the Amended and Restated Distribution Agreement, dated as of January 20, 2015, among ANZ New Zealand, ANZNIL and the Agents named therein, as amended by the Letter Agreement, dated as of July 1, 2019, among ANZ New Zealand, ANZNIL, Merrill Lynch, Pierce, Fenner & Smith Incorporated and BofA Securities, Inc., and as further amended by Amendment No. 1 to the Amended and Restated Distribution Agreement, dated July 1, 2019, among ANZ New Zealand, ANZNIL and the Agents named therein (the "**Distribution Agreement**") or (c) pursuant to an exemption from such registration requirements as confirmed in an opinion of counsel satisfactory to such Issuer and ANZ New Zealand (in the case of ANZNIL Notes). It acknowledges that each Note will contain a legend substantially to the effect of the foregoing paragraph (1) and this paragraph (3).
- (4) It acknowledges that the Fiscal Agent referred to herein will register the transfer of any Note resold or otherwise transferred by such purchaser pursuant to clause (c) of the foregoing paragraph (3) only upon receipt of an opinion of counsel satisfactory to the Issuer and ANZ New Zealand (in the case of ANZNIL Notes).
- (5) It acknowledges that the Issuers, the Agents and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and it agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by it in connection with its purchase of Notes are no longer accurate, it shall promptly notify the Issuer of such Notes, ANZ New Zealand (in the case of ANZNIL Notes) and the Agent through which it purchased any Notes. If it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.
- (6) Either (a) it is not a pension, profit-sharing or other employee benefit plan that is subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or any similar provision of applicable federal, state, local, foreign or other law, and it is not purchasing the Notes on behalf of or with the assets of any such plan or (b) its purchase and holding of the Notes, or exercise of any right thereunder, will not result in a non-exempt prohibited transaction for purposes of ERISA, the Code or, where applicable, any such similar law.
- (7) **PROHIBITION OF SALES TO EEA RETAIL INVESTORS** - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (A) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (B) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No. 1286/2014, as amended (the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.
- (8) **PROHIBITION OF SALES TO UK RETAIL INVESTORS** - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II product governance / target market – The Final Terms in respect of any Notes may include a legend entitled “MiFID II Product Governance” which will outline the conclusion of the target market assessment completed by the relevant “manufacturer(s)” in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made by the relevant Agent(s) in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593, as amended (the “**MiFID Product Governance Rules**”), any Agent subscribing for any Notes is a “manufacturer” in respect of such Notes, but otherwise neither the Arranger nor the Agents nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Neither Issuer is subject to MiFID II and any implementation thereof by a Member State. Neither Issuer is therefore a “manufacturer” for the purposes of the MiFID Product Governance Rules nor has any responsibility or liability for identifying a target market, or any other product governance obligation set out in MiFID II, for financial instruments it issues (including any target market assessment for the relevant Notes).

UK MiFIR Product Governance / target market – The Final Terms in respect of any Notes may include a legend entitled “UK MiFIR Product Governance” which will outline the conclusion of the target market assessment completed by the relevant “manufacturer(s)” in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the target market assessment; however, a UK distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made by the relevant Agent(s) in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Agent subscribing for any Notes is a “manufacturer” in respect of such Notes, but otherwise neither the Arranger nor the Agents nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

Neither Issuer is subject to the UK MiFIR Product Governance Rules. Neither Issuer is therefore a “manufacturer” for the purposes of the UK MiFIR Product Governance Rules nor has any responsibility or liability for identifying a target market, or any other product governance obligation set out in UK MiFIR Product Governance Rules, for financial instruments it issues (including any target market assessment for the relevant Notes).

UK Benchmarks Regulation: Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the EUWA (the “**UK Benchmarks Regulation**”). If any such reference rate does constitute such a benchmark, the Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the FCA pursuant to Article 36 (*Register of administrators and benchmarks*) of the UK Benchmarks Regulation. Transitional provisions in the UK Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the applicable Final Terms. The registration status of any administrator under the UK Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuers do not intend to update the Final Terms to reflect any change in the registration status of the administrator.

EU Benchmarks Regulation: Any such reference rate may also constitute a benchmark for the purposes of Regulation (EU) 2016/1011, as amended (the “**EU Benchmarks Regulation**”). If any such reference rate does constitute such a benchmark, the Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (*Register of administrators and benchmarks*) of the EU Benchmarks Regulation. Transitional provisions in the EU Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the applicable Final Terms. The registration status of any administrator under the EU Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuers do not intend to update the Final Terms to reflect any change in the registration status of the administrator.

Notification under Section 309B(1) of the Securities and Futures Act of Singapore (the “SFA”): Unless otherwise stated in the Final Terms, the Issuer has determined and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes issued or to be issued under this program shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the “**MAS**”) Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Each person receiving this Offering Memorandum acknowledges that (i) such person has been afforded an opportunity to request from the Issuers and to review, and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information contained herein, (ii) it has not relied on any Agent or any person affiliated with any Agent in connection with its investigation of the accuracy and completeness of such information or its investment decision and (iii) no person has been authorized to give any information or to make any representation concerning either Issuer, ANZ New Zealand (in the case of ANZNIL Notes) or the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by such Issuer, ANZ New Zealand (in the case of ANZNIL Notes) or any Agent.

This Offering Memorandum does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the Notes or the distribution of this Offering Memorandum in any jurisdiction where such action is required.

The Notes are subject to restrictions on transferability and resale. Investors may not transfer or resell the Notes except as described in this Offering Memorandum and as permitted under the Securities Act and other applicable securities laws. Investors may be required to bear the financial risks of an investment in the Notes for an indefinite period of time.

Each of the Issuers and the Guarantor accepts responsibility for the information contained in this Offering Memorandum and to the best of the knowledge of each of the Issuers and the Guarantor, the information contained in this Offering Memorandum is in accordance with the facts and this Offering Memorandum makes no omission likely to affect its import.

This Offering Memorandum should, in relation to each Tranche, be read and construed together with the relevant Final Terms.

In connection with the issue of any Tranche, the Agent or Agents (if any) named as the stabilizing manager(s) (or persons acting on behalf of any stabilizing managers) in the relevant Final Terms may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilization may not necessarily occur. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilization action or over-allotment must be conducted by the relevant stabilizing manager(s) (or person(s) acting on behalf of the stabilizing manager(s)) outside New Zealand (and not on any market in New Zealand) and in accordance with all applicable laws and rules.

All references to websites in this Offering Memorandum, any Final Terms or any amendment or supplement hereto or thereto are, unless expressly stated otherwise, intended to be inactive textual references for information only and any information contained in or accessible through any such website does not form a part of this Offering Memorandum.

AVAILABLE INFORMATION

Each prospective purchaser of the Notes is hereby offered the opportunity to ask questions of the Issuers concerning the terms and conditions of the offering and to request from the Issuers any additional information such prospective purchaser may consider necessary in making an informed investment decision or in order to verify the information set forth herein.

The disclosure statements of the ANZ New Zealand Group for the financial year ended September 30, 2020 (the "**2020 Disclosure Statement**") and the financial year ended September 30, 2019 (the "**2019 Disclosure Statement**"), which contain the audited consolidated financial statements of the ANZ New Zealand Group as at and for the financial years ended September 30, 2020 (the "**2020 ANZ New Zealand Financial Statements**"), 2019 (the "**2019 ANZ New Zealand Financial Statements**") and 2018 (collectively, the "**ANZ New Zealand Audited Financial Statements**"), and the disclosure statement of the ANZ New Zealand Group for the six months ended March 31, 2021 (the "**Half Year Disclosure Statement**") and, together with the 2020 Disclosure Statement and the 2019 Disclosure Statement, the "**Disclosure Statements**"), which contains the unaudited financial statements of the ANZ New Zealand Group as at and for the six months ended March 31, 2021 (the "**ANZ New Zealand Unaudited Financial Statements**") and, together with the ANZ New Zealand Audited Financial Statements, the "**ANZ New Zealand Financial Statements**", are attached to this Offering Memorandum as Annex A. Information in each Disclosure Statement is superseded by information contained in each subsequent Disclosure Statement, and the information in each of the Disclosure Statements is superseded by information contained in this Offering Memorandum, including any amendment hereof or supplement hereto, in each case to the extent there are any inconsistencies.

The audited financial statements of ANZNIL as at and for the financial years ended September 30, 2020 and 2019 (the "**ANZNIL Audited Financial Statements**") and the unaudited financial statements of ANZNIL for the six months ended March 31, 2021 (the "**ANZNIL Unaudited Financial Statements**") and, together with the ANZNIL Audited Financial Statements, the "**ANZNIL Financial Statements**") are attached to this Offering Memorandum as Annex A.

While any Notes remain outstanding, the relevant Issuer will, during any period in which ANZ New Zealand is not subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any QIB who holds any Note and any prospective purchaser of a Note who is a QIB designated by the holder of such Note, upon the request of such holder or prospective purchaser, the information concerning ANZ New Zealand required to be provided to such holder or prospective purchaser by Rule 144A(d)(4) under the Securities Act.

If at any time the Issuers shall be required to prepare a supplementary prospectus pursuant to Article 23 of the UK Prospectus Regulation, the Issuers will prepare and make available a supplement to this Offering Memorandum or a further Offering Memorandum which, in the case of a supplement in respect of any subsequent issue of Notes to be admitted to the Official List of the FCA, will constitute a supplementary prospectus as required by the FCA and Article 23 of the UK Prospectus Regulation.

The Issuers will provide, without charge, to each person to whom a copy of this Offering Memorandum has been delivered, upon the request of such person, a copy of the Fiscal Agency Agreement (as defined herein). Written requests should be addressed to ANZ Bank New Zealand Limited, Level 10, P.O. Box 540, 171 Featherston Street, Wellington, 6011, New Zealand, Attention: The Treasurer. In addition, the Fiscal Agency Agreement will be available free of charge from the principal office in London of The Bank of New York Mellon in its capacity as paying agent for the Notes listed on the London Stock Exchange.

CERTAIN DEFINED TERMS

In this Offering Memorandum, unless the context otherwise requires:

- references to the **"ANZ New Zealand Group"** are to ANZ New Zealand and its consolidated subsidiaries (including, among others, ANZNIL);
- references to **"ADI"** are to an authorized deposit-taking institution;
- references to **"ANZ New Zealand"**, the **"Bank"** or the **"Guarantor"** are to ANZ Bank New Zealand Limited or, prior to October 29, 2012, but after June 28, 2004, ANZ National Bank Limited, and prior to June 28, 2004, ANZ Banking Group (New Zealand) Limited;
- references to **"ANZNIL"** are to ANZ New Zealand (Int'l) Limited, formerly ANZ National (Int'l) Limited and NBNZ International Limited;
- references to **"ANZBGL"** are to the ANZ New Zealand Group's ultimate parent, Australia and New Zealand Banking Group Limited;
- references to **"ANZ Group"** and **"Group"** are to ANZBGL together with its consolidated subsidiaries (including, among others, ANZ New Zealand and ANZNIL);
- references to **"ANZ"** are to the ANZ New Zealand Group's ANZ brand;
- references to **"APRA"** are to the Australian Prudential Regulation Authority;
- references to **"CommAgri"** or **"CommAgri business"** are to ANZ New Zealand Group's commercial and agricultural business in the Commercial segment;
- references to **"Final Terms"** are to a supplement hereto, which shall be substantially in the form attached hereto as Annex B, describing the specific terms of a particular Tranche of Notes;
- references to the **"Fiscal Agency Agreement"** are to the fiscal agency agreement, dated as at March 15, 2005, as amended, among ANZ New Zealand, ANZNIL and The Bank of New York Mellon, as Fiscal Agent;
- references to **"holder"** are to a registered holder of Notes, as described under "Description of the Notes and the Guarantee";
- references to **"legislation"** include any amendments, re-enactments or replacement of legislation;
- references to **"LVR"** are to loan-to-value ratio;
- references to the **"New Zealand branch of ANZBGL"** and the **"New Zealand branch"** are to the New Zealand branch established by ANZBGL that was registered on January 5, 2009;
- references to the **"Noon Buying Rate"** are to the noon buying rate in New York City for cable transfers in New Zealand dollars as certified for customs purposes by the Federal Reserve Bank of New York;
- references to **"Obligor"** are to any of the Issuers or the Guarantor;
- references to **"OECD"** are to the Organization for Economic Co-operation and Development;
- references to this **"Offering Memorandum"** are to this offering memorandum, the annexes hereto and any supplement hereto;
- references to **"RBNZ"** are to the Reserve Bank of New Zealand;
- references to **"Reserve Bank Act"** are to the Reserve Bank of New Zealand Act 1989;
- references to **"Retail"** are to ANZ New Zealand's retail banking business, including its branch network;
- references to **"RMBS"** are to residential mortgage backed securities;
- references to **"2020"** are to ANZ New Zealand Group's financial year ended September 30, 2020, and references to **"2019"** and other years have a comparable meaning;
- references to **"six months ended March 31, 2021"** or **"March 2021 half year"** mean the ANZ New Zealand Group's half year ended March 31, 2021, and similar references have a comparable meaning;
- references to **"Wealth"** or **"Wealth business"** are to the ANZ New Zealand Group's funds management business. Wealth also includes ANZ New Zealand's private banking business;
- references to **"\$"**, **"New Zealand dollars"**, **"NZ\$"**, **"NZD"** or **"NZ dollars"** are to the lawful currency of New Zealand;
- references to **"A\$"** or **"Australian dollars"** are to the lawful currency of Australia;
- references to **"€"** or **"euro"** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the EU as amended from time to time; and
- references to **"US\$"** or **"U.S. dollars"** are to the lawful currency of the United States.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum may contain various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of ANZ New Zealand or the ANZ New Zealand Group to differ materially from the information presented herein. When used in this Offering Memorandum, the words “forecast”, “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “may”, “probability”, “probably”, “risk”, “will”, “seek”, “would”, “could”, “should” and similar expressions, as they relate to ANZ New Zealand or the ANZ New Zealand Group and its management, are intended to identify such forward-looking statements. Such statements constitute “forward-looking statements” for the purposes of the U.S. Private Securities Litigation Reform Act of 1995. Investors are strongly cautioned to not place undue reliance on any forward-looking statement, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic. There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this Offering Memorandum. For further discussion, refer to the risks detailed under “Supervision and Regulation”, “Overview—Competition”, “Risk Factors Summary”, “Risk Factors” and elsewhere herein.

The forward-looking statements made in this Offering Memorandum speak only as of the date on which such statements are made in this Offering Memorandum. The ANZ New Zealand Group does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RISK FACTORS SUMMARY

Risks that we deem material to our business are summarized below and described under “Risk Factors” in this Offering Memorandum. These risks include, but are not limited to, the following:

- the COVID-19 pandemic (“**COVID-19**”), and outbreaks of other communicable diseases or pandemics have and may in the future, create increased volatility in financial markets and have affected and in the future may materially and adversely affect the ANZ New Zealand Group’s business and operations;
- changes in political, general business and economic conditions, including disruption in regional or global credit and capital markets, may adversely affect the ANZ New Zealand Group’s Position (as defined in “Risk Factors” below);
- the effects of competition in the geographic and business environments in which the ANZ New Zealand Group, its customers operate, including our ability to maintain or increase market share and control expenses, our timely development of new products and services, and utilization of new technologies, our ability to compete with non-traditional financial services sectors and new forms of currency, as well as our ability to adjust to and compete in the various markets in which we operate or seek to operate, may adversely affect the ANZ New Zealand Group’s Position;
- changes in the residential and rural property lending and real estate market conditions in New Zealand may adversely affect the ANZ New Zealand Group’s Position;
- sovereign risk events may destabilize global financial markets, which may have an adverse effect on the ANZ New Zealand Group’s position;
- market risk events;
- changes in exchange rates;
- the planned discontinuation of LIBOR and developments affecting other benchmark rates could have adverse consequences on the ANZ New Zealand Group’s loan products, securities issuances and its capital markets and investment activities;
- the ANZ New Zealand Group’s ability to complete, integrate or separate and process acquisitions and dispositions;
- credit risk, including losses associated with the ANZ New Zealand Group’s counterparty exposures and an increase in defaults in credit exposures because of a deterioration in economic conditions, including due to the impacts from the COVID-19 pandemic;
- challenges in managing the ANZ New Zealand Group’s capital base, which could give rise to greater volatility in capital ratios;
- changes to the ANZ New Zealand Group’s credit ratings, which could affect ANZ New Zealand Group’s ability to raise capital and wholesale funding and constrain the volume of new lending;
- the failure to meet the capital adequacy and liquidity requirements that the ANZ New Zealand Group is subject to;
- changes in the valuation of some of the ANZ New Zealand Group’s assets and liabilities may adversely affect the ANZ New Zealand Group’s earnings and/or equity and therefore its Position;
- any changes to the ANZ New Zealand Group’s accounting policies and their application;
- the impact of current, pending and future laws, regulation or policies (including capital, leverage, liquidity and prudential requirements), regulatory disclosures and taxation laws in New Zealand and worldwide;
- the impact of legal, regulatory, administrative and other current and future actions, proceedings or litigation on the ANZ New Zealand Group, the ANZ New Zealand Group’s customers or counterparties;
- significant fines and sanctions in the event of breaches of law or regulation relating to, among other things, anti-money laundering, counter-terrorism financing and sanctions;
- changes in monetary policies;
- the impact of increasing compliance costs, the risk of heightened penalties and ongoing regulatory scrutiny with respect to the significant obligations imposed by global customer tax transparency regimes;
- operational risk events, including internal and external fraud, employment practices and workplace safety, and business disruption (including systems failures);
- adverse impacts on the ANZ New Zealand Group’s reputation, including as a result of operational failures and regulatory compliance failures;
- changes to ANZ New Zealand’s relationship with ANZBGL, including changes required by law, regulation or administrative decree, such as those described under “Supervision and Regulation”;
- conduct risk events;
- disruption of information technology systems or failure to successfully implement new technology systems;
- risks associated with information security, including cyber-attacks;
- the impact of future climate-related and geological events, plant, animal and human diseases, and other extrinsic events, including risks relating to lending to customers that are impacted by climate events and counterparties that are impacted by climate events;
- the effectiveness of the ANZ New Zealand Group’s risk management framework;
- risks associated with lending to customers that could directly or indirectly be impacted by climate risk; and
- various other factors beyond the ANZ New Zealand Group’s control.

ENFORCEMENT OF LIABILITIES; SERVICE OF PROCESS

ANZ New Zealand and ANZNIL are each registered under the New Zealand Companies Act 1993, incorporated in New Zealand and have limited liability. The directors and officers of ANZ New Zealand and ANZNIL and certain of the experts named herein reside outside the United States. In addition, a substantial portion of the assets of the ANZ New Zealand Group, those of the directors and officers and those of the experts are located outside of the United States. As a result, it may be difficult for U.S. investors to effect service of process within the United States upon ANZ New Zealand or ANZNIL or any of those persons or to enforce against ANZ New Zealand or ANZNIL or any of those persons, outside of the United States, judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws. ANZ New Zealand and ANZNIL have expressly submitted to the jurisdiction of any federal or state court in the Borough of Manhattan, The City of New York for the purpose of any suit, action or proceeding arising out of the offering of Notes. There is doubt as to the enforceability in New Zealand of original actions or actions for enforcement of judgments of U.S. courts of civil liabilities predicated solely upon the federal securities laws of the United States.

COVID-19

The ongoing COVID-19 pandemic is causing major disruptions to community health and economic activity with wide-ranging impacts across many business sectors in New Zealand and globally. Additionally, many of the ANZ New Zealand Group's customers have been impacted by the COVID-19 pandemic. As a result, during 2020, ANZ New Zealand established a range of accommodations and measures designed to assist its customers, including the option of a six-month loan repayment deferral and accommodations relating to mortgage payments. The ANZ New Zealand Group is continuing to work with customers impacted by COVID-19 to return to regular payments and in some circumstances will provide extensions and accommodations for longer periods. The long term impact of offering these support packages on the ANZ New Zealand Group's results is uncertain. For further details on customer support and deferral packages, as well as the impact on the ANZ New Zealand Group's results, refer to note 6 in the ANZ New Zealand Unaudited Financial Statements.

COVID-19 continues to impact the operations of the ANZ New Zealand Group. Where possible, the ANZ New Zealand Group has at certain times moved staff to work-at-home arrangements, split teams and introduced greater distance between those employees performing essential functions on premises. The number of employees working from home continues to vary in line with changing circumstances and associated government restrictions. Measures have been introduced at certain times for staff who need to come to work, with protective equipment and social distancing in bank branches.

The New Zealand Government and the RBNZ have implemented a broad range of measures to promote financial stability in response to COVID-19. Those measures include:

- a Mortgage Repayment Deferral Scheme (as defined below) for residential mortgages, the Business Finance Guarantee Scheme ("**BFGS**") and a Small Business Cashflow Loan Scheme ("**SBCS**") for business customers;
- the RBNZ implemented a Funding for Lending Program ("**FLP**") which commenced in December 2020. The FLP is intended to provide banks with low cost funding and encourage lower borrowing costs for New Zealand businesses and households;
- The RBNZ implemented an up to NZ\$100 billion Large Scale Asset Purchase program ("**LSAP**"), under which it purchases New Zealand Government bonds. The LSAP program aims to provide support to the New Zealand economy, build confidence, and keep interest rates low;
- the RBNZ delayed the start date for the increase in bank capital requirements arising from the capital reforms for New Zealand-incorporated banks to 2022. Some aspects of the capital reforms will proceed during 2021, including the new eligibility criteria for capital instruments. The conclusion of the transition period is July 1, 2028;
- the RBNZ restricted ANZ New Zealand from paying dividends or other distributions, other than discretionary payments payable to holders of Additional Tier 1 ("**AT1**") capital instruments. From April 29, 2021 the RBNZ eased this restriction, with banks now able to pay up to 50% of their earnings as dividends. The revised 50% dividend restriction will remain in place until July 1, 2022, at which point the RBNZ intends to normalize the dividend settings (subject to no significant worsening in economic conditions); and
- the RBNZ delayed a number of other regulatory initiatives including delaying the compliance date for its revised outsourcing policy ("**BS11**") by 12 months to October 2023.

For further information on the regulatory response see "Supervision and Regulation—New Zealand Regulatory Developments—Regulatory Response to the COVID-19 Pandemic and Other Developments" in this Offering Memorandum.

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of the ANZ New Zealand Financial Statements. For further information, refer to notes 1 and 6 of the ANZ New Zealand Unaudited Financial Statements.

The ramifications of COVID-19 continue to be uncertain, and it remains difficult to predict the impact or duration of the pandemic.

The impact of the COVID-19 pandemic on each of these estimates is discussed further in Section 19 Credit Risk and in the ANZ New Zealand Unaudited Financial Statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

Part A– Offering Information

1. OVERVIEW OF TERMS

The Issuers	ANZ New Zealand and ANZNIL.
ANZ New Zealand Legal Entity Identifier ("LEI").....	HZSN7FQBPO5IEWYIGC72
ANZNIL LEI	213800VD256NU2D97H12
The Guarantor.....	ANZ New Zealand in the case of ANZNIL Notes.
The Agents.....	J.P. Morgan Securities LLC ANZ Securities, Inc. Barclays Capital Inc. BofA Securities, Inc. Citigroup Global Markets Inc. Deutsche Bank Securities Inc. Goldman Sachs & Co. LLC HSBC Securities (USA) Inc. Morgan Stanley & Co. LLC RBC Capital Markets, LLC Wells Fargo Securities, LLC Any other agents appointed in accordance with the terms of the Distribution Agreement.
Terms of the Notes and Guarantee.....	The Notes, which may be issued at their principal amount or at a premium to or discount from their principal amount, on an unsubordinated basis, may bear interest at a fixed or floating rate or be issued on a fully discounted basis and not bear interest. The interest rate, or interest rate reset or formula, if any, issue price, currency, terms of redemption or repayment, if any, and stated maturity will be established for each Note by the Issuer thereof at the issuance of such Note and will be indicated in the applicable Final Terms. The ANZNIL Notes issued by ANZNIL will be unconditionally and irrevocably guaranteed by ANZ New Zealand as described under "Description of the Notes and the Guarantee".
Method of Distribution	The Notes are being offered from time to time by the Issuer through the Agents. The Issuers may also sell Notes to the Agents acting as principals for resale to QIBs and outside the United States to individuals that are not U.S. persons (as defined in Regulation S) and may sell Notes directly on their own behalf. See "Notice to Purchasers" and "Plan of Distribution".
Maximum Amount	The aggregate principal amount (or, in the case of Notes issued at a discount from the principal amount, the aggregate initial offering price) of Notes outstanding at any time shall not exceed US\$10,000,000,000 or the approximate equivalent thereof in another currency calculated as at the issue date of the relevant Notes. The Issuers may increase this amount from time to time in accordance with the terms of the Distribution Agreement.
Status of the Notes.....	The Notes will be direct, unsecured and general obligations of the relevant Issuer and will rank equally with all other present and future unsecured and unsubordinated obligations of the relevant Issuer (other than any obligation preferred by mandatory provisions of applicable law).
Status of the Guarantee	The Guarantee of ANZ New Zealand with respect to the ANZNIL Notes issued by ANZNIL will be a direct, unsecured and general obligation of ANZ New Zealand and will rank equally with all other present and future unsecured and unsubordinated obligations of ANZ New Zealand (other than any obligation preferred by mandatory provisions of applicable law).
Maturities.....	Such maturities as may be agreed between the relevant Issuer and the relevant purchaser or Agent (as indicated in the applicable Final Terms as the Stated Maturity), subject to such minimum or maximum term as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency (as defined herein). At the date of this Offering Memorandum, the minimum term of all Notes is one year. There is no maximum stated term.

Currency	Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed between the relevant Issuer and the relevant purchaser or Agent (as indicated in the applicable Final Terms). See "Description of the Notes and the Guarantee—Currency of Notes".
Denomination and Form	The Notes will be issued in fully registered form in minimum denominations of US\$200,000 (or, in the case of Notes not denominated in U.S. dollars, the equivalent thereof in such Specified Currency, rounded down to the nearest 1,000 units of such foreign currency) and integral multiples of US\$1,000 (or, in the case of Notes not denominated in U.S. dollars, 1,000 units of such Specified Currency) in excess thereof.
	In the case of any Notes which are to be offered to the public in a Member State of the EEA or in the UK in circumstances which would otherwise require the publication of a prospectus under the EU Prospectus Regulation or the UK Prospectus Regulation respectively, the minimum denomination at the issue date shall be no less than €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).
	Notes sold to QIBs in reliance on Rule 144A will be represented by one or more global Notes (each, a " Rule 144A Global Note ") registered in the name of a nominee of DTC. Notes sold to non-U.S. persons in offshore transactions in reliance on Regulation S will be represented by one or more global Notes (each, a " Regulation S Global Note " and, together with the Rule 144A Global Notes, the " Global Notes ") registered in the name of a nominee of DTC. Definitive Notes will only be issued in limited circumstances. See "Legal Ownership and Book-Entry Issuance—Special considerations for Global Notes".
Interest Rates	Interest bearing Notes may be issued either as Fixed Rate Notes or Floating Rate Notes (each, as defined herein). Fixed Rate Notes will bear interest at the rate specified in the applicable Final Terms and the interest rate may be reset if specified in the applicable Final Terms. Floating Rate Notes will bear interest based on an interest rate formula designated in the applicable Final Terms, which formula shall be one of: the Federal Funds Rate, LIBOR and SOFR. The interest rate on each Floating Rate Note will be calculated by reference to the specified interest rate (a) plus or minus the Spread (as defined herein), if any, and/or (b) multiplied by the Spread Multiplier (as defined herein), if any. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both or neither.
Interest Payment Dates	Interest on Fixed Rate Notes will be payable annually or semi-annually on the date or dates set forth in the applicable Final Terms, and at maturity, and interest on Floating Rate Notes will be payable quarterly on the dates set forth in the applicable Final Terms and at maturity.
Redemption and Repurchase	The applicable Final Terms will indicate either that such Notes cannot be redeemed prior to their stated maturity (other than for certain taxation reasons) or that such Notes will be redeemable at the option of the relevant Issuer upon giving not more than 60 days written notice nor less than 30 days written notice to the holders of such Notes on a date or dates specified prior to such stated maturity and at a price or prices as are indicated in the applicable Final Terms. The applicable Final Terms will indicate either that such Notes cannot be repurchased prior to their stated maturity or that the Notes will be able to be repurchased at the option of the holders of such Notes on a date or dates specified prior to the stated maturity upon giving no more than 45 days nor less than 30 days written prior notice to the Fiscal Agent.
Redemption for Taxation Reasons	The Notes may be redeemed at the option of the relevant Issuer, in whole but not in part, at the principal amount thereof plus accrued and unpaid interest in certain circumstances in which the relevant Issuer or, in the case of ANZNIL Notes, the Guarantor, would become obligated to pay additional amounts. See "Description of the Notes and the Guarantee—Payment of additional amounts" and "—Redemption for taxation reasons".

Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their principal amounts and will not bear interest.
Original Issue Discount Notes	An Original Issue Discount Note will be issued at a price lower than its principal amount and will provide that, upon redemption or acceleration of its maturity, an amount less than its principal amount will be payable (as specified in the applicable Final Terms).
Taxation	All payments in respect of the Notes and the Guarantee will be made without deduction for or on account of withholding taxes imposed within New Zealand or the UK, except as described under "Description of the Notes and the Guarantee —Payment of additional amounts". For a discussion of certain tax considerations, see "Taxes".
Rating	The Notes when issued, are expected to be rated A1 by Moody's, AA- by S&P and A+ by Fitch.
	A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.
Fiscal Agent	The Bank of New York Mellon.
Paying Agent	The Bank of New York Mellon.
Listing	The Notes will be admitted to the Official List of the FCA and admitted to trading on the London Stock Exchange's Main Market.
Transfer Restrictions	There are selling restrictions in relation to the United States, Canada, Hong Kong, Japan, New Zealand, the European Economic Area, the Republic of Korea, Singapore, Taiwan, the UK, and such other jurisdictions as may be required in connection with the offering and sale of a Tranche as set forth in the applicable Final Terms. See "Plan of Distribution".
Governing Law	State of New York, except as to authorization and execution by ANZ New Zealand and ANZNIL of the Notes, the Guarantee and the Fiscal Agency Agreement, which are governed by the laws of New Zealand.
Risk Factors	Prospective purchasers of the Notes should consider carefully all of the information set forth in this Offering Memorandum and, in particular, the information set forth under the caption "Risk Factors" in this Offering Memorandum before making an investment in the Notes.

2. RISK FACTORS

The ANZ New Zealand Group's activities are subject to risks, including risks arising from the COVID-19 pandemic, that can adversely impact its business, operations, results of operations, reputation, prospects, liquidity, capital resources, financial performance and financial condition (together, "**Position**"). In addition, any investment in the Notes will involve risks including, without limitation, those described in this section.

The risks and uncertainties described below are not the only ones that the ANZ New Zealand Group may face. Additional risks and uncertainties that the ANZ New Zealand Group is unaware of, or that the ANZ New Zealand Group currently deems to be immaterial, may also become important factors that affect the ANZ New Zealand Group.

As at the date of this Offering Memorandum, the Issuers and the Guarantor believe that the below risk factors may affect the relevant Issuers' ability to fulfil its obligations under the Notes or the Guarantor's ability to fulfil its obligations under the Guarantee and could be material for the purpose of assessing the market risks associated with the Notes. If any of the following factors actually occur, the trading price of the Notes could fall and investors may lose the value of their entire investment or part of it.

Prospective investors should carefully consider the following discussion of the risk factors and the other information in this Offering Memorandum and any applicable Final Terms or other supplement and consult their own financial and legal advisers about the risks associated with the Notes before deciding whether an investment in the Notes is suitable for them.

If any of the specified or unspecified risks actually occur, the ANZ New Zealand Group's Position may be materially and adversely affected.

Risks related to the Issuers' business activities and industry

The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the ANZ New Zealand Group's Position

The outbreak of the novel strain of coronavirus in late 2019, specifically identified as SARS-CoV-2, with the disease referred to as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. Governments including those in Australia and New Zealand, have imposed wide ranging restrictions on, suspensions of, or advice against, regional and international travel, events, and meetings and many other normal activities and undertaken substantial and costly monetary and fiscal interventions designed to stabilize sovereign nations and financial markets. While certain restrictions have been lifted or modified, governments may in the foreseeable future reintroduce prior restrictions or implement and introduce further measures to contain the pandemic. Further, although globally and domestically COVID-19 vaccines have been deployed, there are uncertainties associated with the long-term effectiveness and the success of nation-wide vaccination programs. Consequently, the full extent of the duration and severity of the impact of the COVID-19 pandemic, as well as the effectiveness of the government and central bank response to the pandemic, remain subject to significant uncertainties.

Major disruptions to community health and economic activity continue to have wide -ranging negative effects across most business sectors in New Zealand and globally, which in turn has impacted demand for the ANZ New Zealand Group's products and services. Additionally, many of the ANZ New Zealand Group's borrowers have been and continue to be negatively impacted by the COVID-19 pandemic and the ANZ New Zealand Group is exposed to an increased risk of credit loss from borrowers, particularly in the following sectors: transportation (including airlines, shipping, road and rail); ports, tourism and travel (including accommodation, food and beverage); healthcare; entertainment; education; retail (including e-commerce due to a reduction in logistics activity); property (particularly shopping malls, office buildings and hotels); construction and contractors; and distribution and logistics. See Notes 6, 11 and Section B3 of the Half Year Disclosure Statement for details on the credit impairment charge.

In response to the COVID-19 pandemic, the ANZ New Zealand Group has established a range of accommodations and measures designed to assist its personal and business customers but there can be no assurance that these accommodations and measures will be sufficient to prevent or mitigate further hardship or ensure the delivery of the ANZ New Zealand Group's products and services, and there is a risk that the ANZ New Zealand Group's Position may be materially and adversely affected. These accommodations and measures, and any future accommodations and measures, while supporting the ANZ New Zealand Group's customers, may in turn have a negative impact on the ANZ New Zealand Group's Position, may negatively impact the ANZ New Zealand Group's net interest margin, and may result in the ANZ New Zealand Group assuming a greater level of risk than it would have under ordinary circumstances and the ANZ New Zealand Group's Position may be materially and adversely affected as a result.

Requests for assistance from retail and small business customers have been received by the ANZ New Zealand Group's customer service team. These requests may grow if there are further outbreaks and the ANZ New Zealand Group is continuing to address additional resourcing and process changes to enable it to support its customers. It remains uncertain, at this stage, what percentage of its lending portfolio will be impacted. See "COVID-19" for further information on impact to customers. While there have been signs of improvement, in the longer term, asset values may start to deteriorate if a large quantity of retail and business customers liquidate their investments, which may also be exacerbated by the cessation of government assistance, either during, or immediately after, the crisis or due to a decrease in demand for these assets. In both scenarios, LVRs are expected to be impacted.

Substantially reduced global economic activity has caused substantial volatility in the financial markets and such volatility may continue. A deterioration of public finances of sovereigns in response to COVID-19 may lead to further increased volatility and widening credit spreads. COVID-19 has also affected, and can be expected to continue to impact, the ANZ New Zealand Group's ability to continue its operations without interruption or delays due to closure of and restricted access to premises contagion management and travel restrictions. Any related illness or quarantine of the ANZ New Zealand Group's employees or contractors or suspension of the ANZ New Zealand Group's business operations at its branches, business centers and offices could affect the ANZ New Zealand Group's Position.

The COVID-19 pandemic has also increased geopolitical risk. Continuing tensions between countries and policy uncertainty could result in further downturns to the domestic and global economies, which in turn could have a material adverse impact on the ANZ New Zealand Group's financial condition or its ability to execute its strategic initiatives.

The ongoing ramifications of COVID-19 remain highly uncertain and, as at the date of this Offering Memorandum, it is difficult to predict the further spread or duration of the pandemic, including whether there will be further outbreaks and whether and to what extent vaccines or other medical treatments will be effective in curtailing the effects of COVID-19. All or any of the negative conditions related to the COVID-19 pandemic described above may cause a further reduction in demand for the ANZ New Zealand Group's products and services and/or an increase in loan and other credit defaults, bad debts, and impairments and/or an increase in the cost of the ANZ New Zealand Group's operations. Should these occur, it is likely that they will result in a material adverse effect on the ANZ New Zealand Group's Position.

Actions taken by regulators in response to the COVID-19 pandemic have impacted, and may continue to impact, the ANZ New Zealand Group. As an example, the RBNZ froze the distribution of dividends on ordinary shares by New Zealand-incorporated registered banks until March 31, 2021 and continues to impose some restrictions on dividends to support the stability of the financial system. For further information on the regulatory response see "Supervision and Regulation—New Zealand Regulatory Developments—Regulatory Response to the COVID-19 Pandemic and Other Developments" in this Offering Memorandum.

To the extent the COVID-19 pandemic continues to adversely affect the ANZ New Zealand Group's Position, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section.

Changes in political and general business and economic conditions, including disruption in regional or global credit and capital markets, may adversely affect the ANZ New Zealand Group's Position

The ANZ New Zealand Group's financial performance is primarily influenced by the political and economic conditions and the level of business activity in the major countries and regions in which the ANZ New Zealand Group or its customers or counterparties operate, trade or raise funding including, without limitation, New Zealand, Australia, the Asia Pacific, the UK, Europe and the United States (the "**Relevant Jurisdictions**").

As the ANZ New Zealand Group conducts substantially all of its lending business in New Zealand, its performance is greatly influenced by economic and business conditions that prevail in New Zealand, including the level and cyclical nature of business activity, which in turn are affected by, among other things, domestic and international economic events, political events and natural disasters, and by movements and events that occur in global financial markets.

The COVID-19 pandemic has had, and is expected to continue to have, a significant impact on the global economy and global markets, including in New Zealand. The imposition of travel restrictions, border controls, social distancing, quarantine protocols and other containment measures contributed, and may continue to contribute to a continuing slowdown in economic conditions across the world and suppress demand for commodities, interrupt the supply chain for many industries globally, dampen consumer confidence and suppress business earnings and growth prospects, all of which could contribute to ongoing volatility in global financial markets. See the risk factor entitled "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the ANZ New Zealand Group's Position."

A deep global recession has occurred and is continuing. Many countries have experienced large declines in GDP as they restrict activities to manage the spread of the virus, with sharp increases in unemployment rates. These declines in GDP could be exacerbated by further outbreaks of the virus. Governments have responded and continue to respond with fiscal stimulus packages/measures as well as traditional and unconventional monetary easing and regulatory forbearance that is designed to offset at least some of the worst effects of the pandemic. While such stimulus measures did not prevent the decrease in economic activity stemming from the widespread restrictions aimed at stalling the spread of the virus, they are seemingly contributing to economic recovery as restrictions are eased. In some jurisdictions, including New Zealand, stimulus measures have been reduced more recently, though generally this is occurring where the post-pandemic recovery is well advanced.

The impact of this shock on credit losses and asset values continues to be very uncertain. Many of the policies that have been put in place are designed to 'hibernate' parts of the economy, at different times, so that activity can resume when the pandemic subsides. Even as some economies recover, there is considerable uncertainty about the length of these periods of hibernation, the most appropriate economic structure once the crisis has passed and the overall impact on confidence to invest in the future. While the future impact of the economic disruption caused by COVID-19, and the governmental responses to it, remain uncertain, the ANZ New Zealand Group may be materially adversely affected by a protracted downturn in economic conditions globally and, in particular, in New Zealand.

Even before COVID-19, the impact of the global financial crisis in 2007 and its aftermath continued to affect regional and global economic activity, confidence and capital markets. Prudential authorities implemented increased regulations in an attempt to mitigate the risk of such events recurring, although there can be no assurance that such regulations will be effective. The ANZ New Zealand Group believes that the global financial crisis has also had a lasting effect on consumer and business behavior in advanced economies, including the major countries and regions in which the ANZ New Zealand Group or its customers or counterparties operate. Consumers in recent years have reduced their savings rates in the face of weak income growth, while businesses have been reluctant to invest and inflation has remained low. The potential for escalation in geopolitical risks has also contributed to vulnerability in consumer and business behavior. Monetary authorities responded to the global financial crisis by introducing close to zero or below-zero interest rates across most countries, and the major central banks took unconventional steps to support growth and raise inflation.

Global political conditions that impact the global economy have led to, and may continue to result in extended periods of increased political and economic uncertainty and volatility in the global financial markets, which could adversely affect the ANZ New Zealand Group's Position. Recent examples of events that have affected (and may continue to affect) global political conditions include the UK ceasing to be a member of the EU and the EEA on January 31, 2020 (commonly referred to as "**Brexit**"), and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries, including the United States, China and other countries that are New Zealand's significant trading partners. Domestic U.S. politics have also become more polarized in recent years, and represent a potential source of additional instability. Such global political conditions have contributed to economic uncertainty and volatility in the global financial markets and have negatively impacted and could continue to negatively impact consumer and business activity within the markets in which the ANZ New Zealand Group or its customers or counterparties operate, or result in the introduction of new and/or divergent regulatory frameworks that the ANZ New Zealand Group will need to adhere to.

Brexit may adversely affect the business operations of the ANZ New Zealand Group, its customers and counterparties in Europe. The transitional period relating to the UK's withdrawal from the EU ended on December 31, 2020. Since January 1, 2021, aspects of the relationship between the UK and the EU have been governed by the EU-UK Trade and Cooperation Agreement (the "TCA"). However, the scope of the TCA is limited, for example, it does not establish arrangements for the provision of financial services between the EU and the UK. Consequently, uncertainties remain relating to certain aspects of the UK's future economic, trading and legal relationships with the EU and with other countries. In addition, the actual or potential consequences of Brexit, and the associated uncertainty, could adversely affect economic and market conditions in the UK, in the EU and its member states and elsewhere, and could contribute to instability in global financial markets. As a result, the ANZ New Zealand Group is subject to the risk that changes to the structure of its business operations in Europe may be required as a result of Brexit.

Political and economic uncertainty has in the past led to declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, lower or negative interest rates, weaker economic growth and reduced business confidence, each of which may adversely affect the ANZ New Zealand Group's Position. These conditions may also adversely affect the ANZ New Zealand Group's ability to raise medium or long-term funding in the international capital markets.

Geopolitical instability, including potential or actual conflict, occurring around the world, such as the ongoing unrest and conflicts in Ukraine, North Korea, Hong Kong, Myanmar, Syria, Egypt, Afghanistan, Iraq, Iran, Nicaragua, Belarus and elsewhere, as well as the current high threat of terrorist activities may also adversely affect global financial markets, general business and economic conditions, and consequently, the ANZ New Zealand Group's ability to continue operating or trading in an affected country or region, which in turn may adversely affect the ANZ New Zealand Group's Position.

Slower growth and uncertainty regarding global growth in the future may depress global commodity prices, particularly dairy and agricultural prices, and add to financial market uncertainty. A further or sustained slowdown in global economic growth or a decline in commodity prices could depress the volume and price of New Zealand's exports, such as dairy products, with negative flow-on effects for those industries closely tied to the export sector.

Movements in the New Zealand dollar illustrate the potential volatility in, and significance of global economic events to, the value of the New Zealand dollar relative to other currencies. Depreciation of the New Zealand dollar relative to other currencies would increase the foreign debt servicing obligations in New Zealand dollar terms of unhedged exposures. In contrast, an appreciation in the New Zealand dollar relative to other currencies could negatively impact New Zealand's agricultural exports and international tourism.

Should difficult economic conditions in markets in which the ANZ New Zealand Group or its customers or counterparties operate develop or persist, asset values in the housing, commercial or rural property markets could decline, unemployment could rise and corporate and personal incomes could suffer. Deterioration in global markets, including equity, property, currency and other asset markets, may impact the ANZ New Zealand Group's customers and the security the ANZ New Zealand Group holds against loans and other credit exposures, which may impact the ANZ New Zealand Group's ability to recover loans and other credit exposures. In addition, a significant decline in asset values in the New Zealand housing market could materially affect the New Zealand banking sector, including the ANZ New Zealand Group, given the large exposure of the New Zealand banking sector to this market.

The ANZ New Zealand Group's financial performance may also be adversely affected if the ANZ New Zealand Group is unable to adapt cost structures, products, pricing or activities in response to a drop in demand or lower than expected revenues. Similarly, higher than expected costs (including credit and funding costs) could be incurred because of adverse changes in the economy, general business conditions or the operating environment in the countries or regions in which the ANZ New Zealand Group or its customers or counterparties operate.

For current economic conditions impacting the ANZ New Zealand Group and its customers, including changes in the real estate market in New Zealand, see "Weakening of the real estate market in New Zealand may adversely affect the ANZ New Zealand Group's Position". For additional political conditions impacting the ANZ New Zealand Group, see "Legal and regulatory risk—Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's Position".

All or any of the negative political, business or economic conditions described above may cause a reduction in demand for the ANZ New Zealand Group's products and services and/or an increase in loan and other credit defaults and bad debts, which may adversely affect the ANZ New Zealand Group's Position.

Competition in the markets in which the ANZ New Zealand Group operates may adversely affect the ANZ New Zealand Group's Position

The markets in which the ANZ New Zealand Group operates are highly competitive and could become even more so. Examples of factors that may affect competition, and negatively impact the ANZ New Zealand Group's Position, include:

- entities that the ANZ New Zealand Group competes with, including those outside of New Zealand, could be subject to different levels of regulation and regulatory activity. This could allow them to offer more competitive products and services, including because those different levels give them a lower cost base and/or the ability to attract employees that the ANZ New Zealand Group would otherwise seek to employ;
- digital technologies and business models are changing customer behavior and the competitive environment and emerging competitors are increasingly utilizing new technologies and seeking to disrupt existing business models in the financial services sector. This has accelerated through the COVID-19 pandemic, as customers move away from physical outlets to online services. In the short term it is expected that the economic environment may make starting new ventures more challenging due to the lower availability of credit. In the medium to longer term, customers becoming more used to banking digitally could see them adopt neo/digital only offerings more readily;
- existing companies from outside of the traditional financial services sector may seek to directly compete with the ANZ New Zealand Group by offering products and services traditionally provided by banks, including by obtaining banking licenses and/or by partnering with existing providers;
- consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies) in relation to which the ANZ New Zealand Group may choose not to provide financial services; and

- emerging fintechs and banks partnering to develop a framework that provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions may lead to increased competition, which could result in weakening the profitability of banks that are slow to adapt to the changing financial system landscape. At the date of this Offering Memorandum, there is no regulatory requirement to provide third-party financial service providers open access to consumer banking, transaction, and other financial data held by registered banks in New Zealand. However, in December 2019, the New Zealand Minister of Commerce and Consumer Affairs notified New Zealand banks that he is seeking advice on a possible Consumer Data Right in New Zealand, and indicated that legislative reform could occur in the future.

The impact on the ANZ New Zealand Group of an increase in competitive market conditions or a technological change that puts the ANZ New Zealand Group's business platforms at a competitive disadvantage, especially in the ANZ New Zealand Group's main markets and products, could lead to a material reduction in the ANZ New Zealand Group's market share, customers and margins and adversely affect the ANZ New Zealand Group's Position.

Increased competition for deposits may increase the ANZ New Zealand Group's cost of funding. If the ANZ New Zealand Group is not able to successfully compete for deposits, it would be forced to rely more heavily on other, less stable or more expensive forms of funding, or to reduce lending. This may adversely affect the ANZ New Zealand Group's Position.

Economic disruptions could have a significant impact on competition in the New Zealand financial services sector over the medium-term due to funding cost and provision increases, structurally low interest rates, insufficient liquidity, implementation of business continuity plans, changes to business strategies and temporary regulatory safe harbors. The low-growth environment will likely lead to heightened competitive intensity and margin compression.

Further, the New Zealand Government and its agencies have sought to lower lending and funding costs for both banks and non-banks. These actions may support providers that compete with the ANZ New Zealand Group.

Given the importance of a functioning and competitive banking sector, and the New Zealand Government's ongoing desire to pursue a pro-growth agenda in response to the economic disruption caused by the COVID-19 pandemic, it is anticipated that over the longer-term the level of competition in the New Zealand financial services sector will remain a focus area for the New Zealand Government. Policy reform in this area may result in increased competitive pressure in the ANZ New Zealand Group's key markets, which may adversely affect the ANZ New Zealand Group's Position.

Changes in the real estate market in New Zealand may adversely affect the ANZ New Zealand Group's Position

Residential and rural property lending, together with real estate development and investment property finance, constitute important businesses of the ANZ New Zealand Group.

Since 2009, the world's major central banks have embarked upon unprecedented monetary policy stimulus. The resulting weight of funds searching for yield continues to be a significant driver underlying property markets in New Zealand. In recent months, residential property prices have steadily increased with median prices increasing to a record high in March 2021. In response, the New Zealand Government announced a range of initiatives aimed at limiting further price increases. Specifically, the New Zealand Government mandated that the RBNZ consider the impact on housing when making monetary and financial policy decisions; created a NZ\$3.8 billion fund to accelerate housing supply in the short- to medium-term by investing in infrastructure like roads and pipes to homes; expanded the 'bright-line' test (which is akin to a capital gains tax on investment property if sold within 10 years from date of purchase); signaled the removal, from October 2021, of interest deductibility for future residential property investors who hold their investments on capital account and phased out its application on existing residential investments (with concessions expected for businesses and for "new builds"); and pledged to help Kāinga Ora (the crown entity responsible for housing and communities) borrow an additional \$2 billion to increase land acquisitions to boost housing supply. These measures may facilitate a decline in the rate of residential property price increases.

Despite initial concerns about the negative impacts of COVID-19 and the threat of a long-term recession, most New Zealand commercial property markets have been resilient in large part due to New Zealand Government stimulus, record low interest rates and strong liquidity (debt and equity) seeking long-term defensive assets. However, some segments of the New Zealand commercial property market have experienced more direct and longer-term adverse consequences of COVID-19, particularly as a result of limited mobility, and the impacts of restricted international and domestic tourism. These segments include discretionary retail hotel accommodation, student accommodation and large scale inner city residential development.

In this context, the ANZ New Zealand Group could be adversely impacted in a number of ways:

- commercial assets could be impacted by weakening tenancy credit profiles and increasingly volatile property cash flows from lease renewals at lower rates, rental abatements, increased incentives and tenancy defaults impacting serviceability and increasing refinance risk, particularly as Government incentives and support ends;
- declining asset prices could impact customers, counterparties and the value of security (including residential, commercial and rural property) the ANZ New Zealand Group holds against these loans, impacting the ANZ New Zealand Group's ability to recover amounts owed if customers or counterparties were to default. A decline in valuations will also contribute to increasing refinance risk. Valuations will be impacted by the combined effect of reductions in rental income and softening in yields (risk adjusted returns and implicit rental growth), notwithstanding the low interest rate environment;
- the price of insurance for properties perceived to be at high risk from earthquake damage or susceptible to climate change risks, such as rising sea levels and coastal inundation, is increasing. An increase in the price of insurance could result in a) the property owner not renewing the policy; or b) additional exclusions from the policy, for example, natural hazard cover. Where either the premium cost is considered prohibitive or a property cannot be insured, this could result in a reduction in the security value of properties that the ANZ New Zealand Group holds as collateral and may give rise to credit related losses due to customers being unable or unwilling to repay debt following damage to their property, which may adversely affect the ANZ New Zealand Group's Position;
- declining demand for ANZ New Zealand's residential lending products due to buyer concerns about decreases in values may make its lending products less attractive to potential homeowners and investors. In the case of residential loans, customers with high levels of leverage could show a higher propensity to default, and in the event of such defaults the

decrease in security values may cause ANZ New Zealand to incur higher credit losses, which may adversely affect the ANZ New Zealand Group's Position;

- liquidity concerns arising from an emerging capital gap as existing loans are refinanced or new loans are financed within existing senior lending risk appetite parameters but against lower valuations, creating a need for additional equity contributions from owners or developers or alternative sources of funding. This creates an additional cash flow risk for borrowers and the potential for non-bank financiers to disintermediate; and
- a material decline in residential housing prices may also cause losses in ANZ New Zealand's residential development portfolio if customers who pre-committed to purchase these properties are unable or unwilling to complete their contracts and ANZ New Zealand is forced to re-sell these properties at a loss.

Separately, a highly competitive construction sector with declining profit margins, could impact contractor and sub-contractor cash flow and liquidity, which presents an indirect risk to the Group's commercial property development financing activities. Longer term, given a prolonged period of asset price inflation and record low interest rates, the Group's portfolio of commercial property loans may become more susceptible to a sudden and material increase in interest rates, which could cause a decline in coverage ratios and asset values which could increase refinance risk and necessitate equity contributions towards debt reduction.

Sovereign risk events may destabilize global financial markets and may adversely affect the ANZ New Zealand Group's Position

Sovereign risk is the risk that governments will default on their debt obligations, be unable to refinance their debts as and when they fall due or nationalize parts of their economy. Sovereign defaults may adversely impact the ANZ New Zealand Group directly, through adversely impacting the value of the ANZ New Zealand Group's assets, or indirectly through destabilizing global financial markets, thereby adversely impacting the ANZ New Zealand Group's position.

Sovereign risk exists in many economies, including the United States, the UK, China, Europe, Australia and New Zealand. Should one sovereign default, there could be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the global financial crisis and subsequent sovereign debt crises. Significant uncertainties exist relating to the COVID-19 crisis that is currently unfolding globally. These COVID-19 related uncertainties, combined with pre-existing sovereign risk have been significantly destabilizing global financial markets and may continue to do so, which in turn could adversely affect the ANZ New Zealand Group's Position. For more information on risks relating to the COVID-19 pandemic, see the risk factor entitled "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the ANZ New Zealand Group's Position" and "Supervision and Regulation—Regulatory Response to COVID-19 Pandemic and Other Developments".

Market risk events may adversely affect the ANZ New Zealand Group's Position

Market risk is the risk of loss arising from adverse changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. For the purposes of financial risk management, the ANZ New Zealand Group differentiates between traded and non-traded market risks. Traded market risks principally arise from the ANZ New Zealand Group's trading operations in interest rates, foreign exchange, commodities and securities. The non-traded market risk is predominantly interest rate risk in the banking book. Other non-traded market risks include transactional and structural foreign exchange risk arising from capital investments in offshore operations and non-traded equity risk. Losses arising from the occurrence of such market risk events may adversely affect the ANZ New Zealand Group's Position.

As a result of COVID-19, in March 2020 there was a substantial impact to market liquidity across most asset classes as market volatility significantly increased.

Changes in exchange rates may adversely affect the ANZ New Zealand Group's Position

As the ANZ New Zealand Group conducts business in several different currencies, although mainly in New Zealand dollars, its businesses may be affected by a change in currency exchange rates. Additionally, as the ANZ New Zealand Group's financial statements are prepared and stated in New Zealand dollars, any appreciation in the New Zealand dollar against other currencies in which the ANZ New Zealand Group earns revenue may adversely affect its reported earnings.

Appreciation in the New Zealand dollar relative to other currencies could have an adverse effect on certain portions of the New Zealand economy, including agricultural exports, international tourism, manufacturers, and import-competing producers, which may adversely affect the ANZ New Zealand Group's Position. Depreciation in the New Zealand dollar relative to other currencies will increase debt servicing obligations in New Zealand dollar terms of unhedged foreign currency exposures.

The planned discontinuation of LIBOR and developments affecting other benchmark rates could have adverse consequences on the ANZ New Zealand Group's loan products, securities issuances and its capital markets and investment activities

As a result of longstanding global regulatory initiatives, LIBOR (the London Interbank Offered Rate) is being discontinued as a floating rate benchmark. LIBOR has been the principal floating rate benchmark in the financial markets, and its planned discontinuation has affected and will continue to affect the financial markets generally and may also affect our operations, finances and investments specifically, as described below.

On March 5, 2021, ICE Benchmark Administration Limitation (the "IBA"), the administrator of LIBOR, and its regulator, the United Kingdom's Financial Conduct Authority (the "FCA"), separately announced the dates on which panel bank submissions for all LIBOR settings will either permanently cease to be published or will cease to be representative of the underlying market and economic reality the rates are intended to measure (with such representativeness not being restored). These dates are (a) December 31, 2021, for all sterling, euro, Swiss franc and Japanese yen settings and the 1-week and 2-month U.S. dollar settings; and (b) June 30, 2023, for the remaining U.S. dollar settings. Subsequently, the Alternative Reference Rates Committee (the "ARRC"), the working group convened by the U.S. Federal Reserve Board and the Federal Reserve Bank of New York to identify risk-free alternatives to U.S. dollar LIBOR, confirmed the FCA's announcements constituted a "Benchmark Transition Event" under ARRC-recommended fallback language with respect to all U.S. dollar LIBOR settings. The International Swaps and Derivatives Association ("ISDA") also confirmed the FCA announcement was an "Index Cessation Event" under the fallbacks added to derivatives transactions by Supplement 70 to the 2006 ISDA Definitions.

While significant effort has been made to introduce and implement replacement alternative benchmark rates, vast amounts of loans, mortgages, securities, derivatives and other financial instruments are linked to the LIBOR benchmark. Any failure to successfully introduce replacement benchmark rates and implement effective transitional arrangements to address the discontinuation of LIBOR could result in disruption in the financial markets, suppress capital markets activities and give rise to litigation claims. In addition, financial markets, particularly the trading market for LIBOR-based obligations, may generally be adversely affected by the planned discontinuation of LIBOR and by the remaining uncertainties regarding LIBOR's discontinuation, the alternative reference rates that will be used when LIBOR is discontinued and other reforms related to LIBOR. There is no assurance that any alternative reference rate will be the economic equivalent of the LIBOR setting it is intended to replace. Any or all of these matters could have a negative impact on the ANZ New Zealand Group's Position and on the value of LIBOR-linked securities or other instruments which are issued, funded or held by the ANZ New Zealand Group.

A large number of loans, securities, derivatives and other financial instruments to which the ANZ New Zealand Group is a party currently use LIBOR as a benchmark rate or are otherwise linked to LIBOR. In some cases, those instruments include terms providing for the relevant interest or payment calculations to be made by reference to an alternative benchmark rate or on some other basis in the event of LIBOR's discontinuation; and such instruments should transition away from LIBOR in accordance with those terms. In cases where an instrument's terms do not include robust fallback provisions or the fallback provisions are considered to be inadequate, the instrument, may need to be amended to add or amend such provisions in line with emerging market standards, or other arrangements may have to be made with regard to such instrument when LIBOR is discontinued. In certain cases, it may not be possible to amend the relevant terms; and the potential legal, regulatory and other consequences if this occurs are uncertain. In any event, implementation of existing fallback provisions or changes made on any other basis may, for example, alter the amounts payable under the relevant instrument, its value and its liquidity, and may result in a mismatch between such instrument and any related contract (such as a hedging agreement). In addition, the process of taking the necessary action with regard to this large volume of contracts prior to the end of 2021 (for sterling, euro, Swiss franc and Japanese yen settings, or the 1-week or 2-month U.S. dollar settings) and prior to the end of June 2023 (for remaining U.S. dollar settings) involves operational risks for the ANZ New Zealand Group.

Other benchmark rates have been, or may be, reformed (for example, EURIBOR). Any such reforms may cause the relevant benchmarks to perform differently than in the past, or the reforms made to the rate may have other consequences which cannot be fully anticipated.

If a benchmark is discontinued, there may or may not be a suitable, similar alternative reference rate and there may be adverse consequences in transitioning to an alternative rate. Any of these developments, and any future initiatives with regard to the regulation of benchmarks, could result in adverse consequences to the return on, value of and market for loans, mortgages, securities, derivatives and other financial instruments whose returns are linked to any such benchmark, including those issued, funded or held by the ANZ New Zealand Group; and could result in widespread dislocation in the financial markets, engender volatility in the pricing of securities, derivatives and other instruments, and suppress capital markets activities, all of which could have adverse effects on the ANZ New Zealand Group's Position.

Acquisitions and/or divestments may adversely affect the ANZ New Zealand Group's Position

The ANZ New Zealand Group regularly examines a range of corporate opportunities, including acquisitions and divestments, with a view to determining whether those opportunities will enhance the ANZ New Zealand Group's strategic position and financial performance.

Integration (or separation) of an acquired (or divested) business can be complex and costly, sometimes including combining (or separating) relevant accounting and data processing systems, and management controls, as well as managing relevant relationships with employees, customers, regulators, counterparties, suppliers and other business partners. Integration (or separation) efforts could create inconsistencies in standards, controls, procedures and policies, as well as diverting management attention and resources.

There is also the risk of counterparties making claims in respect of completed or uncompleted transactions against the ANZ New Zealand Group that could adversely affect the ANZ New Zealand Group's Position. There can also be no assurance that any acquisition (or divestment) would have the anticipated positive results around cost or cost savings, time to integrate and overall performance. All or any of these factors could adversely affect the ANZ New Zealand Group's ability to conduct its business successfully and impact its operations or results.

Additionally, there can be no assurance that employees, customers, counterparties, suppliers and other business partners of newly acquired (or retained) businesses will remain post-acquisition (or post-divestment). Further, there is a risk that completion of an agreed transaction may not occur whether in the form originally agreed between the parties or at all, including due to failure of the counterparty to satisfy its completion conditions or because other completion conditions such as obtaining relevant regulatory or other approvals are not satisfied. Should any of these integration or separation risks occur, this could adversely affect the ANZ New Zealand Group's Position.

Risks related to the Issuer's financial situation

Credit risk may adversely affect the ANZ New Zealand Group's Position

As a financial institution, the ANZ New Zealand Group is exposed to the risks associated with extending credit to other parties, including incurring credit-related losses that can occur as a result of a counterparty being unable or unwilling to honor its contractual obligations. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether.

The risk of credit-related losses has increased as a result of the impact of COVID-19. The risk of credit-related losses may further increase as a result of a number of factors, including an increase in interest rates, deterioration in the financial condition of the economies in which the ANZ New Zealand Group or its customers or counterparties operate, a sustained high level of unemployment in the markets in which the ANZ New Zealand Group or its customers or counterparties operate, more expensive imports into New Zealand due to the reduced strength of the New Zealand dollar relative to other currencies, a deterioration of the financial condition of the ANZ New Zealand Group's customers or counterparties, a reduction in the value of assets the ANZ New Zealand Group holds as collateral, and a reduction in the market value of the counterparty instruments and obligations it holds.

Less favorable business or economic conditions, whether generally or in a specific industry sector or geographic region, as well as the occurrence of events such as natural disasters or pandemics, could cause customers or counterparties to fail to meet their obligations in accordance with agreed terms.

Some of the ANZ New Zealand Group's customers and counterparties in or with exposures to the below mentioned sectors are increasingly vulnerable:

- industries impacted by the COVID-19 pandemic particularly those referred to in the risk factor "*The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the ANZ New Zealand Group's Position*".
- industries exposed to the unwind of government stimulus packages and/or timing of the opening of borders (both domestic and international) as well as industries reliant on consumer discretionary spending;
- industries at risk of sanctions, geopolitical tensions or trade disputes (e.g., technology, agriculture and communications) and/or declining global growth, disruption to global supply chains and actions on climate change (e.g., commodity and energy prices);
- customers and industries exposed to disruption from adverse natural events (e.g., earthquakes), physical climate risk (e.g., flood, storm and drought), and transition risk (e.g., industry exposed to carbon reduction requirements and resulting changes in demand for goods and services or liquidity) For more information on climate-related risks, see the risk factor "*Impact of future climate events, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the ANZ New Zealand Group's Position*";
- significant variation in the cost structures across New Zealand dairy farms, and some farms may struggle to achieve profitability. As a result, problem loans may increase; and
- segments exposed to the volatility of the U.S. dollar, as well as the New Zealand dollar.

The decision by the ANZ New Zealand Group to provide customers impacted by the COVID-19 pandemic the option of suspending or deferring certain mortgage or loan repayments may lead to an increase in the level of credit risk related losses. There can be no guarantee that at the conclusion of this period, customers will be able to recommence their loan repayment obligations, leading to a potential increase in credit risk related losses, which could have a material adverse effect on the ANZ New Zealand Group's Position. See Notes 6, 11 and Section B3 of the Half Year Disclosure Statement for details on the credit impairment charge.

The ANZ New Zealand Group is also subject to the risk that its rights against third parties may not be enforceable in certain circumstances, which may result in credit losses. Should material credit losses occur to the ANZ New Zealand Group's credit exposures, this may adversely affect the ANZ New Zealand Group's Position.

Credit risk may also arise from certain derivative, clearing and settlement contracts that the ANZ New Zealand Group enters into, and from its dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies where the financial conditions of such entities are affected by economic conditions in global financial markets.

In addition, in assessing whether to extend credit or enter into other transactions with customers and/or counterparties, the ANZ New Zealand Group relies on information provided by or on behalf of customers and/or counterparties, including financial statements and other financial information. The ANZ New Zealand Group may also rely on representations of customers and independent consultants as to the accuracy and completeness of that information. The ANZ New Zealand Group's financial performance could be negatively impacted to the extent that it relies on information that is incomplete, inaccurate or materially misleading.

The ANZ New Zealand Group holds provisions for credit impairment that are determined based on current information and subjective and complex judgements of the impairment within its lending portfolio. If the information upon which the assessment is made proves to be inaccurate or if the ANZ New Zealand Group fails to analyze the information correctly, the provisions made for credit impairment may be insufficient, which may adversely affect the ANZ New Zealand Group's Position.

Challenges in managing the ANZ New Zealand Group's capital base could give rise to greater volatility in capital ratios, which may adversely affect the ANZ New Zealand Group's Position

The ANZ New Zealand Group's capital base is critical to the management of its businesses and access to funding. The ANZ New Zealand Group is required by its primary prudential regulator, the RBNZ, to maintain adequate regulatory capital.

Under current regulatory requirements, risk-weighted assets and expected loan losses increase as a counterparty's risk grade worsens. These regulatory capital requirements are likely to compound the impact of any reduction in capital resulting from lower profits in times of stress. As a result, greater volatility in capital ratios may arise and may require the ANZ New Zealand Group to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms.

The ANZ New Zealand Group's capital ratios may be affected by a number of factors, such as (i) lower earnings, (ii) increased asset growth, (iii) changes in the value of the New Zealand dollar against other currencies in which the ANZ New Zealand Group operates (particularly the Australian dollar and U.S. dollar) that impact RWA or the foreign currency translation reserve, (iv) changes in business strategy (including acquisitions, divestments and investments or an increase in capital intensive businesses), and (v) changes in regulatory requirements.

The RBNZ has implemented prudential standards to accommodate Basel III. Certain other regulators have either implemented or are in the process of implementing regulations, including Basel III, that seek to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities and insurance entities, though there can be no assurance that these regulations have had or will have their intended effect. These regulations, together with risks arising from any regulatory changes (including those arising from the RBNZ's review of capital requirements and the RBNZ's amendments to ANZ New Zealand's Conditions of Registration in response to the COVID-19 pandemic, to (among other things) limit ANZ New Zealand's ability to make distributions other than discretionary payments payable to holders of AT1 capital instruments), are described in the risk factor "—Legal and regulatory risk—Regulatory changes or a failure to comply

with laws, regulations or policies may adversely affect the ANZ New Zealand Group's Position" and "Supervision and Regulation".

Any inability of the ANZ New Zealand Group to maintain its regulatory capital may have a material adverse effect on the ANZ New Zealand Group's Position.

The ANZ New Zealand Group's credit ratings could change and adversely affect the ANZ New Zealand Group's ability to raise capital and wholesale funding and constrain the volume of new lending, which may adversely affect the ANZ New Zealand Group's Position

The ANZ New Zealand Group's credit ratings have a significant impact on both its access to, and cost of, capital and wholesale funding. They may also be important to customers or counterparties when evaluating the ANZ New Zealand Group's products and services. Credit ratings and rating outlooks may be withdrawn, qualified, revised or suspended by credit rating agencies at any time. The methodologies used by ratings agencies to determine credit ratings and rating outlooks may be revised in response to legal or regulatory changes, market developments or for any other reason.

The credit ratings or rating outlooks assigned to ANZ New Zealand or its subsidiaries could be negatively affected by a change in a number of factors, including the ANZ New Zealand Group's ability to maintain a stable earnings stream, capital ratios, credit quality and risk management controls, funding sources, and liquidity monitoring procedures. A credit rating downgrade or change in rating outlook could be driven by the occurrence of one or more of the other risks identified in this Offering Memorandum, a change in ratings methodologies or other events. In addition, a reduction in ANZBGL's credit ratings or ratings outlook or New Zealand's or Australia's sovereign credit ratings or ratings outlook could adversely affect the ANZ New Zealand Group's credit ratings or ratings outlook. New Zealand's or Australia's sovereign credit ratings or ratings outlook could be negatively impacted by a variety of factors, including legislation and regulatory changes implemented by the Australian or New Zealand governments. As a result, downgrades in the ANZ New Zealand Group's credit ratings or a change in the ANZ New Zealand Group's ratings outlook could occur that do not reflect changes in the general economic conditions or the ANZ New Zealand Group's financial condition.

In addition, the ratings of individual securities (including, but not limited to, certain Additional Tier 1 capital and Tier 2 capital securities and covered bonds) issued by the ANZ New Zealand Group (and other banks globally) could be impacted from time to time by changes in the regulatory requirements for those instruments as well as the ratings methodologies used by rating agencies.

Fitch Ratings ("Fitch") and S&P Global Ratings ("S&P") have revised the ANZ Group's ratings and/or outlook as described below.

On 12 April, 2021, Fitch revised the outlook on ANZBGL and ANZ New Zealand to stable, from negative and affirmed the ANZ Group's and ANZ New Zealand's 'A+' long-term and 'F1' short term issuer default rating.

On 9 April, 2020, S&P revised the outlook on the long-term issuer credit rating for the Commonwealth of Australia to negative from stable. As a result of the sovereign action, S&P has also revised the credit rating outlook of the Australian major banks and their New Zealand bank subsidiaries, including the ANZ Group, to negative from stable. S&P reaffirmed the ANZ Group's 'AA-' long-term and 'A-1+' short term issuer credit ratings. S&P also reaffirmed all the ratings on debt issued by the ANZ Group, including senior and subordinated debt and hybrid Tier 1 capital instruments.

Any future downgrade or potential downgrade to the ANZ Group's credit ratings or rating outlooks may reduce access to capital and wholesale debt markets and could lead to an increase in funding costs, which could constrain the volume of new lending and affect the willingness of counterparties to transact with the ANZ Group which may adversely affect the ANZ Group's Position.

Credit ratings are not a recommendation by the relevant rating agency to invest in securities offered by the ANZ New Zealand Group.

Liquidity and funding risk events may adversely affect the ANZ New Zealand Group's Position

Liquidity and funding risk is the risk that ANZ New Zealand Group is unable to meet its payment obligations as they fall due (including repaying depositors or maturing wholesale debt) or that the ANZ New Zealand Group has insufficient capacity to fund increases in assets. Liquidity and funding risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows.

Reduced liquidity could lead to an increase in the cost of the ANZ New Zealand Group's borrowings and constrain the volume of new lending which may adversely affect the ANZ New Zealand Group's Position.

Deterioration and volatility in market conditions, including the adverse changes in market conditions experienced as a result of COVID-19, and/or declines in investor confidence in the ANZ New Zealand Group may materially impact its ability to replace maturing liabilities and access funding (in a timely and cost effective manner), which may adversely impact the ANZ New Zealand Group's Position.

The ANZ New Zealand Group raises funding from a variety of sources, including customer deposits and wholesale funding in domestic and in offshore markets to meet its funding requirements and to maintain or grow its business generally. Developments in major markets can adversely affect liquidity in global capital markets. For example, in times of liquidity stress, if there is damage to market confidence in the ANZ New Zealand Group or if funding inside or outside of New Zealand is not available or constrained, the ANZ New Zealand Group's ability to access sources of funding and liquidity may be constrained and it will be exposed to liquidity and funding risk.

In response to the economic impacts of COVID-19 the RBNZ has implemented or expanded the use of alternative monetary policy tools including quantitative easing and certain other facilities that directly provide funding to New Zealand registered banks. If these tools were to be withdrawn or significantly reduced unexpectedly the ANZ New Zealand Group may be required to seek alternative funding.

The availability of alternative funding, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions and the ANZ New Zealand Group's credit ratings at that time (which are strongly influenced by New Zealand's and Australia's sovereign credit ratings). Even if available, the cost of these funding alternatives may be more expensive or on unfavorable terms that may adversely affect the ANZ New Zealand Group's Position.

Changes in the valuation of some of the ANZ New Zealand Group's assets and liabilities may adversely affect the ANZ New Zealand Group's earnings and/or equity, and therefore its Position

The ANZ New Zealand Group applies accounting standards that require that various financial instruments, including derivative instruments, assets and liabilities classified as fair value through other comprehensive income, and certain other assets and liabilities (as per Note 1 of the 2020 ANZ New Zealand Financial Statements) are measured at fair value with changes in fair value recognized in earnings or equity.

Generally, in order to establish the fair value of these instruments, the ANZ New Zealand Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, fair values are based on present value estimates or other valuation techniques that incorporate the impact of factors that would influence the fair value as determined by a market participant. The fair value of these instruments is impacted by changes in market prices or valuation inputs that may have a material adverse effect on the ANZ New Zealand Group's earnings and/or equity.

In addition, the ANZ New Zealand Group may be exposed to a reduction in the value of non-lending related assets as a result of impairments that are recognized in earnings. The ANZ New Zealand Group is required to test the recoverability of goodwill balances and intangible assets with indefinite useful lives or not yet available for use at least annually and other non-lending related assets including premises and equipment, investment in associates, capitalized software and other intangible assets where there are indicators of impairment.

For the purpose of assessing the recoverability of the goodwill balances, the ANZ New Zealand Group uses a discounted cashflow calculation. Changes in the assumptions upon which the calculation is based, together with changes in earnings, may materially impact this assessment, resulting in the potential write-off of a part or all of the goodwill balances.

As at March 31, 2021, the ANZ New Zealand Group carried a goodwill balance of NZ\$3,006 million. Similarly, as at March 31, 2021, the ANZ New Zealand Group carried capitalized software balances and other intangible assets of NZ\$82 million and the recoverability of these assets is assessed for indicators of impairment semi-annually.

In respect of other non-lending related assets, in the event that an asset is no longer in use, or that the cash flows generated by the asset do not support the carrying value, impairment charges may be recorded. This, in conjunction with the other potential changes above, could impact the ANZ New Zealand Group's Position.

In making these assessments, the ANZ New Zealand Group considers relevant internal and external information available. This includes assessing the ongoing impact of COVID-19, and the response of the government, regulators and businesses, on the carrying values of the ANZ New Zealand Group's assets. There is a high degree of uncertainty associated with the duration and impact of COVID-19 which may affect the recoverability of ANZ New Zealand Group assets in future periods.

Changes to accounting policies may adversely affect the ANZ New Zealand Group's Position

The accounting policies that the ANZ New Zealand Group applies are fundamental to how the ANZ New Zealand Group records and reports its financial position and results of operations. The accounting policies for the ANZ New Zealand Financial Statements as at and for the six months ended March 31, 2021 and as at and for the years ended September 30, 2020 and September 30, 2019 are set forth in Note 1 to the ANZ New Zealand Unaudited Financial Statements, the 2020 ANZ New Zealand Financial Statements and the 2019 ANZ New Zealand Financial Statements, respectively. Management must exercise judgement in selecting and applying many of these accounting policies so that they not only comply with the applicable accounting standards or interpretations but that they also reflect the most appropriate manner in which to record and report on the ANZ New Zealand Group's financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of the ANZ New Zealand Group's financial position. In addition, the application of new or revised accounting standards or interpretations may adversely affect the ANZ New Zealand Group's Position.

In some cases, management must select an accounting policy from two or more alternatives, any of which would comply with the relevant accounting standard or the ANZ New Zealand Group's interpretation and be reasonable under the circumstances, yet might result in reporting materially different outcomes than would have been reported under the alternative.

General creditors of ANZ New Zealand, including holders of Notes issued by ANZNIL or ANZ New Zealand, do not have direct recourse to the assets of the ANZNZ Covered Bond Trust

Under the €8 billion ANZ New Zealand covered bond program, covered bond investors have full recourse to ANZNIL or ANZ New Zealand as issuer and ANZ New Zealand as guarantor and also to a cover pool of assets held by the ANZNZ Covered Bond Trust. The assets of the ANZNZ Covered Bond Trust are made up of certain housing loans and related securities originated by ANZ New Zealand and which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the ANZNZ Covered Bond Trust of covered bonds issued by ANZ New Zealand or ANZNIL, from time to time.

As at March 31, 2021, the rights to cash flows associated with housing loans and related securities with a carrying value of NZ\$11,696 million or 6.4% of ANZ New Zealand's total assets were held in the ANZNZ Covered Bond Trust. The assets of the ANZNZ Covered Bond Trust do not qualify for derecognition as ANZ New Zealand retains substantially all of the risks and rewards of the transferred assets. Therefore, the establishment of the covered bond program and the ANZNZ Covered Bond Trust do not change ANZ New Zealand's financial statements.

The covered bonds are guaranteed by ANZNZ Covered Bond Trust Limited as trustee of the ANZNZ Covered Bond Trust under the terms of the covered bond program. All obligations of ANZNIL, as issuer, are guaranteed by ANZ New Zealand. The assets of the ANZNZ Covered Bond Trust are not available to creditors of ANZ New Zealand, other than covered bondholders, including holders of Notes issued by ANZNIL or ANZ New Zealand, although ANZ New Zealand (or its liquidator or statutory manager) may have a claim against the residual assets of the ANZNZ Covered Bond Trust (if any) after all the claims of prior ranking creditors of the ANZNZ Covered Bond Trust have been satisfied.

Legal and regulatory risk

Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's Position

The ANZ New Zealand Group's businesses and operations are highly regulated. The ANZ New Zealand Group is subject to a substantial and increasing number of laws, regulations and policies, including industry self-regulation, in the Relevant Jurisdictions in which it carries on business or obtains funding, and is supervised by a number of different authorities in each of these jurisdictions.

The volume of changes, and resources allocated to the supervision and regulation of financial services groups, such as the ANZ New Zealand Group, and the enforcement of laws against them, has increased substantially in recent years, including in response to community concern regarding the conduct of financial services groups in New Zealand and Australia. As a result, the Supervision and Regulation of, and enforcement against, financial services groups, including the ANZ New Zealand Group, has become increasingly extensive, complex and costly across the Relevant Jurisdictions. Such regulation, supervision and enforcement continue to evolve.

COVID-19 has had, and may continue to have an impact on the supervision and regulation of, and enforcement against, financial services groups such as the ANZ New Zealand Group. Any future ramifications of COVID-19 remain uncertain and, as at the date of this Offering Memorandum, difficult to predict. There have been delays to the implementation of regulatory reforms in New Zealand and Australia and a re-ranking of priorities, including enforcement priorities. Such delays could impact the ANZ New Zealand Group's ability to manage regulatory change and increase the risk of the ANZ New Zealand Group not being able to timely and sufficiently comply with new regulations when they come into effect. Governments worldwide have imposed wide-ranging restrictions on, suspensions of, or advice against, travel, events and meetings and many other normal activities, and undertaken substantial and costly interventions to stabilize sovereign nations and financial markets. Governments already have and may continue to implement and introduce further measures to contain the pandemic.

The ongoing COVID-19 pandemic also has the potential to complicate the ANZ New Zealand Group's dealings with its regulators in a number of ways. In particular, disruptions to the ANZ New Zealand Group's business, operations, third party contractors and suppliers resulting from the COVID-19 pandemic increase the risk that the ANZ New Zealand Group will not be able to satisfy its regulatory obligations or processes and/or address outstanding issues, potentially increasing the prospect of a regulator taking adverse action against the ANZ New Zealand Group. The ANZ New Zealand Group remains susceptible to regulatory action where it fails to satisfy its regulatory obligations. For more information on the impact of COVID-19 refer to "COVID-19".

New Zealand Developments

The New Zealand Government and its agencies, including the RBNZ, the FMA and the Commerce Commission, have supervisory oversight over the ANZ New Zealand Group. Prudential authorities such as the RBNZ have extensive administrative, practical and investigative powers over the ANZ New Zealand Group's business. There have been a series of regulatory releases from these and other authorities that have proposed, or may result in, significant regulatory changes for financial institutions. For example:

- ***Prudential Developments:*** The ANZ New Zealand Group continues to expect increased regulatory focus on capital and liquidity requirements. For example, the RBNZ, APRA, the Basel Committee on Banking Supervision ("**BCBS**") and regulators in other jurisdictions have revised standards and released discussion papers, proposals and decisions in regards to strengthening the resilience of the banking sector. Further changes to the RBNZ's prudential standards could increase the level of regulatory capital that the ANZ New Zealand Group is required to maintain, restrict the ANZ New Zealand Group's flexibility, require it to incur substantial costs and/or impact the profitability of one or more of its business lines, any of which may adversely affect the ANZ New Zealand Group's Position. For example, the following RBNZ reviews and policies may have a material impact on ANZ New Zealand's Position.
 - ***Review of capital requirements:*** See "Risk Factors—Risks related to the Issuer's financial situation—Challenges in managing the ANZ New Zealand Group's capital base could give rise to greater volatility in capital ratios, which may adversely affect the ANZ New Zealand Group's Position" and "Supervision and Regulation—New Zealand Regulatory Developments—RBNZ review of capital requirements" for further discussion.
 - ***RBNZ Liquidity Policy:*** The RBNZ's Liquidity Policy ("**BS13**") sets out the RBNZ's policy on management of liquidity risk by registered banks in New Zealand. The objective of BS13 is to contribute to the effective functioning of the New Zealand financial system by reducing the likelihood of a liquidity problem affecting a registered bank. BS13 requires registered banks to meet a minimum core funding ratio ("**CFR**") of 75%, ensuring that at least a minimum proportion of bank funding is met through customer deposits, term wholesale funding and Tier 1 capital. With effect from April 2, 2020, the RBNZ amended ANZ New Zealand's Conditions of Registration to reduce the minimum requirement for ANZ New Zealand's CFR to 50% in response to the COVID-19 pandemic. The RBNZ has previously stated that it will be reviewing its liquidity policy in light of the BCBS's new liquidity requirements. Future changes to liquidity requirements in New Zealand may adversely affect the ANZ New Zealand Group's Position and may result in it incurring substantial costs in order to comply with such changes.
 - ***Review of mortgage bond collateral standards:*** The RBNZ has undertaken consultation on the terms under which it would be prepared to accept mortgage bonds (such as residential mortgage-backed securities or covered bonds) as collateral for its lending operations in the future, and has proposed a new RMO standard. The proposed RMO standard would introduce new requirements that ANZ New Zealand's mortgage bonds would need to comply with in order to be accepted as collateral for the RBNZ's lending operations. Failure to comply with the new requirements would result in ANZ New Zealand's mortgage bonds not being treated as eligible collateral, which may adversely affect the ANZ New Zealand Group's Position. Compliance with the new RMO standard would also involve compliance costs for the ANZ New Zealand Group. See "Supervision and Regulation—New Zealand Regulatory Developments—RBNZ review of mortgage bond collateral standards" for further discussion.
 - ***RBNZ regulatory approach:*** The RBNZ announced in June 2019 that it would intensify its supervision of financial institutions (including ANZ New Zealand). The RBNZ indicated that financial institutions could expect more intrusive supervision, including more reviews, a deeper scrutiny of boards and management, and enforcement action in cases of non-compliance. Such changes could result in an increase in the nature and scale of regulatory investigations and

reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators against financial institutions (such as ANZ New Zealand). The total costs associated with such reviews and possible exposures remain uncertain.

- *Amendments to the Credit Contracts and Consumer Finance Act 2003 ("CCCFA")*: In December 2019, the New Zealand Parliament passed legislation to amend the CCCFA to better protect vulnerable consumers from irresponsible lending. Those changes will increase New Zealand banks' (including ANZ's) potential liability in the case of non-compliance, which could adversely affect the ANZ New Zealand Group's Position. Some of the CCCFA changes, including new regulations that prescribe lending suitability and affordability assessment processes, will come into force in October 2021. The ANZ New Zealand Group is working to update its systems and processes and expects these changes will increase its compliance costs. See "Supervision and Regulation—New Zealand Regulatory Developments—Amendments to the Credit Contracts and Consumer Finance Act 2003" for further discussion.
- *Changes to Conditions of Registration*: ANZ New Zealand is a registered bank under the Reserve Bank Act and is supervised by the RBNZ. As part of its registration, ANZ New Zealand is subject to Conditions of Registration imposed by the RBNZ. For details of ANZ New Zealand's current Conditions of Registration, see "Supervision and Regulation—Conditions of Registration for ANZ Bank New Zealand Limited". The Conditions of Registration may be changed by the RBNZ at any time, although the RBNZ is required to give ANZ New Zealand notice and consider submissions made by ANZ New Zealand prior to any such change. The ANZ New Zealand Group disclosed a number of instances of non-compliance with its Conditions of Registration in the Half Year Disclosure Statement. See "Supervision and Regulation—Non-compliance with Conditions of Registration." In the event that the RBNZ were to conclude that ANZ New Zealand did not satisfy its Conditions of Registration, sanctions could be imposed on ANZ New Zealand by the RBNZ. This may result in a range of possible consequences, including changes to ANZ New Zealand's Conditions of Registration. The impact of such consequences may adversely affect the ANZ New Zealand Group's Position.
- *Section 95 Reviews*: In July 2019, the RBNZ gave ANZ New Zealand notice under section 95 of the Reserve Bank Act ("Section 95"), requiring ANZ New Zealand to engage an external reviewer to provide reports regarding ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements and the effectiveness of ANZ New Zealand's director attestation and assurance framework. See "Supervision and Regulation—Section 95 reviews" for further information.
- *Changes to IRB accreditation*: ANZ New Zealand has received RBNZ accreditation as an advanced internal rating based ("IRB") approach bank under the principles laid out by the BCBS in respect of Basel III, except for Operational Risk Capital ("ORC"), which is calculated in accordance with BS2A from March 31, 2019. That accreditation is subject to certain requirements which have been incorporated into the current Conditions of Registration. ANZ New Zealand is reviewed by both the RBNZ and APRA in terms of maintaining that accreditation. Changes to ANZ New Zealand's accreditation may adversely affect the ANZ New Zealand Group's Position.
- *Proposed conduct regulations for financial institutions*: Following the establishment of the Australian Royal Commission (as defined below) and the subsequent FMA and RBNZ joint review of conduct and culture in the New Zealand banking sector, the New Zealand Government has introduced a bill to the New Zealand Parliament that would introduce a conduct licensing regime for financial institutions. Under the proposed regime, financial institutions (including registered banks such as ANZ New Zealand) would be licensed by the FMA, and would be required to comply with a fair conduct principle in relation to their customers. Licensed institutions would also be required to establish, implement, maintain and comply with an effective fair conduct program to operationalize the fair conduct principle. As at the date of this Offering Memorandum, it is uncertain what impact the proposals may have on ANZ New Zealand. However, they could result in increased compliance costs and/or liability in the case of non-compliance, which may adversely affect the ANZ New Zealand Group's Position. See "Supervision and Regulation—New Zealand Regulatory Developments—Proposed conduct regulations for financial institutions" for further discussion.
- *New Zealand Government's review of the Reserve Bank Act*: The New Zealand Government has undertaken a review of the Reserve Bank Act. The Government intends to replace the Reserve Bank Act with two separate pieces of legislation – the "Reserve Bank of New Zealand Act" and the "Deposit Takers Act" – which will implement the decisions from this review. As at the date of this Offering Memorandum, it is uncertain what impact the review and subsequent legislative changes may have on the ANZ New Zealand Group. However, changes to the RBNZ's role, powers and supervisory approach, and other changes to the Reserve Bank Act resulting from this review, may impact the ANZ New Zealand Group's Position. See "Supervision and Regulation—New Zealand Regulatory Developments—Review of the Reserve Bank Act" for further discussion, including in-principle decisions that have been made by the New Zealand Government.
- *RBNZ's revised outsourcing policy*: BS11 requires large New Zealand-incorporated banks, such as ANZ New Zealand, to have the legal and practical ability to control and execute outsourced functions. BS11 applies to all new outsourcing arrangements entered into from October 1, 2017. Existing outsourcing arrangements have until October 1, 2023, to transition to full compliance with BS11. A formal program has been established and is responsible for delivering ANZ New Zealand's compliance with BS11, as outlined in its Path-to-Compliance Plan. ANZ New Zealand is incurring substantial costs to comply with the changes. The BS11 requirements form part of ANZ New Zealand's Conditions of Registration. If ANZ New Zealand does not comply with its Conditions of Registration in relation to outsourcing, the RBNZ could take enforcement action. This may result in a range of possible consequences, including imposing further restrictions on ANZ New Zealand's use of outsourcing. The impact of such consequences may adversely affect the ANZ New Zealand Group's Position. See "Supervision and Regulation—New Zealand Regulatory Developments—RBNZ's revised outsourcing policy" for further discussion.
- *RBNZ breach disclosure and reporting regime*: Since January 2021, the RBNZ introduced a new framework for the reporting and publishing of regulatory breaches by banks. The new framework requires a bank to report promptly to the RBNZ when there is a breach or possible breach of a regulatory requirement in a material manner, and report all minor breaches every six months. Actual material breaches will then be published on the RBNZ's website.
- *Open Banking*: Emerging fintechs and banks partnering to develop a framework that provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions in New Zealand may lead to increased competition, which could result in weakening the profitability of banks that are slow to adapt to the changing financial system landscape. At the date of this Offering Memorandum, there is no regulatory requirement to provide third-party financial service providers open access to consumer banking,

transaction, and other financial data held by registered banks in New Zealand. The New Zealand Ministry of Business, Innovation and Employment ("**MBIE**") is undertaking a consultation on a possible Consumer Data Right in New Zealand, and indicated that legislative reform could occur in the future.

Such changes may adversely affect the ANZ New Zealand Group, potentially impacting its corporate structures, businesses, strategies, capital, liquidity, funding and profitability, cost structures, and the cost and access to credit for its customers and the wider economy. This in turn may adversely affect the ANZ New Zealand Group's Position. For further information, see "*Supervision and Regulation—New Zealand Regulatory Developments*".

In response to the COVID-19 pandemic, the RBNZ delayed the start date for the increase in bank capital requirements arising from the capital reforms for New Zealand-incorporated banks to 2022. Some aspects of the capital reforms will proceed during 2021, including the new eligibility criteria for capital instruments. The conclusion of the transition period is July 1, 2028. The RBNZ has also extended the BS11 transition period to October 1, 2023, and there have been delays to the commencement of the CCLA Act.

Australian Developments

- *Australian Royal Commission:* The Royal Commission into misconduct in the Australian banking, superannuation and financial services industries (the "**Australian Royal Commission**") made 76 recommendations concerning law reform, self-regulatory standards and the operations of ASIC and APRA. A number of the recommendations have already been addressed and the Government has stated that it remained focused on completing the implementation of the remaining recommendations. In addition, the Royal Commission has led or may lead to regulators commencing investigations into various financial services entities, including the Group. The recommendations could result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The recommendations may also lead to adjustments in the competitive environment of the Group. The outcomes and total costs associated with these possible exposures and changes remain uncertain and their impact may adversely affect the Group's Position.
- *Financial support:* In August 2019, APRA announced that it will amend APS222 "Associations with Related Entities" to reduce the limits for Australian ADIs' individual entity exposure to related ADIs (or overseas equivalents) from 50% of Level 1 total capital to 25% of Level 1 Tier 1 capital, and aggregate exposures from 150% of Level 1 total capital to 75% of Level 1 Tier 1 capital. As exposures are measured net of capital deductions, the proposed changes to APRA's capital regulations (contained in APS111) will affect the measurement of ADI exposures. The implementation date for these changes has been deferred by APRA to January 1, 2022 (12 month deferral from initial implementation date of January 1, 2021). See "Risk Factors—Risks related to the Issuer's financial situation—Challenges in managing the ANZ New Zealand Group's capital base could give rise to greater volatility in capital ratios, which may adversely affect the ANZ New Zealand Group's Position" and "Supervision and Regulation—Restrictions on ANZBGL's ability to provide financial support."

Other Offshore Developments

Other offshore regulatory developments include:

- changes to financial regulations in the United States (including legislative changes to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") and revisions to its Volcker Rule);
- changes to senior executive accountability in Singapore, Hong Kong and the UK;
- changes to English and European law in connection with Brexit;
- introduction of greater data protection regulations in Europe; and
- implementation of further phases of the initial margin requirements for uncleared over-the-counter ("**OTC**") derivatives in a number of the Relevant Jurisdictions and the requirement that banks prepare for the reform of EURIBOR and SIBOR, and the discontinuation of LIBOR and other such interbank offered rates by transitioning to risk free rates. For more information, see "—The regulation, reform and replacement of benchmark rates could have adverse consequences on the ANZ New Zealand Group's loan products, securities issuances and its capital markets and investment activities".

A failure by the ANZ New Zealand Group to comply with laws, regulations or policies in any of the Relevant Jurisdictions could result in regulatory investigations, legal or regulatory sanctions, financial or reputational loss, litigation, fines, penalties, restrictions on the ANZ New Zealand Group's ability to do business, revocation, suspension or variation of conditions of relevant regulatory licenses or other enforcement or administrative action or agreements (such as enforceable undertakings) that may adversely affect the ANZ New Zealand Group's Position.

The impact of the COVID-19 pandemic on the ANZ New Zealand Group's operations may result in delays to the implementation of regulatory changes or steps required to address commitments made to regulators or publicly. Any delays will be dependent on how regulators choose to adjust the prioritization, timing and deployment of their supervisory mandate or legislative change.

Such failures may also result in the ANZ New Zealand Group being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of any litigation (including class action proceedings) may result in the payment of compensation to third parties and/or further remediation activities. For information in relation to the ANZ New Zealand Group's litigation and contingent liabilities, see "—Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's Position" and Note 13 to the ANZ New Zealand Unaudited Financial Statements (included as part of Annex A to this Offering Memorandum). In jurisdictions where regulatory requirements do not apply directly to the ANZ New Zealand Group, it may nonetheless be indirectly impacted by the regulatory requirements of its ultimate parent company, ANZBGL, or counterparties that are established in, or otherwise subject to the requirements of, those jurisdictions.

Details regarding any material contingent liabilities for ANZ New Zealand and its subsidiaries as at March 31, 2021, are contained in Note 13 to the ANZ New Zealand Unaudited Financial Statements (included as part of Annex A to this Offering Memorandum). Details regarding any material contingent liabilities for ANZ New Zealand and its subsidiaries as at September 30, 2020, are contained in Note 28 to the 2020 ANZ New Zealand Financial Statements (included as part of Annex A to this Offering Memorandum).

As at the date of this Offering Memorandum, it is uncertain what impact any further developments in these areas may have on the ANZ New Zealand Group. However, heightened scrutiny of the financial services industry in New Zealand and Australia (for example, the recent actions taken by New Zealand regulators with respect to certain aspects of the ANZ New Zealand Group's affairs) could lead to enforcement actions and additional costs that could adversely impact the ANZ New Zealand Group's Position.

For more information in relation to the supervision and regulation of ANZ New Zealand, see "Supervision and Regulation".

Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's Position

From time-to-time, the ANZ New Zealand Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities, which may adversely affect its Position. Details regarding the ANZ New Zealand Group's material contingent liabilities as at March 31, 2021, are contained in Note 13 to the ANZ New Zealand Unaudited Financial Statements (included as part of Annex A to this Offering Memorandum). Details regarding the ANZ New Zealand Group's material contingent liabilities as at September 30, 2020, are contained in Note 28 to the 2020 ANZ New Zealand Financial Statements (included as part of Annex A to this Offering Memorandum).

In recent years, there has been an increase in the number of matters on which the ANZ New Zealand Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in New Zealand and globally. The ANZ New Zealand Group has received various notices and requests for information from its regulators as part of both industry-wide and ANZ New Zealand Group-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide-ranging and, for example, may include a range of matters including responsible lending practices, regulated lending requirements, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

There is a risk that contingent liabilities may be larger than anticipated or that additional litigation, regulatory actions, legal or arbitration proceedings or other contingent liabilities may arise.

Significant fines and sanctions in the event of breaches of law or regulation relating to anti-money laundering, counter-terrorism financing and sanctions may adversely affect the ANZ New Zealand Group's Position

Anti-money laundering, counter-terrorism financing ("AML/CTF") and sanctions compliance have been the subject of significant regulatory change and enforcement in recent years. The increasingly complicated environment in which the ANZ New Zealand Group operates has heightened these operational and compliance risks. Furthermore, the increased transparency of the outcomes of compliance breaches by financial institutions both domestically and globally and the related fines and settlement sums mean that these risks continue to be an area of focus for the ANZ New Zealand Group. The RBNZ has stated that its appetite for taking formal enforcement action for breaches of the New Zealand Anti-Money Laundering and Countering Financing of Terrorism Act 2009 has increased.

While the COVID-19 pandemic continues to evolve at different paces in many of the jurisdictions in which the ANZ Group operates, close monitoring of the levels and types of financial crimes continues across the ANZ New Zealand Group. To date, the most notable impact has been the changing types of scams with criminals targeting vulnerable customers using COVID-19 as a cover, as well as identity theft and false applications for Government support. There is a continuing risk that the management of alerts for potential money laundering or terrorism financing activities may be slowed due to both resource availability and/or changed working arrangements.

The risk of non-compliance with AML/CTF and sanction laws remains high given the scale and complexity of the ANZ New Zealand Group. Emerging technologies, such as virtual currency issuers/exchangers and wallet providers as well as increasingly complex remittance arrangements via fintechs and other disruptors, may limit the ANZ New Zealand Group's ability to track the movement of funds, develop relevant transaction monitoring, and meet reporting obligations. Additionally, the complexity of the ANZ New Zealand Group's technology, and the increasing frequency of changes to systems that play a role in AML/CTF and sanctions compliance puts the ANZ New Zealand Group at risk of inadvertently failing to identify an impact on the systems and controls in place. A failure to operate a robust program to report the movement of funds, combat money laundering, terrorism financing and other serious crimes, may have serious financial, legal and reputational consequences for the ANZ New Zealand Group and its employees.

Consequences can include fines, criminal and civil penalties, civil claims, reputational harm and limitations on doing business in certain jurisdictions. These consequences, individually or collectively, may adversely affect the ANZ New Zealand Group's Position. The ANZ Group's foreign operations may place the ANZ Group under increased scrutiny by regulatory authorities, and subject the ANZ Group, including ANZ New Zealand, to increased compliance costs.

Changes in monetary policies may adversely affect the ANZ New Zealand Group's Position

Central monetary authorities (including the RBNZ, the Reserve Bank of Australia ("RBA"), the U.S. Federal Reserve, the Bank of England and the monetary authorities in the Asian jurisdictions in which the ANZ New Zealand Group operates) set official interest rates or take other measures to affect the demand for money and credit in their relevant jurisdictions. In addition, in some jurisdictions, currency policy is also used to influence general business conditions and the demand for money and credit. These measures and policies can significantly affect the ANZ New Zealand Group's cost of funds for lending and investing and the return that it will earn on those loans and investments. These factors impact the ANZ New Zealand Group's net interest margin and can affect the value of financial instruments it holds, such as debt securities and hedging instruments. The measures and policies of the central monetary authorities can also affect the ANZ New Zealand Group's borrowers, potentially increasing the risk that they may fail to repay loans.

Many central monetary authorities have actively reduced official interest rates in jurisdictions in which the ANZ New Zealand Group operates, and are considering implementing or expanding the use of unconventional monetary policies. Central banks worldwide, including the RBNZ, RBA and the U.S. Federal Reserve, cut interest rates during 2019 in response to slowing

economic growth and again during 2020 in response to emerging risks to growth from COVID-19. In March 2020, the RBNZ cut the New Zealand Official Cash Rate to the historic low rate of 0.25% in response to the significant effect of the COVID-19 pandemic on the New Zealand economy. Low or negative interest rates would likely put pressure on the ANZ New Zealand Group's interest margins and adversely affect the ANZ New Zealand Group's Position.

The New Zealand Government has undertaken a review of the Reserve Bank Act. The first phase of the review resulted in the enactment of the Reserve Bank of New Zealand (Monetary Policy) Amendment Act 2018, which came into force on April 1, 2019. This Act made several changes to New Zealand's monetary policy framework, including establishing a Monetary Policy Committee ("MPC") to formulate monetary policy, and amending the RBNZ's monetary policy objectives to require consideration of maximum sustainable employment alongside price stability when making monetary policy decisions. The second phase of the review has resulted in a decision to replace the Reserve Bank Act with two separate pieces of legislation – the "Reserve Bank Act" and the "Deposit Takers Act". Actions and policies of the RBNZ specified in the Reserve Bank Act and other changes to the Reserve Bank Act may impact the ANZ New Zealand Group's Position. As at the date of this Offering Memorandum, it is uncertain what impact the review of the Reserve Bank Act and subsequent legislative reforms may have on the ANZ New Zealand Group. See "Supervision and Regulation—New Zealand Regulatory Developments—Review of the Reserve Bank Act" for further discussion.

Changes in interest rates and monetary policy are difficult to predict and may adversely affect the ANZ New Zealand Group's Position.

Increasing compliance costs, the risk of heightened penalties and ongoing regulatory scrutiny with respect to the significant obligations imposed by global customer tax transparency regimes (which are still evolving) may adversely affect the ANZ New Zealand Group's Position

There have been mandatory and substantial changes to, and increasing regulatory focus on, compliance by all global Financial Institutions ("FIs"), including the ANZ New Zealand Group, with global tax transparency regimes, including the U.S. Foreign Account Tax Compliance Act ("FATCA"), the OECD's Common Reporting Standard ("CRS") and similar anti-tax avoidance regimes. This includes enforcement and implementation of detailed rules and frameworks to close down circumventions and deter, detect and penalize non-compliance.

As an in scope FI, the ANZ New Zealand Group operates in a globally interlinked operating environment. In this context, the highly complex and rigid nature of the obligations under the various present heightened operational and compliance risks for the ANZ New Zealand Group. This may be coupled with increased regulatory scrutiny of FIs (including the ANZ New Zealand Group) increasing trends in compliance breaches by FIs and related fines for non-compliance in general. Accordingly, compliance with global customer tax transparency regimes will continue to be a key area of focus for the ANZ New Zealand Group.

Ongoing OECD Government level peer reviews and regulatory FI compliance reviews continue to increase the scrutiny on FIs, resulting in further tightening of existing obligations and focus on CRS compliance. Each country of adoption is being pushed by the OECD to ensure its penalty regime is sufficient to deter and penalize non-compliance.

Under FATCA and other U.S. Treasury regulations, the ANZ New Zealand Group could be subject to:

- a 30% withholding tax on certain amounts (including amounts payable to customers), and be required to provide certain information to upstream payers, as well as other adverse consequences, if the ongoing detailed obligations are not adequately met; and
- broader compliance issues, significant withholding exposure, competitive disadvantage and other operational impacts if the FATCA Intergovernmental Agreements ("IGAs") between the U.S. and the applicable jurisdictions in which the ANZ New Zealand Group operates cease to be in effect.

Under the CRS the ANZ New Zealand Group:

- faces challenges in developing countries where the ANZ Group has operations, such as the Pacific region. The local regulators in these countries are generally assisted by a 'partner' country which may introduce standards that can be challenging to implement;
- must deal with considerable country specific variations in local law and regulatory implementation, with significant local regulatory penalties for non-collection or failed reporting in respect of prescribed customer information; and
- along with other FIs, is under increasingly stringent regulatory scrutiny and measures as regulators turn their focus from the initial establishment of the CRS to its effective implementation. This tightening of the regulatory focus can lead to significant negative experience for affected customers (including unilateral account blocking and closure), may adversely affect the ANZ New Zealand Group's Position and if not similarly implemented by other FIs, may present a significant competitive disadvantage.

The scale and complexity of the ANZ New Zealand Group, like other FIs, means that the risk of inadvertent non-compliance with the FATCA, CRS and other tax reporting regimes is high. A failure to successfully operate the implemented processes could lead to legal, financial and reputational consequences for the ANZ New Zealand Group and its employees. Consequences include fines, criminal and civil penalties, civil claims, reputational harm, competitive disadvantage, loss of business and constraints on doing business.

On a global scale, COVID-19 challenges have resulted in limited staff access to systems, tools and information, and have impacted on the delivery of regulatory obligations to requisite timeframes, including mandatory FATCA and CRS regulatory reporting, customer follow-up strategies, resolution and action of regulatory recommendations, as well as continuous improvement activities required to achieve the zero rate of error expected by regulators. The ANZ New Zealand Group's global taxation obligations in relation to the enterprise's own tax lodgments and payments may similarly be impacted. While some level of leniency from global regulators is anticipated, there is still an increasing risk of additional regulatory scrutiny, associated penalties and reputational ramifications resulting from any deficiencies or delays in meeting regulatory obligations to the level of quality and within the timeframes required.

These consequences, individually or collectively, may adversely affect the ANZ New Zealand Group's Position.

Internal control, operations and reputational risk

Operational risk events may adversely affect the ANZ New Zealand Group's Position

Operational risk is the risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people and/or systems, but excludes strategic risk.

Operational risk categories include but are not limited to:

- internal fraud (for example, involving employees or contractors);
- external fraud (for example, fraudulent loan applications or ATM skimming);
- employment practices, loss of key staff, inadequate workplace safety and failure to effectively implement employment policies;
- impacts on clients, products and business practices (for example, misuse of customer data or anti-competitive behavior);
- business disruption (including systems failures);
- reputational risk (see risk factor "Reputational risk events as well as operational failures and regulatory compliance failures may give rise to reputational risk, which may adversely affect the ANZ New Zealand Group's Position");
- cyber risk (see risk factors "Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt the ANZ New Zealand Group's business, which may adversely affect the ANZ New Zealand Group's Position" and "Risks associated with information security including cyber-attacks, may adversely affect the ANZ New Zealand Group's Position");
- conduct and culture risks (see risk factor "Conduct risk events may adversely affect the ANZ New Zealand Group's Position");
- damage to physical assets; and
- execution, delivery and process management (for example, processing errors or data management failures).

Loss from operational risk events may adversely affect the ANZ New Zealand Group's Position. Such losses can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, reputation loss, loss of life or injury to people, and loss of property and/or information.

COVID-19 challenges have resulted in a number of changes in terms of how the ANZ New Zealand Group is undertaking its operations. The ANZ New Zealand Group's focus was to enable a work from home capability to allow all functions to continue to operate normally. However, no assurance can be given that the steps being taken will be adequate, nor can the ANZ New Zealand Group predict the level of disruption which may occur. The decision to move the majority of staff to work from home required some updates to existing systems to support a significantly higher volume of users than had previously been planned. The number of staff working from home continues to vary in line with changing circumstances and associated government restrictions.

Greater reliance on digital channels for our staff and customers does however create heightened risk associated with Cyber related attacks and the impact those attacks might have on our systems and service availability. This risk relates to ANZ owned technology assets as well as technology owned by critical third party suppliers and critical services on which we rely, such as telecommunications operators.

Other challenges that the ANZ New Zealand Group may face include:

- limited staff access to systems, tools and information, and/or impact on the delivery of customer services and regulatory obligations to requisite timeframes, including the day to day operations of the institution, financial reporting, management and oversight of internal controls, and resolution and action of regulatory recommendations; and
- ensuring on-going availability of staff to undertake their requisite activities that may result from loss of physical access to branches or offices or due to health related issues.

All or any of the impacts described above may cause a reduction in productivity or delays in completing important activities or increased regulatory scrutiny, which could subsequently result in customer remediation activities, or fines, all of which may adversely affect the ANZ New Zealand Group's Position.

Reputational risk events as well as operational failures and regulatory compliance failures may give rise to reputational risk which may adversely affect the ANZ New Zealand Group's Position

Reputational risk may arise as a result of an external event or the ANZ New Zealand Group's actual or perceived actions and practices, which include operational and regulatory compliance failures. The occurrence of such events may adversely affect perceptions about the ANZ New Zealand Group held by the public (including the ANZ New Zealand Group's customers), shareholders, investors, regulators or rating agencies. The impact of a risk event on the ANZ New Zealand Group's reputation may exceed any direct cost of the risk event itself and may adversely impact the ANZ New Zealand Group's Position.

The ANZ New Zealand Group may incur reputational damage where one of its practices fails to meet community expectations. As these expectations may exceed the standard required in order to comply with applicable law, the ANZ New Zealand Group may incur reputational damage even where it has met its legal obligations. A divergence between community expectations and the ANZ New Zealand Group's practices could arise in a number of ways, including in relation to its product and services disclosure practices, pricing policies and use of data. Further, the ANZ New Zealand Group's reputation may also be adversely affected by community perception of the broader financial services industry.

While impacts of COVID-19 are ongoing, and the longer-term financial and non-financial effects are yet to be fully realized, it is possible there may be unintended consequences from the ANZ New Zealand Group's actions which may give rise to negative perceptions about the ANZ New Zealand Group.

Additionally, certain operational and regulatory compliance failures or perceived failures, may give rise to reputational risk. Such operational and regulatory compliance failures include, but are not limited to:

- failure to comply with the ANZ New Zealand Group's Conditions of Registration (for example, see "Supervision and Regulation—Section 95 Reviews" and "Supervision and Regulation—Non-compliance with Conditions of Registration");
- failures related to fulfilment of identification obligations;
- failures related to new product development;
- failures related to ongoing product monitoring activities;
- failures related to suitability requirements when products are sold outside of the target market;
- market manipulation or anti-competitive behavior;
- failure to comply with disclosure obligations;
- inappropriate crisis management/response to a crisis event;
- inappropriate handling of customer complaints;
- inappropriate third party arrangements;
- privacy breaches; and
- unexpected risks (e.g., credit, market, operational or compliance).

Damage to the ANZ New Zealand Group's reputation may have wide-ranging impacts, including adverse effects on its profitability, capacity and cost of funding, increased regulatory scrutiny, regulatory enforcement actions, additional legal risks and availability of new business opportunities. The ANZ New Zealand Group's ability to attract and retain customers could also be adversely affected if its reputation is damaged, which may adversely affect the ANZ New Zealand Group's Position.

Contagion and reputational risk events may adversely affect the ANZ New Zealand Group's Position and ability to access the capital markets on favorable terms

As the ANZ New Zealand Group is part of a larger business group, the ANZ New Zealand Group is vulnerable to financial and reputational damage by virtue of its association with other members of the ANZ Group, any of which may suffer the occurrence of a risk event. In the case of the ANZ New Zealand Group, the damage may be financial and may materially impact its results if financial resources are withdrawn by ANZBGL to support the ANZ New Zealand Group or another member of the ANZ Group. Reputational risk may also arise as a result of a contagion event or as a result of the ANZ New Zealand Group's own actions. The reputational consequences (including damage to the ANZ Group franchise) of the occurrence of a risk event, for example a major operational failure or litigation, may exceed the direct cost of the risk event itself and may have a material impact on the ANZ New Zealand Group's Position.

In June 2018, the Commonwealth Director of Public Prosecutions (the "CDPP") commenced criminal proceedings in Australia against ANZBGL and a senior employee alleging that they were involved in cartel conduct by the joint lead managers of ANZBGL's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. ANZBGL and its senior employee are defending the allegations. The trial is currently scheduled to start in April 2022.

In September 2018, ASIC commenced civil penalty proceedings against ANZBGL alleging failure to comply with continuous disclosure obligations in connection with ANZBGL's August 2015 underwritten institutional equity placement. ASIC alleges ANZBGL should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. ANZBGL is defending the allegations.

As a member of the ANZ Group, any impact on the ANZ Group that arises as a result of the CDPP or the ASIC proceedings, including any negative impact on the ANZ Group's credit ratings, may adversely affect the ANZ New Zealand Group's credit ratings, the ANZ New Zealand Group's Position and its ability to access the capital markets on favorable terms.

Conduct risk events may adversely affect the ANZ New Zealand Group's Position

The ANZ New Zealand Group defines conduct risk as the risk of loss or damage arising from the failure of its business, its employees or agents to appropriately consider the interests of consumers, the integrity of the financial markets, and the expectations of the community in conducting the ANZ New Zealand Group's business activities.

Conduct risks include:

- the provision of unsuitable or inappropriate advice to customers;
- the representation of, or disclosure about, a product or service which is inaccurate, or does not provide adequate information about risks and benefits to customers;
- a failure to deliver product features and benefits in accordance with terms, disclosures, recommendations and/or advice;
- a failure to appropriately avoid or manage conflicts of interest;
- inadequate management of complaints or remediation processes;
- a failure to respect and comply with duties to customers in financial hardship; and
- unauthorized trading activities in financial markets, in breach of the ANZ New Zealand Group's policies and standards.

There has been an increasing regulatory and community focus on conduct risk globally and in particular, in New Zealand and Australia. The ANZ New Zealand Group has a centralized and dedicated team tasked with undertaking a variety of customer remediation programs, including to address specific conduct issues identified in ANZ New Zealand Group reviews. Conduct risk events may expose the ANZ New Zealand Group to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences that may adversely affect the ANZ New Zealand Group's Position. It is possible that remediation programs may not be implemented appropriately or may lead to further remediation work being required,

resulting in litigation, regulatory action and/or increasing cost to the ANZ New Zealand Group, all of which may adversely affect the ANZ New Zealand Group's Position.

The COVID-19 pandemic has resulted in more employees working remotely which may impact employee behavior and/or Group systems and processes, and may adversely impact our customers, or market integrity, or increase the risk that we fail to live up to community expectations. As the economy begins to recover and government or company-imposed COVID-19 measures are eliminated, individual customers still enduring hardship may suffer detriment if the ANZ New Zealand Group cannot provide support based on individual circumstances.

The COVID-19 pandemic has resulted in more employees working remotely, which may impact employee behavior, and/or ANZ New Zealand Group systems and processes, which in turn may result in customer detriment, impact market integrity, or cause the ANZ New Zealand Group to fail to live up to community expectations. As the economy begins to recover post COVID-19, reducing the need for sweeping loan deferrals, there is a risk that individual customers still enduring hardship may suffer detriment if the ANZ New Zealand Group cannot provide support based on individual circumstances.

For further discussion of the increasing regulatory focus on conduct risk, see "—Legal and regulatory risk—Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's Position", "—Legal and regulatory risk—Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's Position" and "Supervision and Regulation—New Zealand Regulatory Developments—FMA and RBNZ conduct and culture review."

Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt the ANZ New Zealand Group's business, which may adversely affect the ANZ New Zealand Group's Position

The ANZ New Zealand Group's day-to-day activities and its service offerings (including digital banking) are highly dependent on information technology ("IT") systems. Disruption of IT systems, or the services the ANZ New Zealand Group uses or is dependent upon, may result in the ANZ New Zealand Group failing to meet its compliance obligations and/or customers' banking requirements.

The frequency and magnitude of threats to the ANZ New Zealand Group's IT systems from cyber-attacks are increasing and continuously evolving. Cyber-attacks against organizations can range from attacks from single private individuals up to state owned attacks, which are generally much more sophisticated. While the ANZ New Zealand Group has implemented policies and procedures designed to protect against cyber-attacks, it may not be able to anticipate or implement effective measures to prevent or minimize disruptions including those caused by, among other things, cyber-attacks due to well-resourced perpetrators using highly sophisticated and/or novel techniques.

The ANZ New Zealand Group has an ongoing obligation to maintain its IT systems, to identify, assess and respond to risk exposures caused by the use of technology including IT asset lifecycle, IT asset project delivery, technology resilience, technology security, use of third parties, data retention/restoration or business rules and automation. Inadequate responses to these risk exposures could lead to unstable or insecure systems or a decrease in the ANZ New Zealand Group's ability to service its customers, increased costs, and non-compliance with regulatory requirements, which may adversely affect the ANZ New Zealand Group's Position. As an example, in response to the COVID-19 pandemic, more of the ANZ New Zealand Group's staff and third party contractors are required to work remotely or from alternative work sites, which has put additional stress on the ANZ New Zealand Group's productivity and remote access to systems.

The ANZ New Zealand Group has disaster recovery and business continuity measures in place to ensure that critical IT systems will continue to operate during both short-lived and prolonged disruption events. However, COVID-19 has highlighted that these arrangements must cater for vast and improbable events, like a global pandemic, and ensure critical information systems can be supported and accessed by a large number of multi-jurisdictional technology and business users for extended periods. If such measures cannot be effectively implemented, then this may adversely affect the ANZ New Zealand Group's Position.

In addition, ANZ New Zealand Group relies on ANZBGL to provide a number of IT systems. A failure of the ANZ Group's systems may affect the ANZ New Zealand Group, which may in turn, adversely affect the ANZ Group's Position.

Risks associated with information security including cyber-attacks, may adversely affect the ANZ New Zealand Group's Position

The primary focus of information security is to protect information and technology systems from disruptions to confidentiality, integrity or availability. As a bank, the ANZ New Zealand Group handles a considerable amount of personal and confidential information about its customers and its own internal operations, from the multiple geographies in which the ANZ New Zealand Group operates. This information is processed and stored on both internal and third party hosted environments. Any failure of security controls operated by the ANZ New Zealand Group or its third parties could adversely affect the ANZ New Zealand Group's business.

The risks to systems and information are inherently higher in certain countries where, for example, political threats or targeted cyber-attacks by terrorist or criminal organizations are greater.

The ANZ New Zealand Group is conscious that cyber threats, such as advanced persistent threats, distributed denial of service, malware and ransomware, are continuously evolving, becoming more sophisticated and increasing in volume. The COVID-19 pandemic has increased the number of staff working offsite for an extended period which may increase information security risks to the ANZ New Zealand Group. Cyber criminals may attempt to take advantage through pursuing exploits in end point security, spreading malware, and increasing phishing attempts.

Additionally, failures in ANZ New Zealand Group's cybersecurity policies, procedures or controls, could result in loss of data or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these events could result in significant financial losses (including costs relating to notification of, or compensation for customers), regulatory investigations or sanctions, or may affect the ANZ New Zealand Group's ability to retain and attract customers, and thus may adversely affect the ANZ New Zealand Group's Position.

Environmental, social and governance risks

Impact of future climate events, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the ANZ New Zealand Group's Position

The ANZ New Zealand Group and its customers are exposed to climate-related events. These events include severe storms, drought, fires, cyclones, hurricanes, floods and rising sea levels. The ANZ New Zealand Group and its customers may also be exposed to other events such as geological events (including volcanic or seismic activity or tsunamis), plant, animal and human diseases or a pandemic such as COVID-19, which is causing significant impacts on the ANZ New Zealand Group's operations and its customers. The COVID-19 pandemic has resulted in a widespread health crisis that could continue to adversely affect the economies and financial markets of many countries, including New Zealand, resulting in an economic downturn that could affect the ANZ New Zealand Group and its customers. See "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the ANZ New Zealand Group's Position" for further details regarding the different impacts from COVID-19.

Examples of geological events are the major earthquakes in the Canterbury (September 2010 and February 2011) and Kaikoura (November 2016) areas. A reduction in the value of New Zealand residential and commercial property (including the ability to insure property that could result in a reduction in the security values) as a result of geological events could increase provisioning and lending losses, which would adversely affect the ANZ New Zealand Group's Position.

Depending on their frequency and severity, these extrinsic events may continue to interrupt or restrict the provision of some local services, such as the ANZ New Zealand Group's branches or business centers, and may also adversely affect its financial condition or collateral position in relation to credit facilities extended to customers, which in turn may adversely affect the ANZ New Zealand Group's Position.

The ANZ New Zealand Group's risk management framework may fail to manage all existing risks appropriately or detect new and emerging risks fast enough, which could adversely affect the ANZ New Zealand Group's Position

Risk management is an integral part of all of the ANZ New Zealand Group's activities and includes the identification and monitoring of the ANZ New Zealand Group's risk appetite and reporting on the ANZ New Zealand Group's risk exposure and effectiveness of identified controls. However, there can be no assurance that the ANZ New Zealand Group's risk management framework will be effective in all instances including in respect of existing risks, or new and emerging risks that the ANZ New Zealand Group may not anticipate or identify in a timely manner and/or for which its controls may not be effective. Failure to manage risks effectively could adversely impact the ANZ New Zealand Group's reputation or compliance with regulatory obligations.

The effectiveness of the ANZ New Zealand Group's risk management framework is also connected to the establishment and maintenance of a sound risk management culture, which is supported by appropriate remuneration structures. A failure in designing or effectively implementing appropriate remuneration structures, could have an adverse impact on the ANZ New Zealand Group's risk culture and effectiveness of its risk management frameworks.

The ANZ New Zealand Group seeks to continuously improve its risk management frameworks. It has implemented, and regularly reviews, its risk management policies and allocates additional resources across the ANZ New Zealand Group to manage and mitigate risks (including conduct risk). However, such efforts may not insulate the ANZ New Zealand Group from future instances of misconduct and no assurance can be given that its risk management framework will be effective. A failure in the ANZ New Zealand Group's risk management processes or governance could result in it suffering unexpected losses and reputation damage, and failing to comply with regulatory obligations, which could adversely affect the ANZ New Zealand Group's Position.

While these principles still continue to underpin the ANZ New Zealand Group's risk management framework, the ongoing COVID-19 pandemic requires the ANZ New Zealand Group to continue to maintain good practices and a robust risk management framework as its operational activities continue to evolve to manage the impacts of the pandemic both to its workforce and customers. In these circumstances, a failure in the ANZ New Zealand Group's risk management processes or governance could adversely affect the ANZ New Zealand Group's Position.

Risks associated with lending to customers that could be directly or indirectly impacted by climate risk may adversely affect the ANZ New Zealand Group's Position

The risks associated with climate change are subject to increasing regulatory, political and societal focus. Embedding climate change risk into the ANZ New Zealand Group's risk management framework in line with expectations, and adapting the ANZ New Zealand Group's operation and business strategy to address both the risks and opportunities posed by climate change and the transition to a low carbon economy, could have a significant impact on the ANZ New Zealand Group.

The ANZ New Zealand Group's most material climate-related risks result from its lending to business and retail customers, including credit-related losses incurred as a result of a customer being unable or unwilling to repay debt, or impacting the value and liquidity of collateral.

The risk to the ANZ New Zealand Group through credit-related issues with its customers could result directly from climate-related events, and indirectly from changes to laws, regulations, or other policies such as carbon pricing and climate risk adaptation or mitigation policies, which may impact the customer's supply chain. This may result in credit-related losses as a result of the customer being unable or unwilling to repay debt, which may adversely affect the ANZ New Zealand Group's Position.

Risks relating to the Notes

Investors may be subject to loss of some or all of their investment if any Obligor is subject to bankruptcy or insolvency proceedings or some other event occurs which impairs the ability of the Obligor to meet its obligations under the Notes. An investor may also lose some or all of its investment if it seeks to sell the relevant Notes prior to their scheduled maturity and the sale price of the Notes in the secondary market is less than the initial investment or the relevant Notes are subject to certain adjustments in accordance with the terms and conditions of such Notes that may result in the scheduled amount to be paid upon redemption being reduced to or being valued at an amount less than an investor's initial investment.

Risks related to the nature of all Notes which may be issued under this program

Modification and waivers and substitution bear certain risks

The terms of the Notes contain provisions for holders to provide written consent and for the calling of meetings of holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders including holders who did not consent or who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Accordingly, holders are exposed to the risk that their rights in respect of the Notes are varied against their will, which may result in their investment in the Notes becoming less advantageous to a particular holder depending on their individual circumstances.

Because the Fiscal Agency Agreement contains no limit on the amount of additional debt that the ANZ New Zealand Group may incur, the ability to make timely payments on the Notes may be affected by the amount and terms of the ANZ New Zealand Group's future debt

The ability of the ANZ New Zealand Group to make timely payments on its outstanding debt may depend on the amount and terms of its other obligations, including any outstanding Notes. The Fiscal Agency Agreement does not contain any limitation on the amount of indebtedness that the ANZ New Zealand Group may incur in the future. As each of the Issuers issue additional Notes under the Fiscal Agency Agreement or the ANZ New Zealand Group incurs other indebtedness, unless the ANZ New Zealand Group's earnings grow in proportion to its debt and other fixed charges, its ability to service the Notes on a timely basis may become impaired.

The Notes' credit ratings may not reflect all risks of an investment in the Notes

The credit ratings of the Notes may not reflect the potential impact of all risks related to structure and other factors on any trading market for, or trading value of, the Notes. In addition, real or anticipated changes in the credit ratings of the Notes will generally affect any trading market for, or trading value of, the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency. Each rating should be evaluated independently of any other information. Accordingly, an investor may suffer losses if the credit rating assigned to any Notes does not reflect the true creditworthiness of such Notes.

Risks relating to insolvency and similar proceedings in New Zealand

In the event that an Issuer becomes insolvent, insolvency proceedings will generally be governed by New Zealand law. Investors should be aware that New Zealand insolvency laws are different from the insolvency laws in other jurisdictions. In particular, the voluntary administration procedure under the New Zealand Companies Act 1993 and the statutory management regimes under the Corporations (Investigation and Management) Act 1989 ("**CIM Act**") and the Reserve Bank Act, differ significantly from similar provisions under the insolvency laws of other jurisdictions.

Pursuant to the Reserve Bank Act, the RBNZ may give a registered bank, which includes ANZ New Zealand, or an associated person a direction in writing and/or place the registered bank under statutory management in certain circumstances, including where the RBNZ has reasonable grounds to believe that the registered bank or the associated person is insolvent or is likely to become insolvent. As a corporation, ANZNIL may be placed into statutory management in similar circumstances under the CIM Act. A registered bank, such as ANZ New Zealand, can also be placed into statutory management if it fails to comply with a direction given by the RBNZ. Where a corporation is declared to be subject to statutory management, a moratorium will apply and no person shall commence any action or other proceedings against that corporation. Accordingly, holders may be prevented from enforcing rights in connection with the Notes where ANZ New Zealand and/or ANZNIL have been placed into statutory management.

If ANZ New Zealand were placed under statutory management, holders may be further restricted in enforcing their rights against ANZ New Zealand due to Open Bank Resolution ("**OBR**"). OBR is an RBNZ policy option aimed at resolving a bank failure quickly, including by suspending payment of a portion of liabilities so the bank can be promptly reopened for business, consequently minimizing stresses on the overall banking and payments system. Under the RBNZ's Conditions of Registration for registered banks, New Zealand-incorporated registered banks with retail deposits over NZ\$1 billion (which includes ANZ New Zealand) are required to comply with the OBR Pre-positioning Requirements Policy ("**BS17**"), which describes the process and requirements for banks.

In addition, to the extent that the holders are entitled to any recovery with respect to the Notes in any bankruptcy or certain other events in bankruptcy, insolvency, dissolution or reorganization relating to an Issuer, those holders might be entitled only to a recovery in New Zealand dollars.

Risks related to particular types of all Notes which may be issued under this program

Fixed/Floating Rate Notes bear certain risks

Fixed/floating rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the fixed/floating rate Notes may be less favorable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Floating Rate Notes with caps or floors bear certain risks

Floating Rate Notes can be volatile investments. If they are structured to include caps or floors, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes with caps or floors bear certain risks

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Redemption prior to maturity may adversely affect the return on the Notes

If the relevant Issuer is obligated to pay additional amounts on the Notes or, in the case of the ANZNIL Notes, ANZ New Zealand is obligated to pay additional amounts under the Guarantee, the relevant Issuer may redeem the Notes. The applicable Final Terms may specify that the Notes are redeemable at the option of the relevant Issuer. A redemption feature is likely to limit the market value of Notes. During any period in which the relevant Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The relevant Issuer may choose to redeem the Notes at times when prevailing interest rates are lower than the interest rate on the Notes. In addition, if the Notes are subject to mandatory redemption, the relevant Issuer may be required to redeem the Notes at times when prevailing interest rates are lower than the interest rate on the Notes. As a result, an investor generally will not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate equal to or higher than that applicable to the Notes being redeemed. Investors should consider reinvestment risk in light of other investments available at that time.

Notes issued at a substantial discount or premium bear certain risks

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities. Accordingly, investors in any Notes issued at a discount or premium are exposed to interest rate volatility and may suffer a greater loss on their investment compared to an investor in other interest-bearing debt securities.

The interest rate of Fixed Rate Notes may be reset

The Final Terms in respect of Fixed Rate Notes may specify one or more reset dates in respect of Fixed Rate Notes (each a “**Fixed Rate Reset Date**”), in which case the interest rate for such Fixed Rate Notes will be reset on each Fixed Rate Reset Date, such that from (and including) the relevant Fixed Rate Reset Date, the applicable per annum interest rate will be equal to the interest rate on the applicable Reset Determination Date plus the Reset Spread, each as specified in the applicable Final Terms. The interest rate following a Fixed Rate Reset Date may be less than the initial or prior interest rate, which could affect the amount of interest to be paid on the relevant Fixed Rate Notes and, as a result, the market value of such Notes.

An increase in market interest rates could result in a decrease in the value of a Fixed Rate Note

In general, as market interest rates rise, Notes bearing interest at a fixed rate decline in value because the premium, if any, over market interest rates will decline. For example, if an investor purchases a Fixed Rate Note and market interest rates increase, the market values of such Fixed Rate Note may decline. Consequently, a rise in market interest rates may adversely impact the value of and market for Notes which bear a fixed rate of interest.

Notes denominated or payable in or linked to a non-U.S. dollar currency are subject to exchange rate and exchange control risks

Investors in a non-U.S. dollar Note will be subject to significant risks not associated with an investment in a Note denominated and payable in U.S. dollars, including the possibility of material changes in the exchange rate between U.S. dollars and the applicable foreign currency and the imposition or modification of exchange controls by the applicable governments. The Issuers have no control over the factors that generally affect these risks, including economic, financial and political events and the supply and demand for the applicable currencies. Moreover, if payments on non-U.S. dollar Notes are determined by reference to a formula containing a multiplier or leverage factor, the effect of any change in the exchange rates between the applicable currencies will be magnified. In recent years, exchange rates between certain currencies have been highly volatile and volatility between these currencies or with other currencies may be expected in the future. Fluctuations between currencies in the past are not necessarily indicative, however, of fluctuations that may occur in the future. Depreciation of an investor's payment currency would result in a decrease in the U.S. dollar equivalent yield of such investor's non-U.S. dollar Notes, in the U.S. dollar equivalent value of the principal and any premium payable at maturity or any earlier redemption of such non-U.S. dollar Notes and, generally, in the U.S. dollar equivalent market value of such non-U.S. dollar Notes.

Governmental exchange controls could affect exchange rates and the availability of the payment currency for non-U.S. dollar Notes on a required payment date. Even if there are no exchange controls, it is possible that the payment currency will not be available on a required payment date due to circumstances beyond the relevant Issuers control. In these cases, the relevant Issuer (and the Guarantor in the case of Notes issued by ANZNIL) will be allowed to satisfy its obligations in respect of non-U.S. dollar Notes in U.S. dollars or delay payment. See “Description of the Notes and the Guarantee—Currency of Notes” and “Considerations Relating to Notes Denominated or Payable in or Linked to a Non-U.S. dollar Currency” for further discussion of these risks.

Uncertainty relating to the LIBOR calculation process, including the phasing out of LIBOR after 2021, and proposals to reform other benchmark indices may adversely affect the yield on or value of the Notes

The London Inter-Bank Offered Rate (“**LIBOR**”) and other benchmark indices are the subject of recent national, international and other regulatory guidance and proposals for reform. The implementation of such reforms and consequential changes to benchmark indices may cause such indices to perform differently than in the past, which could have a material adverse effect

on the yield on or value of any Floating Rate Notes where the interest rate is calculated with reference to benchmark indices or may have other consequences that cannot be predicted.

On March 5, 2021, the regulator of LIBOR (the FCA) announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative: (a) immediately after December 31, 2021, in the case of the 1-week and 2-month U.S. dollar settings, and (b) immediately after June 30, 2023, in the case of the remaining U.S. dollar settings. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before these dates or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere.

Among other developments, relevant authorities are strongly encouraging the transition away from Interbank Offered Rates ("IBORs"), such as LIBOR, and have identified "risk free rates" to eventually take the place of such IBORs as primary benchmarks. This includes for U.S. dollar LIBOR, the Secured Overnight Financing Rate ("SOFR"), which the Alternative Reference Rates Committee, a committee convened by the Federal Reserve Bank of New York that includes major market participants, proposed eventually be established as the primary U.S. dollar interest rate benchmark. The risk free rates, including SOFR, have a different methodology and other important differences from the IBORs they will eventually replace and have little, if any, historical track record. It is not known whether certain IBORs will continue long term or in their current form.

Any of the international, national or other proposals for reform or the general increased regulatory scrutiny of "benchmarks" could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance or obsolescence of certain "benchmarks".

Additionally, following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or the benchmark could be eliminated entirely, or there could be other consequences that cannot be predicted. The elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions included in the "Description of the Notes and the Guarantee", or result in adverse consequences to holders of securities linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities based on the same benchmark.

SOFR's composition and characteristics are not the same as LIBOR's

SOFR is published by the Federal Reserve Bank of New York and is intended to be a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities and a current alternative to U.S. dollar LIBOR. The composition and characteristics of SOFR are not the same as those of LIBOR where the index currency is U.S. dollars ("U.S. dollar LIBOR"). There can be no assurance that SOFR will perform in the same way as U.S. dollar LIBOR would have at any time.

The market continues to develop in relation to Notes that reference SOFR

Publication of SOFR data began on April 3, 2018 and it therefore has a relatively limited history. In addition, the future performance of SOFR cannot be predicted based on its historical performance. The level of SOFR over the term of the Notes may bear little or no relation to the historical level of SOFR. Prior observed patterns, if any, in the behavior of market variables, such as correlations, may change in the future. While some pre-publication hypothetical performance data has been published by the Federal Reserve Bank of New York, such data inherently involves assumptions, estimates and approximations. Furthermore, since the initial publication of SOFR, daily changes in the rate have, on occasion, been more volatile than daily changes in comparable benchmark or market rates. As a result, the return on and value of Notes that reference SOFR may fluctuate more than floating rate debt securities that are linked to less volatile rates. The future performance of SOFR is impossible to predict and therefore no future performance of SOFR or the Notes may be inferred from any of the hypothetical or actual historical performance data. Hypothetical or actual historical performance data are not indicative of, and have no bearing on, the potential performance of SOFR or the Notes.

The market or a significant part thereof may adopt an application of SOFR that differs significantly from that set out under "Description of the Notes and the Guarantee" and used in relation to Floating Rate Notes that reference a SOFR rate issued under this program. Each Issuer may in the future also issue Notes referencing SOFR that differ materially in terms of interest determination when compared with any previous SOFR referenced Notes issued by it under this program. The development of Compounded Daily SOFR and Compounded SOFR Index (each as defined under "Description of the Notes and the Guarantee—Interest Rates—SOFR Notes") as an interest reference rate for the U.S. bond markets, as well as continued development of SOFR-based rates for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SOFR Notes issued under this program from time to time.

Furthermore, interest on Notes which reference a SOFR rate is only capable of being determined on the SOFR Interest Determination Date (as defined in the "Description of the Notes and the Guarantee—Interest Rates—Base Rates—Interest Determination Dates"). It may be difficult for holders of Notes that reference SOFR to reliably estimate the amount of interest that will be payable on such Notes and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which could adversely impact the liquidity of such Notes. Further, if the Notes become due and payable as described under "Description of the Notes and the Guarantee—Default, remedies and waiver of default—Events of Default", the rate of interest payable shall be determined on the date the Notes became due and payable and shall not be reset thereafter. Investors should consider these matters when making their investment decision with respect to any such Floating Rate Notes.

Investors should be aware that the manner of adoption or application of SOFR as a reference rate in the U.S. bond markets may differ materially compared with the application and adoption of SOFR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SOFR as reference rates across these markets may impact any hedging or other arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing SOFR.

Since SOFR is a relatively new market index, Notes linked to SOFR may have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities linked to SOFR, such as the margin over SOFR reflected in interest rate provisions, may evolve over time, and trading prices of the Notes may be lower than those of later-issued Notes that are linked to SOFR as a result. Further, if SOFR does not prove to be widely used in securities like the Notes, the trading price of such Notes linked to SOFR may be lower than those of Notes linked to indices that are more widely used. Investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

SOFR and the SOFR Index may be modified or discontinued by their administrator, which could adversely affect the value of any SOFR Notes

Each of SOFR and the SOFR Index is published by the Federal Reserve Bank of New York based on data received from other sources, over which we have no control. Further the Federal Reserve Bank of New York, the administrator of SOFR and the SOFR Index, notes on its publication page for SOFR and the SOFR Index that it may alter the methods of calculation, publication schedule, rate revision practices or availability of SOFR and/or the SOFR Index at any time without notice. The Federal Reserve Bank of New York has no obligation to consider the interests of holders of the Notes in calculating, adjusting, converting, revising or discontinuing SOFR or the SOFR Index.

There can be no guarantee, particularly given SOFR's and the SOFR Index's relatively recent publication (April 3, 2018 and March 2, 2020, respectively), that SOFR and/or the SOFR Index will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of holders of the Notes. If the manner in which SOFR and/or the SOFR Index are calculated is changed, such change may result in a reduction in the amount of interest payable on the Notes and the trading prices of the Notes. In addition, the Federal Reserve Bank of New York may withdraw, modify or amend the published SOFR or SOFR Index in its sole discretion and without notice.

The Base Rate for SOFR Notes for any interest period will not be adjusted for any modifications or amendments to SOFR or the SOFR Index that the Federal Reserve Bank of New York may publish after the interest rate for that interest period has been determined.

The occurrence of a Benchmark Transition Event and its related Benchmark Replacement Date in respect of LIBOR Notes or SOFR Notes may adversely affect the return on and the market value of such Notes

The Notes provide for specific fallback arrangements where the Base Rate specified in the applicable Final Terms is LIBOR or SOFR. If the Issuer or its designee determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any determination of the Benchmark (each as defined in the "Description of the Notes and the Guarantee—Interest rates—Base Rates—Benchmark Replacement for LIBOR Notes and SOFR Notes"), then a Benchmark Replacement will replace the then-current Benchmark and the relevant Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes in accordance with "Description of the Notes and the Guarantee—Interest rates—Base Rates—Benchmark Replacement for LIBOR Notes and SOFR Notes". There are no limits or parameters dictating whom the relevant Issuer may appoint as its designee to assist in this determination, and the designee may be an affiliate of the relevant Issuer, an agent of the Issuer or any other party or person. There is no assurance that the designee selected by the Issuer to assist in this determination has the competency to make such a determination or that the designee's determination will be consistent with similar determinations made on similar securities. The selection of a Benchmark Replacement, and any decisions, determinations or elections made by the relevant Issuer or its designee in connection with implementing a Benchmark Replacement with respect to such Notes could result in adverse consequences to the relevant rate of interest in respect of such Notes.

The Benchmark Replacements specified in the LIBOR Notes include Term SOFR, a forward-looking term rate which will be based on SOFR. Term SOFR is currently being developed under the sponsorship of the Federal Reserve Bank of New York, and there is no assurance that the development of Term SOFR will be completed by the time that a Benchmark Transition Event and its related Benchmark Replacement Date occur, or at all. If a particular Benchmark Replacement or Benchmark Replacement Adjustment cannot be determined, then the next-available Benchmark Replacement or Benchmark Replacement Adjustment will apply. These replacement rates and adjustments may be selected or formulated by (i) the Relevant Governmental Body (such as the Alternative Reference Rates Committee), (ii) ISDA or (iii) in certain circumstances, the relevant Issuer or its designee. In addition, the relevant Issuer or its designee can make Benchmark Replacement Conforming Changes with respect to, among other things, the determination of interest periods and the timing and frequency of determining rates and making payments of interest.

No consent of the holders shall be required in connection with determining or effecting any Benchmark Replacement, Benchmark Replacement Adjustment or Benchmark Replacement Conforming Changes. The application of a Benchmark Replacement, Benchmark Replacement Adjustment and Benchmark Replacement Conforming Changes, any decisions, determinations or elections made by the relevant Issuer or its designee in connection with Benchmark Replacement, Benchmark Replacement Adjustment and Benchmark Replacement Conforming Changes, as well as the implementation of Benchmark Replacement Conforming Changes, could result in adverse consequences to the amount of interest on the Notes which could adversely affect the return on, value of and market for such Notes. Further, there is no assurance that the characteristics of any Benchmark Replacement will be similar to the then-current U.S. dollar LIBOR, Compounded Daily SOFR or Compounded SOFR Index, as applicable, that it is replacing, or that any Benchmark Replacement will produce the economic equivalent of the then-current U.S. dollar LIBOR, Compounded Daily SOFR or Compounded SOFR Index, as applicable, that it is replacing. Further, due to uncertainty concerning the availability of certain of the fallback Benchmark Replacements, such as Term SOFR and Compounded SOFR, the relevant fallback provision may not operate as intended.

The interest rate on a series of LIBOR Notes may be determined by reference to a Benchmark Replacement even if U.S. dollar LIBOR continues to be published

With respect to any series of LIBOR Notes (the Base Rate of which is based on U.S. dollar LIBOR, as specified under "Description of the Notes and the Guarantee—Interest Rates—Floating Rate Notes—LIBOR Notes"), if a Benchmark Transition Event and related Benchmark Replacement Date occur with respect to U.S. dollar LIBOR for the applicable index maturity, the interest rate on such series of LIBOR Notes will thereafter be determined by reference to the applicable Benchmark Replacement. A Benchmark Transition Event includes, among other things, a public statement or publication of information by the regulatory supervisor for the administrator of U.S. dollar LIBOR announcing that U.S. dollar LIBOR of the applicable index maturity is no longer representative. The interest rate on the relevant series of LIBOR Notes may, therefore, cease to

be determined by reference to U.S. dollar LIBOR for the applicable index maturity, and instead be determined by reference to a Benchmark Replacement, even if U.S. dollar LIBOR for such index maturity continues to be published. Such replacement rate may be lower than U.S. dollar LIBOR for the applicable index maturity for so long as U.S. dollar LIBOR for such index maturity continues to be published, and the value of and return on the relevant series of LIBOR Notes may be adversely affected.

Risks related to the development of a market for Notes which may be issued under this program

There may not be any trading market for the Notes; many factors affect the trading and market value of the Notes

Upon issuance, the Notes may not have an established trading market. Although the Notes may be listed on the London Stock Exchange, there can be no assurance that a trading market for the Notes will ever develop or be maintained if developed. In addition to creditworthiness, many factors affect the trading market for, and trading value of, the Notes. These factors include but are not limited to:

- the complexity and volatility of the formula applicable to the Notes (if any);
- the method of calculating the principal, premium and interest in respect of the Notes;
- the time remaining to the stated maturity of the Notes;
- the outstanding amount of the Notes;
- any redemption features of the Notes;
- the amount of other debt securities linked to the formula applicable to the Notes (if any);
- the level, direction and volatility of market interest rates generally;
- investor confidence and market liquidity; and
- the financial condition and results of operations of the ANZ New Zealand Group.

There may be a limited number of buyers when an investor decides to sell the Notes. This may affect the price an investor receives for such Notes or the ability to sell such Notes at all. In addition, Notes that are designed for specific investment objectives or strategies often experience a more limited trading market and more price volatility than those not so designed. Illiquidity may have a severely adverse effect on the market value of Notes. Investors should not purchase the Notes unless they understand and know they can bear all of the investment risks involving the Notes.

The Notes may be de-listed, which may materially affect an investor's ability to resell such Notes

Any Notes that are listed on the London Stock Exchange may be de-listed. If any Notes are de-listed, the relevant Issuer may, but is not obligated to, seek an alternative listing. However, if such an alternative listing is not available or in the opinion of the relevant Issuer is unduly burdensome, an alternative listing for the Notes may not be obtained. Although no assurance is made as to the liquidity of the Notes as a result of the listing on the London Stock Exchange, delisting the Notes from the London Stock Exchange may have a material adverse effect on an investor's ability to resell the Notes in the secondary market.

Risks related to Legal and other Risks

The Notes are subject to transfer restrictions under U.S. law

The Notes have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are being offered hereby (i) to QIBs in transactions that are exempt from registration pursuant to Section 4(a)(2) of, and Rule 144A under, the Securities Act, or (ii) outside the United States to persons that are not U.S. persons in offshore transactions that are not subject to registration in reliance on Regulation S under the Securities Act. Accordingly, under U.S. law the Notes are subject to certain restrictions on the resale and other transfer thereof as set forth under "Notice to Purchasers" and "Plan of Distribution". As a result of such restrictions, there can be no assurance as to the existence of a secondary market for the Notes or the liquidity of such market if one develops. Consequently, investors must be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Because Global Notes will be held by or on behalf of DTC and/or an alternative clearing system (including Euroclear and Clearstream, Luxembourg), holders of Notes issued in the form of Global Notes will have to rely on their procedures for transfer, payment and communication with the relevant Obligor

Notes may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depository for DTC and/or an alternative clearing system (the "**Depository**"). Apart from the circumstances described in this Offering Memorandum and the relevant Global Note(s), investors will not be entitled to Notes in definitive form. The Depository, or its nominee, will be the sole registered owner and holder of all Notes represented by a Global Note, and investors will be permitted to own only indirect interests in a Global Note. Indirect interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the Depository or with another institution that does. Thus, an investor whose Note is represented by a Global Note will not be a holder of the Note, but only an indirect owner of an interest in the Global Note. As an indirect owner, an investor's rights relating to a Global Note will be governed by the account rules of the Depository and those of the investor's financial institution or other intermediary through which it holds its interest (e.g., Euroclear or Clearstream, Luxembourg, if DTC is the Depository), as well as general laws relating to securities transfers. The Issuers do not recognize this type of investor or any intermediary as a holder of Notes and instead deal only with the Depository that holds the Global Note. An investor in a Global Note will be an indirect holder and must look to his or her own bank or broker for payments on the Notes and protection of his or her legal rights relating to the Notes.

See "Description of the Notes and the Guarantee—Payment mechanics for Notes" and "Legal Ownership and Book-Entry Issuance" for further discussion of the risks associated with holding Global Notes.

The Notes are subject to changes in tax law which could have an adverse effect

Statements in this Offering Memorandum concerning the taxation of holders of Notes are of a general nature and are based upon current tax law and published practice in the jurisdictions stated. Such law and practice is subject to change, possibly with retrospective effect, and this could adversely affect holders of Notes. In addition, any change in an Issuer's tax status or in taxation legislation or practice in a relevant jurisdiction could adversely impact the ability of the Issuers to service the Notes and the market value of the Notes.

FATCA withholding may apply to payments on the Notes, including as a result of the failure of a holder or a holder's bank or broker to provide information to taxing authorities or withholding agents

A withholding tax of 30% may be imposed on payments made with respect to the Notes, but such withholding will not apply to payments made before the date that is two years after the date on which final regulations defining the term "foreign passthru payment" are enacted, and would only apply with respect to Notes issued or modified at least six months after the date on which final regulations implementing the rules for calculating the amount of such withholding tax are published in final form. The withholding tax, when it applies, may be imposed at any point in a series of payments unless the relevant payee (including a bank, broker or individual) at each point complies with information reporting, certification and related requirements. Accordingly, a holder that holds Notes through a bank or broker could be subject to withholding if, for example, its bank or broker is subject to withholding because the bank or broker fails to comply with these requirements even though the holder itself might not otherwise have been subject to withholding. If a payment on the Notes is subject to this withholding tax, no additional amounts will be paid, and a holder will receive less than the expected amount of the payment.

Investors should consult their tax advisors and their banks or brokers regarding the possibility of this withholding. For more information, see "Taxes—United States federal income taxation—FATCA Withholding" below.

3. USE OF PROCEEDS

Unless otherwise stated in the Final Terms, ANZNIL will on-lend the net proceeds from the sale of all ANZNIL Notes to ANZ New Zealand. Unless otherwise stated in the Final Terms, ANZ New Zealand intends to use the net proceeds from the sales of Notes (including Notes issued by ANZNIL) to provide additional funds for operations, for general corporate purposes and such other purposes as may be specified in a supplement hereto.

4. DESCRIPTION OF THE NOTES AND THE GUARANTEE

The general terms of the ANZ NZ Notes and the ANZNIL Notes are identical, except as described herein and except that the ANZNIL Notes will have the benefit of ANZ New Zealand's Guarantee as described further in the "Guarantee". For convenience and unless otherwise indicated, in this section entitled "Description of the Notes and the Guarantee," references to "the relevant Issuer" refers to ANZ New Zealand in the case of ANZ NZ Notes and ANZNIL in the case of ANZNIL Notes. References to "ANZ New Zealand" refer only to ANZ Bank New Zealand Limited and not to its consolidated subsidiaries. Also, in this section, references to "holders" mean those persons who own Notes registered in their own names, on the books that ANZ New Zealand, ANZNIL or the Fiscal Agent maintains for this purpose, and not those persons who own beneficial interests in Notes registered in street name or in Notes issued in book-entry form through the Depository. Owners of beneficial interests in the Notes should read the section below entitled "Legal Ownership and Book-Entry Issuance".

This section summarizes the material terms that will apply generally to the Notes. Each Tranche will have financial and other terms specific to it, and the specific terms of each Note will be described in the Final Terms that will accompany this Offering Memorandum. Such Final Terms will be in substantially the form attached as Annex B to this Offering Memorandum.

Investors are reminded when reading this section that the specific terms of a Note as described in the applicable Final Terms relating to such Note will supplement the general terms described in this section.

This section is only a summary

The Fiscal Agency Agreement and its associated documents, including the Note and the applicable Final Terms, contain the full legal text of the matters described in this section. The Fiscal Agency Agreement, the Guarantee and the Notes are governed by New York law, except as to authorization and execution by ANZ New Zealand and ANZNIL of these documents, which are governed by the laws of New Zealand. See "Available Information" for information on how to obtain a copy of the Fiscal Agency Agreement.

This section, together with the applicable Final Terms, summarize all the material terms of the Fiscal Agency Agreement and a Note. They do not, however, describe every aspect of the Fiscal Agency Agreement and a Note. For example, this section entitled "Description of the Notes and the Guarantee" and the applicable Final Terms, uses terms that have been given special meaning in the Fiscal Agency Agreement, but it describes the meaning of only the more important of those terms.

The Notes will be issued under the Fiscal Agency Agreement

The Notes are governed by a document called a Fiscal Agency Agreement. The Fiscal Agency Agreement is a contract between ANZNIL, ANZ New Zealand, both as Issuer of the ANZ NZ Notes and as Guarantor of the ANZNIL Notes, and The Bank of New York Mellon, which will initially act as fiscal agent and paying agent (the "**Fiscal Agent**"). The Fiscal Agent performs administrative duties for the Issuers such as sending interest payments and notices.

See "Relationship with the Fiscal Agent" below for more information about the Fiscal Agent.

The relevant Issuer may issue other series of debt securities

The Fiscal Agency Agreement permits the relevant Issuer to issue different series of debt securities from time to time. The relevant Issuer may also issue Notes in such amounts, at such times and on such terms as it wishes. The Notes will differ from one another, and from other series, in their terms.

References to the "**Notes**" or these "**Notes**", mean ANZ New Zealand's Medium-Term Notes, Series A, or ANZNIL's Medium-Term Notes, Series A, as applicable. References to the "**Series A Medium-Term Notes**", mean ANZ New Zealand's Medium-Term Notes, Series A or ANZNIL's Medium-Term Notes, Series A, as applicable. References to "**ANZ NZ Notes**", mean ANZ New Zealand's Medium-Term Notes, Series A. References to "**ANZNIL Notes**", mean ANZNIL's Medium-Term Notes, Series A. References to a "**Series**" of debt securities, mean a series, such as the Series A Notes or the Series B Notes, issued under the Fiscal Agency Agreement.

Amounts that the relevant Issuer may issue

The Fiscal Agency Agreement does not limit the aggregate amount of debt securities that the relevant Issuer may issue, nor does it limit the number of series or the aggregate amount of any particular series that the relevant Issuer may issue. Also, if the relevant Issuer issues Notes having the same terms in a particular offering, it may "reopen" that offering at any later time and offer additional Notes having those terms.

The relevant Issuer intends to issue Notes from time to time, initially in an amount having the aggregate offering price specified on the cover of this Offering Memorandum. However, the relevant Issuer may issue additional Notes in amounts that exceed the amount on the cover at any time, without the consent of the holders and without notifying the holders.

The relevant Issuer's affiliates may use this Offering Memorandum to resell Notes in market-making transactions from time to time, including both Notes that the relevant Issuer has issued before the date of this Offering Memorandum and Notes that it has not yet issued. These transactions are described under "Notice to Purchasers" and "Plan of Distribution" below.

The Fiscal Agency Agreement and the Notes do not limit the relevant Issuer's ability to incur other indebtedness or to issue other securities. Also, the relevant Issuer is not subject to financial or similar restrictions by the terms of the Notes or the Fiscal Agency Agreement.

Guarantee

ANZ New Zealand will fully and unconditionally guarantee to each holder of an ANZNIL Note authenticated and delivered by the Fiscal Agent the due and punctual payment of the principal of, and premium, if any, and interest on, such ANZNIL Note, when and as the same shall become due and payable, whether at stated maturity, by declaration of acceleration, call for redemption or otherwise, in accordance with the terms of such ANZNIL Note and of the Fiscal Agency Agreement.

How the Notes and Guarantee rank against other debt

Neither the Notes nor the Guarantee will be secured by any property or assets of ANZ New Zealand or its subsidiaries, including ANZNIL. Thus, by owning a Note, the holders are unsecured creditors of the relevant Issuer.

Neither the Notes nor the Guarantee will be subordinated to any of ANZ New Zealand's or, in the case of the ANZNIL Notes, ANZNIL's other debt obligations. This means that, in a bankruptcy or liquidation proceeding against ANZ New Zealand or ANZNIL, the Notes and Guarantee would rank equally in right of payment with all of ANZ New Zealand's and ANZNIL's other unsecured and unsubordinated debt, except for obligations mandatorily preferred by law.

Principal amount, stated maturity and maturity

The principal amount of a Note means the principal amount payable at its stated maturity, unless that amount is not determinable, in which case the principal amount of a Note is its face amount. The term "stated maturity" with respect to any Note means the day on which the principal amount of such Note is scheduled to become due, as specified in the applicable Final Terms. The principal may become due sooner, by reason of redemption or acceleration after a default or otherwise in accordance with the terms of the Note. The day on which the principal actually becomes due, whether at the stated maturity or earlier, is called the maturity of the principal.

The terms "**stated maturity**" and "**maturity date**" are also used to refer to the days when other payments become due. For example, a regular interest payment date when an installment of interest is scheduled to become due may be referred to as the "stated maturity" of that installment.

References to the "**stated maturity**" or the "**maturity date**" of a Note without specifying a particular payment, mean the stated maturity or maturity date, as the case may be, of the principal.

Currency of Notes

Amounts that become due and payable on the Note in cash will be payable in a currency, composite currency, basket of currencies or currency unit or units specified in the applicable Final Terms. This currency, composite currency, basket of currencies or currency unit or units is referred to as a "**Specified Currency**". The Specified Currency of the Note will be U.S. dollars, unless the applicable Final Terms states otherwise. Some Notes may have different Specified Currencies for principal, premium and interest. Investors will have to pay for the Note by delivering the requisite amount of the Specified Currency for the principal to any of the Agents that are named in the applicable Final Terms, unless other arrangements have been made between the investor and the relevant Issuer or the investor and any such Agents. The relevant Issuer will make payments on the Notes in the Specified Currency, except as described below under "— Payment mechanics for Notes". See "Considerations Relating to Notes Denominated or Payable in or Linked to a Non-U.S. dollar Currency" below for more information about risks of investing in Notes of this kind.

Types of Notes

The relevant Issuer may issue any of the following types of Notes and any other types of Notes that may be described in a supplement hereto:

Fixed Rate Notes

A Note of this type (a "**Fixed Rate Note**") will bear interest at a fixed rate, which may be reset on one or more Fixed Rate Reset Dates, as described in the applicable Final Terms. This type includes notes which bear no interest and are instead issued at a price lower than the principal amount ("**Zero Coupon Notes**"). See "— Original Issue Discount Notes" below for more information about Zero Coupon Notes and other Original Issue Discount Notes.

Each Fixed Rate Note, except any Zero Coupon Note, will bear interest from its issue date or from the most recent date to which interest on the Note has been paid or made available for payment. Interest will accrue on the principal of a Fixed Rate Note at the fixed yearly rate stated in the applicable Final Terms (as may be reset on each Fixed Rate Reset Date, to the extent any Fixed Rate Reset Dates are specified in the applicable Final Terms), until the principal is paid or made available for payment or the Note is converted or exchanged. Each payment of interest due on an interest payment date or at maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the maturity date. Interest on Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months or, if specified in the applicable Final Terms, on the basis of a 365-day year. The relevant Issuer will pay interest on each interest payment date and on the maturity date as described below under "— Payment mechanics for Notes".

Floating Rate Notes

A Note of this type (a "**Floating Rate Note**") will bear interest at rates that are determined by reference to an interest rate formula. In some cases, the rates may also be adjusted by adding or subtracting a Spread or multiplying by a Spread Multiplier (each as defined herein) and may be subject to a minimum rate or a maximum rate. The various interest rate formulas and these other features are described below under "— Interest rates-Floating Rate Notes".

Each Floating Rate Note will bear interest from its issue date or from the most recent date to which interest on the Note has been paid or made available for payment. Interest will accrue on the principal of a Floating Rate Note at the rate determined according to the interest rate formula stated in the applicable Final Terms, until the principal is paid or made available for payment or until it is converted or exchanged. The relevant Issuer will pay interest on each interest payment date and on the maturity date as described below under "— Payment mechanics for Notes".

Original Issue Discount Notes

A Note of this type (an "**Original Issue Discount Note**") may be a Fixed Rate Note or a Floating Rate Note. An Original Issue Discount Note is issued at a price lower than its principal amount and provides that, upon redemption or acceleration of its maturity, an amount less than its principal amount will be payable. An Original Issue Discount Note may be a Zero Coupon Note. A Note issued at a discount to its principal may, for U.S. federal income tax purposes, be considered to have been issued with original issue discount, regardless of the amount payable upon redemption or acceleration of maturity. See "Taxes—United States federal income taxation—United States Holders—Original issue discount" below for a brief description of the U.S. federal income tax consequences of owning a Note considered to have been issued with original discount for U.S. federal income tax purposes.

Information in the Final Terms

The applicable Final Terms will describe one or more of the following terms of an issuance of Notes:

- the title of the Notes;
- the stated maturity;
- the Specified Currency or currencies for principal, premium and interest, if not U.S. dollars;
- the price at which the relevant Issuer originally issues the Note, expressed as a percentage of the principal amount, and the issue date;
- whether the Note is a Fixed Rate Note, a Floating Rate Note, an Original Issue Discount Note (which may be a Zero Coupon Note) or any combination of the foregoing;
- if the Note is a Fixed Rate Note, the yearly rate at which such Note will bear interest, if any, and the interest payment dates, if different from those stated below under “— Interest rates — Fixed Rate Notes”, terms for interest rate reset, if applicable, and the conditions, if any, under which each Note may convert into or be exchangeable for a Floating Rate Note;
- if the Note is a Floating Rate Note, the interest rate basis, which may be one of the three Base Rates described under “— Interest rates — Floating Rate Notes” below; any applicable Index Maturity (as defined herein), Spread or Spread Multiplier or initial, maximum or minimum interest rate; the interest reset, determination, calculation and interest payment dates; the day count used to calculate interest payments for any period; and the Calculation Agent, all of which are described under “— Interest rates — Floating Rate Notes” below and the conditions, if any, under which each Note may convert into or be exchangeable for a Fixed Rate Note;
- if the Note is an Original Issue Discount Note, the yield to maturity;
- if applicable, the circumstances under which the Note may be redeemed at the relevant Issuer's option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which are described under “— Redemption and repayment” below;
- the authorized denominations, if other than denominations of US\$200,000, and multiples of US\$1,000;
- the Depositary for the Note, if other than DTC, and any circumstances under which the holder may request the Note in non-global form, if the relevant Issuer chooses not to issue the Note in book-entry form only;
- the name of each offering Agent;
- the discount or commission to be received by the offering Agent or Agents;
- the net proceeds to the Issuer; and
- the names and duties of any co-agents, depositaries, Paying Agents, transfer agents, exchange rate agents or registrars for the Note.

Form of Notes

Each Note will be issued in global-i.e., book-entry-form only. Notes in book-entry form will be represented by a global security registered in the name of a Depositary, which will be the holder of all the Notes represented by the global security. Those who own beneficial interests in a Global Note (as defined under “Legal Ownership and Book-Entry Issuance — What is a Global Note?”) will do so through participants in the Depositary's securities clearance system, and the rights of these indirect owners will be governed solely by the applicable procedures of the Depositary and its participants. Global Notes are described below under “Legal Ownership and Book-Entry Issuance”.

In addition, the relevant Issuer will issue each Note in registered form, without coupons.

Interest rates

This subsection describes the different kinds of interest rates that may apply to the Note, if it bears interest.

Fixed Rate Notes

Interest on a Fixed Rate Note will be payable annually or semi-annually on the date or dates specified in the applicable Final Terms and at maturity. Any payment of principal, premium and interest for any Fixed Rate Note required to be made on an interest payment date that is not a business day (as defined herein) will be postponed to the next succeeding business day (and Following Business Day Convention will be specified in the applicable Final Terms) as if made on the date that payment was due, and no interest will accrue on that payment for the period from and after the interest payment date to the date of that payment on the next succeeding business day. For each Fixed Rate Note that bears interest, interest will accrue, and the relevant Issuer will compute and pay accrued interest, as described under “—Types of Notes-Fixed Rate Notes” above and “—Payment mechanics for Notes” below. The yield for Fixed Rate Notes will be specified in the applicable Final Terms. This yield is calculated as at the Issue Date and on the basis of the issue price.

Floating Rate Notes

This subsection uses several specialized terms relating to the manner in which floating interest rates are calculated. These terms appear in bold, italicized type the first time they appear, and are defined under “— Special rate calculation terms” at the end of this subsection.

For each Floating Rate Note, interest will accrue, and the relevant Issuer will compute and pay accrued interest, as described under “— Types of Notes-Floating Rate Notes” above and “— Payment mechanics for Notes” below. In addition, the following will apply to Floating Rate Notes.

Base Rates

The relevant Issuer currently expects to issue Floating Rate Notes that bear interest at rates based on one or more of the following “Base Rates”:

- Federal Funds Rate;
- LIBOR; and/or

- SOFR.

Each of the Base Rates is described in further detail below in this subsection.

Where the Note is a Floating Rate Note, the applicable Final Terms will specify the type of Base Rate that applies to the Note.

Each Floating Rate Note will be issued as described below. The applicable Note and any applicable Final Terms will specify certain terms with respect to which each Floating Rate Note is being delivered, including: whether such Floating Rate Note is a "Regular Floating Rate Note," a "Floating Rate/Fixed Rate Note," a "Fixed Rate/Floating Rate Note," or an "Inverse Floating Rate Note," the Fixed Rate Commencement Date or Floating Rate Commencement Date (each as defined herein), if applicable, the fixed interest rate, if applicable, Base Rate, initial interest rate, if any, initial Interest Reset Date, interest reset period and dates, interest period and dates, record dates, Index Maturity, maximum interest rate and/or minimum interest rate, if any, and Spread and/or Spread Multiplier, if any, as such terms are defined below. If the applicable Base Rate is LIBOR, the applicable Note and any applicable Final Terms will also specify the Designated LIBOR Page (as defined below).

The interest rate borne by the Floating Rate Notes will be determined as follows:

- unless such Floating Rate Note is designated as a "Floating Rate/Fixed Rate Note," a "Fixed Rate/Floating Rate Note" or an "Inverse Floating Rate Note," or as having an addendum attached or having "other/additional provisions" apply, in each case relating to a different interest rate formula, such Floating Rate Note will be designated as a "Regular Floating Rate Note" and, except as described below or as specified in the applicable Note, will bear interest at the rate determined by reference to the applicable Base Rate (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date occurring after the issue date (the "initial Interest Reset Date"), the rate at which interest on such Regular Floating Rate Note shall be payable will be reset as at each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the issue date to the initial Interest Reset Date will be the initial interest rate;
- if such Floating Rate Note is designated as a "Floating Rate/Fixed Rate Note," then, except as described below or as specified in the applicable Note, such Floating Rate Note will bear interest at the rate determined by reference to the applicable Base Rate (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the initial Interest Reset Date, the rate at which interest on such Floating Rate/Fixed Rate Note will be payable will be reset as at each Interest Reset Date; provided, however, that (x) the interest rate in effect for the period, if any, from the issue date to the initial Interest Reset Date will be the initial interest rate and (y) the interest rate in effect for the period commencing on the date specified in the applicable Final Terms (the "Fixed Rate Commencement Date") to the maturity date will be the fixed interest rate, if such rate is specified in the applicable Note and the applicable Final Terms or, if no such fixed interest rate is specified, the interest rate in effect thereon on the business day immediately preceding the Fixed Rate Commencement Date;
- if such Floating Rate Note is designated as a "Fixed Rate/Floating Rate Note," then, except as described below or as specified in the applicable Note and the applicable Final Terms, such Floating Rate Note will bear interest at the fixed rate specified in such Note from the issue date to the date specified in the applicable Final Terms (the "Floating Rate Commencement Date") and the interest rate in effect for the period commencing on such Floating Rate Commencement Date will be the rate determined by reference to the applicable Base Rate (x) plus or minus the applicable Spread, if any, and/or (y) multiplied by the applicable Spread Multiplier, if any, each as specified in such Note or the applicable Final Terms. Commencing on the first Interest Reset Date after such Floating Rate Commencement Date, the rate at which interest on such Fixed Rate/Floating Rate Note will be payable will be reset as at each Interest Reset Date;
- if such Floating Rate Note is designated as an "Inverse Floating Rate Note," then, except as described below or as specified in the applicable Note, such Floating Rate Note will bear interest at the fixed interest rate minus the rate determined by reference to the applicable Base Rate (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any; provided, however, that, unless otherwise specified in the applicable Note and the applicable Final Terms, the interest rate thereon will not be less than zero. Commencing on the initial Interest Reset Date, the rate at which interest on such Inverse Floating Rate Note will be payable will be reset as at each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the issue date to the initial Interest Reset Date will be the initial interest rate.

Initial Base Rate. For any Floating Rate Note, the Base Rate in effect from the issue date to the first Interest Reset Date will be the "Initial Base Rate" as specified in the applicable Final Terms. The Initial Base Rate will be specified in the applicable Final Terms.

Spread or Spread Multiplier. In some cases, the Base Rate for a Floating Rate Note may be adjusted:

- by adding or subtracting a specified number of basis points, called the "Spread", with one basis point being 0.01%; or
- by multiplying the Base Rate by a specified percentage, called the "Spread Multiplier".

Where the Note is a Floating Rate Note, the applicable Final Terms will specify whether a Spread or Spread Multiplier will apply to the Note and, if so, the amount of the Spread or Spread Multiplier.

Maximum and minimum Rates. The actual interest rate, after being adjusted by the Spread or Spread Multiplier, may also be subject to either or both of the following limits:

- a maximum rate-i.e., a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or
- a minimum rate-i.e., a specified lower limit that the actual interest rate in effect at any time may not fall below.

Where the Note is a Floating Rate Note, the applicable Final Terms will specify whether a maximum rate and/or minimum rate will apply to the Note and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on a Floating Rate Note will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. federal law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than US\$250,000 is 16% and for any loan in the amount of US\$250,000 or more but less than US\$2,500,000 is 25% per year on a simple interest basis. These limits do not apply to loans of US\$2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on a Floating Rate Note.

Interest Reset Dates. The rate of interest on a Floating Rate Note will be reset by the Calculation Agent daily, weekly, monthly, quarterly, semi-annually, annually or at some other interval specified in the applicable Final Terms. The date on which the interest rate resets and the reset rate becomes effective is called the “**Interest Reset Date**”. For Notes other than SOFR Notes, and except as otherwise specified in the applicable Final Terms, the Interest Reset Date will be as follows:

- for Floating Rate Notes that reset daily, each business day;
- for Floating Rate Notes that reset weekly, the Wednesday of each week;
- for Floating Rate Notes that reset monthly, the third Wednesday of each month;
- for Floating Rate Notes that reset quarterly, the third Wednesday of March, June, September and December of each year;
- for Floating Rate Notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in the applicable Final Terms; and
- for Floating Rate Notes that reset annually, the third Wednesday of one month of each year as specified in the applicable Final Terms.

For a Floating Rate Note, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest Interest Reset Date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

The Base Rate in effect from the issue date to the first Interest Reset Date will be the Initial Base Rate. For Floating Rate Notes that reset daily or weekly, the Base Rate in effect for each day following the second business day before an interest payment date to, but excluding, the interest payment date, and for each day following the second business day before the maturity date to, but excluding, the maturity date, will be the Base Rate in effect on that second business day.

If any Interest Reset Date for a Floating Rate Note would otherwise be a day that is not a business day, the Interest Reset Date will be postponed to the next day that is a business day. For a LIBOR Note, however, if that business day is in the next succeeding calendar month, the Interest Reset Date will be the immediately preceding business day.

For a SOFR Note, in relation to any interest period or Observation Period, as applicable, the Interest Reset Date will be each U.S. Government Securities Business Day (defined below under “—Special Rate Calculation Terms”) during such interest period, or Observation Period, other than, if a Suspension Period is specified in the applicable Note and any applicable Final Terms, any U.S. Government Securities Business Day falling in the Suspension Period (defined below under “—Special Rate Calculation Terms”) corresponding with the relevant period.

Interest Determination Dates. The interest rate that takes effect on an Interest Reset Date will be determined by the Calculation Agent by reference to a particular date called an “Interest Determination Date”. Except as otherwise specified in the applicable Final Terms:

- For Federal Funds Rate Notes, the Interest Determination Date relating to a particular Interest Reset Date will be the second business day before the Interest Reset Date.
- For LIBOR Notes, the Interest Determination Date relating to a particular Interest Reset Date will be the second London business day preceding the Interest Reset Date. An Interest Determination Date for a LIBOR Note is referred to as a “LIBOR Interest Determination Date”.
- For SOFR Notes, the Interest Determination Date will be the U.S. Government Securities Business Day preceding the interest payment date by the Relevant number of U.S. Government Securities Business Days (defined below under “—Special Rate Calculation Terms”). An Interest Determination Date for a SOFR Note is referred to as a “SOFR Interest Determination Date”.

The “Interest Determination Date” pertaining to a Floating Rate Note, the interest rate of which is determined by reference to two or more Base Rates, will be the most recent business day which is at least two business days prior to the applicable Interest Reset Date for such Floating Rate Note on which each Base Rate is determinable. Each Base Rate will be determined as of such date, and the applicable interest rate will take effect on the applicable Interest Reset Date.

Interest Calculation Dates. As described above, the interest rate that takes effect on a particular Interest Reset Date will be determined by reference to the corresponding Interest Determination Date. However, for Federal Funds Rate Notes, the determination of the rate will actually be made on a day no later than the corresponding interest calculation date. The interest calculation date corresponding to the Interest Determination Date for Federal Funds Rate Notes means the earlier of:

- the tenth calendar day after the Interest Determination Date or, if that tenth calendar day is not a business day, the next succeeding business day; and
- the business day immediately preceding the interest payment date or the maturity date, whichever is the day on which the next payment of interest will be due.

The Calculation Agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

Interest Payment Dates. The interest payment dates for a Floating Rate Note will depend on when the interest rate is reset and, unless specified otherwise in the applicable Final Terms, will be as follows:

- for Floating Rate Notes that reset daily, weekly or monthly, the third Wednesday of each month or the third Wednesday of March, June, September and December of each year, as specified in the applicable Final Terms;
- for Floating Rate Notes that reset quarterly, the third Wednesday of March, June, September and December of each year;

- for Floating Rate Notes that reset semi-annually, the third Wednesday of the two months of each year specified in the applicable Final Terms; or
- for Floating Rate Notes that reset annually, the third Wednesday of the month specified in the applicable Final Terms.

Regardless of these rules, if a Note is originally issued after the Regular Record Date (as defined herein) and before the date that would otherwise be the first interest payment date, the first interest payment date will be the date that would otherwise be the second interest payment date.

If any interest payment date other than the maturity date for any Floating Rate Note would otherwise be a day that is not a business day, that interest payment date will be postponed to the next succeeding business day (and Following Business Day Convention will be specified in the applicable Final Terms), except that in the case of a LIBOR Note or a SOFR Note where that business day falls in the next succeeding calendar month, that interest payment date will be the immediately preceding business day and interest shall accrue to, but excluding, such interest payment date as rescheduled (and Modified Following Business Day Convention will be specified in the applicable Final Terms). If the maturity date of a Floating Rate Note falls on a day that is not a business day, the required payment of principal, premium and interest will be made on the next succeeding business day as if made on the date that payment was due, and no interest will accrue on that payment for the period from and after the maturity date to the date of that payment on the next succeeding business day.

Calculation of interest. Calculations relating to Floating Rate Notes will be made by the "Calculation Agent", an institution that the relevant Issuer appoints as its agent for this purpose. That institution may include any affiliate of the relevant Issuer, such as ANZBGL. The applicable Final Terms for a particular Floating Rate Note will name the institution that the relevant Issuer has appointed to act as the Calculation Agent for that Note as of its issue date. The relevant Issuer has initially appointed The Bank of New York Mellon as its Calculation Agent for any Floating Rate Notes. The relevant Issuer may appoint a different institution to serve as Calculation Agent from time to time after the issue date of the Note without the consent of the holders and without notifying the holders of the change.

For each Floating Rate Note, the Calculation Agent will determine, on or before the corresponding interest calculation or determination date, the interest rate that takes effect on each Interest Reset Date (subject to the Benchmark Replacement condition described below). In addition, the Calculation Agent will calculate the amount of interest that has accrued during each interest period—i.e., the period from and including the issue date, or the last date to which interest has been paid or made available for payment, to but excluding the payment date. For each interest period, the Calculation Agent will calculate the amount of accrued interest by multiplying the face or other specified amount of the Floating Rate Note by an accrued interest factor for the interest period. This factor will equal the sum of the interest factors calculated for each day during the interest period. The interest factor for each day will be calculated by dividing the interest rate, expressed as a decimal, applicable to that day by 360.

Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide for that Note the interest rate then in effect and, if determined, the interest rate that will become effective on the next Interest Reset Date. The Calculation Agent's determination of any interest rate, and its calculation of the amount of interest for any interest period, will be final and binding in the absence of manifest error.

1. All percentages resulting from any calculation relating to a Note will be rounded upward or downward, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one millionths of a percentage point (0.000005) rounded upward, e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to a Floating Rate Note will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.
2. In determining the Base Rate that applies to a Floating Rate Note during a particular interest period, the Calculation Agent may obtain rate quotes from various banks or dealers active in the relevant market. Those reference banks and dealers may include the Calculation Agent itself and its affiliates, as well as any underwriter, dealer or agent participating in the distribution of the relevant Floating Rate Notes and its affiliates, and they may include affiliates of the relevant Issuer.

Benchmark Replacement for LIBOR Notes and SOFR Notes. Notwithstanding the provisions in this subsection "Interest Rates" regarding the calculation of the rate of interest relating to a LIBOR Note or a SOFR Note, if the Notes bear interest at a Base Rate equal to U.S. dollar LIBOR or SOFR (and for the avoidance of doubt, any subsequent Benchmark determined as a result of a Benchmark Replacement determination), then this "Benchmark Replacement for LIBOR Notes and SOFR Notes" subsection shall apply.

- (i) *Benchmark Replacement.* If the relevant Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred in respect of any determination of the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and all determinations on all subsequent dates.
- (ii) *Benchmark Replacement Conforming Changes.* In connection with the implementation of a Benchmark Replacement, the relevant Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time.
- (iii) *Decisions and Determinations.* Any determination, decision or election that may be made by the relevant Issuer or its designee pursuant to this subsection "Benchmark Replacement for LIBOR Notes and SOFR Notes" including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error, will be made in the relevant Issuer's or its designee's sole discretion, and, notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from any other party.

Solely for the purposes of this "Benchmark Replacement for LIBOR Notes and SOFR Notes" subsection:

"Benchmark" means, initially, with respect to (x) a Note with a Base Rate of LIBOR, LIBOR, (y) a Note with a Base Rate of SOFR, SOFR (as calculated as set forth in "—SOFR Notes" below); **provided** that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to LIBOR, SOFR (or the published daily SOFR used in the calculation thereof), or the then-current Benchmark, as applicable, then "Benchmark" means the applicable Benchmark Replacement.

"Benchmark Replacement" means the LIBOR Benchmark Replacement or the SOFR Benchmark Replacement, as applicable, where

"LIBOR Benchmark Replacement" means the Interpolated Benchmark; **provided** that if the relevant Issuer or its designee cannot determine the Interpolated Benchmark as of the Benchmark Replacement Date, then "LIBOR Benchmark Replacement" means the first alternative set forth in the order below that can be determined by the relevant Issuer or its designee as of the Benchmark Replacement Date:

1. the sum of: (a) Term SOFR and (b) the Benchmark Replacement Adjustment;
2. the sum of: (a) Compounded SOFR and (b) the Benchmark Replacement Adjustment;
3. the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (b) the Benchmark Replacement Adjustment;
4. the sum of: (a) the ISDA Fallback Rate and (b) the Benchmark Replacement Adjustment;
5. the sum of: (a) the alternate rate of interest that has been selected by the relevant Issuer or its designee as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar denominated floating rate notes at such time and (b) the Benchmark Replacement Adjustment.

"SOFR Benchmark Replacement" means the first alternative set forth in the order below that can be determined by the relevant Issuer or its designee as of the Benchmark Replacement Date:

1. the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (for the applicable Corresponding Tenor, if any) and (b) the Benchmark Replacement Adjustment;
2. the sum of: (a) the ISDA Fallback Rate and (b) the Benchmark Replacement Adjustment; or
3. the sum of: (a) the alternate rate of interest that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (for the applicable Corresponding Tenor, if any) giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-denominated floating rate notes at such time and (b) the Benchmark Replacement Adjustment.

"Benchmark Replacement Adjustment" means the first alternative set forth in the order below that can be determined by the relevant Issuer or its designee as of the Benchmark Replacement Date:

1. the spread adjustment, or method for calculating or determining such spread adjustment (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;
2. if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment; or
3. the spread adjustment (which may be a positive or negative value or zero) that has been selected by the relevant Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (for the applicable Corresponding Tenor, if any) with the applicable Unadjusted Benchmark Replacement for U.S. dollar denominated floating rate notes at such time.

"Benchmark Replacement Conforming Changes" means with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the interest period, timing and frequency of determining rates and making payments of interest, changes to the definition of "Corresponding Tenor" (defined below) solely when such tenor is longer than the interest period and other administrative matters) that the relevant Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the relevant Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the relevant Issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the relevant Issuer or its designee determines is reasonably necessary).

"Benchmark Replacement Date" means the earliest to occur of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

1. in the case of clause (1) or (2) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or
2. in the case of clause (3) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination.

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

1. a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, *provided* that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component);
2. a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark (or such component), which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, *provided* that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or
3. a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative.

"Compounded SOFR" means the compounded average of SOFRs for the applicable Corresponding Tenor, with the rate, or methodology for this rate, and conventions for this rate (which will be compounded in arrears with a backward-shifted observation period as a mechanism to determine the interest amount payable prior to the end of each interest period) being established by the relevant Issuer or its designee in accordance with:

1. the rate, or methodology for this rate, and conventions for this rate selected or recommended by the Relevant Governmental Body for determining compounded SOFR; *provided* that:
2. if, and to the extent that, the relevant Issuer or its designee determines that Compounded SOFR cannot be determined in accordance with clause (1) above, then the rate, or methodology for this rate, and conventions for this rate that have been selected by the relevant Issuer or its designee giving due consideration to any industry-accepted market practice for U.S. dollar denominated floating rate notes at such time.

"Corresponding Tenor" with respect to any Benchmark Replacement means a tenor (including overnight), or an interest period, if the applicable Benchmark or Benchmark Replacement is a daily rate, having approximately the same length (disregarding business day adjustment) as the applicable tenor for, or interest period for interest calculated with reference to, the then-current Benchmark.

"Interpolated Benchmark" with respect to the Benchmark means the rate determined for the Corresponding Tenor by interpolating on a linear basis between: (1) the Benchmark for the longest period (for which the Benchmark is available) that is shorter than the Corresponding Tenor and (2) the Benchmark for the shortest period (for which the Benchmark is available) that is longer than the Corresponding Tenor.

"ISDA Definitions" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time.

"ISDA Fallback Adjustment" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor.

"ISDA Fallback Rate" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment.

"Reference Time" with respect to any determination of the Benchmark means (1) if the Benchmark is LIBOR, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such determination, (2) if the Benchmark is SOFR, the SOFR Determination Time, as such time is defined in "—Special Rate Calculation Terms" below, and (3) if the Benchmark is not LIBOR or SOFR, the time determined by the relevant Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes.

"Relevant Governmental Body" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

"SOFR" means the daily secured overnight financing rate as published by the SOFR Administrator (as defined in subsection "—Special Rate Calculation Terms" below) on the SOFR Administrator's Website (as defined in subsection "—Special Rate Calculation Terms" below).

"Term SOFR" means the forward-looking term rate for the applicable Corresponding Tenor based on SOFR that has been selected or recommended by the Relevant Governmental Body.

"Unadjusted Benchmark Replacement" means the applicable Benchmark Replacement, in each case, excluding the applicable Benchmark Replacement Adjustment.

Federal Funds Rate Notes

Where the Note is a Federal Funds Rate Note, the Note will bear interest at a Base Rate equal to the Federal Funds Rate and adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms.

The Federal Funds Rate will be the rate for U.S. dollar federal funds for the relevant Interest Determination Date, as published in H.15 opposite the heading "Federal Funds (Effective)", as that rate is displayed on Reuters Page FEDFUNDS1 under the heading "EFFECT". If the Federal Funds Rate cannot be determined in this manner, the following procedures will apply.

- If the rate described above is not displayed on Reuters Page FEDFUNDS1 at 3:00 P.M., New York City time, on the relevant interest calculation date (unless the calculation is made earlier and the rate is available from that source at that time), then the Federal Funds Rate, for the relevant Interest Determination Date, will be the rate described above as

published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading "Federal funds (effective)".

- If the rate described in the prior paragraph is not displayed on Reuters Page FEDFUNDS1 and does not appear in H.15, H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date (unless the calculation is made earlier and the rate is available from one of those sources at that time), the Federal Funds Rate will be the arithmetic mean of the rates for the last transaction in overnight, U.S. dollar federal funds arranged, before 9:00 A.M., New York City time, on the business day following the relevant Interest Determination Date, by three leading brokers of U.S. dollar federal funds transactions in New York City selected by the Calculation Agent.
- If fewer than three brokers selected by the Calculation Agent are quoting as described in the prior paragraph, the Federal Funds Rate in effect for the new interest period will be the Federal Funds Rate in effect for the prior interest period. If the Initial Base Rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

LIBOR Notes

Where a Note is a LIBOR Note, the Note will bear interest at a Base Rate equal to U.S. dollar LIBOR. In addition, the applicable LIBOR Base Rate will be adjusted by the Spread or Spread Multiplier, if any, specified in the applicable Final Terms. LIBOR will be determined in the following manner:

- LIBOR will be the offered rate appearing on the Designated LIBOR Page, as of 11:00 A.M., London time, on the relevant LIBOR Interest Determination Date, for deposits of U.S. dollars having the relevant Index Maturity beginning on the relevant Interest Reset Date. The applicable Final Terms will indicate the Index Maturity, and the Designated LIBOR Page that apply to the LIBOR Notes.
- If no such rate appears on the Designated LIBOR Page, then LIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the relevant LIBOR Interest Determination Date, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the Calculation Agent: deposits of U.S. dollars having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount. The Calculation Agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant LIBOR Interest Determination Date will be the arithmetic mean of the quotations.
- If fewer than two quotations are provided as described in the prior paragraph, LIBOR for the relevant LIBOR Interest Determination Date will be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M., in the principal financial center, on that LIBOR Interest Determination Date, by three major banks in that financial center selected by the Calculation Agent: loans of U.S. dollars having the relevant Index Maturity, beginning on the relevant Interest Reset Date, and in a representative amount.

If fewer than three banks selected by the Calculation Agent are quoting as described in the prior paragraph, LIBOR for the new interest period will be LIBOR in effect for the prior interest period. If the Initial Base Rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period

SOFR Notes

Where a Note is a SOFR Note, the Note will, except as provided below, bear interest at a Base Rate equal to (i) Compounded Daily SOFR (expressed as a percentage rate per annum) or (ii) Compounded SOFR Index Rate, in each case as determined by the Calculation Agent (or the person specified in the applicable Final Terms as the party responsible for calculating the rate of interest) on the SOFR Interest Determination Date (as defined in "—Interest Determination Dates" above).

Compounded Daily SOFR

"**Compounded Daily SOFR**" means, in relation to any interest period, the rate of return of a daily compound interest investment calculated in accordance with the following formula:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{\text{SOFR}_i \times n_i}{360} \right) - 1 \right] \times \frac{360}{d}$$

where:

"**d**" is the number of calendar days in:

- (i) where "Lookback" or "Suspension Period" is specified as the Observation Method in the applicable Note and any applicable Final Terms, the relevant interest period; or
- (ii) where "Observation Shift" is specified as the Observation Method in the applicable Note and any applicable Final Terms, the relevant Observation Period;

"**d₀**" is the number of U.S. Government Securities Business Days in:

- (i) where "Lookback" or "Suspension Period" is specified as the Observation Method in the applicable Note and any applicable Final Terms, the relevant interest period; or
- (ii) where "Observation Shift" is specified as the Observation Method in the applicable Note and any applicable Final Terms, the relevant Observation Period;

"**i**" is a series of whole numbers from one to d₀, each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in:

(i) where "Lookback" or "Suspension Period" is specified as the Observation Method in the applicable Note and any applicable Final Terms, the relevant interest period;

(ii) where "Observation Shift" is specified as the Observation Method in the applicable Note and any applicable Final Terms, the relevant Observation Period;

" n_i " means, for any U.S. Government Securities Business Day " i ", the number of calendar days from (and including) such U.S. Government Securities Business Day " i " up to (but excluding) the following U.S. Government Securities Business Day;

"SOFR $_i$ ",

(i) where "Lookback" or "Suspension Period" is specified as the Observation Method in the applicable Note and any applicable Final Terms, for any U.S. Government Securities Business Day " i ",

(A) if such U.S. Government Securities Business Day is an Interest Reset Date, SOFR (as defined below) for the U.S. Government Securities Business Day that precedes the Interest Determination Date by the Relevant number of U.S. Government Securities Business Days; and

(B) if such U.S. Government Securities Business Day is not an Interest Reset Date (being a U.S. Government Securities Business Day falling in the Suspension Period), SOFR for the U.S. Government Securities Business Day that precedes the first day of the Suspension Period (the "Suspension Period SOFR $_i$ ") by the Relevant number of U.S. Government Securities Business Days. For the avoidance of doubt, the Suspension Period SOFR $_i$ shall apply to each day falling in the relevant Suspension Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the applicable Note and any applicable Final Terms, for any U.S. Government Securities Business Day " i ", is equal to SOFR in respect of such U.S. Government Securities Business Day " i ".

Compounded SOFR Index Rate

"**Compounded SOFR Index Rate**" means, with respect to any interest period, the rate computed in accordance with the following formula:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1 \right) \times \left(\frac{360}{d_c} \right)$$

where:

" d_c " means the number of calendar days from (and including) the day on which SOFR Index $_{Start}$ is observed to (but excluding) the day on which SOFR Index $_{End}$ is observed;

"SOFR Index" means, with respect to any U.S. Government Securities Business Day:

(1) the SOFR Index value as published by the SOFR Administrator as such index appears on the SOFR Administrator's Website at 3:00 P.M. (New York time) on such U.S. Government Securities Business Day (the "SOFR Index Determination Time"); provided that:

(2) if a SOFR Index value does not so appear as specified in (1) above at the SOFR Index Determination Time, then:

(i) if a Benchmark Transition Event and its related Benchmark Replacement Date have not occurred with respect to SOFR, then the Base Rate shall be the rate determined pursuant to the "SOFR Index Unavailable" provisions; or

(ii) if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to SOFR, then the Base Rate shall be the rate determined pursuant to the provisions set forth in the subsection entitled "—Benchmark Replacement for LIBOR Notes and SOFR Notes";

"SOFR Index $_{Start}$ " means the SOFR Index value for the day that precedes the first date of the relevant interest period by the Relevant Number of U.S. Government Securities Business Days;

"SOFR Index $_{End}$ " means the SOFR Index value for the day that precedes the Interest Payment Date relating to such interest period by the Relevant Number of U.S. Government Securities Business Days; and

"SOFR Index Unavailable": If a SOFR Index $_{Start}$ or SOFR Index $_{End}$ is not published on the associated Interest Determination Date and a Benchmark Transition Event and its related Benchmark Replacement Date have not occurred with respect to SOFR, the Base Rate for the applicable interest period for which such index is not available shall be the rate of return on a daily compounded interest investment calculated in accordance with the formula for SOFR Averages, and definitions required for such formula, published on the SOFR Administrator's Website at <https://www.newyorkfed.org/markets/treasury-reporeference-rates-information>. For the purposes of this provision, references in the SOFR Averages compounding formula and related definitions to "calculation period" shall be replaced with "Observation Period" and the words "that is, 30-, 90-, or 180- calendar days" shall be removed. If the daily SOFR ("SOFR $_i$ ") does not so appear for any day, " i " in the Observation Period, SOFR $_i$ for such day " i " shall be SOFR published in respect of the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website.

Special Rate Calculation Terms

This subsection entitled “—Interest rates” (except as otherwise specified in, and for the purposes of, the subsection entitled “—Benchmark Replacement for LIBOR Notes and SOFR Notes”) uses several terms that have special meanings relevant to calculating floating interest rates. These terms are described as follows:

The term “**business day**” means, for any Note, unless otherwise specified in the applicable Final Terms, a day that meets all of the following applicable requirements:

- for all Notes, is a Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in The City of New York, the City of Wellington, New Zealand, the City of Auckland, New Zealand or the City of London generally are authorized or obligated by law, regulation or executive order to close;
- if the Note is a LIBOR Note, is also a London business day;
- if the Note has a Specified Currency of euros, is also a euro business day;
- if the Note has a Specified Currency other than U.S. dollars or euros, is also a day on which banking institutions are not authorized or obligated by law, regulation or executive order to close in the principal financial center of the country issuing the Specified Currency; and

solely with respect to any payment or other action to be made or taken at any place of payment designated by the relevant Issuer outside The City of New York, is a Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in such place of payment generally are authorized or obligated by law, regulation or executive order to close.

The term “**Designated LIBOR Page**” means the display on the Reuters 3000 Xtra Service, or any successor service, on the “LIBOR01” page or “LIBOR02” page, as specified in the applicable Final Terms, or any replacement page or pages on which London interbank rates of major banks for U.S. dollars are displayed.

The term “**euro business day**” means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer which utilizes a single shared platform and which was launched on November 19, 2007 (TARGET2) System, or any successor system, is open for business.

“**H.15**” means “Statistical Release H.15, Selected Interest Rates,” or any successor publication as published weekly by the Board of Governors of the Federal Reserve System.

“**H.15 daily update**” means the daily update of H.15, available through the world wide website of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/h15/update>, or any successor site or publication.

The term “**Index Maturity**” means, with respect to a (i) Fixed Rate Note, if the relevant Final Terms specifies one or more Fixed Rate Reset Dates, the period to maturity of the securities on which the interest rate applicable after each Fixed Rate Reset Date is based, as applicable, and (ii) Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, in each case, as specified in the applicable Final Terms.

“**London business day**” means any day on which dealings in U.S. dollars are transacted in the London interbank market.

“**Observation Period**” means, in respect of an interest period, the period (i) from (and including) the U.S. Government Securities Business Day that precedes the first day of the interest period by the Relevant Number of U.S. Government Securities Business Days (ii) to (but excluding) the U.S. Government Securities Business Day that precedes the interest payment date for such interest period by the Relevant Number of U.S. Government Securities Business Days.

The term “**principal financial center**” means (i) the capital city of the country issuing the Specified Currency in the applicable Note (which in the case of those countries whose currencies were replaced by the euro, will be Brussels, Belgium) or (ii) The City of New York.

“**Relevant Number**” means the number specified as such in the applicable Final Terms, which shall not be less than one.

The term “**representative amount**” means an amount that, in the Calculation Agent’s judgment, is representative of a single transaction in the relevant market at the relevant time.

“**Reuters Page**” means the display on the Reuters 3000 Xtra Service, or any successor service, on the page or pages specified in this offering memorandum or the applicable Final Terms, or any replacement page or pages on that service.

“**Reuters Page FEDFUNDS1**” means the display on the Reuters Page designated as “FEDFUNDS1” or any replacement page or pages on that service for the purpose of displaying such a rate.

“**SOFR**” means:

- (i) in relation to any U.S. Government Securities Business Day (the “SOFR Determination Date”), the daily secured overnight financing rate as published by the SOFR Administrator at or around 3:00 p.m. (New York City time) on the SOFR Administrator’s Website on the next succeeding U.S. Government Securities Business Day for trades made on such SOFR Determination Date (the “SOFR Determination Time”);
- (ii) if the rate specified in (i) above is not so published, and a Benchmark Transition Event and its related Benchmark Replacement Date have not both occurred (all as notified to the Calculation Agent by the relevant Issuer), the daily secured overnight financing rate in respect of the last U.S. Government Securities Business Day for which such rate was published on the SOFR Administrator’s Website; or
- (iii) if the rate specified in (i) above is not so published, and a Benchmark Transition Event and its related Benchmark Replacement Date have both occurred (all as notified to the Calculation Agent by the relevant Issuer), subject to the provisions described, and as defined, above in “—Benchmark Replacement for LIBOR Notes and SOFR Notes”.

“**SOFR Administrator**” means the Federal Reserve Bank of New York (or a successor administrator or SOFR).

“**SOFR Administrator’s Website**” means the website of the Federal Reserve Bank of New York, or any successor source.

“**SIFMA**” means the Securities Industry and Financial Markets Association.

"Suspension Determination Period" means, if Suspension Determination Period is specified as applicable in the applicable Final Terms, the number of U.S. Government Securities Business Days as specified in such Final Terms.

"Suspension Period" means, in relation to any interest period, the period from (and including) the U.S. Government Securities Business Day which falls on a date equal to the number of U.S. Government Securities Business Days in the Suspension Determination Period prior to the end of such interest period to (but excluding) the interest payment date of such interest period.

"U.S. Government Securities Business Day" means any calendar day except for a Saturday, Sunday or a calendar day on which SIFMA recommends that the fixed income departments of its members be closed for the entire calendar day for purposes of trading in U.S. government securities.

If, when the relevant Issuer uses the terms Designated LIBOR Page, H.15, H.15 daily update, or Reuters Page FEDFUNDS1, it refers to a particular heading or headings on any of those pages, those references include any successor or replacement heading or headings as determined by the Calculation Agent.

Payment of additional amounts

The relevant Issuer will make all payments in respect of the Notes to all NRWT Holders (as defined below) of such Notes without withholding or deduction for, or on account of, any taxes, assessments or other governmental charges ("**relevant tax**") imposed or levied by or on behalf of New Zealand or, in the case of the ANZNIL Notes, the UK or any political subdivision or authority in or of either of the foregoing jurisdictions or any other jurisdiction where the payor is domiciled or has a principal place of business (each, a "**relevant jurisdiction**") unless the withholding or deduction is required by law. In that event, the relevant Issuer will pay such additional amounts as may be necessary so that the net amount received by the holder of the Notes, after such withholding or deduction, will equal the amount that the holder would have received in respect of the Notes without such withholding or deduction. However, the relevant Issuer will pay no additional amounts:

- to the extent that the relevant tax is imposed or levied by virtue of the holder, or the beneficial owner, of the Notes having some connection (whether past or present) with a relevant jurisdiction, other than mere receipt of such payment or being a holder, or the beneficial owner, of the Notes;
- to the extent that the relevant tax is imposed or levied by virtue of the holder, or the beneficial owner, of the Notes not complying with any statutory requirements or not presenting any form or certificate or not having made a declaration of non-residence in, or lack of connection with, a relevant jurisdiction or any similar claim for exemption, if the relevant Issuer or its agent has provided the holder, or the beneficial owner, of the Notes with at least 60 days' prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;
- to the extent that the relevant tax is imposed or levied by virtue of the holder, or the beneficial owner, of the Notes having presented for payment more than 30 days after the date on which the payment in respect of the Notes first became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- to the extent that the relevant tax is imposed or levied by virtue of the holder, or the beneficial owner, of the Notes having presented the Notes for payment in a relevant jurisdiction, unless the Notes could not have been presented for payment elsewhere; or
- to the extent any combination of the above applies.

In addition, the relevant Issuer will pay no additional amounts to any holder who is a NRWT Holder and who is a fiduciary or partnership or person other than the sole beneficial owner of the payment in respect of the Notes to the extent such payment would, under the laws of a relevant jurisdiction, be treated as being derived or received for tax purposes by a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to additional amounts had it been the holder of the Notes.

The term "**NRWT Holder**" means a holder who is not resident in New Zealand, other than:

- (a) a holder that holds the Notes for the purposes of a business that the holder carries on in New Zealand through a fixed establishment in New Zealand; or
- (b) a holder that is a registered bank engaged in business in New Zealand through a fixed establishment in New Zealand and is not associated with the Issuer.

In the above definition, reference to the following terms shall have the same meaning given to that term in the Income Tax Act 2007 (NZ), unless the context requires otherwise: (i) associated; (ii) fixed establishment; (iii) registered bank; and (iv) resident in New Zealand.

In addition, any amounts to be paid on the Notes will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the Code, i.e., FATCA, any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code, and no additional amounts will be required to be paid on account of any such deduction or withholding.

Any RWT Holder (as defined below) will be required to notify the Issuer, Guarantor or any Paying Agent prior to the date on which it receives a payment of interest or redeems a Note of the fact it is a RWT Holder and of any circumstances that would enable it to receive a payment without deduction of New Zealand resident withholding tax. An RWT Holder must also notify of any change in its circumstances since its last notification. By accepting payment, the RWT Holder indemnifies the Issuer and Guarantor in respect of any liability for not deducting an amount of resident withholding tax.

The term "**RWT Holder**" means a registered holder who is not a NRWT Holder.

References in this Offering Memorandum or any Final Terms, in any context, to the payment of the principal of, or any premium or interest on, any Note or the net proceeds received on the sale or exchange of any Note, includes the payment of additional amounts to the extent that, in that context, additional amounts are, were or would be payable.

Redemption and repayment

The Notes will not be entitled to the benefit of any sinking fund, that is, the relevant Issuer will not deposit money on a regular basis into any separate custodial account to repay any Notes. In addition, the relevant Issuer will not be entitled to redeem a Note before its stated maturity unless the applicable Final Terms specifies a redemption commencement date. Holders will not be entitled to require the relevant Issuer to buy Notes from them, before its stated maturity, unless the applicable Final Terms specifies one or more repayment dates.

If the applicable Final Terms specifies a redemption commencement date or a repayment date, it will also specify one or more redemption prices or repayment prices, which may be expressed as a percentage of the principal amount of the Notes. It may also specify one or more redemption periods during which the redemption prices relating to a redemption of Notes during those periods will apply.

If the applicable Final Terms specify a redemption commencement date, the Notes will be redeemable at the relevant Issuer's option at any time on or after that date or at a specified time or times. If the relevant Issuer redeems a Note, it will do so at the specified redemption price, together with interest accrued to the redemption date. If different prices are specified for different redemption periods, the price the relevant Issuer pays will be the price that applies to the redemption period during which a Note is redeemed.

If the applicable Final Terms specify a repayment date, the Notes will be repayable at the holder's option on the specified repayment date at the specified repayment price, together with interest accrued to the repayment date.

If the relevant Issuer exercises an option to redeem any Note, it will give to the holder written notice of the principal amount of the Note to be redeemed, not less than 30 days nor more than 60 days before the applicable redemption date. If the relevant Issuer chooses to redeem a Tranche in part, the Fiscal Agent will select the Notes that will be redeemed by such usual method as it deems fair and appropriate. The relevant Issuer will give the notice in the manner described below under "—Notices".

If a Note represented by a Global Note is subject to repayment at the holder's option, the Depositary or its nominee, as the holder, will be the only person that can exercise the right to repayment. Any indirect owners who own beneficial interests in the Global Note and wish to exercise a repayment right must give proper and timely instructions to their banks or brokers through which they hold their interests, requesting that they notify the Depositary to exercise the repayment right on their behalf. Different firms have different deadlines for accepting instructions from their customers, and holders and indirect owners should take care to act promptly enough to ensure that their request is given effect by the Depositary before the applicable deadline for exercise.

Street name and other indirect owners should contact their banks or brokers for information about how to exercise a repayment right in a timely manner. The relevant Issuer or its affiliates may purchase Notes from investors who are willing to sell from time to time in private transactions at negotiated prices. Notes that the relevant Issuer or its affiliates purchase may, at the relevant Issuer's discretion, be held, resold or cancelled.

Redemption for taxation reasons

The relevant Issuer will have the right to redeem a Tranche in whole, but not in part, at any time following the occurrence of a Tax Event (as defined herein); provided, however, that, if at the time there is available to the relevant Issuer the opportunity to eliminate the Tax Event by taking some ministerial action, such as filing a form or making an election, or pursuing some other similar reasonable measure that in its sole judgment has or will cause no adverse effect on the relevant Issuer or any of its subsidiaries or affiliates and will involve no material cost, the relevant Issuer will pursue that measure in lieu of redemption. The relevant Issuer may not deliver a notice of redemption earlier than 90 days before the earliest date on which ANZ New Zealand or ANZNIL would be obligated to pay any additional amounts (if a payment in respect of a Note was due on this date), and the relevant Issuer may only deliver a notice of redemption if its obligation to pay additional amounts remains in effect.

"**Tax Event**" means that there has been an amendment to or change in the laws or regulations of a relevant jurisdiction, or any amendment to or change in an official interpretation or application of such laws or regulations, which amendment or change is effective on or after the issue date of the relevant Notes or, in the event the relevant Issuer of the Notes has merged, consolidated or sold substantially all of its assets after such date, the most recent date of such merger, consolidation or asset sale, following which any payment on a Tranche (or, in the case of the ANZNIL Notes, any payment on the Guarantee) is, or will be, subject to withholding or deduction in respect of any taxes, assessments or other governmental charges that did not apply prior to such amendment, change, proposed change, decision, pronouncement or action, and such obligation could not be avoided by the use of reasonable measures available to the relevant Issuer (or, in the case of the ANZNIL Notes, the Guarantor).

If the relevant Issuer redeems Notes in these circumstances, the redemption price of each Note redeemed will be equal to 100% of the principal amount of such Note plus accrued and unpaid interest on such debt security to the date of redemption.

Mergers and similar transactions

ANZ New Zealand and ANZNIL are generally permitted to merge or consolidate with another corporation or other entity. ANZ New Zealand and ANZNIL are also permitted to sell their respective assets substantially as an entirety to another corporation or other entity. However, ANZ New Zealand or ANZNIL, as applicable, may not take any of these actions unless all the following conditions are met:

- if the successor entity in the transaction is not ANZ New Zealand or ANZNIL, as applicable, the successor entity must be organized as a corporation, partnership or trust and, unless the assumption occurs by operation of law, must expressly assume the relevant Issuer's obligations under the Notes and the Fiscal Agency Agreement with respect to the Notes. The successor entity may be organized under the laws of New Zealand, the UK, the United States or any State thereof, the District of Columbia or any other member country of the Organization for Economic Cooperation and Development;
- immediately after the transaction, no default under the Notes has occurred and is continuing. For this purpose, "default under the Notes" means an Event of Default with respect to the Notes or any event that would be an Event of Default with respect to the Notes if the requirements for giving the relevant Issuer default notice and for the relevant Issuer's default having to continue for a specific period of time were disregarded. These matters are described below under "—Default, remedies and waiver of default"; and

- in the case of the successor entity, if such entity is not organized and validly existing under the laws of New Zealand or the UK, such successor entity shall expressly agree:
 - to indemnify each holder of the Notes against any tax, assessment or governmental charge required to be withheld or deducted from any payment to such holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and
 - that all payments pursuant to the Notes shall be made without withholding or deduction for, on account of, any tax of whatever nature imposed or levied on behalf of the jurisdiction of organization of such successor entity, or any political subdivision or taxing authority thereof or therein, unless such tax is required by such jurisdiction or any such subdivision or authority to be withheld or deducted, in which case such successor entity will pay such additional amounts in order that the net amounts received by the holders after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, subject to the same exceptions as would apply with respect to the payment by ANZ New Zealand or ANZNIL of additional amounts in respect of the Notes (substituting the jurisdiction of organization of such successor entity for New Zealand or the UK). For the avoidance of doubt, any amounts to be paid on the Notes by such successor entity will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the Code, i.e., the Foreign Account Tax Compliance Act, or FATCA, any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code, and no additional amounts will be required to be paid on account of any such deduction or withholding.

If the conditions described above are satisfied with respect to the Notes, and the relevant Issuer delivers an officer's certificate and an opinion of counsel to that effect, the relevant Issuer will not need to obtain the approval of the holders of the Notes in order to merge or consolidate or to sell its assets. Also, these conditions will apply only if the relevant Issuer wishes to merge or consolidate with another entity or sell its assets substantially as an entirety to another entity. The relevant Issuer will not need to satisfy these conditions if it enters into other types of transactions, including any transaction in which it acquires the stock or assets of another entity, any transaction that involves a change of control of ANZ New Zealand or ANZNIL, as applicable, but in which they do not merge or consolidate and any transaction in which the relevant Issuer sells less than substantially all of its assets.

Also, if ANZ New Zealand or ANZNIL merge, consolidate or sell their assets substantially as an entirety and the successor is a non-New Zealand entity, neither they nor any successor would have any obligation to compensate the holders for any resulting adverse tax consequences relating to the Notes.

Covenant defeasance

The applicable Final Terms will specify whether or not the provisions for covenant defeasance described below apply to the Notes.

Under current U.S. federal tax law, the relevant Issuer can make a deposit and no longer be subject to any covenant or agreement that would otherwise grant the holders a right to accelerate the maturity of the Notes. This is called covenant defeasance. In that event, the holders would lose the protection of those restrictive covenants. In order to achieve covenant defeasance for any Notes, the following conditions must be satisfied:

- the relevant Issuer must deposit in trust for the benefit of all direct Holders of the Notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash, in the written opinion of a nationally recognized firm of independent public accountants to make interest, principal and any other payments on the Notes on their various due dates; and
- the relevant Issuer must deliver to the defeasance trustee, who may be the Fiscal Agent, a legal opinion of counsel confirming that under current U.S. federal income tax law the relevant Issuer may make the above deposit without causing the Holders of Notes to be taxed on the Notes any differently than if it did not make the deposit and just repaid the Notes.

No Event of Default or event which with notice or lapse of time or both would become an Event of Default shall have occurred and be continuing on the date the deposit in trust described above is made.

The covenant defeasance must not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the relevant Issuer is a party or by which the relevant Issuer is bound.

The covenant defeasance must not result in the trust described above constituting an investment company as defined in the Investment Company Act of 1940, as amended, or the trust must be qualified under that Act or exempt from regulation thereunder.

The relevant Issuer must deliver to the defeasance trustee a certificate to the effect that the Notes, if then listed on the London Stock Exchange, will not be delisted as a result of the deposit in trust described above.

The relevant Issuer must deliver to the Fiscal Agent and the defeasance trustee a certificate and an opinion of counsel, each stating that all the conditions described above have been satisfied.

If the relevant Issuer accomplishes covenant defeasance on the Note, the holders can still look to the relevant Issuer for repayment of the Note in the event of any shortfall in the trust deposit. Holders should note, however, that if one of the remaining events of default occurred, such as the relevant Issuer's bankruptcy, and the Note became immediately due and payable, there may be a shortfall. Depending on the event causing the default, the holders may not be able to obtain payment of the shortfall.

Default, remedies and waiver of default

Holders will have special rights if an Event of Default with respect to their Notes occurs and is continuing, as described in this subsection.

Events of Default

Reference to an Event of Default with respect to the Notes, means any of the following:

- the relevant Issuer does not pay the principal or any premium on any Note on the due date;
- the relevant Issuer does not pay interest on any Note within 30 days after the due date;
- the relevant Issuer remains in breach of any covenant it makes for the benefit of the relevant Notes, for 60 days after it receives written notice of default stating that it is in breach and requiring it to remedy the breach. The notice must be sent by the Fiscal Agent or the holders of at least 10% in principal amount of the Notes; or
- in the case of ANZ NZ Notes, ANZ New Zealand or, in the case of ANZNIL Notes, either ANZNIL or ANZ New Zealand file for bankruptcy or other events of bankruptcy, insolvency or reorganization relating to either ANZ New Zealand or ANZNIL, as applicable, occur.

Remedies if an Event of Default occurs

If an Event of Default has occurred with respect to any Note and has not been cured or waived, the Holder of the Note may, at its option, by written notice to the relevant Issuer and the Fiscal Agent, and, in the case of ANZNIL Notes, to ANZ New Zealand, declare the principal of that Note to be due and payable immediately.

Waiver of default

The holders of not less than 50% in principal amount of the Notes may waive a default for all Notes. If this happens, the default will be treated as if it has not occurred. No one can waive a payment default on a Note, however, without the approval of the holder of that Note.

Book-entry and other indirect owners should consult their banks or brokers for information on how to give notice or direction to or make a request of the Fiscal Agent and how to declare or cancel an acceleration of the maturity. Book-entry and other indirect owners are described below under "Legal Ownership and Book-Entry Issuance".

Modification of the Fiscal Agency Agreement and waiver of covenants

There are three types of changes the relevant Issuer can make to the Fiscal Agency Agreement and the Notes, and these changes may have U.S. federal tax consequences for holders.

Changes requiring each holder's approval

First, there are changes that cannot be made without the written consent or the affirmative vote or approval of each holder affected by the change. Here is a list of those types of changes:

- change the due date for the payment of principal of, or premium, if any, or any installment of interest on any Note;
- reduce the principal amount of any Note, the portion of any principal amount that is payable upon acceleration of the maturity of the Note, the interest rate or any premium payable upon redemption;
- change the currency of any payment on a Note;
- change the relevant Issuer's obligation to pay additional amounts;
- shorten the period during which redemption of the Notes is not permitted or permit redemption during a period not previously permitted;
- change the place of payment on a Note;
- reduce the percentage of principal amount of the Notes outstanding necessary to modify, amend or supplement the Fiscal Agency Agreement or the Notes or to waive past defaults or future compliance;
- reduce the percentage of principal amount of the Notes outstanding required to adopt a resolution or the required quorum at any meeting of holders of Notes at which a resolution is adopted; or
- change any provision in a Note with respect to redemption at the holders' option in any manner adverse to the interests of any holder of the Notes.

Changes not requiring approval

The second type of change does not require any approval by holders. These changes are limited to curing any ambiguity or curing, correcting or supplementing any defective provision, or modifying the Fiscal Agency Agreement, the Guarantee or the Notes in any manner determined by the relevant Issuer and the Fiscal Agent to be consistent with the Notes and the Guarantee and not adverse to the interest of any holder.

Changes requiring majority approval

Any other change to the Fiscal Agency Agreement and the Notes would require the following approval:

- the written consent of the holders of at least 50% of the aggregate principal amount of the Notes at the time outstanding; or
- the adoption of a resolution at a meeting at which a quorum of holders is present by 50% of the aggregate principal amount of the Notes then outstanding represented at the meeting.

The same 50% approval would be required for the relevant Issuer to obtain a waiver of any of its covenants in the Fiscal Agency Agreement. The relevant Issuer's covenants include the promises it makes about merging, which are described above under "— Mergers and similar transactions". If the holders approve a waiver of a covenant, the relevant Issuer will not have to comply with it.

The quorum at any meeting called to adopt a resolution will be persons holding or representing a majority in aggregate principal amount of the Notes at the time outstanding and, at any reconvened meeting adjourned for lack of a quorum, 25% of the aggregate principal amount of the Notes outstanding. For purposes of determining whether holders of the aggregate

principal amount of Notes required for any action or vote, or for any quorum, have taken the action or vote, or constitute a quorum, the principal amount of any particular Note may differ from its principal amount at stated maturity but will not exceed its stated face amount upon original issuance.

The relevant Issuer will be entitled to set any day as a record date for determining which holders of book-entry Notes are entitled to make, take or give requests, demands, authorizations, directions, notices, consents, waivers or other action, or to vote on actions, authorized or permitted by the Fiscal Agency Agreement. In addition, record dates for any book-entry Note may be set in accordance with procedures established by the Depositary from time to time. Therefore, record dates for book-entry Notes may differ from those for other Notes. Book-entry and other indirect owners should consult their banks or brokers for information on how approval may be granted or denied if the relevant Issuer seeks to change the Fiscal Agency Agreement or any Notes or request a waiver.

Special rules for action by holders

When holders take any action under the Fiscal Agency Agreement, such as giving a notice of default, declaring an acceleration, approving any change or waiver or giving the Fiscal Agent an instruction, the Issuer will apply the following rules.

Only outstanding Notes are eligible

Only holders of outstanding Notes will be eligible to participate in any action by holders. Also, the Issuer will count only outstanding Notes in determining whether the various percentage requirements for taking action have been met. For these purposes, a Note will not be "outstanding":

- if it has been surrendered for cancellation;
- if the relevant Issuer has deposited or set aside, in trust for its holder, money for its payment or redemption;
- if the relevant Issuer has fully defeased it as described above under "— Covenant defeasance"; or
- if the relevant Issuer or one of its affiliates, such as ANZBGL, is the owner.

Eligible principal amount of some Notes

In some situations, the relevant Issuer may follow special rules in calculating the principal amount of a Note that is to be treated as outstanding for the purposes described above. This may happen, for example, if the principal amount is payable in a non-U.S. dollar currency increases over time or is not to be fixed until the maturity date.

For any Note of the kind described below, the relevant Issuer will decide how much principal amount to attribute to the Note as follows:

- for an Original Issue Discount Note, the relevant Issuer will use the principal amount that would be due and payable on the action date if the maturity of the Note were accelerated to that date because of a default;
- for a Note whose principal amount is not known, the relevant Issuer will use any amount that it indicates in the applicable Final Terms for that Note; or
- for Notes with a principal amount denominated in one or more non-U.S. dollar currencies or currency units, the relevant Issuer will use the U.S. dollar equivalent, which the relevant Issuer will determine.

Form, exchange and transfer of Notes

If any Notes cease to be issued in registered global form, they will be issued:

- only in fully registered form;
- without interest coupons; and
- unless the relevant Issuer indicates otherwise in the applicable Final Terms, in denominations of US\$200,000, or greater (or the equivalent thereof in another currency or composite currency).

Holders may exchange their Notes for Notes of smaller denominations or combine them into fewer Notes of larger denominations, as long as the total principal amount is not changed. Holder's may not exchange their Notes for Notes of a different series or having different terms.

Holders may exchange or transfer their Notes at the office of the Fiscal Agent. They may also replace lost, stolen, destroyed or mutilated Notes at that office. The relevant Issuer has appointed the Fiscal Agent to act as its agent for registering Notes in the names of holders and transferring and replacing Notes. The relevant Issuer may appoint another entity to perform these functions or perform them itself.

Holders will not be required to pay a service charge to transfer or exchange their Notes, but they may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange, and any replacement, will be made only if the relevant Issuer's transfer agent is satisfied with the holder's proof of legal ownership. The transfer agent may require an indemnity before replacing any Notes.

If the relevant Issuer has designated additional transfer agents for a particular Tranche of Notes, they will be named in the applicable Final Terms. The relevant Issuer may appoint additional transfer agents or cancel the appointment of any particular transfer agent. The relevant Issuer may also approve a change in the office through which any transfer agent acts.

If any Notes are redeemable and the relevant Issuer redeems less than all those Notes, it may block the transfer or exchange of those Notes during the period beginning 15 days before the day it mails the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. The relevant Issuer may also refuse to register transfers of or exchange any Note selected for redemption, except that it will continue to permit transfers and exchanges of the unredeemed portion of any Note being partially redeemed.

If a Note is issued as a Global Note, only the Depositary—e.g., DTC, Euroclear and Clearstream, Luxembourg—will be entitled to transfer and exchange the Note as described in this subsection, because the Depositary will be the sole holder of the Note.

Payment mechanics for Notes

Who receives payment?

If interest is due on a Note on an interest payment date, the relevant Issuer will pay the interest to the person in whose name the Note is registered at the close of business on the Regular Record Date relating to the interest payment date as described below under “—Payment and record dates for interest”. If interest is due at maturity, the relevant Issuer will pay the interest to the person entitled to receive the principal of the Note. If principal or another amount besides interest is due on a Note at maturity, the relevant Issuer will pay the amount to the holder of the Note against surrender of the Note at a proper place of payment or, in the case of a Global Note, in accordance with the applicable policies of the Depositary, which will be DTC, Euroclear or Clearstream, Luxembourg.

Payment and record dates for interest

Interest on any Fixed Rate Note will be payable with the frequency specified in the applicable Final Terms on the date or dates set forth in the applicable Final Terms and at maturity. The Regular Record Date relating to an interest payment date for any Fixed Rate Note will also be set forth in the applicable Final Terms. The Regular Record Date relating to an interest payment date for any Floating Rate Note will be the 15th calendar day before that interest payment date. These record dates will apply regardless of whether a particular record date is a “business day”, as defined above. For the purpose of determining the holder at the close of business on a Regular Record Date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

How the Issuers will make payments due in U.S. dollars

The relevant Issuer will follow the practice described in this subsection when paying amounts due in U.S. dollars. Payments of amounts due in other currencies will be made as described in the next subsection.

Payments on Global Notes. The relevant Issuer will make payments on a Global Note in accordance with the applicable policies as in effect from time to time of the Depositary, which will be DTC, Euroclear or Clearstream, Luxembourg. Under those policies, the relevant Issuer will pay directly to the Depositary, or its nominee, and not to any indirect owners who own beneficial interests in the Global Note. An indirect owner's right to receive those payments will be governed by the rules and practices of the Depositary and its participants, as described below in the section entitled “Legal Ownership and Book-Entry Issuance-What is a Global Note?”

Payments on non-Global Notes. The relevant Issuer will make payments on a Note in non-global, registered form as follows. The relevant Issuer will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the Fiscal Agent's records as of the close of business on the Regular Record Date. The relevant Issuer will make all other payments by check at the Paying Agent described below, against surrender of the Note. All payments by check will be made in next-day funds-*i.e.*, funds that become available on the day after the check is cashed.

Alternatively, if a non-Global Note has a face amount of at least US\$5,000,000 and the holder asks the relevant Issuer to do so, the relevant Issuer will pay any amount that becomes due on the Note by wire transfer of immediately available funds to an account at a bank in the City of New York on the due date. To request wire payment, the holder must give the Paying Agent appropriate wire transfer instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person or entity who is the holder on the relevant Regular Record Date. In the case of any other payment, payment will be made only after the Note is surrendered to the Paying Agent. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Book-entry and other indirect owners should consult their banks or brokers for information on how they will receive payments on their Notes.

How Issuers will make payments due in other currencies

The Issuers will follow the practice described in this subsection when paying amounts that are due in a Specified Currency other than U.S. dollars.

Payments on Global Notes. The relevant Issuer will make payments on a Global Note in accordance with the applicable policies as in effect from time to time of the Depositary, which will be DTC, Euroclear or Clearstream, Luxembourg. DTC will be the Depositary for all Notes in global form. The relevant Issuer understands that DTC's policies, as currently in effect, are as follows.

Indirect owners of Global Notes denominated in a Specified Currency other than U.S. dollars and who have the right to elect to receive payments in that other currency and do so elect, must notify the participant through which their interest in the Global Note is held of their election:

- on or before the applicable Regular Record Date, in the case of a payment of interest; or
- on or before the 16th day before the stated maturity, or any redemption or repayment date, in the case of payment of principal or any premium.

The indirect owner's participant must, in turn, notify DTC of the election on or before the third DTC business day after that Regular Record Date, in the case of a payment of interest, and on or before the 12th DTC business day before the stated maturity, or on the redemption or repayment date if the Notes are redeemed or repaid earlier, in the case of a payment of principal or any premium.

DTC, in turn, will notify the Paying Agent of the election in accordance with DTC's procedures.

If complete instructions are received by the participant and forwarded by the participant to DTC, and by DTC to the Paying Agent, on or before the dates noted above, the Paying Agent, in accordance with DTC's instructions, will make the payments to the indirect owner or its participant by wire transfer of immediately available funds to an account maintained by the payee with a bank located in the country issuing the Specified Currency or in another jurisdiction acceptable to the relevant Issuer and the Paying Agent.

If the foregoing steps are not properly completed, the relevant Issuer expects DTC to inform the Paying Agent that payment is to be made in U.S. dollars. In that case, the relevant Issuer or its agent will convert the payment to U.S. dollars in the manner described below under “— Conversion to U.S. dollars”. The relevant Issuer expects that the relevant Issuer or its agent will then make the payment in U.S. dollars to DTC, and that DTC in turn will pass it along to its participants.

Book-entry and other indirect owners of a Global Note denominated in a currency other than U.S. dollars should consult their banks or brokers for information on how to request payment in the Specified Currency.

Payments on non-Global Notes. Except as described in the last paragraph under this heading, the relevant Issuer will make payments on Notes in non-global form in the applicable Specified Currency. The relevant Issuer will make these payments by wire transfer of immediately available funds to any account that is maintained in the applicable Specified Currency at a bank designated by the holder and is acceptable to the relevant Issuer and the Fiscal Agent. To designate an account for wire payment, the holder must give the Paying Agent appropriate wire instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person or entity who is the holder on the Regular Record Date. In the case of any other payment, the payment will be made only after the Note is surrendered to the Paying Agent. Any instructions, once properly given, will remain in effect unless and until new instructions are properly given in the manner described above.

If a holder fails to give instructions as described above, the relevant Issuer will notify the holder at the address in the Fiscal Agent's records and will make the payment within five business days after the holder provides appropriate instructions. Any late payment made in these circumstances will be treated under the Fiscal Agency Agreement as if made on the due date, and no interest will accrue on the late payment from the due date to the date paid.

Although a payment on a Note in non-global form may be due in a Specified Currency other than U.S. dollars, the relevant Issuer will make the payment in U.S. dollars if the holder asks the relevant Issuer to do so. To request U.S. dollar payment, the holder must provide appropriate written notice to the Fiscal Agent at least five business days before the next due date for which payment in U.S. dollars is requested. In the case of any interest payment due on an interest payment date, the request must be made by the person or entity who is the holder on the Regular Record Date. Any request, once properly made, will remain in effect unless and until revoked by notice properly given in the manner described above.

Book-entry and other indirect owners of a Note with a Specified Currency other than U.S. dollars should contact their banks or brokers for information about how to receive payments in the Specified Currency or in U.S. dollars.

Conversion to U.S. dollars. When the relevant Issuer is asked by a holder to make payments in U.S. dollars of an amount due in another currency, either on a Global Note or a non-Global Note as described above, the exchange rate agent described below will calculate the U.S. dollar amount the holder receives in the exchange rate agent's discretion. A holder that requests payment in U.S. dollars will bear all associated currency exchange costs, which will be deducted from the payment.

When the Specified Currency is not available. If the relevant Issuer is obligated to make any payment in a Specified Currency other than U.S. dollars, and the Specified Currency or any successor currency is not available to it due to circumstances beyond its control - such as the imposition of exchange controls or a disruption in the currency markets, the relevant Issuer will be entitled to satisfy its obligation to make the payment in that Specified Currency by making the payment in U.S. dollars, on the basis of the exchange rate determined by the exchange rate agent described below, in its discretion.

The foregoing will apply to any Note, whether in global or non-global form, and to any payment, including a payment at the maturity date. Any payment made under the circumstances and in a manner described above will not result in a default under any Note or the Fiscal Agency Agreement.

Exchange rate agent. If the relevant Issuer issues a Note in a Specified Currency other than U.S. dollars, it will appoint a financial institution to act as the exchange rate agent and will name the institution initially appointed when the Note is originally issued in the applicable Final Terms. The relevant Issuer may select ANZBGL or another of its affiliates to perform this role. The relevant Issuer may change the exchange rate agent from time to time after the issue date of the Note without the consent of the holder and without notifying the holder of the change.

All determinations made by the exchange rate agent will be in its sole discretion unless the relevant Issuer states in this Offering Memorandum that any determination requires its approval. In the absence of manifest error, those determinations will be conclusive for all purposes and binding on holders and the Issuer, without any liability on the part of the exchange rate agent.

Payment when offices are closed

If any payment is due on a Note on a day that is not a business day, the relevant Issuer will make the payment on the next day that is a business day. Payments postponed to the next business day in this situation will be treated under the Fiscal Agency Agreement as if they were made on the original due date. Postponement of this kind will not result in a default under any Note or the Fiscal Agency Agreement. However, if any interest payment date, other than the one that falls on the maturity date for a LIBOR Note or a SOFR Note would otherwise fall on a day that is not a business day and the next business day falls in the next calendar month, then the interest payment date will be the immediately preceding business day. The term business day has a special meaning, which is described above under “—Interest rates—Business Day”.

Paying Agents

The relevant Issuer may appoint one or more financial institutions to act as its paying agents, at whose designated offices Notes in non-global entry form may be surrendered for payment at their maturity. The relevant Issuer calls each of those offices a “Paying Agent”. The relevant Issuer may add, replace or terminate Paying Agents from time to time; provided that at all times there will be a Paying Agent in the Borough of Manhattan, The City of New York. The relevant Issuer may also choose to act as its own Paying Agent. Initially, the relevant Issuer has appointed the Fiscal Agent, at its corporate trust office in New York City, as the Paying Agent. In addition, for so long as any Notes are listed on the Official List and admitted to trading on the London Stock Exchange's Main Market, the relevant Issuer will maintain a Paying Agent with offices in the City of London, which is referred to as the “London Paying Agent”. The relevant Issuer has initially appointed the Fiscal Agent, at its corporate trust office in the City of London, as the London Paying Agent. The relevant Issuer must notify the Fiscal Agent of changes in the Paying Agents.

Unclaimed payments

Regardless of who acts as Paying Agent, all money paid by the relevant Issuer to a Paying Agent that remains unclaimed at the end of two years after the amount is due to a holder will be repaid to the Issuer. After that two-year period, the holder may look only to the relevant Issuer for payment and not to the Fiscal Agent, any other Paying Agent or anyone else.

Notices

Notices to be given to holders of a Global Note will be given only to the Depositary, in accordance with its applicable policies as in effect from time to time. Notices to be given to holders of Notes not in global form will be sent by mail to the respective addresses of the holders as they appear in the Fiscal Agent's records, and will be deemed given when mailed. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder. Book-entry and other indirect owners should consult their banks or brokers for information on how they will receive notices.

Relationship with the Fiscal Agent

The Bank of New York Mellon is initially serving as the Fiscal Agent for the Notes issued under the Fiscal Agency Agreement. The Bank of New York Mellon has provided commercial banking and other services for the Issuers and its affiliates in the past and may do so in the future. Among other things, The Bank of New York Mellon serves as trustee or agent with regard to other debt obligations of ANZBGL.

Prescription

There are no time limits affecting the validity of claims to interest and repayment of principal under the Notes.

Governing law

The Notes, the Guarantee and the Fiscal Agency Agreement are governed by, and construed in accordance with, the laws of the State of New York without reference to the State of New York principles regarding conflicts of laws, except that all matters governing authorization and execution of the Notes, the Guarantee and the Fiscal Agency Agreement by ANZ New Zealand or ANZNIL are governed by the laws of New Zealand. The Issuers have appointed Australia and New Zealand Banking Group Limited with its offices at 1177 Avenue of the Americas, New York, New York, 10036, United States, as its agent for service of process in The City of New York in connection with any action arising out of the sale of the Notes, the Guarantee or enforcement of the terms of the Fiscal Agency Agreement.

5. LEGAL OWNERSHIP AND BOOK-ENTRY ISSUANCE

This section describes special considerations that will apply to Notes issued in global - i.e., book-entry-form. First the difference between legal ownership and indirect ownership of Notes is described. Then the special provisions that apply to Global Notes are described.

Who is the legal owner of a registered Note?

Each Note in registered form will be represented either by a certificate issued in definitive form to a particular investor or by one or more global securities representing the entire issuance of Notes. Those who have Notes registered in their own names, on the books that the relevant Issuer or the Fiscal Agent or other agent maintain for this purpose, are referred to as the "holders" of those Notes. These persons are the legal holders of the Notes. Those who, indirectly through others, own beneficial interests in Notes that are not registered in their own names are referred to as indirect owners of those Notes. As discussed below, indirect owners are not legal holders, and investors in Notes issued in book-entry form or in street name will be indirect owners.

Book-entry owners

Each Note will be issued in book-entry form only. This means that Notes will be represented by one or more Global Notes registered in the name of a financial institution that holds them as Depositary on behalf of other financial institutions that participate in the Depositary's book-entry system. These participating institutions, in turn, hold beneficial interests in the Notes on behalf of themselves or their customers.

Under the Fiscal Agency Agreement, only the person in whose name a Note is registered is recognized as the holder. Consequently, for Notes issued in global form, the relevant Issuer will recognize only the Depositary as the holder and the relevant Issuer will make all payments on the Notes, including deliveries of any property other than cash, to the Depositary. The Depositary passes along the payments it receives to its participants, which, in turn, pass the payments along to their customers who are the beneficial owners. The Depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the Notes.

As a result, investors will not own Notes directly. Instead, they will own beneficial interests in a Global Note, through a bank, broker or other financial institution that participates in the Depositary's book-entry system or holds an interest through a participant. As long as the Notes are issued in global form, investors will be indirect owners, and not holders, of the Notes.

Street name owners

In the future, the relevant Issuer may terminate a Global Note or issue Notes initially in non-global form. In these cases, investors may choose to hold their Notes in their own names or in street name. Notes held by an investor in street name would be registered in the name of a bank, broker or other financial institution that the investor chooses, and the investor would hold only a beneficial interest in those Notes through an account he or she maintains at that institution.

For Notes held in street name, the relevant Issuer will recognize only the intermediary banks, brokers and other financial institutions in whose names the Notes are registered as the holders and the relevant Issuer will make all payments on those Notes, including deliveries of any property other than cash, to them. These institutions pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so, not because they are obligated to do so under the terms of the Notes. Investors who hold Notes in street name will be indirect owners, not holders, of those Notes.

Legal holders

The relevant Issuer's obligations, as well as the obligations of the Fiscal Agent under the Fiscal Agency Agreement and the obligations, if any, of any third parties employed by the relevant Issuer or any other agent, run only to the holders of the Notes issued by the relevant Issuer. The relevant Issuer does not have obligations to investors who hold beneficial interests in Global Notes, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect owner of a Note or has no choice because the Notes are issued only in global form.

For example, once the relevant Issuer makes a payment or gives a notice to the holder, it has no further responsibility for that payment or notice even if that holder is required, under agreements with Depositary participants or customers or by law, to pass it along to the indirect owners but does not do so. Similarly, if the relevant Issuer wants to obtain the approval of the holders for any purpose—e.g., to amend the Fiscal Agency Agreement or to relieve it of the consequences of a default or of its obligation to comply with a particular provision of the Fiscal Agency Agreement— the relevant Issuer would seek the approval only from the holders, and not the indirect owners, of the relevant Notes. Whether and how the holders contact the indirect owners is up to the holders.

Special considerations for indirect owners

Indirect owners who hold Notes through a bank, broker or other financial institution, either in book-entry form or in street name, should check with their own institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- whether and how they can instruct it to exercise any rights to purchase or sell Notes or to exchange or convert a Note for or into other property;
- how it would handle a request for the holders' consent, if ever required;
- whether and how they can instruct it to send Notes registered in their own name so they can be a holder, if that is permitted in the future;
- how it would exercise rights under the Notes if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the Notes are in book-entry form, how the Depositary's rules and procedures will affect these matters.

What is a Global Note?

Each Note will be issued in book-entry form only. Each Note issued in book-entry form will be represented by a Global Note that the relevant Issuer deposits with and register in the name of one or more financial institutions or clearing systems, or their nominees, which the relevant Issuer selects. A financial institution or clearing system that the relevant Issuer selects for any Note for this purpose is called the "Depository" for that Note. A Note will usually have only one Depository but it may have more.

A Global Note may represent one or any other number of individual Notes. Generally, all Notes represented by the same Global Note will have the same terms. A Global Note may not be transferred to or registered in the name of anyone other than the Depository or its nominee or a successor to the Depository or its nominee, unless special termination situations arise. Those situations are described below under "—Holder's option to obtain a non-Global Note; special situations when a Global Note will be terminated". As a result of these arrangements, the Depository, or its nominee, will be the sole registered owner and holder of all Notes represented by a Global Note, and investors will be permitted to own only indirect interests in a Global Note. Indirect interests must be held by means of an account with a broker, bank or other financial institution that, in turn, has an account with the Depository or with another institution that does. Thus, an investor whose Note is represented by a Global Note will not be a holder, but only an indirect owner of an interest in the Global Note.

If the applicable Final Terms indicate that the Note will be issued in global form only, then the Note will be represented by a Global Note at all times unless and until the Global Note is terminated. The situations in which this can occur are described below under "—Holder's option to obtain a non-Global Note; special situations when a Global Note will be terminated". If termination occurs, the Notes may be issued through another book-entry clearing system or the relevant Issuer may decide that the Notes may no longer be held through any book-entry clearing system.

Special considerations for Global Notes

As an indirect owner, an investor's rights relating to a Global Note will be governed by the account rules of the Depository and those of the investor's financial institution or other intermediary through which it holds its interest (e.g., Euroclear or Clearstream, Luxembourg, if DTC is the Depository), as well as general laws relating to securities transfers. The relevant Issuer does not recognize this type of investor or any intermediary as a holder and instead deals only with the Depository that holds the Global Note.

If Notes are issued only in the form of a Global Note, an investor should be aware of the following:

- an investor cannot cause the Notes to be registered in his or her own name, and cannot obtain non-global certificates for his or her interest in the Notes, except in the special situations described below;
- an investor will be an indirect holder and must look to his or her own bank or broker for payments on the Notes and protection of his or her legal rights relating to the Notes, as described above under "—Who is the legal owner of a registered Note?";
- an investor may not be able to sell interests in the Notes to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;
- an investor may not be able to pledge his or her interest in a Global Note in circumstances where certificates representing the Notes must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;
- the Depository's policies will govern payments, deliveries, transfers, exchanges, notices and other matters relating to an investor's interest in a Global Note, and those policies may change from time to time. The relevant Issuer and the Fiscal Agent will have no responsibility for any aspect of the Depository's policies, actions or records of ownership interests in a Global Note. The relevant Issuer and the Fiscal Agent also do not supervise the Depository in any way;
- the Depository will require that those who purchase and sell interests in a Global Note within its book-entry system use immediately available funds and an indirect owner's broker or bank may require them to do so as well; and
- financial institutions that participate in the Depository's book-entry system and through which an investor holds its interest in the Global Notes, directly or indirectly, may also have their own policies affecting payments, deliveries, transfers, exchanges, notices and other matters relating to the Notes, and those policies may change from time to time. For example, if an indirect owner holds an interest in a Global Note through Euroclear or Clearstream, Luxembourg when DTC is the Depository, Euroclear or Clearstream, Luxembourg, as applicable, will require those who purchase and sell interests in that Global Note through them to use immediately available funds and comply with other policies and procedures, including deadlines for giving instructions as to transactions that are to be effected on a particular day. There may be more than one financial intermediary in the chain of ownership for an investor. The relevant Issuer does not monitor and is not responsible for the policies or actions or records of ownership interests of any of those intermediaries.

Delivery and form

Notes issued pursuant to Rule 144A initially will be represented by one or more Global Notes (collectively, the "**Rule 144A Global Notes**"). Notes issued in reliance on Regulation S initially will be represented by one or more Global Notes (collectively, the "**Regulation S Global Notes**"). Upon issuance, the Global Notes will be deposited with the Fiscal Agent as custodian for DTC, in New York, New York, and registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC, in each case for credit to an account of a direct or indirect participant in DTC as described below. Beneficial interests in the Rule 144A Global Notes may not be exchanged for beneficial interests in the Regulation S Global Notes at any time except in the limited circumstances described below. See "—Exchanges among the Global Notes".

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Notes in the definitive form except in the limited circumstances described below. See "—Holder's option to obtain a non-Global Note; special situations when a Global Note will be terminated".

Exchanges among the Global Notes

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note upon receipt by the Fiscal Agent of a written certificate in the form provided in the Fiscal Agency Agreement that such transfer is being made in accordance with Rule 904 of Regulation S.

Beneficial interests in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note upon receipt by the Fiscal Agent of a written certificate in the form provided in the Fiscal Agency Agreement that such transfer is being made in accordance with Rule 144A.

The Notes will be subject to certain restrictions on transfer and will bear a restrictive legend as described under "Notice to Purchasers". In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream, Luxembourg), which may change from time to time.

Holder's option to obtain a non-Global Note; special situations when a Global Note will be terminated

If any of those Notes are issued in book-entry form but the relevant Issuer chooses to give the beneficial owners of those Notes the right to obtain non-Global Notes, any beneficial owner entitled to obtain non-Global Notes may do so by following the applicable procedures of the Depository, any transfer agent or registrar for that series and that owner's bank, broker or other financial institution through which that owner holds its beneficial interest in the Notes. If holders are entitled to request a non-global certificate and wish to do so, holders will need to allow sufficient lead time to enable the relevant Issuer or its agent to prepare the requested certificate.

In addition, in a few special situations described below, a Global Note will be terminated and interests in it will be exchanged for certificates in non-global form representing the Notes it represented. After that exchange, the choice of whether to hold the Notes directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a Global Note transferred on termination to their own names, so that they will be holders. The rights of holders and street name investors are described above under "—Who is the legal owner of a registered Note?".

The special situations for termination of a Global Note are as follows:

- if the Depository notifies the relevant Issuer that it is unwilling, unable or no longer qualified to continue as Depository for that Global Note;
- if the relevant Issuer notifies the Fiscal Agent that it wishes to terminate that Global Note; or
- if an Event of Default has occurred and is continuing with regard to these Notes.

If a Global Note is terminated, only the Depository, and not the relevant Issuer or the Fiscal Agent, is responsible for deciding the names of the institutions in whose names the Notes represented by the Global Note will be registered and, therefore, who will be the holders of those Notes.

Considerations relating to DTC, Euroclear and Clearstream, Luxembourg

DTC. DTC has advised the Issuers that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("**DTC participants**") deposit with DTC. DTC also facilitates the post-trade settlement among DTC participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between DTC participants' accounts. This eliminates the need for physical movement of securities certificates. DTC participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly ("**Indirect DTC participants**"). The DTC rules applicable to DTC's participants are on file with the SEC. More information about DTC can be found at its Internet Web site at www.dtcc.com, a website the contents of which are not incorporated by reference into this Offering Memorandum.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for those Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("**beneficial owner**") is in turn to be recorded on DTC participants' and Indirect DTC participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC participant or Indirect DTC participant through which the beneficial owner entered into the transaction. Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. Indirect DTC participants are required to effect transfers through a DTC participant.

DTC has no knowledge of the actual beneficial owners of the Notes. DTC's records reflect only the identity of the DTC participants to whose accounts the Notes are credited, which may or may not be the beneficial owners. DTC participants and Indirect DTC participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications concerning the Notes by DTC to DTC participants, by DTC participants to Indirect DTC participants, and by DTC participants and Indirect DTC participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

So long as DTC, or its nominee, is a registered owner of the Global Notes, payments of redemption proceeds, distributions, principal and interest on the Notes will be made in immediately available funds to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit DTC participants' accounts, upon DTC's receipt of funds and corresponding detailed information from the relevant Issuer or the trustee, on the payment date in

accordance with their respective holdings shown on DTC's records. Payments by DTC participants or Indirect DTC participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such DTC participants and Indirect DTC participants and not the responsibility of DTC, the Fiscal Agent or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of ANZ New Zealand or the Fiscal Agent. Disbursement of payments to DTC participants will be DTC's responsibility, and disbursement of payments to the beneficial owners will be the responsibility of DTC participants and Indirect DTC participants.

Because DTC can only act on behalf of DTC participants, who in turn act on behalf of Indirect DTC participants, and because owners of beneficial interests in the Notes holding through DTC will hold interests in the Notes through DTC participants or Indirect DTC participants, the ability of the owners of beneficial interests to pledge the Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to the Notes, may be limited.

Ownership of interests in the Notes held by DTC will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC, the DTC participants and the Indirect DTC participants. The laws of some jurisdictions require that certain persons take physical delivery in definitive form of securities which they own. Consequently, the ability to transfer beneficial interests in the Notes held by DTC is limited to that extent. Euroclear and Clearstream, Luxembourg may hold interests in the Global Notes as DTC Participants.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuers believe to be reliable, but it takes no responsibility for the accuracy thereof.

Clearstream, Luxembourg. Clearstream, Luxembourg holds securities for its participating organizations ("**Clearstream, Luxembourg participants**") and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg participants through electronic book-entry changes in accounts of Clearstream, Luxembourg participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to Clearstream, Luxembourg participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also interfaces with domestic securities markets in several countries. Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, and the Banque Centrale du Luxembourg which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg participants are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, and may include the Agents. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with a Clearstream, Luxembourg participant. Clearstream, Luxembourg has established an electronic bridge with Euroclear as the operator of the Euroclear system (the "**Euroclear Operator**") in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Distributions with respect to Notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg participants in accordance with its rules and procedures, to the extent received by the depository for Clearstream, Luxembourg.

Euroclear. Euroclear holds securities and book-entry interests in securities for participating organizations ("**Euroclear participants**") and facilitates the clearance and settlement of securities transactions between Euroclear participants, and between Euroclear participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations, and may include the Agents. Non-participants in Euroclear may hold and transfer beneficial interests in a Global Note through accounts with a Euroclear participant or any other securities intermediary that holds a book-entry interest in a Global Note through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "**Terms and Conditions**"). The Terms and Conditions governs transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no record or relationship with persons holding through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by the depository for Euroclear.

Special payment and timing considerations for transactions in Euroclear and Clearstream, Luxembourg

Payments, deliveries, transfers, exchanges, notices and other matters relating to the Notes made through Euroclear or Clearstream, Luxembourg must comply with the rules and procedures of those systems. Those systems could change their rules and procedures at any time. The Issuers have no control over those systems or their participants and take no responsibility for their activities. Transactions between participants in Euroclear or Clearstream, Luxembourg, on the one hand, and participants in DTC, on the other hand, when DTC is the Depository, would also be subject to DTC's rules and procedures.

Notes which are accepted for clearance through Euroclear and Clearstream, Luxembourg systems will be allocated a Common Code and an International Securities Identification Number, or ISIN. The Common Code and ISIN will be included in the Final Terms applicable to such Notes.

Investors will be able to make and receive through Euroclear and Clearstream, Luxembourg payments, deliveries, transfers, exchanges, notices and other transactions involving any Notes held through those systems only on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, U.S. investors who hold their interests in the Notes through these systems and wish to transfer their interests, or to receive or make a payment or delivery or exercise any other right with respect to their interests, on a particular day may find that the transaction will not be effected until the next business day in Luxembourg or Brussels, as applicable. Thus, investors who wish to exercise rights that expire on a particular day may need to act before the expiration date. In addition, investors who hold their interests through both DTC and Euroclear or Clearstream, Luxembourg may need to make special arrangements to finance any purchases or sales of their interests between the U.S. and European clearing systems, and those transactions may settle later than would be the case for transactions within one clearing system.

6. CONSIDERATIONS RELATING TO NOTES DENOMINATED OR PAYABLE IN OR LINKED TO A NON-U.S. DOLLAR CURRENCY

Investors who intend to invest in a non-U.S. dollar Note-e.g., a Note whose principal and/or interest is payable in a currency other than U.S. dollars or that may be settled by delivery of or reference to a non-U.S. dollar currency or property denominated in or otherwise linked to a non-U.S. dollar currency- should consult their own financial and legal advisors as to the currency risks entailed by their investment. Notes of this kind may not be an appropriate investment for investors who are unsophisticated with respect to non-U.S. dollar currency transactions.

The information in this Offering Memorandum is directed primarily to investors who are U.S. residents. Investors who are not U.S. residents should consult their own financial and legal advisors about currency-related risks particular to their investment.

An investment in a non-U.S. dollar Note involves currency-related risks

An investment in a non-U.S. dollar Note entails significant risks that are not associated with a similar investment in a Note that is payable solely in U.S. dollars and where settlement value is not otherwise based on a non-U.S. dollar currency. These risks include the possibility of significant changes in rates of exchange between the U.S. dollar and the various non-U.S. dollar currencies or composite currencies and the possibility of the imposition or modification of foreign exchange controls or other conditions by either the United States or non-U.S. governments. The existence, magnitude and longevity of these risks generally depend on factors over which the Issuers have no control and that cannot be readily foreseen, such as economic events and market expectations the operation of and the identity of persons and entities trading on interbank and interdealer foreign exchange markets in the United States and elsewhere, political, legislative, accounting, tax and other regulatory events and the supply of and demand for the relevant currencies in the global markets. Changes in exchange rates may also affect the amount and character of any payment for purposes of U.S. federal income taxation. See "Taxes — United States federal income taxation" below.

Changes in currency exchange rates can be volatile and unpredictable

Rates of exchange between the U.S. dollar and many other currencies have been highly volatile, and this volatility may continue and perhaps spread to other currencies in the future. Fluctuations in currency exchange rates could adversely affect an investment in a Note denominated in, or whose value is otherwise linked to, a Specified Currency other than U.S. dollars. Depreciation of the Specified Currency against the U.S. dollar could result in a decrease in the U.S. dollar- equivalent value of payments on the Note, including the principal payable at maturity or settlement value payable upon exercise. That, in turn, could cause the market value of the Note to fall. Depreciation of the Specified Currency against the U.S. dollar could result in a loss to the investor on a U.S. dollar basis.

Government policy can adversely affect currency exchange rates and an investment in a non-U.S. dollar Note

Currency exchange rates can either float or be fixed by sovereign governments. From time to time, governments use a variety of techniques, such as intervention by a country's central bank or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing non-U.S. dollar Notes is that their yields or payouts could be significantly and unpredictably affected by governmental actions. Even in the absence of governmental action directly affecting currency exchange rates, political or economic developments in the country issuing the Specified Currency for a non-U.S. dollar Note or elsewhere could lead to significant and sudden changes in the exchange rate between the U.S. dollar and the Specified Currency. These changes could affect the value of the Note as participants in the global currency markets move to buy or sell the Specified Currency or U.S. dollars in reaction to these developments.

Governments have imposed from time to time and may in the future impose exchange controls or other conditions, including taxes, with respect to the exchange or transfer of a Specified Currency that could affect exchange rates as well as the availability of a Specified Currency for a Note at its maturity or on any other payment date. In addition, the ability of a holder to move currency freely out of the country in which payment in the currency is received or to convert the currency at a freely determined market rate could be limited by governmental actions.

Non-U.S. dollar Notes may permit the relevant Issuer to make payments in U.S. dollars or delay payment if it is unable to obtain the Specified Currency

Notes payable in a currency other than U.S. dollars may provide that, if the other currency is subject to convertibility or transferability restrictions, market disruption or other conditions affecting its availability at or about the time when a payment on the Notes comes due because of circumstances beyond the relevant Issuer's control, the relevant Issuer will be entitled to make the payment in U.S. dollars or delay making the payment. These circumstances could include the imposition of exchange controls or the relevant Issuer's inability to obtain the other currency because of a disruption in the currency markets. If the relevant Issuer made payment in U.S. dollars, the exchange rate it would use would be determined in the manner described above under "Description of the Notes and the Guarantee-Payment mechanics for Notes-How the relevant Issuer will make payments due in other currencies-When the Specified Currency is not available". A determination of this kind may be based on limited information and would involve certain discretion on the part of the relevant Issuer's exchange rate agent. As a result, the value of the payment in U.S. dollars an investor would receive on the payment date may be less than the value of the payment the investor would have received in the other currency if it had been available, or may be zero. In addition, a government may impose extraordinary taxes on transfers of a currency. If that happens, the relevant Issuer will be entitled to deduct these taxes from any payment on Notes payable in that currency.

The relevant Issuer will not adjust non-U.S. dollar Notes to compensate for changes in currency exchange rates

Except as described above, the relevant Issuer will not make any adjustment or change in the terms of a non-U.S. dollar Note in the event of any change in exchange rates for the relevant currency, whether in the event of any devaluation, revaluation or imposition of exchange or other regulatory controls or taxes or in the event of other developments affecting that currency, the U.S. dollar or any other currency. Consequently, investors in non-U.S. dollar Notes will bear the risk that their investment may be adversely affected by these types of events.

In a lawsuit for payment on a non-U.S. dollar Note, an investor may bear currency exchange risk

The Notes will be governed by New York law. Under Section 27 of the New York Judiciary Law, a state court in the State of New York rendering a judgment on a Note denominated in a currency other than U.S. dollars would be required to render the judgment in the Specified Currency; however, the judgment would be converted into U.S. dollars at the exchange rate prevailing on the date of entry of the judgment. Consequently, in a lawsuit for payment on a Note denominated in a currency other than U.S. dollars, investors would bear currency exchange risk until judgment is entered, which could be a long time.

In courts outside New York, investors may not be able to obtain judgment in a Specified Currency other than U.S. dollars. For example, a judgment for money in an action based on a non-U.S. dollar Note in many other U.S. federal or state courts ordinarily would be enforced in the United States only in U.S. dollars. The date used to determine the rate of conversion of the currency in which any particular Note is denominated into U.S. dollars will depend upon various factors, including which court renders the judgment.

Information about exchange rates may not be indicative of future performance

If a non-U.S. dollar Note is issued, the relevant Issuer may include in the applicable Final Terms a currency supplement that provides information about historical exchange rates for the relevant non-U.S. dollar currency or currencies. Any information about exchange rates that the relevant Issuer may provide will be furnished as a matter of information only, and holders should not regard the information as indicative of the range of, or trends in, fluctuations in currency exchange rates that may occur in the future. That rate will likely differ from the exchange rate used under the terms that apply to a particular Note.

All determinations made by the exchange rate agent will be in its sole discretion. In the absence of manifest error, those determinations will be conclusive for all purposes and binding on holders and the relevant Issuer, without any liability on the part of the exchange rate agent.

7. TAXES

The information below is applicable to ANZ New Zealand and (except in so far as express reference is made to the treatment of other persons) to persons who are subject to New Zealand taxation, UK taxation and United States federal taxation and hold Notes as an investment or, for United States federal tax purposes, as capital assets. It is based on current New Zealand, UK and United States tax law and published practice, which law or practice is subject to subsequent change (potentially with retrospective effect). Certain classes of holders may be taxed under special rules and are not considered.

United States federal income taxation

This section describes the material United States federal income tax consequences of owning the Notes the relevant Issuer is offering. It applies to holders who acquire Notes in the offering at the offering price and who hold the Notes as capital assets for tax purposes. This section addresses only United States federal income taxation and does not discuss all of the tax consequences that may be relevant to holders in light of the holders' individual circumstances, including foreign, state or local tax consequences, and tax consequences arising under the Medicare contribution tax on net investment income or the alternative minimum tax. This section does not describe all of the tax consequences that may apply to holders who are a member of a class of holders subject to special rules, such as:

- (a) a dealer in securities or currencies;
- (b) a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings;
- (c) a bank;
- (d) a life insurance company;
- (e) a tax-exempt organization;
- (f) a person that owns Notes that are a hedge or that are hedged against interest rate or currency risks;
- (g) a person that owns Notes as part of a straddle or conversion transaction for tax purposes;
- (h) A person that purchases or sells Notes as part of a wash sale for tax purposes; or
- (i) a United States Holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This section deals only with Notes that are due to mature 30 years or less from the date on which they are issued. The United States federal income tax consequences of owning Notes that are due to mature more than 30 years from their date of issue will be discussed in the applicable Final Terms.

This section is based on the Code, its legislative history, existing and proposed regulations under the Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

If an entity or arrangement that is treated as a partnership for United States federal income tax purposes holds the Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

The tax consequences of any particular Note depend on its terms, and any particular offering of Notes may have features or terms that cause the U.S. federal income tax treatment of the Notes to differ materially from the discussion below.

A holder should consult its own tax advisor concerning the consequences of owning these Notes in its particular circumstances under the Code and the laws of any other taxing jurisdiction.

United States Holders

This subsection describes the tax consequences to a United States Holder. The investor is a United States Holder if the investor is a beneficial owner of a Note and the investor is, for United States federal income tax purposes:

- (a) a citizen or resident of the United States;
- (b) a domestic corporation (including an entity treated as a domestic corporation for United States federal income tax purposes);
- (c) an estate whose income is subject to United States federal income tax regardless of its source; or
- (d) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If the investor is not a United States Holder, this subsection does not apply and the investor should refer to "– Non-United States Holders" below.

Payments of interest

Except as described below in the case of interest on a "discount Note" that is not "qualified stated interest", each as defined below under "– Original issue discount – General", the holder will be taxed on any interest on the Note, whether payable in U.S. dollars or a non-U.S. dollar currency, including a composite currency or basket of currencies other than U.S. dollars, as ordinary income at the time the holder receives the interest or when it accrues, depending on the holder's method of accounting for United States tax purposes.

Interest paid by the relevant Issuer on the Notes and original issue discount, if any, accrued with respect to the Notes (as described below under "– Original issue discount") and any additional amounts paid with respect to withholding tax on the Notes, including withholding tax on payments of such additional amounts ("**additional amounts**") is income from sources outside the United States subject to the rules regarding the foreign tax credit allowable to a United States Holder. Under the foreign tax credit rules, interest and original issue discount and additional amounts paid with respect to the Notes will generally be "passive category" income for purposes of computing the foreign tax credit.

Non-U.S. dollar Currency Notes – Cash basis taxpayers. If the holder is a taxpayer that uses the cash receipts and disbursements method of accounting for tax purposes and the holder receives an interest payment that is denominated in, or determined by reference to, a non-U.S. dollar currency, the holder must recognize income equal to the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the holder actually converts the payment into U.S. dollars.

Non-U.S. dollar Currency Notes – Accrual basis taxpayers. If the holder is a taxpayer that uses an accrual method of accounting for tax purposes, the holder may determine the amount of income that the holder recognizes with respect to an interest payment denominated in, or determined by reference to, a non-U.S. dollar currency by using one of two methods. Under the first method, the holder will determine the amount of income accrued based on the average exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, that part of the period within the taxable year.

If the holder elects the second method, the holder would determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period, or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, under this second method, if the holder receives a payment of interest within five business days of the last day of the applicable accrual period or taxable year, the holder may instead translate the interest accrued into U.S. dollars at the exchange rate in effect on the day that the holder actually receives the interest payment. If the holder elects the second method it will apply to all debt instruments that the holder holds at the beginning of the first taxable year to which the election applies and to all debt instruments that the holder subsequently acquires. The holder may not revoke this election without the consent of the IRS.

When the holder actually receives an interest payment, including a payment attributable to accrued but unpaid interest upon the sale or retirement of the Note, denominated in, or determined by reference to, a non-U.S. dollar currency for which the holder accrued an amount of income, the holder will recognize ordinary income or loss measured by the difference, if any, between the exchange rate that the holder used to accrue interest income and the exchange rate in effect on the date of receipt, regardless of whether the holder actually converts the payment into U.S. dollars.

Original issue discount

General. If the holder owns a Note, other than a short-term Note with a term of one year or less, it will be treated as a discount Note issued at an original issue discount, or "OID", if the amount by which the Note's stated redemption price at maturity exceeds its issue price is more than a specified *de minimis* amount. Generally, a Note's issue price will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. A Note's stated redemption price at maturity is the total of all payments provided by the Note that are not payments of qualified stated interest. Generally, an interest payment on a Note is qualified stated interest if it is one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate, with certain exceptions for lower rates paid during some periods, applied to the outstanding principal amount of the Note. There are special rules for variable rate Notes that are discussed under "–Variable rate notes".

In general, the Note is not a discount Note if the amount by which its stated redemption price at maturity exceeds its issue price is less than the *de minimis* amount of $\frac{1}{4}$ of 1% of its stated redemption price at maturity multiplied by the number of complete years to its maturity. The Note will have *de minimis* original issue discount if the amount of the excess is less than the *de minimis* amount. If the Note has *de minimis* original issue discount, the holder must include the *de minimis* amount in income as stated principal payments are made on the Note, unless the holder makes the election described below under "–Election to treat all interest as original issue discount". The holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note's *de minimis* original issue discount by a fraction equal to:

- (a) the amount of the principal payment made
divided by:
- (b) the stated principal amount of the Note.

Generally, if the discount Note matures more than one year from its date of issue, the holder must include OID in income before the holder receives cash attributable to that income. The amount of OID that the holder must include in income is calculated using a constant-yield method, and generally the holder will include increasingly greater amounts of OID in income over the life of the Note. More specifically, the holder can calculate the amount of OID that the holder must include in income by adding the daily portions of OID with respect to the discount Note for each day during the taxable year or portion of the taxable year that the holder holds the discount Note. The holder can determine the daily portion by allocating to each day in any accrual period a pro rata portion of the OID allocable to that accrual period. The holder may select an accrual period of any length with respect to the discount Note and the holder may vary the length of each accrual period over the term of the discount Note. However, no accrual period may be longer than one year and each scheduled payment of interest or principal on the discount Note must occur on either the first or final day of an accrual period.

The holder can determine the amount of OID allocable to an accrual period by:

- (a) multiplying the discount Note's adjusted issue price at the beginning of the accrual period by the Note's yield to maturity, and then
- (b) subtracting from this figure the sum of the payments of qualified stated interest on the Note allocable to the accrual period.

The holder must determine the discount Note's yield to maturity on the basis of compounding at the close of each accrual period and adjusting for the length of each accrual period. Further, the holder determines the discount Note's adjusted issue price at the beginning of any accrual period by:

- (a) adding the discount Note's issue price and any accrued OID for each prior accrual period, and then
- (b) subtracting any payments previously made on the discount Note that were not qualified stated interest payments.

If an interval between payments of qualified stated interest on the discount Note contains more than one accrual period, then, when determining the amount of OID allocable to an accrual period, the holder must allocate the amount of qualified

stated interest payable at the end of the interval, including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval, pro rata to each accrual period in the interval based on their relative lengths. In addition, the holder must increase the adjusted issue price at the beginning of each accrual period in the interval by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. The holder may compute the amount of OID allocable to an initial short accrual period by using any reasonable method if all other accrual periods, other than a final short accrual period, are of equal length.

The amount of OID allocable to the final accrual period is equal to the difference between:

- (a) the amount payable at the maturity of the Note, other than any payment of qualified stated interest; and
- (b) the Note's adjusted issue price as of the beginning of the final accrual period.

Acquisition premium. If the holder purchases the Note for an amount that is less than or equal to the sum of all amounts, other than qualified stated interest, payable on the Note after the purchase date but is greater than the amount of the Note's adjusted issue price, as determined above under "General", the excess is acquisition premium. If the holder does not make the election described below under "Election to treat all interest as original issue discount", then the holder must reduce the daily portions of OID by a fraction equal to:

- (a) the excess of the adjusted basis in the Note immediately after purchase over the adjusted issue price of the Note divided by:
- (b) the excess of the sum of all amounts payable, other than qualified stated interest, on the Note after the purchase date over the Note's adjusted issue price.

Pre-Issuance accrued interest. An election may be made to decrease the issue price of the Note by the amount of pre-issuance accrued interest if:

- (a) a portion of the initial purchase price of the Note is attributable to pre-issuance accrued interest;
- (b) the first stated interest payment on the Note is to be made within one year of such Note's issue date; and
- (c) the payment will equal or exceed the amount of pre-issuance accrued interest.

If this election is made, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on the Note.

Notes subject to contingencies including optional redemption. The Note is subject to a contingency if it provides for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies, other than a remote or incidental contingency, whether such contingency relates to payments of interest or of principal. In such a case, the holder must determine the yield and maturity of the Note by assuming that the payments will be made according to the payment schedule most likely to occur if:

- (a) the timing and amounts of the payments that comprise each payment schedule are known as of the issue date; and
- (b) one of such schedules is significantly more likely than not to occur.

If there is no single payment schedule that is significantly more likely than not to occur, other than because of a mandatory sinking fund, the holder must include income on the Note in accordance with the general rules that govern contingent payment obligations. These rules will be disclosed in the applicable Final Terms.

Notwithstanding the general rules for determining yield and maturity, if the Note is subject to contingencies, and either the holder or the relevant Issuer have an unconditional option or options that, if exercised, would require payments to be made on the Note under an alternative payment schedule or schedules, then:

- (a) in the case of an option or options that the relevant Issuer may exercise, it will be deemed to exercise or not exercise an option or combination of options in the manner that minimizes the yield on the Note; and
- (b) in the case of an option or options that the holder may exercise, the holder will be deemed to exercise or not exercise an option or combination of options in the manner that maximizes the yield on the Note.

If both the holder and the relevant Issuer hold options described in the preceding sentence, those rules will apply to each option in the order in which they may be exercised. The holder would determine the yield on the Note for the purposes of those calculations by using any date on which the Note may be redeemed or repurchased as the maturity date and the amount payable on such date in accordance with the terms of the Note as the principal amount payable at maturity.

If a contingency, including the exercise of an option, actually occurs or does not occur contrary to an assumption made according to the above rules then, except to the extent that a portion of the Note is repaid as a result of this change in circumstances and solely to determine the amount and accrual of OID, the holder must redetermine the yield and maturity of the Note by treating the Note as having been retired and reissued on the date of the change in circumstances for an amount equal to the Note's adjusted issue price on that date.

Election to treat all interest as original issue discount. The holder may elect to include in gross income all interest that accrues on the Note using the constant-yield method described above under "General", with the modifications described below. For purposes of this election, interest will include stated interest, OID, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium, described below under "Notes purchased at a premium," or acquisition premium.

If the holder makes this election for the Note, then, when the holder applies the constant-yield method:

- (a) the issue price of the Note will equal the cost;
- (b) the issue date of the Note will be the date the holder acquired it; and
- (c) no payments on the Note will be treated as payments of qualified stated interest.

Generally, this election will apply only to the Note for which the holder makes it; however, if the Note has amortizable bond premium, the holder will be deemed to have made an election to apply amortizable bond premium against interest for all debt instruments with amortizable bond premium, other than debt instruments the interest on which is excludible from gross income, that the holder holds as of the beginning of the taxable year to which the election applies or thereafter. Additionally, if the holder makes this election for a market discount Note, the holder will be treated as having made the election discussed below under “–Market discount” to include market discount in income currently over the life of all debt instruments having market discount that the holder acquires on or after the first day of the first taxable year to which the election applies. The holder may not revoke any election to apply the constant-yield method to all interest on a Note or the deemed elections with respect to amortizable bond premium or market discount Notes without the consent of the IRS.

Variable rate notes. The Note will be a variable rate note if:

- (a) The Note’s issue price does not exceed the total non-contingent principal payments by more than the lesser of:
 - 1. .015 multiplied by the product of the total non-contingent principal payments and the number of complete years to maturity from the issue date; or
 - 2. 15% of the total non-contingent principal payments; and
- (b) the Note provides for stated interest, compounded or paid at least annually, only at:
 - 1. one or more qualified floating rates;
 - 2. a single fixed rate and one or more qualified floating rates;
 - 3. a single objective rate; or
 - 4. a single fixed rate and a single objective rate that is a qualified inverse floating rate; and
- (c) the value of any floating rate on any date during the term of the Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

The Note will have a variable rate that is a qualified floating rate if:

- (a) variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Note is denominated; or
- (b) the rate is equal to such a rate either:
 - 1. multiplied by a fixed multiple that is greater than 0.65 but not more than 1.35; or
 - 2. multiplied by a fixed multiple greater than 0.65 but not more than 1.35, and then increased or decreased by a fixed rate.

If the Note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of the Note, the qualified floating rates together constitute a single qualified floating rate.

The Note will not have a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are caps, floors or governors that are fixed throughout the term of the Note or such restrictions are not reasonably expected to significantly affect the yield on the Note.

The Note will have a variable rate that is a single objective rate if:

- (a) the rate is not a qualified floating rate; and
- (b) the rate is determined using a single, fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the issuer or a related party.

The Note will not have a variable rate that is an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of the Note’s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Note’s term.

An objective rate as described above is a qualified inverse floating rate if:

- (a) the rate is equal to a fixed rate minus a qualified floating rate; and
- (b) the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

The Note will also have a single qualified floating rate or an objective rate if interest on the Note is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period, and either:

- (a) the fixed rate and the qualified floating rate or objective rate have values on the issue date of the Note that do not differ by more than 0.25 percentage points; or
- (b) the value of the qualified floating rate or objective rate is intended to approximate the fixed rate.

Federal Funds Rate Notes, LIBOR Notes and SOFR Notes generally will be treated as variable rate Notes under these rules.

In general, if the variable rate Note provides for stated interest at a single qualified floating rate or objective rate, or one of those rates after a single fixed rate for an initial period of one year or less that meets one of the two requirements described above, all stated interest on the Note is qualified stated interest. In this case, the amount of OID, if any, is determined by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate, a fixed rate that reflects the yield reasonably expected for the Note.

If the variable rate Note does not provide for stated interest at a single qualified floating rate or a single objective rate, and also does not provide for interest payable at a fixed rate other than a single fixed rate for an initial period of one year or less that meets one of the two requirements described above, the holder generally must determine the interest and OID accruals on the Note by:

- (a) determining a fixed rate substitute for each variable rate provided under the variable rate Note;
- (c) constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above;
- (d) determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument; and
- (e) adjusting for actual variable rates during the applicable accrual period.

When the holder determines the fixed rate substitute for each variable rate provided under the variable rate Note, the holder generally will use the value of each variable rate as of the issue date or, for an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on the Note.

If the variable rate Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and also provides for stated interest at a single fixed rate other than at a single fixed rate for an initial period of one year or less that meets one of the two requirements described above, the holder generally must determine interest and OID accruals by using the method described in the previous paragraph. However, the variable rate Note will be treated, for purposes of the first three steps of the determination, as if the Note had provided for a qualified floating rate, or a qualified inverse floating rate, rather than the fixed rate. The qualified floating rate, or qualified inverse floating rate, that replaces the fixed rate must be such that the fair market value of the variable rate Note as of the issue date approximates the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate, or qualified inverse floating rate, rather than the fixed rate.

Short-term Notes. In general, if the holder is an individual or other cash basis United States Holder of a short-term Note (i.e., a Note with a maturity of one year or less), the holder is not required to accrue OID, as specially defined below for the purposes of this paragraph, for United States federal income tax purposes unless the holder elects to do so (although it is possible that the holder may be required to include any stated interest in income as the holder receives it). If the holder is an accrual basis taxpayer, a taxpayer in a special class, including, but not limited to, a regulated investment company, common trust fund, or a certain type of pass-through entity, or a cash basis taxpayer who so elects, the holder will be required to accrue OID on short-term Notes on either a straight-line basis or under the constant-yield method, based on daily compounding. If the holder is not required and do not elect to include OID in income currently, any gain the holder realizes on the sale or retirement of the short-term Note will be ordinary income to the extent of the accrued OID, which will be determined on a straight-line basis unless the holder makes an election to accrue the OID under the constant-yield method, through the date of sale or retirement. However, if the holder is not required and does not elect to accrue OID on the short-term Notes, the holder will be required to defer deductions for interest on borrowings allocable to the short-term Notes in an amount not exceeding the deferred income until the deferred income is realized.

When the holder determines the amount of OID subject to these rules, the holder must include all interest payments on the short-term Note, including stated interest, in the short-term Note's stated redemption price at maturity.

Non-U.S. dollar currency discount Notes. If the discount Note is denominated in, or determined by reference to, a non-U.S. dollar currency, the holder must determine OID for any accrual period on the discount Note in the non-U.S. dollar currency and then translate the amount of OID into U.S. dollars in the same manner as stated interest accrued by an accrual basis United States Holder, as described under "—United States Holders—Payments of interest". The holder may recognize ordinary income or loss when the holder receives an amount attributable to OID in connection with a payment of interest or the sale or retirement of the Note.

Market discount

The holder will be treated as if the holder purchased the Note, other than a short-term Note, at a market discount, and the Note will be a market discount Note if:

- (a) the holder purchases the Note for less than its issue price as determined above under "—Original issue discount—General"; and
- (b) the difference between the Note's stated redemption price at maturity or, in the case of a discount Note, the Note's revised issue price, and the price the holder paid for the Note is equal to or greater than $\frac{1}{4}$ of 1% of the Note's stated redemption price at maturity multiplied by the number of complete years to the Note's maturity. To determine the revised issue price of the Note for these purposes, the holder generally adds any OID that has accrued on the Note to its issue price.

If the Note's stated redemption price at maturity or, in the case of a discount Note, its revised issue price, exceeds the price the holder paid for the Note by less than $\frac{1}{4}$ of 1% of the Note's stated redemption price at maturity multiplied by the number of complete years to the Note's maturity, the excess constitutes *de minimis* market discount, and the rules discussed below are not applicable.

The holder must treat any gain the holder recognizes on the maturity or disposition of the market discount Note as ordinary income to the extent of the accrued market discount on the Note. Alternatively, the holder may elect to include market discount in income currently over the life of the Note. If the holder makes this election, it will apply to all debt instruments with market discount that the holder acquires on or after the first day of the first taxable year to which the election applies. The holder may not revoke this election without the consent of the IRS. If the holder owns a market discount Note and does not make this election, the holder will generally be required to defer deductions for interest on borrowings allocable to the Note in an amount not exceeding the accrued market discount on the Note until the maturity or disposition of the Note.

The holder will accrue market discount on the market discount Note on a straight-line basis unless the holder elects to accrue market discount using a constant-yield method. If the holder makes this election, it will apply only to the Note with respect to which it is made and the holder may not revoke it. The holder would, however, not include accrued market discount in income unless it elects to do so as described above.

Notes purchased at a premium

If the holder purchases the Note for an amount in excess of its principal amount (or, in the case of a discount Note, in excess of the sum of all amounts payable on the Note after the acquisition date (other than payments of qualified stated interest)), the holder may elect to treat the excess as amortizable bond premium. If the holder makes this election, the holder will reduce the amount required to be included in the income each accrual period with respect to interest on the Note by the amount of amortizable bond premium allocable to that accrual period, based on the Note's yield to maturity.

If the amortizable bond premium allocable to an accrual period exceeds the interest income from the Notes for such accrual period, such excess is first allowed as a deduction to the extent of interest included in income in respect of the Notes in previous accrual periods and is then carried forward to the next accrual period. If the amortizable bond premium allocable and carried forward to the accrual period in which the Notes are sold, retired or otherwise disposed of exceeds the interest income for such accrual period, the holder would be allowed an ordinary deduction equal to such excess.

If the Note is denominated in, or determined by reference to, a non-U.S. dollar currency, the holder will compute the amortizable bond premium in units of the non-U.S. dollar currency and the amortizable bond premium will reduce the interest income in units of the non-U.S. dollar currency. Gain or loss recognized that is attributable to changes in exchange rates between the time the amortized bond premium offsets interest income and the time of the acquisition of the Note is generally taxable as ordinary income or loss. If the holder makes an election to amortize bond premium, it will apply to all debt instruments, other than debt instruments the interest on which is excludible from gross income, that the holder holds at the beginning of the first taxable year to which the election applies or that the holder thereafter acquires, and the holder may not revoke it without the consent of the IRS. See also "—Original issue discount—Election to treat all interest as original issue discount".

Purchase, sale and retirement of the Notes

The tax basis in the Note will generally be the U.S. dollar cost, as defined below, of the Note, adjusted by:

- (a) adding any OID or market discount previously included in income with respect to the Note, and then
- (b) subtracting any payments on the Note that are not qualified stated interest payments and any amortizable bond premium to the extent that such premium either reduced interest income on the Note or gave rise to a deduction on the Note.

If the holder purchases the Note with non-U.S. dollar currency, the U.S. dollar cost of the Note will generally be the U.S. dollar value of the purchase price on the date of purchase. However, if the holder is a cash basis taxpayer, or an accrual basis taxpayer if the holder so elects, and the Note is traded on an established securities market, as defined in the applicable Treasury regulations, the U.S. dollar cost of the Note will be the U.S. dollar value of the purchase price on the settlement date of the purchase.

The holder will generally recognize gain or loss on the sale or retirement of the Note equal to the difference between the amount the holder realizes on the sale or retirement, excluding any amounts attributable to accrued but unpaid interest (which will be treated as interest payments) and the adjusted tax basis in the Note. If the Note is sold or retired for an amount in non-U.S. dollar currency, the amount the holder realizes will be the U.S. dollar value of such amount on the date the Note is disposed of or retired, except that in the case of a Note that is traded on an established securities market, as defined in the applicable Treasury regulations, a cash basis taxpayer, or an accrual basis taxpayer that so elects, will determine the amount realized based on the U.S. dollar value of the non-U.S. dollar currency on the settlement date of the sale.

The holder will recognize capital gain or loss when the holder sells or retires the Note, except to the extent:

- (a) described above under "— Original issue discount-Short-term Notes" or "— Market discount";
- (b) attributable to accrued but unpaid interest; or
- (c) attributable to changes in exchange rates as described below.

Capital gain of a non-corporate United States Holder is generally taxed at a preferential rate where the holder has a holding period greater than one year.

The holder must treat any portion of the gain or loss that the holder recognizes on the sale or retirement of a Note as ordinary income or loss to the extent attributable to changes in exchange rates. However, the holder will take exchange gain or loss into account only to the extent of the total gain or loss the holder realizes on the transaction.

Exchange of amounts in other than U.S. dollars

If the holder receives non-U.S. dollar currency as interest on the Note or on the sale or retirement of the Note, the tax basis in the non-U.S. dollar currency will equal its U.S. dollar value when the interest is received or at the time of the sale or retirement. If the holder purchases non-U.S. dollar currency, the holder generally will have a tax basis equal to the U.S. dollar value of the non-U.S. dollar currency on the date of the purchase. If the holder sells or disposes of a non-U.S. dollar currency, including if the holder uses it to purchase Notes or exchanges it for U.S. dollars, any gain or loss recognized generally will be ordinary income or loss.

Contingent Payment Obligations

The applicable Final Terms will discuss any special United States federal income tax rules with respect to Notes that are subject to the rules governing contingent payment obligations.

Treasury Regulations Requiring Disclosure of Reportable Transactions

U.S. Treasury regulations require United States taxpayers to report certain transactions that give rise to a loss in excess of certain thresholds (a "Reportable Transaction"). Under these regulations, if the Notes are denominated in a non-U.S. dollar currency, a United States Holder (or a Non-United States Holder that holds the Notes in connection with a U.S. trade or business) that recognizes a loss with respect to the Notes that is characterized as an ordinary loss due to changes in currency exchange rates (under any of the rules discussed above) would be required to report the loss on IRS Form 8886 (Reportable Transaction Statement) if the loss exceeds the thresholds set forth in the regulations. For individuals and trusts, this loss

threshold is \$50,000 in any single taxable year. For other types of taxpayers and other types of losses, the thresholds are higher. Investors should consult with their tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of Notes.

Information with Respect to Foreign Financial Assets

A United States Holder that owns "specified foreign financial assets" with an aggregate value in excess of \$50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts that have non-United States issuers or counterparties, and (iii) interests in foreign entities. Notes should qualify as specified foreign financial assets unless held in accounts maintained by financial institutions. United States Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Notes.

FATCA Withholding

A 30% withholding tax may be imposed on certain payments to certain non-U.S. financial institutions that fail to comply with information collection and reporting requirements or certification requirements in respect of their direct and/or indirect shareholders and/or accountholders that are tax resident in the U.S. (including certain non-U.S. entities that are controlled by U.S. tax residents). Accountholders subject to such information collection/ reporting or certification requirements may include holders of certain Notes, and the Issuer may be required to withhold on a portion of any payment made under such Notes. In addition, the Issuer may be required to withhold on a portion of any payment under any Note that is made to a non-U.S. financial institution that has not agreed to comply with these information reporting requirements or has been found to be non-compliant in its execution of the obligations by the U.S. IRS. Such withholding may be imposed at any point in a chain of payments if a payee fails to comply with U.S. information collection, reporting, certification and related requirements. Accordingly, Notes held through a non-compliant institution may be subject to withholding even if the holder of the Note otherwise would not be subject to withholding. However, under proposed U.S. Treasury regulations, such withholding will not apply to payments made before the date that is two years after the date on which final regulations defining the term "foreign passthru payment" are enacted. Moreover such withholding would only apply to notes issued at least six months after the date on which final regulations defining the term "foreign passthru payment" are enacted.

While a New Zealand resident Reporting Financial Institution (as defined in the relevant intergovernmental agreement) that complies with its obligations under the applicable intergovernmental agreement will generally not be subject to FATCA withholding on amounts it receives, and will not generally be required to make FATCA withholding from payments it makes with respect to the Notes (other than in certain prescribed circumstances), FATCA withholding on counterparty or third party dealings may indirectly affect the New Zealand resident Reporting Financial Institution.

Investors should consult their tax advisors and their banks or brokers regarding the possibility of this withholding.

Non-United States Holders

This subsection describes the tax consequences to a Non-United States Holder. The discussion below does not address the tax consequences to a Non-United States Holder of an investment in a note that references directly or indirectly the performance of United States equities. The tax treatment of any such notes will be discussed in the applicable Final Terms. The investor is a Non-United States Holder if the investor is a beneficial owner of a Note and the investor is, for United States federal income tax purposes:

- (a) a non-resident alien individual;
- (b) a foreign corporation; or
- (c) an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Note.

If the investor is a United States Holder, this subsection does not apply.

Under United States federal income and estate tax law, and subject to the discussion of backup withholding below, if the investor is a Non-United States Holder of a Note, interest on a Note paid to the investor is exempt from United States federal income tax, including withholding tax, whether or not the investor is engaged in a trade or business in the United States, unless:

- (a) the investor is an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code; or
- (b) the investor both
 - has an office or other fixed place of business in the United States to which the interest is attributable; and
 - derives the interest in the active conduct of a banking, financing or similar business within the United States.

Purchase, sale, retirement and other disposition of the Notes

If the investor is a Non-United States Holder of a Note, the investor generally will not be subject to United States federal income tax on gain realized on the sale, exchange or retirement of a Note unless:

- (a) the gain is effectively connected with the conduct of a trade or business in the United States; or
- (b) the investor is an individual, the investor is present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions exist.

For purposes of the United States federal estate tax, the Notes will be treated as situated outside the United States and will not be includible in the gross estate of a holder who is neither a citizen nor a resident of the United States (as specially defined for United States federal estate tax purposes) at the time of death.

Backup withholding and information reporting

In general, if the investor is a non-corporate United States Holder, the relevant Issuer and other payors are required to report to the IRS all payments of principal, any premium and interest on the Note within the United States. Information reporting may also apply in respect of any OID that accrues on a discount Note. In addition, the relevant Issuer and other payors are required to report to the IRS any payment of proceeds of the sale of the Note before maturity within the United States. Additionally, backup withholding would apply to any payments if the investor fails to provide an accurate taxpayer identification number, or (in the case of interest payments) the investor is notified by the IRS that the investor has failed to report all interest and dividends required to be shown on the federal income tax returns.

If the investor is a Non-United States Holder, the investor is generally exempt from backup withholding and information reporting requirements with respect to payments of principal and interest made to the investor is outside the United States by the relevant Issuer or another non-United States payor. The investor is also generally exempt from backup withholding and information reporting requirements in respect of payments of principal and interest made within the United States and the payment of the proceeds from the sale of a Note effected at a United States office of a broker, as long as either (i) the payor or broker does not have actual knowledge or reason to know that the investor is a United States person and the investor has furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a non-United States person, or (ii) the investor otherwise establishes an exemption.

In general, payment of the proceeds from the sale of Notes effected at a foreign office of a broker will not be subject to information reporting or backup withholding. However, a sale of Notes that is effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if:

- (a) the broker has certain connections to the United States;
- (b) the proceeds or confirmation are transferred or mailed to an account or address maintained by the investor in the United States; or
- (c) the sale has certain other specified connections with the United States as provided in U.S. Treasury regulations, unless the broker does not have actual knowledge or reason to know that the investor is a United States person and the documentation requirements described above are met or the investor otherwise establishes an exemption.

The investor generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed the United States federal income tax by filing a refund claim with the IRS.

New Zealand taxation

The following is a summary of the New Zealand withholding tax treatment at the date of this Offering Memorandum in relation to payments of interest in respect of Notes issued on or after March 30, 2017. The comments do not deal with other New Zealand tax aspects of acquiring, holding or disposing of Notes. The comments are based on the current New Zealand tax law and published practice, which law or practice may be subject to subsequent change (potentially with retrospective effect). Each investor contemplating acquiring Notes is advised to consult a professional adviser in connection with the consequences relating to the acquisition, retention and disposition of Notes.

References in this section "Taxes—New Zealand taxation" to the following terms:

- (a) associated;
- (b) fixed establishment;
- (c) registered bank; and
- (d) resident in New Zealand,

shall have the same meaning given to that term in the Income Tax Act 2007 (NZ), unless the context requires otherwise.

Non-resident withholding tax

New Zealand law requires a deduction on account of non-resident withholding tax to be made from the payment of interest to any holder who is a NRWT Holder (as defined below). Where such deduction is required, ANZ New Zealand and ANZNIL intend (for so long as they do not incur any increased cost or detriment from so doing and are legally able to do so) to reduce the applicable rate of non-resident withholding tax to 0% by registering the medium-term note program with the IRD and paying, on its own account, a levy equal to 2% of the relevant interest payment.

Where a holder who is a NRWT Holder holds the Note jointly with a person who is a New Zealand tax resident, non-resident withholding tax must be deducted from interest paid to the NRWT Holder at the applicable rate of resident withholding tax. Payment of the approved issuer levy does not allow a zero percent rate of non-resident withholding tax in this case. Relief from New Zealand tax under an applicable double taxation treaty may be available, but only on application to the IRD for a refund of over-deducted tax. Neither the Issuer nor, where applicable, the Guarantor will pay an additional amount to the NRWT Holder in respect of non-resident withholding tax deducted in that case.

The term "**NRWT Holder**" means a holder who is not resident in New Zealand, other than

- (a) a holder that holds the Notes for the purposes of a business that the holder carries on in New Zealand through a fixed establishment in New Zealand; or
- (b) a holder that is a registered bank engaged in business in New Zealand through a fixed establishment in New Zealand and is not associated with the Issuer.

Resident withholding tax

ANZ New Zealand and ANZNIL are required by law to deduct New Zealand resident withholding tax from the payment of interest, including amounts deemed to be interest, to the holder of any Note on any interest payment date or the maturity date, and, similarly, ANZ New Zealand is required to make such deductions from payments under the guarantee to the extent such payments constitute interest for New Zealand tax purposes, where:

- (a) the holder is not a NRWT Holder ("**RWT Holder**"); and
- (b) at the time of such payment the RWT Holder does not have RWT-exempt status (as defined in the Income Tax Act 2007 (NZ)) in respect of New Zealand resident withholding tax.

Prior to any interest payment date or the maturity date, any RWT Holder:

- (a) must notify the Issuer, the Guarantor or any Paying Agent, as the case may be, that the RWT Holder is the holder of a Note; and
- (b) must notify the Issuer, the Guarantor or a Paying Agent of any circumstances and provide the Issuer, Guarantor or the relevant Paying Agent with any information that may enable the Issuer or the Guarantor, as the case may be, to make the payment of interest to the RWT Holder without deduction on account of New Zealand resident withholding tax.

The RWT Holder must notify the Issuer and the Guarantor, as the case may be, prior to any interest payment date or the maturity date, of any change in the RWT Holder's circumstances from those previously notified that could affect ANZ New Zealand's or ANZNIL's, as the case may be, payment or withholding obligations in respect of any Note. By accepting payment of the full face amount of a Note or any interest thereon on any interest payment date or the maturity date, the RWT Holder will be deemed to have indemnified ANZ New Zealand or ANZNIL, as the case may be, for all purposes in respect of any liability which ANZ New Zealand or ANZNIL, as the case may be, may incur for not deducting any amount from such payment on account of New Zealand resident withholding tax.

Other taxes

No ad valorem stamp, issue, registration or similar taxes are payable in New Zealand in connection with the issue of the Notes or the Guarantee. Furthermore, a transfer of or agreement to transfer the Notes or the Guarantee executed outside of New Zealand will not be subject to New Zealand stamp duty.

UK taxation

The following is a summary of the UK withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes and the UK stamp duties treatment at the date hereof in relation to the issue and transfer of the Notes and issue of the Guarantee. The comments do not deal with other UK tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and is based on the current law and practice of Her Majesty's Revenue and Customs ("**HMRC**"). Prospective holders should be aware that the particular terms of issue of any series of Notes as specified in the applicable Final Terms may affect the tax treatment of that and other series of Notes. The following is a general guide and should be treated with appropriate caution. Holders who are in any doubt as to their tax position should consult their professional advisers. Holders who may be liable to taxation in jurisdictions other than the UK in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the Notes. In particular, holders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

UK withholding tax on UK source interest

Interest on Notes may be paid by the relevant Issuer without withholding or deduction for or on account of UK income tax except in circumstances where such interest has a UK source ("**UK Interest**"). Interest on Notes may have a UK source where, for example, the Notes are issued by an Issuer acting through a branch or permanent establishment in the UK, the notes are secured on assets situated in the UK or the interest is paid out of funds maintained in the UK. Notes which carry a right to UK Interest are referred to in this UK taxation section as "UK Notes".

UK Notes will constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007 provided they carry a right to interest and are, and continue to be, either (1) listed on a recognized stock exchange within the meaning of section 1005 Income Tax Act 2007 or (2) admitted to trading on certain types of multilateral trading facilities. HMRC may designate certain exchanges as recognized stock exchanges. The London Stock Exchange is a recognized stock exchange for these purposes. Securities will be treated as listed on a recognized stock exchange only if they are both: (i) admitted to trading on that exchange and (ii) are either included in the official UK list or are officially listed in a qualifying country outside the UK in accordance with provisions corresponding to those generally applicable in EEA States. Provided that the UK Notes are and continue to be quoted Eurobonds, payments of interest on the UK Notes may be made without withholding or deduction for or on account of UK income tax.

In all cases falling outside the exemptions described above, interest on UK Notes may fall to be paid under deduction of UK income tax at the basic rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

Payments by Guarantor

If the Guarantor makes any payments in respect of interest on UK Notes (or other amounts due under UK Notes other than the repayment of amounts subscribed for such UK Notes) such payments may be subject to UK withholding tax at the basic rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other exemption which may apply. Such payment by the Guarantor may not be eligible for all the exemptions described above under "UK withholding tax on UK source interest".

Other rules relating to UK withholding tax

The Notes may be issued at an issue price of less than 100% of their principal amount. Any discount element on such Notes will not, under current UK practice, be treated as interest for UK withholding tax purposes. On that basis, discounts will not

be subject to any UK withholding tax, pursuant to the provisions mentioned above under "UK withholding tax on UK source interest".

Where the Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest for UK tax purposes. If so, such payments of interest are subject to UK withholding tax in the same circumstances and subject to the same exemptions as are outlined above.

Where interest has been paid under deduction of UK income tax, holders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "**interest**" in this UK taxation section mean "interest" as understood in UK tax law. The statements do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

The above description of the UK withholding tax position assumes that there will be no substitution of an Issuer and does not consider the tax consequences of any such substitution.

UK stamp duties

No UK stamp duty, stamp duty reserve tax or other similar tax is payable in connection with the issue of the Notes or the Guarantee. No requirement to pay UK stamp duty should arise in respect of a document relating to any transfer of the Notes in any case where the document is executed outside, and does not relate to anything to be done within, the UK. No stamp duty will be payable on a document relating to a transfer of the Notes, and no stamp duty reserve tax will be payable in respect of any agreement to transfer Notes, if the Notes do not carry and have not carried any of the following:

- (a) a conversion right or rights to acquire other shares or securities;
- (b) a right to interest the amount of which exceeds a reasonable commercial return on the nominal amount of the capital;
- (c) a right to interest, the amount of which falls or has fallen to be determined to any extent by reference to results of, or of any part of, a business or to the value of any property; or
- (d) a right on repayment to an amount which exceeds the nominal amount of capital and is not reasonably comparable with what is generally repayable (in respect of a similar nominal amount of capital) under the terms of issue of loan capital listed in the Official List of the London Stock Exchange.

For Notes that do contain or have contained such a term then (assuming that any register relating to the Notes is kept outside the UK), no stamp duty reserve tax arises on any agreement to transfer such Notes unless the Notes give the holder a right to allotments of or to subscribe for, or an option to acquire, or an interest in (or in dividends or other rights arising out of) stocks, shares or certain types of loan capital in a company which are: (i) interests in a UK incorporated company; (ii) which are registered in a register kept in the UK; or (iii) are shares and are "paired" (as defined in section 99(6B) of the Finance Act 1986) with shares issued by a UK incorporated company.

General

None of ANZ New Zealand, nor ANZNIL or any of the Agents make any comment about the treatment for taxation purposes of payments or receipts in respect of the Notes. Each investor contemplating acquiring Notes is advised to consult a professional adviser in connection with the consequences relating to the acquisition, retention and disposition of Notes.

8. EMPLOYEE RETIREMENT INCOME SECURITY ACT

A fiduciary of a pension, profit-sharing or other employee benefit plan (a “**plan**”) subject to ERISA should consider the fiduciary standards of ERISA in the context of the plan’s particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code (also “**plans**”), from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code (“**parties in interest**”) with respect to the plan. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain employee benefit plans and arrangements including those that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) (“**non-ERISA arrangements**”) are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, foreign or other regulations, rules or laws (“**similar laws**”).

The acquisition or holding of the Notes by a plan with respect to which the relevant Issuer or certain of its affiliates is or becomes a party in interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired and held pursuant to and in accordance with an applicable exemption. Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities where neither ANZ New Zealand nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of the plan involved in the transaction and the plan pays no more and receives no less than “adequate consideration” in connection with the transaction (the “**service provider exemption**”). The U.S. Department of Labor has also issued several prohibited transaction class exemptions, or “**PTCEs**”, that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions include:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

Any purchaser or holder of Notes or any interest therein will be deemed to have represented by its purchase and holding of the Notes that it either (1) is not a plan and is not purchasing those Notes on behalf of or with “plan assets” of any plan or (2) with respect to the purchase or holding is eligible for the exemptive relief available under any of the PTCEs listed above, the service provider exemption or another applicable exemption. In addition, any purchaser or holder of Notes or any interest therein which is a non-ERISA arrangement will be deemed to have represented by its purchase or holding of the Notes that its purchase and holding will not constitute or result in a non-exempt violation of the provisions of any similar law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with “plan assets” of any plan or non-ERISA arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase or holding under similar laws, as applicable. Neither this discussion nor anything in this Offering Memorandum is or is intended to be investment advice directed at any potential purchaser that is a plan or non-ERISA arrangement, or at such purchasers and holders generally, and such purchasers and holders should consult and rely on their counsel and advisors as to whether an investment in the Notes is suitable and consistent with ERISA, the Code and any similar laws, as applicable.

If the investor is an insurance company or the fiduciary of a pension plan or an employee benefit plan, and proposes to invest in Notes, the investor should consult their legal counsel.

9. PLAN OF DISTRIBUTION

The Notes are being offered on a periodic basis for sale by the Issuers through J.P. Morgan Securities LLC, ANZ Securities, Inc., Barclays Capital Inc., BofA Securities, Inc., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, HSBC Securities (USA) Inc., Morgan Stanley & Co. LLC, RBC Capital Markets, LLC and Wells Fargo Securities, LLC and each agent appointed from time to time by the Issuers under and in accordance with the terms of the Distribution Agreement (the "**Agents**"), each of which has agreed to use its reasonable best efforts to solicit offers to purchase the Notes. The applicable Issuer will pay the applicable Agent a commission which will equal the percentage of the principal amount of any such Note sold through such Agent set forth in the applicable Final Terms. An Issuer may also sell Notes to an Agent, as principal, at a discount from the principal amount thereof, and such Agent may later resell such Notes to investors and other purchasers at varying prices related to prevailing market prices at the time of sale as determined by such Agent. An Issuer may also sell Notes directly to, and may solicit and accept offers to purchase directly from, investors on its own behalf in those jurisdictions where it is authorized to do so. The Notes will be offered in accordance with the provisions of the Distribution Agreement.

In addition, the Agents may offer the Notes they have purchased as principal to other Agents. The Agents may sell Notes to any Agent at a discount. Unless otherwise indicated, any Note sold to an Agent as principal will be purchased by such Agent at a price equal to 100% of the principal amount thereof less a percentage equal to the commission applicable to any agency sale of a Note of identical term, and may be resold by such Agent to investors and other purchasers from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale or may be resold to certain dealers as described above. After the initial offering of Notes to be resold to investors and other purchasers on a fixed offering price basis, the offering price, concession and discount may be changed.

Each Issuer reserves the right to withdraw, cancel or modify the offer made hereby without notice and may reject orders in whole or in part whether placed directly with such Issuer or through an Agent. Each Agent will have the right, in its discretion reasonably exercised, to reject any offer to purchase Notes received by it, in whole or in part.

In connection with an offering of Notes purchased by one or more Agents as principal on a fixed offering price basis, such Agent(s) will be permitted to over-allot or engage in transactions that stabilize the price of Notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of Notes. If the Agent creates or the Agents create, as the case may be, a short position in Notes, that is, if it sells or they sell Notes in an aggregate principal amount exceeding that set forth in the applicable Final Terms, such Agent(s) may reduce that short position by purchasing Notes in the open market. In general, purchase of Notes for the purpose of stabilization or to reduce a short position could cause the price of Notes to be higher than it might be in the absence of such purchases. Such stabilization if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilization, if any, shall be outside New Zealand (and not on any market in New Zealand) and in accordance with all applicable laws and rules.

None of the Issuers, ANZ New Zealand (in the case of ANZNIL Notes) or any of the Agents makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of Notes. In addition, none of the Issuers, ANZ New Zealand (in the case of ANZNIL Notes) or any of the Agents make any representation that the Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Agents may from time to time purchase and sell Notes in the secondary market, but they are not obligated to do so, and there can be no assurance that there will be a secondary market for the Notes or liquidity in the secondary market if one develops. From time to time, the Agents may make a market in the Notes.

The Issuers have agreed to indemnify the several Agents against and to make contributions relating to certain liabilities, including liabilities under the Securities Act. The Agents and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The Agents may engage in transactions with, or perform services for, the Issuers in the ordinary course of business.

Some of the Agents or their affiliates have, directly or indirectly, performed investment and/or commercial banking or financial advisory services for the Issuers or their affiliates, for which they may have received customary fees and commissions, and they expect to provide these services to the Issuers and their affiliates in the future, for which they may also receive customary fees and commissions. In the ordinary course of their various business activities, the Agents and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and instruments of the Issuers. If any of the Agents or their affiliates have a lending relationship with us, certain of those Agents or their affiliates routinely hedge, and certain other of those Agents or their affiliates may hedge, their credit exposure to the relevant Issuer consistent with their customary risk management policies. Typically, these Agents and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the relevant Issuer's securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Agents and their respective affiliates may also make investment recommendations and publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

United States

The Notes are not being registered under the Securities Act in reliance upon Regulation S and the exemptions from registration provided by Section 4(a)(2) of the Securities Act and Rule 144A. The Notes are being offered hereby only (A) to QIBs in reliance on Rule 144A and (B) to persons other than U.S. persons (as defined in Regulation S) in offshore transactions in reliance upon Regulation S. The minimum principal amount of Notes which may be purchased for any account is US\$200,000 or such larger principal amounts as shall be specified in the applicable Final Terms as the minimum denomination for the Notes of a relevant Tranche (or, in either case, the equivalent thereof in another currency or composite currency).

Prior to any issuance of Notes in reliance on Regulation S, each relevant agent will be deemed to represent and agree that it will send to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes

from them during the distribution compliance period (as defined in Regulation S) a confirmation or notice substantially to the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not as a matter of U.S. law be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S (or Rule 144A, if available) under the Securities Act. Terms used above have the meaning given to them by Regulation S".

Until the expiration of the period ending 40 days after the later of the commencement of the offering and the issue date of the Notes, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from Registration under the Securities Act.

There is no undertaking to register the Notes hereafter and they cannot be resold except pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act. Each purchaser of the Notes offered hereby in making its purchase shall be deemed to have made the acknowledgments, representations and agreements as set forth under "Notice to Purchasers" contained on pages i through iii hereof.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("**NI 33-105**"), the Agents are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Upon receipt of this Offering Memorandum, each Canadian purchaser is hereby deemed to confirm that it has expressly requested that all documents evidencing or relating in any way to the sale of the Notes described herein (including, for the avoidance of doubt, any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque acheteur canadien est réputé d'avoir confirmé par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des billets décrites aux présentes (incluant, pour éviter toute incertitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

Hong Kong

The Notes have not been offered or sold and will not be offered or sold in Hong Kong by means of any document (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO")) other than (i) to "professional investors" as defined in the SFO and any rules made thereunder or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O")) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and no advertisement, invitation or document relating to the Notes has been issued or was in the possession of any person for the purposes of issue, or may be issued or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") on the ground that the solicitation for subscription of the notes falls within the definition of "solicitation to qualified institutional investors" as defined in Article 2, paragraph 3, item 2 (I) of the FIEA. Such solicitation shall be subject to the condition that qualified institutional investors (as defined under the FIEA, "**QIIs**") who acquired the Notes shall enter into an agreement which provides that it shall not transfer such interests to anyone other than another QIIs and accordingly, the Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to, or for the account or benefit of, any Japanese Person or to, or for the account or benefit of, others for re-offering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any Japanese Person except the private placement pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For purposes of this paragraph "Japanese Person" means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

New Zealand

No action has been or will be taken by any Issuer, the Guarantor or the Agents which would permit a public or regulated offering of any of the Notes, or possession or distribution of any offering material in relation to the Notes, in New Zealand.

Each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that it has not offered, sold or delivered and will not directly or indirectly offer, sell or deliver any Note, and it will not distribute any offering memorandum or advertisement in relation to any offer of Notes, in New Zealand, other than to any or all of the following persons only:

- (a) "wholesale investors" as that term is defined in clauses 3(2)(a), (c) and (d) of Schedule 1 to the Financial Markets Conduct Act 2013 of New Zealand (the "**FMC Act**"), being a person who is:
 - (i) an "investment business";
 - (ii) "large"; or
 - (iii) a "government agency",
 in each case as defined in Schedule 1 to the FMC Act; and
- (b) in other circumstances where there is no contravention of the FMC Act, provided that (without limiting paragraph (a) above) Notes may not be offered or transferred to any "eligible investors" (as defined in the FMC Act) or any person that meets the investment activity criteria specified in clause 38 of Schedule 1 to the FMC Act.

In addition, each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that it has not offered or sold, and will not offer or sell, any Notes to persons whom it believes to be persons to whom any amounts payable on the Notes are or would be subject to New Zealand resident withholding tax, unless such persons certify that they have RWT-exempt status (as defined in the Income Tax Act 2007 (NZ)) in respect of New Zealand resident withholding tax, and provide a New Zealand tax file number to such Agent (in which event the Agent shall provide details thereof to the relevant Issuer or to the Fiscal Agent).

Prohibition of Sales to UK Retail Investors

Each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that it will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Final Terms in relation thereto to any retail investor in the UK. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or
- (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA.

Prohibition of Sales to EEA Retail Investors

Each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that it will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

South Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea. The Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transactions Law of Korea and its Enforcement Decree), or to any other person for reoffering, resale or re-delivery, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations. Without prejudice to the foregoing, the number of the Notes offered in Korea or to a resident in Korea shall be less than fifty, and for a period of one year from the issue date of the Notes, none of the Notes may be divided resulting in an increase number of the Notes. Furthermore, the Notes may not be resold to Korean residents unless the purchaser of the Notes complies with all applicable regulatory requirements (including but not limited to government reporting requirements under the Foreign Exchange Transactions Law of Korea and its Enforcement Decree) in connection with the purchase of the Notes.

Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; or
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law; or
- (4) as specified in Section 276(7) of the SFA; or
- (5) specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

A reference to the "SFA" is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Taiwan

The Notes may be made available for purchase from outside Taiwan by investors residing in Taiwan either directly or through a duly licensed Taiwan intermediary, but may not be offered or sold in Taiwan. Any subscriptions of Notes shall only become effective upon acceptance by the relevant Issuer or the relevant Agent outside Taiwan and shall be deemed a contract entered into in the jurisdiction of incorporation of the relevant Issuer or Agent, as the case may be.

UK

Each Agent, and each further Agent appointed under the Distribution Agreement, will be deemed to represent and agree that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or, in the case of ANZNIL Notes, the Guarantor; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the UK.

10. LEGAL MATTERS

The validity of the Notes under New York law will be passed upon for the relevant Issuer by ANZ New Zealand's United States counsel Sullivan & Cromwell, Melbourne, Australia. The validity of the Notes under New York law will be passed upon for the Agents by their United States counsel, Sidley Austin LLP, New York, New York, United States. The validity of the Notes under New Zealand law will be passed upon for the relevant Issuer by their New Zealand counsel Russell McVeagh, Wellington, New Zealand. These opinions will be conditioned upon, and subject to certain assumptions regarding future action required to be taken by the relevant Issuer, ANZ New Zealand (in the case of ANZNIL Notes) and the Fiscal Agent in connection with the issuance and sale of any particular Note, the specific terms of Notes and other matters which may affect the validity of Notes but which cannot be ascertained at the date of such opinions.

11. INDEPENDENT AUDITORS

The consolidated financial statements of ANZ New Zealand and its subsidiaries as at September 30, 2020, and September 30, 2019, and for each of the financial years then ended have been audited by KPMG, independent accountants, as stated in their reports appearing herein.

The independent auditor's reports for those periods contain the following emphasis of matter:

"EMPHASIS OF MATTER - NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the Disclosure Statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to:

- Capital adequacy;*
- Exposures to connected persons; and*
- Outsourcing.*

Further details of the matters relating to capital adequacy and regulatory liquidity are described below in our qualified review conclusion on the registered bank disclosures in section B4 relating to capital adequacy and regulatory liquidity ratios.

Our opinion on the consolidated financial statements and registered bank disclosures in sections B2, B3, B5, B6, B7 and B8 is not modified in respect of these matters."

The non-compliance with ANZ New Zealand's Conditions of Registration relating to capital adequacy resulted in a qualified review conclusion relating to the capital adequacy information in section B4 of the ANZ New Zealand 2019 Disclosure Statement and ANZ New Zealand 2020 Disclosure Statement. The basis for this conclusion as stated in the independent auditor's reports for those periods is:

"In this respect, the Capital Adequacy Ratios disclosed in section B4 of the Disclosure Statement have not been disclosed in accordance with Schedule 11 of the Order, with section B1 disclosing the Banking Group's calculation of the corresponding impact on risk weighted assets. The Banking Group is working with the Reserve Bank of New Zealand to remediate this matter.

The above matters do not affect the Regulatory Liquidity information, which is also disclosed in section B4."

With respect to the unaudited interim financial statements of ANZ New Zealand and its subsidiaries as at and for the six month period ended March 31, 2021, included herein, the independent accountants have reported that they applied limited procedures in accordance with professional standards in New Zealand for a review of such financial statements. However, their separate report included herein states that they did not audit and they do not express an opinion on those interim financial statements. Accordingly, the degree of reliance on their report on such financial statements should be restricted in light of the limited nature of the review procedures applied.

The independent auditor's review report for that period contains the following emphasis of matter:

"EMPHASIS OF MATTER - NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the half year disclosure statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to Capital adequacy.

Further details of the matters relating to capital adequacy are described below in our qualified review conclusion on the registered bank disclosures in section B4 relating to capital adequacy and regulatory liquidity ratios.

Our conclusion on the interim financial statements and registered bank disclosures in sections B2, B3, B5 and B6 is not modified in respect of these matters."

The non-compliance with ANZ New Zealand's Conditions of Registration relating to capital adequacy resulted in a qualified review conclusion relating to the capital adequacy information in section B4 of the ANZ New Zealand Half Year Disclosure Statement for the six-month period ended March 31, 2021. The basis for this conclusion as stated in the independent auditor's review report for this period is:

"In this respect, the Capital Adequacy Ratios disclosed in section B4 of the half year disclosure statement have not been disclosed in accordance with Schedule 11 of the Order, with section B1 disclosing the Banking Group's calculation of the corresponding impact on risk weighted assets. The Banking Group is remediating these models and has submitted fourteen of the seventeen affected models to the Reserve Bank of New Zealand for approval.

The above matters do not affect the Regulatory Liquidity information, which is also disclosed in section B4."

The financial statements of ANZNIL as at September 30, 2020, and September 30, 2019, and for each of the financial years then ended have been audited by KPMG, independent accountants, as stated in their reports appearing herein. KPMG has no material interest in ANZNIL.

With respect to the unaudited interim financial statements of ANZNIL as at and for the six-month period ended March 31, 2021, included herein, the independent accountants have reported that they applied limited procedures in accordance with professional standards in New Zealand for a review of such financial statements. However, their separate report included herein states that they did not audit and they do not express an opinion on those interim financial statements. Accordingly, the degree of reliance on their report on such financial statements should be restricted in light of the limited nature of the review procedures applied.

12. GENERAL INFORMATION

1. The admission of this program to listing on the Official List of the FCA and to trading on the Main Market of the London Stock Exchange is expected to take effect on or about June 3, 2021. The price of the Notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche intended to be admitted to listing on the Official List of the FCA and admitted to trading on the Main Market of the London Stock Exchange will be admitted to listing and trading upon submission to the FCA and the London Stock Exchange of the applicable Final Terms and any other information required by the FCA and the London Stock Exchange, subject in each case to the issue of the relevant Notes. Prior to admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.
2. Save as disclosed in the "Risk Factors—Legal and regulatory risk—Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's Position" section of this Offering Memorandum, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer is aware) that may have, or have had during the 12 months prior to the date of this Offering Memorandum or the recent past, a significant effect on the financial position or profitability of each Issuer and, in the case of ANZ New Zealand, its subsidiaries taken as a whole.
3. There has been no significant change in the financial position or in the financial performance of ANZNIL, ANZ New Zealand or the ANZ New Zealand Group since March 31, 2021 to the date of this Offering Memorandum. There has been no material adverse change in the prospects of each Issuer since September 30, 2020, except as set out in the section entitled "Risk Factors—Risks related to the Issuers' business activities and industry—The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the ANZ New Zealand Group's Position".
4. There are no material contracts entered into outside the ordinary course of any of the Issuers' businesses, which could result in any group member of any Issuer being under an obligation or entitlement that is material to that Issuer's ability to meet its obligation to holders in respect of the securities being issued.
5. For so long as Notes may be issued pursuant to this Offering Memorandum or any Notes shall be outstanding, the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the office of the Fiscal Agent and the London Paying Agent and at the registered office of the relevant Issuer:
 - (i) the constitutive documents of the relevant Issuer, which may also be viewed at the following website:
<https://app.companiesoffice.govt.nz/companies/app/service/services/documents/1D713091AC470A1D9D57B6A4057E1DA3>;
<https://app.companiesoffice.govt.nz/companies/app/service/services/documents/87E52C494E0D6492CCE81EE1E84E588B>
<https://app.companiesoffice.govt.nz/companies/app/service/services/documents/40B551AC3C43E02A4EBC7B8DD619B3F6>;
<https://app.companiesoffice.govt.nz/companies/app/service/services/documents/D8FA4B0EF3445198C67861C863A657A0>
The constitutive documents above are not incorporated by reference herein and do not form part of this Offering Memorandum.
 - (ii) the Fiscal Agency Agreement;
 - (iii) the Guarantee, which is attached to this Offering Memorandum as Annex C;
 - (iv) any Final Terms;
 - (v) a copy of this Offering Memorandum together with any supplement to this Offering Memorandum or further Offering Memorandum;
 - (vi) copies of the most recent publicly available audited accounts of the ANZ New Zealand Group for the financial years ending September 30, 2020, and 2019, including copies of the report of the independent auditor thereon; and
 - (vii) copies of the most recently available audited accounts of ANZNIL for the financial years ended September 30, 2020, and 2019, including copies of the report of the independent auditor thereon.
6. The price and amount of Notes to be issued under this program will be determined by each relevant Issuer and the relevant Agent at the time of issue in accordance with the prevailing market conditions at such time.
7. The Issuers do not intend to provide any post-issuance information in relation to any issue of Notes.
8. The establishment of this program and the issue of the Notes by it thereunder was authorized (i) by resolutions of the Board on August 13, 2004, February 16, 2006, October 12, 2006, June 19, 2008, December 2, 2008 and April 15, 2010 (ii) by resolutions of the Board of Directors of ANZNIL on March 4, 2005, March 23, 2006, September 18, 2006, November 28, 2008, December 23, 2008, September 2, 2010 and November 23, 2011 and (iii) by resolutions of the shareholder of ANZNIL on February 10, 2005 and February 16, 2006.

Part B – Issuers and Guarantor Information

for the fiscal half year ended March 31, 2021



ANZ Bank New Zealand Limited

(incorporated with limited liability in New Zealand)

ANZ New Zealand (Int'l) Limited

(incorporated with limited liability in New Zealand)

Part B – Issuers and Guarantor Information

Half year ended March 31, 2021

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1. BASIS OF PREPARATION

The consolidated income statement data for the six month periods ended March 31, 2021 and March 31, 2020 and consolidated balance sheet information of the ANZ New Zealand Group as at March 31, 2021 and March 31, 2020 have been derived from the ANZ New Zealand Unaudited Financial Statements. The consolidated income statement data for the financial years ended September 30, 2020, 2019, 2018, 2017 and 2016 and consolidated balance sheet information of the ANZ New Zealand Group as at September 30, 2020, 2019, 2018, 2017 and 2016 have been derived from the ANZ New Zealand Group's audited consolidated financial statements for the years ended September 30, 2020, 2019, 2018, 2017 and 2016 (except as specified in the footnotes to the following tables). The financial information contained in this Offering Memorandum should be read in conjunction with, and is qualified by reference to, the ANZ New Zealand Financial Statements. For additional information concerning our financial results, see "Section 3. Operating and Financial Review" in this Offering Memorandum.

The condensed consolidated financial statements and the financial information included herein, except where otherwise noted, have been prepared in accordance with the recognition and measurement requirements of accounting practice generally accepted in New Zealand ("**NZ GAAP**") and do not contain a reconciliation to generally accepted accounting principles in the United States ("**U.S. GAAP**"). The ANZ New Zealand Financial Statements and the ANZNIL Financial Statements comply with the New Zealand equivalents to International Financial Reporting Standards ("**NZ IFRS**"), International Financial Reporting Standards ("**IFRS**") and Interpretations adopted by the International Accounting Standards Board ("**IASB**").

The independent auditors of the ANZ New Zealand Financial Statements and the ANZNIL Financial Statements for 2020, 2019 and 2018 are subject to auditing and auditor independence standards applicable in New Zealand, which differ from those applicable in the United States.

Due to rounding, the numbers presented throughout this Offering Memorandum may not add up precisely, and percentages may not precisely reflect absolute figures.

For the convenience of the reader, this Offering Memorandum contains translations of certain NZ dollar amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the NZ dollar amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise stated, amounts reported in U.S. dollars have been translated at the Noon Buying Rate for March 31, 2021, which was US\$0.6989 = NZ\$1.00.

2. OVERVIEW OF THE NEW ZEALAND BANKING INDUSTRY

The RBNZ publishes a semi-annual Financial Stability Report, in which it assesses and reports on the soundness and efficiency of the New Zealand financial system. The following section is an excerpt from the RBNZ Financial Stability Report that was released on May 5, 2021 (the “**RBNZ Report**”). The information in this section has been accurately reproduced and as far as the ANZ New Zealand Group is aware and able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. For more information, please see the full RBNZ Report, which is available from the RBNZ’s website at: <https://www.rbnz.govt.nz/financial-stability/financial-stability-report>. The information in the RBNZ Report is not necessarily up to date as at the date of this Offering Memorandum. Additionally, it is not incorporated by reference herein and does not form part of this Offering Memorandum.

According to the RBNZ Report, New Zealand has coped with the COVID-19 pandemic better than initially feared, but vulnerabilities in the financial system remain and some continue to increase. Low global interest rates are supporting spending and investment, partly by encouraging risk taking and contributing to higher asset prices. In this environment, New Zealand house prices have increased from already elevated levels and appear more vulnerable to a decline. A growing proportion of new lending has been at high debt-to-income and loan-to-value ratios. This indicates that more new borrowers are vulnerable to an increase in mortgage rates or a decline in house prices. Recent tightening in lending requirements will help rein in high-risk mortgage lending, particularly to investors.

Parts of the economy appear more vulnerable to future downturns than before the pandemic. While businesses have generally recovered well, with many benefiting from fiscal support, some sectors have faced an extended period of weak demand due to border restrictions. Also, government debt is higher and expected to increase.

Bank capital and liquidity remain strong but higher capital ratios are needed to support the resilience of the financial system over the medium term.

Low global interest rates are supporting spending and investment, while contributing to higher asset prices.

Global economic and financial outcomes have so far turned out more favorable than anticipated in the early days of COVID-19. The economic impacts of social distancing restrictions have been less severe, helped by substantial monetary and fiscal support. New Zealand’s key export prices have also been resilient, with dairy prices at their highest level in several years. However, supply chain disruptions and border restrictions have significantly affected some businesses.

During the early stages of the pandemic, central banks around the world reduced policy interest rates and enacted asset purchase programs to support their economies, alongside unprecedented global fiscal stimulus. These central bank actions contributed to record-low interest rates during 2020 in most major economies and in New Zealand. Recently, as downside risks to economic growth appear less likely and inflation expectations have lifted, long-term interest rates have recovered somewhat.

New Zealand house prices have increased rapidly.

New Zealand house prices have risen, mirroring the trend in global asset prices. Low interest rates have compelled some of this rise but several other drivers have also lifted housing demand. The resilient labor market and the temporary removal of LVR restrictions have contributed. Households continue to invest a large share of their wealth in houses. Supply constraints, including land-use restrictions and barriers to the provision of infrastructure, have seen increased demand for housing translate into higher rents and house prices. While supply remains constrained, construction activity has increased and is expected to remain high. With border restrictions reducing migrant inflows, new housing supply is starting to outstrip population growth.

House prices seem less sustainable than before the recent rise for several reasons. Larger house deposits are needed to get into the market and this is making it difficult for first home buyers. The New Zealand Government’s recent changes to the bright-line property tax and to interest deductions from rental income will dampen investor demand for housing over time. While the interest costs on mortgages are low and interest rates have generally fallen more than rental returns, interest rates could rise if the economy continues to strengthen and inflationary pressure builds.

Mortgage lending has accelerated, including more high-risk lending.

Bank mortgage lending has increased with the rise in house prices, particularly to investors but also to owner-occupiers. Borrowers have taken on more risk, with a higher proportion of lending at high debt-to-income and loan-to-value ratios. This lending is more vulnerable to rising interest rates and falling house prices. For highly indebted buyers, higher interest rates would push up debt-servicing costs significantly and reduce the income remaining for consumption. Highly indebted borrowers are also more likely to sell their properties in fire sales and fuel the perception of a housing market downturn.

However, the vulnerability in overall mortgage lending remains low when including existing loans. The share of outstanding mortgage lending with high LVRs has gradually declined since the implementation of LVR restrictions in 2013. It would take an extended period of new high-LVR lending to materially increase this share. Additionally, for existing owners the recent rise in house prices has inflated housing wealth and reduced their LVRs. Stress testing conducted by the RBNZ in 2020 showed banks would be resilient in a range of scenarios with high unemployment and lower house prices.

However, in more severe scenarios, banks’ capital fell below the regulatory minimums and would require significant mitigating actions, including capital injections, to continue lending. This reinforces and supports the decisions that were made as part of the Capital Review to increase bank capital levels.

Tighter LVR requirements are in place to ease housing risks.

In response to higher risk lending against the backdrop of rising prices and to ensure the vulnerability in mortgage lending remains low, the RBNZ has tightened LVR requirements. Since May 1, 2021 a maximum of 5 percent of new lending to investors can be at LVRs above 60%. Additionally, a maximum of 20% of new lending to owner-occupiers can be at LVRs above 80%. With these restrictions in place, new lending to investors at high LVRs is slowing. In addition, the recent government housing policy changes could further reduce investor demand.

Economic recovery has supported businesses, but some remain vulnerable.

The spread of COVID-19 in New Zealand has been suppressed by border restrictions, periodic Alert Level changes, and an effective public health response. Business activity has been able to recover, and confidence in the economic outlook has increased. Construction activity continues to expand while robust export prices have supported agricultural incomes. While service sector employment has declined, other sectors have retained or expanded employment, with only a moderate rise in unemployment to date.

Businesses have been cautious and reduced their investments owing to uncertainty in the economic outlook. While this can have negative implications for future productivity and output growth, businesses have continued to repay bank debt. These repayments provide flexibility should economic activity slow, or make it easier to invest as the economy strengthens.

Demand remains subdued in the tourism and education sectors because of border restrictions. Businesses in these sectors continue to struggle and signs of stress are likely to increase over time. Also, many businesses continue to face supply chain issues. An ongoing risk is a widespread outbreak of COVID-19 in New Zealand. More restrictions would strain businesses, and for some the impacts of another outbreak would be severe.

Substantial government support has helped to mitigate the economic impacts of the pandemic. As a result there have been limited negative impacts on financial system soundness to date. Banks' non-performing loans are at low levels and remain well below the peak seen after the global financial crisis. The end of insolvency relief and other support measures may see non-performing loans increase over coming months. However, the businesses most affected by the pandemic have tended to rely less on borrowing, partly because capital intensity is lower in the service sector. While the economic outlook remains uncertain, recent developments suggest near-term stress in the financial sector will remain low.

Other longer-term vulnerabilities have risen.

Across most economies, considerable fiscal support has meant that government debt has increased. Higher government debt may constrain fiscal support in some economies during future economic downturns. New Zealand government debt has increased and, while it remains low compared to other developed economies, the Treasury projects government debt to increase further. Climate change presents a longer-term risk to financial stability, with the physical impacts of climate change likely to increase. Transitioning to a low-carbon economy will reduce financial stability risks in the long term, but there are costs for some sectors. The RBNZ supports efforts to assess, manage, and disclose climate-related risks, and recently submitted a response to the Climate Change Commission's draft advice. The RBNZ is developing capability in this area with the aim of better understanding climate-change related risks in the New Zealand financial system.

Institutional resilience remains strong but needs to increase.

The unpredictable nature of future stress makes it important that financial institutions are resilient. Bank capital ratios have increased as bank profitability has recovered over the past six months and dividend restrictions have remained in place, albeit with some easing recently. Banks are in a strong position to keep supporting their customers and the economy. As set out in the RBNZ's Capital Review, capital requirements for banks will progressively increase from July 1, 2022. This will ensure that the sector is resilient to all but the most severe economic risks. In addition, the RBNZ intends to increase the minimum core funding ratio requirement to its previous level of 75% on January 1, 2022, subject to no significant worsening in economic conditions.

The resilience of non-bank deposit takers is mixed. Nonperforming loans have remained manageable across the sector over the past year. As a result, building societies have seen solid growth in their capital ratios as profits have remained strong. Credit unions and finance companies saw their capital ratios stabilize, although at a lower level after declining over previous years. High underlying costs for some credit unions and a focus on high-risk lending for finance companies suggest some institutions in these sectors may be vulnerable to adverse shocks. Most insurers have also maintained or improved their capital positions over the past year. Health-related claims have not been severe in New Zealand and the cost of business interruption insurance remains low. As of May 2021, no legal challenges like those seen overseas have been initiated in New Zealand.

3. SUMMARY OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	Six months ended March 31			Years ended September 30				
	2021 US\$m ¹	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m	2017 NZ\$m	2016 NZ\$m
Interest income	1,631	2,334	2,998	5,568	6,423	6,390	6,198	6,423
Interest expense	462	661	1,332	2,306	3,179	3,240	3,161	3,421
Net interest income	1,169	1,673	1,666	3,262	3,244	3,150	3,037	3,002
Other operating income	236	338	483	807	946	1,126	938	852
Net operating income	1,405	2,011	2,149	4,069	4,190	4,276	3,975	3,854
Operating expenses	540	772	836	1,752	1,608	1,517	1,468	1,599
Profit before credit impairment and income tax	865	1,239	1,313	2,317	2,582	2,759	2,507	2,255
Credit impairment charge / (release)	(49)	(70)	233	403	101	55	62	150
Profit before income tax	914	1,309	1,080	1,914	2,481	2,704	2,445	2,105
Income tax expense	253	362	296	541	662	751	680	570
Profit after income tax	661	947	784	1,373	1,819	1,953	1,765	1,535

(1) For the convenience of the reader, the financial information for the six months ended March 31, 2021 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for March 31, 2021 of NZ\$1.00=US\$0.6989.

4. SUMMARY OF CONSOLIDATED BALANCE SHEETS

	As at March 31			As at September 30				
	2021 US\$m ¹	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m	2017 NZ\$m	2016 NZ\$m
Assets								
Cash and cash equivalents	3,899	5,579	7,746	8,248	2,363	2,200	2,338	2,274
Settlement balances receivable	312	447	404	378	193	656	536	396
Collateral paid	964	1,380	2,527	1,394	2,324	1,919	1,415	2,310
Trading securities	6,779	9,700	11,679	12,797	8,942	8,024	7,663	11,979
Derivative financial instruments	8,568	12,259	13,216	9,702	11,666	8,086	9,878	21,110
Investment securities	8,419	12,046	7,293	9,893	7,027	6,502	6,360	2,859
Net loans and advances	96,090	137,488	135,355	132,698	132,525	126,466	117,627	114,623
Assets held for sale ²	-	-	-	-	-	897	3,065	-
Life insurance contract assets	-	-	-	-	-	-	636	630
Investment in associates	-	-	-	-	-	6	7	7
Deferred tax assets	257	368	283	327	77	-	-	-
Goodwill and other intangibles	2,158	3,088	3,267	3,092	3,276	3,289	3,275	3,424
Investments backing insurance contract liabilities	-	-	-	-	-	-	123	119
Premises and equipment	384	549	620	590	335	325	367	387
Other assets	447	639	670	625	688	642	683	701
Total assets	128,277	183,543	183,060	179,744	169,416	159,012	153,973	160,819
Liabilities								
Settlement balances payable	2,009	2,874	2,265	2,950	1,607	2,161	1,840	1,771
Collateral received	840	1,202	1,290	1,275	991	845	613	529
Deposits and other borrowings	90,060	128,860	121,040	125,061	113,427	108,008	101,657	99,066
Derivative financial instruments	7,765	11,111	12,680	8,252	11,042	8,095	9,826	21,956
Current tax liabilities	58	83	92	251	101	161	39	21
Deferred tax liabilities	-	-	-	-	-	21	187	145
Liabilities held for sale ²	-	-	-	-	-	334	1,088	-
Payables and other liabilities	930	1,331	1,191	1,115	1,159	947	1,151	1,119
Employee entitlements and other provisions	339	485	475	532	452	196	185	206
Debt issuances	14,504	20,752	28,883	24,439	26,207	25,135	24,606	23,296
Total liabilities	116,505	166,698	167,916	163,875	154,986	145,903	141,192	148,109
Net assets	11,772	16,845	15,144	15,869	14,430	13,109	12,781	12,710
Equity								
Share capital	8,309	11,888	11,888	11,888	11,888	11,888	8,888	8,888
Reserves	83	119	(15)	118	21	33	48	62
Retained earnings	3,380	4,838	3,271	3,863	2,521	1,188	3,845	3,760
Total equity	11,772	16,845	15,144	15,869	14,430	13,109	12,781	12,710

(1) For the convenience of the reader, the financial information as at March 31, 2021 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for March 31, 2021 of NZ\$1.00=US\$0.6989.

(2) Assets and liabilities classified as held for sale comprise the assets and liabilities of OnePath Life NZ as at September 30, 2018, and UDC as at September 30, 2017. These were presented separately on ANZ New Zealand's balance sheet. The sale of UDC did not proceed during the financial year ended September 30, 2018, and the assets and liabilities classified as held for sale relating to UDC were subsequently reclassified to their original financial statement line items. On November 30, 2018, ANZ New Zealand sold OnePath Life NZ to a related party of Cigna Corporation ("Cigna"). On September 1, 2020, ANZ New Zealand sold UDC to Shinsei Bank.

5. SUMMARY OF SELECTED RATIOS AND OTHER FINANCIAL INFORMATION¹

	Six months ended March 31			Years ended September 30				
	2021 US\$ ²	2021 NZ\$	2020 NZ\$	2020 NZ\$	2019 NZ\$	2018 NZ\$	2017 NZ\$	2016 NZ\$
Share information (NZ\$ per fully paid share)³								
Dividend - declared rate	-	-	0.06	-	0.06	1.12	0.50	0.40
Earnings - basic	0.10	0.15	0.12	0.22	0.29	0.41	0.53	0.46
Net tangible assets - basic	1.52	2.17	1.87	2.01	1.76	1.53	2.80	2.78
Number of shares on issue (thousands)³								
Ordinary shares - fully paid	6,345,755	6,345,755	6,345,105	6,345,755	6,345,105	6,345,105	3,345,105	3,345,105
Preference shares ⁴	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Ratios⁵								
Return on average shareholders' equity (%) ⁶	11.62	11.62	10.58	9.04	13.23	14.81	13.58	12.10
Return on average total assets (%) ⁷	1.03	1.03	0.95	0.77	1.10	1.23	1.12	0.98
Other banking data:								
Capital adequacy ratios ⁸								
Tier 1 (%)	15.9	15.9	13.9	14.4	13.6	14.4	14.1	13.2
Tier 2 (%)	-	-	-	-	-	-	0.3	0.5
Total capital ratio (%)	15.9	15.9	13.9	14.4	13.6	14.4	14.4	13.7
Net interest margin (%) ⁹	2.01	2.01	2.13	2.02	2.16	2.20	2.21	2.28
Non-interest income as a percentage of assets (%) ¹⁰	0.18	0.18	0.29	0.45	0.57	0.71	0.59	0.55
Non-interest income as a percentage of total income (%) ¹¹	16.81	16.81	22.48	19.83	22.58	26.33	23.60	22.11
Cost to income ratio (%) ¹²	38.39	38.39	38.90	43.06	38.38	35.48	36.93	41.49
Cost to average total assets ratio (%) ¹³	0.42	0.42	0.51	0.99	0.98	0.96	0.93	1.02
Equity to assets ratio (%) ¹⁴	8.90	8.90	9.00	8.56	8.34	8.32	8.22	8.12
Risk-weighted exposures (NZ\$ millions) ⁸	68,828	98,481	99,805	102,290	97,070	82,147	81,642	87,119
Return on average risk-weighted exposures ratio (%) ¹⁵	1.88	1.88	1.59	1.38	2.06	2.39	2.07	1.83
Other information								
Points of representation (branches)	128	128	150	141	164	179	193	214

(1) Source: ANZ New Zealand Financial Statements (except as otherwise noted in footnotes below).

(2) For the convenience of the reader, the financial information for the six months ended March 31, 2021 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for March 31, 2021 of NZ\$1.00=US\$0.6989.

(3) All shares of ANZ Bank New Zealand Limited are owned by ANZ Holdings (New Zealand) Limited, a wholly-owned subsidiary of ANZBGL.

(4) On September 25, 2013, ANZ New Zealand issued preference shares to ANZ Holdings (New Zealand) Limited. These preference shares do not carry any voting rights. They are wholly classified as equity instruments, as there is no contractual obligation for ANZ New Zealand to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavorable basis.

(5) Where applicable, ratios calculated using average balances have been referenced to the table under "Additional Statistical and Financial Information—Average balance sheet and interest income/expense". Unless otherwise stated, the methodology for calculating average balances is included in that table.

(6) Profit after income tax divided by average shareholders' equity.

(7) Profit after income tax divided by average total assets.

(8) The RBNZ sets minimum capital requirements that ANZ New Zealand must comply with. From January 1, 2013, ANZ New Zealand has been required to comply with the RBNZ's Basel III (as defined below) requirements. The capital adequacy ratios and risk-weighted exposures in the above table have been calculated under the Basel III framework, utilizing the Internal Ratings Based ("IRB") approach, except for ORC, which is calculated in accordance with BS2A from March 31, 2019. See "Supervision and Regulation—Non-compliance with Conditions of Registration".

(9) Net interest income divided by average interest earning assets.

(10) Operating income less net interest income divided by average assets.

(11) Operating income less net interest income divided by operating income.

(12) Operating expenses divided by operating income.

(13) Operating expenses divided by average total assets as shown in the average balance sheet table under "—Average balance sheet and interest income/expense".

(14) Equity to assets ratio is average shareholders' equity divided by average total assets.

(15) Profit after income tax divided by average risk-weighted exposures. Averages are based on quarterly balances. The ratio is annualized.

6. OVERVIEW

This section provides an overview of ANZ New Zealand Group's businesses. It does not contain all of the information that potential investors should consider before investing in the Notes. Potential investors should carefully read the entire Offering Memorandum, including the section describing the risks of investing in the Notes under the caption "Risk Factors", before making an investment decision. Some of the statements in this overview constitute forward-looking statements. For more information, please see "Forward-Looking Statements".

ANZ New Zealand was incorporated under the New Zealand Companies Act 1955 on October 23, 1979, was re-registered under the New Zealand Companies Act 1993 on June 13, 1997, and is a private company limited by shares. ANZ New Zealand's principal executive offices and registered office are located at Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand. ANZ New Zealand's company number is 35976 and the telephone number is +64 (9) 252 2974. Its website is <https://www.anz.co.nz/about-us/our-company/>. No information on that website forms part of or is incorporated by reference in this Offering Memorandum.

ANZ New Zealand is an indirect wholly-owned subsidiary of ANZBGL. ANZ New Zealand is a registered bank under the Reserve Bank Act.

ANZ New Zealand dates back to 1840, when the Union Bank of Australia opened a branch in Wellington, New Zealand. ANZ New Zealand's ultimate parent company, ANZBGL, was formed through a series of mergers involving the Union Bank of Australia and its successors.

On December 1, 2003, ANZ Banking Group (New Zealand) Limited acquired NBNZ Holdings Limited and its consolidated subsidiaries including The National Bank of New Zealand Limited. On June 26, 2004, ANZ Banking Group (New Zealand) Limited amalgamated with The National Bank of New Zealand Limited and changed its name to ANZ National Bank Limited.

On October 29, 2012, ANZ National Bank Limited changed its name to ANZ Bank New Zealand Limited and combined its two banking brands (ANZ and The National Bank) under the ANZ brand.

As at March 31, 2021, ANZ New Zealand Group had total assets of \$183,543 million and is the largest full-service banking group measured by total assets compared to other registered banks in New Zealand, based on the data series "S10 Banks: Balance Sheet for registered banks" published by the RBNZ.

As at March 31, 2021, ANZ New Zealand held approximately 29% and the New Zealand branch of ANZBGL held less than 1% of the total assets held by registered banks in New Zealand, based on data series "S10 Banks: Balance Sheet for registered banks" published by the RBNZ. As at March 31, 2021, ANZ New Zealand was supported by 128 branches with a customer base of over 2 million.

Competitive strengths

ANZ New Zealand considers that its competitive strengths are that it:

- is New Zealand's largest bank, with more customers than any other New Zealand bank;
- has a leading market share in New Zealand in all major business segments, a diverse business mix reflecting the makeup of the economy;
- has a well-respected brand and a combined customer base of over 2 million;
- maintains strong local corporate governance and New Zealand-based management; and
- benefits from the international connectivity of the ANZ Group.

7. BUSINESS MODEL

The ANZ New Zealand Group's business model primarily consists of raising funds through customer deposits and the wholesale debt markets and lending those funds to customers. In addition, the ANZ New Zealand Group operates a Markets business which earns revenue from sales, trading and risk management activities. The ANZ New Zealand Group also provides payments and clearing solutions.

The ANZ New Zealand Group's primary lending activities are personal lending covering residential home loans, credit cards and overdrafts, and lending to business, agri, corporate and institutional customers.

The ANZ New Zealand Group's income is derived from a number of sources, primarily:

- Net interest income – represents the difference between the interest income the ANZ Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;
- Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services and includes net funds management income; and
- Other income – includes income earned from revenue generated from sales, trading and risk management activities in the Markets business, net foreign exchange earnings and gains and losses from economic and revenue and expense hedges.

8. STRATEGY

ANZ New Zealand aspires to shape a world where people and communities thrive. This translates to a focus on improving the financial wellbeing of our customers, with a particular focus on home owners, business owners and companies with regional trade and capital flows. To that end, ANZ New Zealand has four strategic priorities:

- Achieve sustainable returns by creating a simpler, better balanced bank.
- Deliver a better experience for customers by improving access to the right people in the right places.
- Become a leading digital bank for its customers and people through process automation and making use of its data.
- Attract, develop and retain world class service and sales teams.

9. PRINCIPAL ACTIVITIES OF THE ANZ NEW ZEALAND GROUP

Divisional Structure

The Retail, Commercial and Institutional segments all operate under the ANZ brand except in certain specialized markets.

In specialized markets, the ANZ New Zealand Group is further represented by ANZ Investments (superannuation and investment products).

As at March 31, 2021, ANZ New Zealand was comprised of the Retail, Commercial and Institutional business units. These segments were supported by centralized back office and corporate functions. Fund management products are developed and procured through ANZ New Zealand's wholly-owned subsidiaries, ANZ New Zealand Investments Limited and ANZ Investment Services (New Zealand) Limited. Life insurance and funds management products are distributed through the Retail segment.

Retail

Retail provides a full range of banking services to consumer and wealth management, private banking and small business banking customers. The ANZ New Zealand Group delivers its services via its internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centers.

As at March 31, 2021, Retail had

- a network of 128 branches (a decrease of 22, compared to September 30, 2020, due to the restructuring of the branch network) and 524 ATMs, which included 8 mobile ATMs. Customers have access to phone and mobile phone banking and on-line banking services.
- total loans of \$92.1 billion and total deposits of \$81.4 billion.
- total funds under management of \$36.5 billion.

Commercial

Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises and the agriculture business segment, government and government related entities.

Prior to sale in September 2020, the Commercial segment included UDC Finance Limited ("UDC"). For further information on the sale, see "Sale of UDC Finance Limited" below.

As at March 31, 2021, Commercial had total loans of \$38.8 billion and total deposits of \$20.2 billion.

Institutional

The Institutional division provides service to government, global institutional and corporate customers across three product sets: Transaction Banking, Corporate Finance and Markets.

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- Corporate Finance (previously Loans & Specialized Finance) provides loan products, loan syndication, specialized loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- Markets provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets in addition to managing the ANZ New Zealand Group's interest rate exposure and liquidity position.

As at March 31, 2021, Institutional had total loans of \$6.5 billion and total deposits of \$21.3 billion.

Other

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

Changes to the New Zealand business segments

In November 2020, the ANZ New Zealand Group began reorganizing into the following business segments: Personal and Private Banking, Business, and Institutional (including Corporate). Funds Management will continue to operate as a separate business unit but with no distribution workforce. These changes have been made to better align our internal business with the needs of our primary customer groups, home owners and business owners and companies with regional trade and capital flows. ANZ New Zealand believes the changes will result in better, more specialized service and a more

efficient operating model. Changes to how the financial information is segmented have not yet been finalized and the financial information in this Offering Memorandum reflects the structure used in the ANZ New Zealand Unaudited Financial Statements.

Executive Team

As at the date of this Offering Memorandum, the ANZ New Zealand executive team is comprised of the following roles:

- Chief Executive Officer;
- Managing Director, Personal;
- Managing Director, Wealth and Private Bank;
- Managing Director, Business;
- Managing Director, Institutional;
- Chief Information Officer;
- Chief Financial Officer;
- Chief Risk Officer;
- General Manager, Talent & Culture;
- General Counsel & Company Secretary;
- General Manager Public, Consumer & Government Affairs; and
- General Manager Data & Marketing

Significant Subsidiaries

ANZNIL is ANZ New Zealand's only significant subsidiary. It is incorporated in New Zealand and is 100 % owned directly by ANZ New Zealand.

As at March 31, 2021, ANZNIL did not account for 10% or more of any of ANZ New Zealand Group's consolidated investments, operating surplus or assets for the most recent financial year, but it is considered by management to be of importance to ANZ New Zealand. As at March 31, 2021, ANZNIL accounted for more than 10% of the ANZ New Zealand Group's consolidated total liabilities.

ANZ New Zealand (Int'l) Limited

ANZNIL was incorporated under the New Zealand Companies Act 1955 on December 8, 1986, was re-registered under the New Zealand Companies Act 1993 on May 27, 1996, and is a private company limited by shares. The registered office of ANZNIL is located at Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand and its New Zealand company number is 328154. ANZNIL's London branch is located at 28th Floor, 40 Bank Street, Canary Wharf, London E14 5EJ, UK and the phone number is +44 (20) 3229 2017. Its website is <https://www.anz.co.nz/about-us/media-centre/investor-information/anz-nz-limited/>. No information on that website forms part of or is incorporated by reference in this Offering Memorandum.

ANZNIL is a wholly-owned subsidiary of ANZ New Zealand (see "Overview—ANZ New Zealand" above for details on ANZ New Zealand).

The principal activities of ANZNIL include the provision of funding facilities to the ANZ New Zealand Group and wholesale financing, including issuance of U.S. Commercial Paper, Euro Commercial Paper, Covered Bonds, U.S. Medium-Term Notes and Euro Medium-Term Notes.

ANZNIL's overseas activities (including the issuance of Notes) are conducted through its London branch. ANZNIL has no subsidiary companies. ANZNIL is largely dependent on its parent, ANZ New Zealand, as ANZ New Zealand fully guarantees all obligations under ANZNIL's funding programs.

10. RECENT DEVELOPMENTS

Board of Directors changes at ANZ New Zealand

Ms Michelle Jablko resigned from the ANZ New Zealand Board on February 1, 2021. ANZ New Zealand announced in December 2020 that Ms. Jablko would be leaving ANZ following her decision to take up a senior role at an organization outside of financial services. Ms. Jablko was Chief Financial Officer of ANZBGL and a Non-Executive Director of the Board of ANZ New Zealand.

Maile Carnegie, ANZBGL Group Executive – Digital and Australia Transformation, joined the Board of ANZ New Zealand as a Non-Executive Director on May 15, 2021.

11. COMPETITION

The New Zealand financial services sector in which the ANZ New Zealand Group operates is very concentrated and highly competitive. The ANZ New Zealand Group's principal competitors are the three other major banks: ASB Bank Limited, Bank of New Zealand and Westpac Banking Corporation/Westpac New Zealand Limited. Each of these is a subsidiary or branch of a major Australian bank. These banks participate across all customer segments from individuals to large corporates.

Competition also exists in specific business segments from other banks. Kiwibank Limited is active in the retail segment and Rabobank New Zealand Limited is active in retail deposits and agricultural lending markets. Regional banks, such as Heartland and TSB, are becoming more competitive in the retail segment. International banks such as Citigroup, HSBC and Deutsche Bank participate in a limited manner in the institutional market. Since late 2013, Industrial and Commercial Bank of China Limited, China Construction Bank Corporation and Bank of China Limited have each become registered banks in New Zealand. Their focus appears to be in housing and business lending, however, their market share remains small in these segments.

Historically, the retail deposit market in New Zealand has been highly competitive. However, competition for deposits has been moderated recently as LSAP, introduced by the RBNZ to support the New Zealand's economic recovery from COVID-19, has increased the amount of money circulating in the New Zealand banking system that is available to banks as deposits. As at March 31, 2021, lending to the residential mortgage market accounted for over half of the lending in New Zealand by registered banks and this market is also a key area of competitive tension.

While non-bank originators have become more active in New Zealand in recent years, the growth rate in total assets has been lower compared to off-shore markets such as Australia, which the ANZ New Zealand Group believes may be a result of factors that include the more positive community perception that New Zealand banks have compared to banks in other off-shore markets and limited legislation in New Zealand mandating the disclosure of customer data. The non-banking sector constituted approximately 3% of total financial system assets as of March 31, 2021.

In response to the COVID-19 pandemic and to support New Zealanders, the New Zealand Government announced the Mortgage Repayment Deferral Scheme and BFGS in partnership with all the major banks, including ANZ New Zealand. The COVID-19 pandemic and potential future economic disruptions could have further impacts on competition in the New Zealand financial services sector (including as a result of changes to regulation and monetary policy). Examples of factors that may affect competition include funding cost and provision increases, structurally low interest rates, insufficient liquidity, implementation of business continuity plans, changes to business strategies and temporary regulatory safe harbors. A low-growth environment could lead to heightened competitive intensity and margin compression. For further information about the New Zealand regulatory response to COVID-19 and the potential impacts of COVID-19 on competition risk, see "COVID-19", "Supervision and Regulation—Regulatory Response to COVID-19 Pandemic and Other Developments" and "Risk Factors—Risks Related to the Issuers' business activities and industry—Competition in the markets in which the ANZ New Zealand Group operates may adversely affect the ANZ New Zealand Group's Position".

12. SUPERVISION AND REGULATION

12.1 The supervisory role of the RBNZ

The Reserve Bank Act requires the RBNZ to exercise its powers of registration of banks and prudential supervision of registered banks (including ANZ New Zealand) for the purposes of:

- promoting the maintenance of a sound and efficient financial system; and
- avoiding significant damage to the financial system that could result from the failure of a registered bank.

The RBNZ's policy around the registration of banks aims to ensure that only financial institutions of appropriate standing and repute are able to become registered banks. Subject to this requirement, the RBNZ has stated that it intends to keep to a minimum any impediments to the entry of new registered banks, in order to encourage competition in the banking system.

The RBNZ's supervisory functions are aimed at encouraging the soundness and efficiency of the financial system as a whole, and are not aimed at preventing individual bank failures or at protecting creditors. The RBNZ seeks to achieve this by drawing on and enhancing disciplines that are naturally present in the market.

The RBNZ places considerable emphasis on a requirement that banks regularly disclose information on financial performance and risk positions, and on a requirement that directors regularly attest to certain key matters. These measures are intended to strengthen market disciplines and to ensure that responsibility for the prudent management of banks lies with those who the RBNZ considers are best placed to exercise that responsibility - the directors and management.

The main elements of the RBNZ's supervisory role include:

- requiring all banks to comply with certain minimum prudential requirements, which are applied through conditions of registration. These include constraints on connected exposures, minimum capital adequacy requirements and minimum standards for liquidity risk management, and are set out in more detail below;
- monitoring each registered bank's financial condition and compliance with conditions of registration, principally on the basis of published half-yearly disclosure statements and monthly reporting submitted privately to the RBNZ. This monitoring is intended to ensure that the RBNZ maintains familiarity with the financial condition of each bank and the banking system as a whole, and maintains a state of preparedness to invoke crisis management powers should this be necessary;
- consulting with the senior management of registered banks;
- using crisis management powers available to it under the Reserve Bank Act to intervene where a bank distress or failure situation threatens the soundness of the financial system;
- assessing whether a bank is carrying on business prudently;
- issuing guidelines on overseeing banks' compliance with anti-money laundering and countering financing of terrorism requirements;
- monitoring banks' outsourcing arrangements to determine whether a registered bank's risks associated with outsourcing are appropriately managed;
- issuing guidelines on banks' internal capital adequacy process and liquidity policy;
- issuing guidelines on corporate governance; and
- maintaining close working relationships with parent bank supervisors (such as APRA in Australia) on bank-specific issues, policy issues and general matters relating to the condition of the financial system in New Zealand and in the countries where parent banks are domiciled.

Registered banks are required to issue half-yearly disclosure statements that contain comprehensive details, together with full financial statements at the full-year, and unaudited interim financial statements at the half-year. The financial statements are subject to full external audit at the end of each financial year and a limited scope review at the end of each financial half-year. Each bank director is required to sign his or her bank's disclosure statements and to make certain attestations. A bank and its directors may incur criminal and civil penalties if the bank's disclosure statement contains information that is held to be false or misleading.

The RBNZ publishes a quarterly "dashboard" of key information on registered banks on the RBNZ's website. The dashboard aims to improve the ability of the public and market participants to understand and act on information about such banks' financial strength and risk profile. The information is sourced from private reporting that banks provide to the RBNZ. Information relating to the ANZ New Zealand Group published in the dashboard is not incorporated by reference herein and does not form part of this Offering Memorandum. In some cases, information relating to the ANZ New Zealand Group published in the dashboard has been classified and presented differently to the presentation in the ANZ New Zealand Financial Statements.

New Zealand-incorporated banks are required to comply with the Basel III capital adequacy requirements, as modified to reflect New Zealand conditions. The RBNZ also requires most New Zealand-incorporated banks, including ANZ New Zealand, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion to apply a countercyclical buffer of common equity with an indicative range of between 0 and 2.5%, although there is no formal upper limit. There are also counterparty credit risk requirements and additional disclosure requirements to incorporate Basel III. These capital requirements are expected to change from 2022 as a result of the RBNZ's capital reforms, although some aspects of the RBNZ's capital reforms will proceed during 2021, including the new eligibility criteria for capital instruments. See "New Zealand Regulatory Developments - RBNZ review of capital requirements" below for further information.

New Zealand-incorporated banks (including ANZ New Zealand) are required to comply with the RBNZ's Liquidity Policy ("BS13"). A requirement of BS13 is that New Zealand-incorporated banks meet a minimum CFR of 75%, ensuring that at least a minimum proportion of bank funding is met through customer deposits, term wholesale funding and Tier 1 capital. However, with effect from April 2, 2020, the RBNZ amended ANZ New Zealand's Conditions of Registration to reduce ANZ New Zealand's minimum CFR to 50% in response to the COVID-19 pandemic. The RBNZ intends to revert back to the previous 75% CFR from January 1, 2022. See "—Conditions of Registration for ANZ Bank New Zealand Limited" for more information.

Basel III proposes a liquidity policy which the RBNZ considers very similar to the intent of BS13. However, the RBNZ considers that certain aspects of the Basel III liquidity standards are not suitable for adoption in New Zealand. The RBNZ is undertaking a thematic review of compliance with BS13 ("**BS13 Thematic Review**"), which it intends to complete by mid-2021. Findings from the BS13 Thematic Review are intended to provide input into a forthcoming review of BS13. See "*New Zealand Regulatory Developments — Thematic review of registered banks' compliance with the RBNZ Liquidity Policy*" below for further information.

The RBNZ also requires all registered banks to obtain and maintain a credit rating from an approved organization and publish that rating in the disclosure statements.

In addition, the RBNZ has wide-reaching powers to obtain further information, data and forecasts in connection with its supervisory functions, and to require that information, data, and forecasts be audited.

It also possesses a number of crisis management powers. Those powers include recommending that a bank's registration be cancelled, investigating the affairs of a registered bank, requiring that a registered bank consults with the RBNZ, giving directions to a registered bank, removing, replacing or appointing a director of a registered bank or recommending that a registered bank be subject to statutory management. If a registered bank is declared to be subject to statutory management, no person may, among other things:

- commence or continue any action or other proceedings including proceedings by way of counterclaim against that bank;
- issue any execution, attach any debt, or otherwise enforce or seek to enforce any judgment or order obtained in respect of that bank;
- take any steps to put that bank into liquidation; or
- exercise any right of set off against that bank.

As part of the RBNZ's supervisory powers, a person must obtain the written consent of the RBNZ before giving effect to a transaction resulting in that person acquiring or increasing a "significant influence" over a registered bank. "Significant influence" means the ability to appoint 25% or more of the board of directors of a registered bank or a qualifying interest (e.g., legal or beneficial ownership) in 10% or more of its voting securities.

In assessing applications for consent to acquire a significant influence over a registered bank, the RBNZ has stated that it will have regard to the same matters as are relevant in assessing an application for registration as a registered bank. In giving its consent, the RBNZ may impose such terms and conditions as it thinks fit.

New Zealand Regulatory Developments

12.2 Regulatory Response to the COVID-19 Pandemic and Other Developments

The exact ramifications of COVID-19 on the supervision and regulation of financial services groups such as the ANZ New Zealand Group are still uncertain and, as at the date of this Offering Memorandum, difficult to predict.

In response to the COVID-19 pandemic, the RBNZ and the New Zealand Government have implemented a broad range of measures to promote financial stability and ensure foreign exchange, debt and money markets continue operating efficiently and at low cost, many of which affect the ANZ New Zealand Group. As at the date of this Offering Memorandum, it remains unclear what the full impact of these measures will be on the ANZ New Zealand Group.

The RBNZ announced in March 2020 that it would defer external-facing work on most of its regulatory initiatives. The RBNZ also extended the transition period for BS11 to October 2023, and there have been delays to the commencement of some upcoming amendments to the Credit Contracts and Consumer Finance Act 2003 ("**CCCFA**") with the majority of the changes coming into effect on October 1, 2021.

The RBNZ delayed the start date for the increase in bank capital arising from the capital reforms for New Zealand-incorporated banks to 2022. Some aspects of the capital reforms will proceed during 2021, including the new eligibility criteria for capital instruments. The conclusion of the transition period is July 1, 2028.

The RBNZ amended ANZ New Zealand's Conditions of Registration in response to the COVID-19 pandemic, as follows:

- In May 2020, the RBNZ temporarily removed LVR restrictions for residential mortgage lending. However, effective from March 2021, the pre-pandemic LVR restrictions were reinstated. These LVR restrictions require New Zealand registered banks to restrict new non-property-investment residential mortgage lending over 80% LVR to no more than 20% of the dollar value of a bank's new "non-property-investment residential mortgage lending" (which is a standard residential mortgage loan secured over only owner-occupied residential property), and restrict "property investment residential mortgage" (which is a standard residential mortgage loan that is not a non-property-investment residential mortgage loan) lending over 70% LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending. Additionally, effective from May 2021, New Zealand registered banks are required to restrict property-investment residential mortgage lending over 60% LVR to no more than 5% of the dollar value of a bank's new property-investment residential mortgage lending.
- In April 2020, various changes were made, including:
 - restricting ANZ New Zealand from paying dividends or other distributions, other than discretionary payments payable to holders of **AT1** capital instruments;

- the reduction of the minimum requirement for ANZ New Zealand's **CFR** from 75% to 50%; and
- updates to refer to the revised version of BS11 dated April 2020 and to reflect the extension of the transition period for existing outsourcing arrangements under BS11 to October 1, 2023.

The RBNZ announced in May 2021 that it intends to increase the CFR minimum requirement back to 75% on January 1, 2022 (subject to no significant worsening of economic conditions).

With effect from April 29, 2021, the RBNZ amended ANZ New Zealand's Conditions of Registration to (among other things) restrict the payment of dividends by ANZ New Zealand to a maximum of 50% of its earnings. This restriction applies to all New Zealand-incorporated banks and will remain in place until July 1, 2022 (subject to no significant worsening in economic conditions). This amendment restricts the amount of dividends that ANZ New Zealand can pay to its ultimate shareholder, ANZBGL.

From April 2020 until April 2021, the RBNZ also restricted ANZ New Zealand, and other New Zealand-incorporated banks, from redeeming capital instruments. Accordingly, ANZ New Zealand was not permitted to redeem its NZ\$500 million of Capital Notes in May 2020, although ANZ New Zealand could continue making interest payments on those Capital Notes (subject to certain conditions). Further, ANZ New Zealand did not exercise its option to convert the Capital Notes in May 2020. The terms of the Capital Notes provide for their conversion into a variable number of ANZBGL ordinary shares in May 2022 (subject to certain conditions). Conversion would result in an increase in the Group's Common Equity Tier 1 ("**CET1**") capital (approximately 12 basis points) at Level 2.

The New Zealand Government and certain New Zealand banks (including ANZ New Zealand) have implemented the BFGS to assist with the provision of credit to businesses for the purpose of responding to, recovering from, or positioning themselves to recover from the impacts of COVID-19. All NZ businesses with annual revenues of up to NZ\$200 million and who meet other criteria set by the New Zealand Government are eligible. A maximum loan amount of NZ\$5 million per customer group applies and the loans have a maximum term of five years. The New Zealand Government takes 80% of the credit risk of each loan, with the other 20% to be retained by the banks. Loans under the scheme must be approved and documented by June 30, 2021.

The New Zealand Government has also implemented a Small Business Cash Flow Loan Scheme, under which the New Zealand Inland Revenue Department provides loans of up to NZ\$100,000 to assist small businesses impacted by the COVID-19 pandemic. The interest rate is 3% per annum. However, interest will not be charged if the loan is fully paid back within two years. The maximum term of the loans is five years, and businesses are not required to make repayments for the first two years. Businesses are required to declare that they are a viable business and that they will use the money for core business operating costs.

The RBNZ implemented an up to NZ\$100 billion LSAP program, under which it will purchase New Zealand Government bonds, New Zealand Government Inflation-Indexed Bonds and Local Government Funding Agency bonds, on the secondary market and inject cash into the banking system by June 2022. The LSAP program aims to provide further support to the New Zealand economy, build confidence, and keep interest rates low. The LSAP program increases the amount of money circulating in the New Zealand banking system available to banks, including ANZ New Zealand, as deposits. The RBNZ continues to monitor the effectiveness of the LSAP program and will make further adjustments and additions if needed.

The RBNZ also implemented the FLP which makes available to banks direct secured funding equivalent to 4% of the relevant bank's eligible loans for a term of three years at the prevailing official cash rate over the drawdown period. Additional FLP funding equivalent to a further 2% of eligible loans will be available to banks that meet certain requirements to increase eligible loans. The FLP is intended to provide banks with low cost funding and encourage lower borrowing costs for New Zealand businesses and households.

From early-2020 to March 31, 2021, the New Zealand Government and the RBNZ implemented a financial support package for homeowners and businesses affected by the economic impacts of COVID-19, in which ANZ New Zealand, along with other New Zealand banks, agreed to participate. The package included a Mortgage Repayment Deferral Scheme for residential mortgage, agriculture and small to medium-sized business customers. The Mortgage Repayment Deferral Scheme was available to eligible ANZ New Zealand customers impacted by COVID-19. Under the Mortgage Repayment Deferral Scheme, repayments could initially be deferred for any period up to six months, as agreed between the bank and the borrower. The RBNZ extended the Mortgage Repayment Deferral Scheme for a further six months up to March 31, 2021, enabling customers under certain criteria to have a deferral for a maximum period of twelve months. The period of a repayment deferral under the Mortgage Repayment Deferral Scheme was not treated as a period in arrears, and the granting of a repayment deferral was not treated as a distressed restructuring. ANZ New Zealand followed its usual processes for capitalizing interest on loans under the Mortgage Repayment Deferral Scheme. Treatment of loan repayment deferrals as 'performing loans' ended on March 31, 2021.

The New Zealand Government also introduced a Leave Support Scheme and Short-Term Absence Payments to help businesses pay their employees who need to self-isolate as a result of COVID-19 and cannot work from home. Wage Subsidy Schemes were also previously available to help employers adversely affected by COVID-19 lockdowns to continue to pay their staff and protect jobs.

Other support facilities introduced in order to support liquidity that have since been suspended include the Term Lending Facility, Term Auction Facility, and Corporate Open Market Operation. The RBNZ is considering additional monetary instruments that could be deployed in the future including a negative official cash rate, receiving interest rate swaps and purchasing foreign assets.

The Companies Act 1993 and other legislation have been amended to help businesses facing insolvency due to COVID-19 to remain viable, including by introducing a COVID-19 Business Debt Hibernation ("**BDH**") regime. Under the regime, eligible entities (including companies, partnerships, incorporated societies, and other bodies) are able to submit a proposal to their creditors for putting their business debts into 'hibernation'. Creditors will have one month from the date the entity notifies the Registrar of Companies of its intention to enter into BDH to vote on the proposal, and the proposal will take effect if 50% of creditors (by number and value) agree. There will be a moratorium on the enforcement of debts during the initial one-month period following notification to the Registrar of Companies, and a further six-month moratorium if the proposal is agreed to. The proposal, if agreed to, will be subject to any conditions agreed with creditors. The BDH regime does not limit enforcement action by creditors with security over the whole, or

substantially the whole, of an entity's property, and certain debts (including debts owed to employees) are excluded from the regime entirely. In December, 2020, the New Zealand Government extended the BDH regime until October 31, 2021.

The New Zealand Government also made a number of tax reforms to provide relief to businesses. These include a temporary loss carry-back scheme, under which businesses expecting to make a loss in either of the 2019-2020 or 2020-2021 income years can offset that loss against income from the preceding income year, and receive a refund of some or all of the tax paid for that preceding year. Several changes have been made to assist medium and smaller businesses, including raising the provisional tax threshold from NZ\$2,500 to NZ\$5,000, in order to lower compliance costs and introducing new rules to allow businesses meeting certain "business continuity criteria" to carry-forward their tax losses notwithstanding changes in continuity of shareholder ownership.

The New Zealand Government announced its Half Year Economic and Fiscal Update ("HYEFU") on December 16, 2020. The HYEFU outlined the New Zealand Government's fiscal support measures in response to the COVID-19 pandemic which included a NZ\$12.1 billion initial support package and a NZ\$50 billion COVID-19 Response and Recovery Fund ("CRRF"). As at the date of the HYEFU NZ\$51.8 billion of the initial support package and CRRF had been allocated to initiatives, including the Wage Subsidy Scheme and subsequent extensions, the BFGS, costs associated with managed isolation facilities and purchasing of vaccines. The remaining NZ\$10.3 billion of CRRF funding was unallocated at the time of the HYEFU.

12.3 RBNZ review of capital requirements

Between May 2017 and December 2019, the RBNZ conducted a comprehensive review of the capital adequacy framework applying to New Zealand-incorporated banks. The RBNZ's final decisions on the capital review as they relate to ANZ New Zealand are set out below. In response to the COVID-19 pandemic, the RBNZ delayed the start date for the increased capital requirements to support credit availability. The new regime is expected to be implemented in stages from October 1, 2021.

- ANZ New Zealand's total capital requirement will increase to 18% of RWA, including Tier 1 capital of at least 16% of RWA. Up to 2.5% of the Tier 1 capital requirement can be made up of AT1 capital, with the remainder of the Tier 1 requirement made up of CET1 capital. The increased capital ratios requirement will be implemented progressively from July 1, 2022 to July 1, 2028. AT1 capital must consist of perpetual preference shares, which may be redeemable. The total capital requirement can also include Tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The Tier 1 capital requirement will include a CET1 prudential capital buffer of 9% of RWA. This will include: a 2% domestic, systemically important bank ("D-SIB") capital buffer; a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and a 5.5% capital conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at March 31, 2021, ANZ New Zealand had approximately NZ\$2,741 million of AT1 instruments that will progressively lose eligible regulatory capital treatment over a transition period from January 1, 2022 to July 1, 2028.
- As an IRB approach accredited bank, ANZ New Zealand's RWA outcomes will be increased to approximately 90% of what would be calculated under the standardized approach. This will be achieved by applying an 85% output floor from January 1, 2022, and increasing the credit RWA scalar from 1.06 to 1.20 from October 1, 2022.
- ANZ New Zealand will be required to report RWA, and resulting capital ratios, using both the internal models and the standardized approaches from January 1, 2022.

The RBNZ's reforms will result in a material increase in the level of capital that ANZ New Zealand is required to hold, although the amount of the increase is currently uncertain. The reforms could have a material impact on ANZ New Zealand and its business, including on its capital allocation and business planning.

Since September 30, 2018, CET1 capital has increased by NZ\$3.8 billion to NZ\$12.9 billion at March 31, 2021 and total capital has increased by NZ\$3.8 billion to NZ\$15.7 billion, in preparation for these changes and due to the RBNZ's COVID-19 related dividend restrictions.

12.4 RBNZ's revised outsourcing policy

BS11 requires large New Zealand-incorporated banks, such as ANZ New Zealand, to have the legal and practical ability to control and execute outsourced functions. BS11 applies to all new outsourcing arrangements entered into from October 1, 2017. The RBNZ has issued revised Conditions of Registration to ANZ New Zealand effective from April 2, 2020, which include an extension of the transition period to full compliance for existing outsourcing arrangements under BS11 from October 1, 2022 to October 1, 2023.

Conditions of Registration

The BS11 requirements form part of ANZ New Zealand's Conditions of Registration. If ANZ New Zealand does not comply with its Condition of Registration in relation to outsourcing, the RBNZ could take enforcement action, such as putting further restrictions on ANZ New Zealand's use of outsourcing.

A formal program has been established and is responsible for delivering ANZ New Zealand's compliance with BS11, as outlined in its Path-to-Compliance Plan. In order to be compliant with BS11, ANZ New Zealand must be able to meet the policy outcomes on a stand-alone basis without reliance on any other ANZ Group entity. The policy outcomes are defined as ANZ New Zealand being able to:

- continue to meet daily clearing, settlement, and other time-critical obligations;
- monitor and manage financial positions, including credit, liquidity and market risk positions;
- make available the systems and financial data necessary for the statutory manager and the RBNZ to have options available for managing the failed bank; and

- provide basic banking services to existing customers, including liquidity (both access to deposits and to credit lines as defined in basic banking services) and account activity reporting.

Compliance obligations

BS11 imposes a number of ongoing compliance requirements on ANZ New Zealand. In particular:

- ANZ New Zealand must have a compendium of outsourcing arrangements;
- all contracts to which BS11 applies must include prescribed contractual terms allowing the RBNZ access to details of the contract and service, and not allowing the vendor to terminate if ANZ New Zealand is under statutory management;
- the RBNZ must provide its non-objection for all new outsourcing arrangements (including with other ANZ Group entities), unless an exemption applies;
- ANZ New Zealand must have a separation plan that describes how it will operate services or functions that are outsourced to a related party in the event of the appointment of a statutory manager to ANZ New Zealand, or separation from ANZBGL. A final separation plan, fully compliant with BS11, must be in place by October 1, 2023 and will be subject to annual testing; and
- ANZ New Zealand must obtain an independent, external review of progress against its Path-to-Compliance Plan and compliance of new arrangements on an annual basis during the transition period and at least every three years thereafter.
- For further information, see "Risk Factors—Legal and regulatory risk—Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's Position".

12.5 Financial Markets (Derivatives Margin and Benchmarking) Reform Amendment Act 2019 ("FMRA Act")

The FMRA Act was enacted in August 2019, and addresses aspects of New Zealand law that impeded the ability of certain New Zealand entities (including registered banks such as ANZ New Zealand) to comply with foreign derivative margin requirements (in particular, statutory moratoria on creditors' claims under insolvency or restructuring regimes, and the ranking of creditors in certain circumstances). These legislative impediments had resulted in a reduction of the number of counterparties with which ANZ New Zealand was able to enter into uncleared OTC derivative transactions.

The amendments made under the FMRA Act, which became effective on March 14, 2021, allow derivative counterparties, which enter into derivatives with these New Zealand entities, to enforce their security interest over margin without undue delay, and ahead of other creditors, in the event of the other party to the derivative defaulting (provided that, prior to enforcement, the margin is in the possession or under the control of the enforcing counterparty or its agent). More specifically, the amendments:

- allow these derivative counterparties to enforce against the margin notwithstanding the general moratoria on claims that ordinarily apply in statutory management and voluntary administration; and
- ensure that when these derivative counterparties enforce their security interest over margin, their claim ranks ahead of other potential claims under the New Zealand Companies Act 1993 and the New Zealand Personal Property Securities Act 1999.

The FMRA Act also amended the Financial Markets Conduct Act 2013 ("FMCA") to establish a new licensing regime for administrators of financial benchmarks. These amendments aim to ensure that New Zealand's regulatory regime for financial benchmarks (including the New Zealand Bank Bill Benchmark Rate) meets the equivalence requirements for the purposes of the Benchmarks Regulation.

12.6 Replacement of the Financial Advisers Act 2008

In March 2021, New Zealand introduced a new financial advice regime: The Financial Services Legislation Amendment Act 2019 ("FSLAA"), which inserted the provisions of the new financial advice regime into the FMCA and amended the Financial Service Providers (Registration and Dispute Resolution) Act 2008. The key changes to the regime include:

- requiring financial advice providers to be licensed;
- removing the requirement that only a natural person can give financial advice (enabling robo-advice);
- expanding the minimum standards of competence, knowledge, and skill to all categories of people giving regulated financial advice to retail clients;
- requiring all people who give regulated financial advice to retail clients to comply with standards of ethical behavior, conduct, and client care;
- adding new requirements that anyone who gives financial advice must give priority to the interests of the client, ensure the client understands the nature and scope of advice and disclose prescribed information;
- limiting who can give regulated financial advice;
- simplifying the regime and its terminology, for example by simplifying financial adviser types and services they can provide;
- amending the requirements to be registered on the New Zealand Financial Service Providers Register to prevent its misuse; and
- adding requirements to ensure that there are appropriate processes and controls in place to limit, regulate and monitor the financial advice provided by nominated representatives.

ANZ New Zealand has obtained a transitional financial advice provider license from the FMA and has up to two years to apply for and obtain a full license.

12.7 Review of the Reserve Bank Act

From November 2017 to April 2021, the New Zealand Government undertook a review of the Reserve Bank Act with the goal of modernizing New Zealand's monetary and financial stability policy frameworks and the RBNZ's governance and accountability settings.

Phase one of the review was completed in 2018, and resulted in the enactment of the Reserve Bank of New Zealand (Monetary Policy) Amendment Act 2018, which made several changes to New Zealand's monetary policy framework.

Phase two involved a comprehensive review of the financial policy provisions of the Reserve Bank Act, including provisions that provide the legislative basis for the RBNZ's prudential regulation and supervision functions and its crisis management framework, and institutional matters such as the RBNZ's legislative objectives, broader governance arrangements and its funding model.

The New Zealand Government has announced in-principle decisions relating to the regulation of deposit takers, including:

- introducing a formal depositor insurance scheme that will protect depositors' savings up to an insured limit of NZ\$100,000 per depositor, per institution;
- making Non-Bank Deposit Takers ("NBDTs") and banks subject to a single prudential regulatory regime;
- strengthening accountability requirements on directors of companies that are deposit takers;
- strengthening the RBNZ's supervision and enforcement tools, including with powers to undertake on-site inspections as part of its supervision activities; and
- clarifying and strengthening the RBNZ's crisis resolution framework, including providing the RBNZ with the ability to "bail-in" (that is, write-down or convert to equity) certain unsecured liabilities as a new mechanism for recapitalizing a failing bank.

The New Zealand Government intends to replace the Reserve Bank Act with two separate pieces of legislation – the **"Reserve Bank of New Zealand Act"** and the **"Deposit Takers Act"** – which will implement the decisions from this review. The Reserve Bank of New Zealand Act will set out the overall governance and accountability framework for the RBNZ across all its functions. It will also provide for the RBNZ's central banking functions, including the framework for monetary policy. The Reserve Bank of New Zealand Bill is currently before the Finance and Expenditure Committee. The Deposit Takers Act will integrate the two different legislative frameworks for deposit taking institutions (banks and NBDTs) and establish the deposit insurance scheme. In April 2021, the New Zealand Government announced its in-principle decisions to adopt the final measures resulting from the review. An exposure draft of a Deposit Takers Bill is expected to be provided to the public for consultation in October 2021, with implementation of the deposit insurance scheme expected in 2023.

12.8 RBNZ review of mortgage bond collateral standards

The RBNZ has undertaken consultation on the terms under which the RBNZ would be prepared to accept mortgage bonds (such as residential mortgage-backed securities or covered bonds) as collateral for the RBNZ's lending operations in the future, and is proposing a new Residential Mortgage Obligations ("RMO") standard. The RBNZ is proposing to gradually phase in RMO to replace internal residential mortgage backed securities over a five-year transition period.

12.9 FMA and RBNZ conduct and culture review

Following the establishment of the Australian Royal Commission, the FMA and the RBNZ conducted a joint review of conduct and culture in the New Zealand banking sector in 2018 and 2019.

The FMA and RBNZ's industry report concluded that conduct and culture issues did not appear to be widespread in New Zealand banks. There were a small number of issues related to poor conduct by bank staff across the industry. Issues relating to system or process weaknesses were more commonplace. The industry report noted that the FMA and the RBNZ were concerned about the identification and remediation of conduct issues and risks in the banks' businesses, and potential weaknesses in the governance and management of conduct risks.

The FMA and RBNZ have continued to engage with banks that took part in the review, including ANZ New Zealand. In July 2019, the FMA and the RBNZ provided ANZ New Zealand with their specific feedback letter. In their letter, the FMA and the RBNZ noted that ANZ New Zealand's conduct and culture plan appeared to address the relevant issues identified in the feedback letters and published reports. In addition, the FMA and the RBNZ informed ANZ New Zealand that the outcomes of the Section 95 Reviews may result in ANZ New Zealand needing to amend its conduct and culture plan. See "Supervision and Regulation—Section 95 Reviews" for further information.

ANZ New Zealand is continuing to provide regular progress updates on its conduct and culture plan to the FMA and the RBNZ.

12.10 RBNZ's approach to supervision of financial institutions

In June 2019, the RBNZ announced that it would intensify its supervision of financial institutions (including ANZ New Zealand). The RBNZ indicated that financial institutions could expect more intrusive supervision, including more reviews, a deeper scrutiny of boards and management, and enforcement action in cases of non-compliance. For further discussion see "Risk Factors—Legal and regulatory risk—Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the ANZ New Zealand Group's Position".

12.11 RBNZ breach disclosure and reporting regime

Since January 2021, the RBNZ has introduced a new framework for the reporting and publishing of regulatory breaches by New Zealand banks. Banks are required to report promptly to the RBNZ when there is a breach or possible breach of a regulatory requirement in a material manner, and report all minor breaches every six months. Actual material breaches will then be published on the RBNZ's website. From March 2021, a materiality threshold applies to the disclosure of breaches of a bank's conditions of registration in their disclosure statements.

12.12 FMA review of sales incentives structures in the New Zealand banking industry

In November 2018, the FMA released its findings from its review of incentive structures in the New Zealand banking industry.

The industry review found that the incentives of salespeople across the New Zealand banking industry are highly sales focused and that there is a high risk of inappropriate sales practices occurring. The industry review also found that significant changes are being made to incentive schemes across the New Zealand banking industry.

From October 1, 2019, ANZ New Zealand removed sales incentives for all frontline staff and made changes to its remuneration structure to reduce the emphasis on variable remuneration and individual performance. Frontline Retail and Business Banking staff do not have incentives paid based on individual performance (including payments based on sales measures). Instead staff are eligible for a Group Performance Dividend ("GPD") payment based on overall ANZ Group performance. Some staff are also eligible for a variable remuneration component called At Risk Pay ("ARP") which is based on business, team and individual performance. For any roles with an individual performance component, ANZ New Zealand is committed to ensuring that there are no incentives linked to sales measures. Employees who do not meet the minimum standards of behavior and performance will not receive, or will receive a smaller proportion of GPD and ARP.

In July 2019, the FMA and the RBNZ, in their feedback letter to ANZ New Zealand on its conduct and culture plan, noted the requirement for ANZ New Zealand to notify the FMA, in writing, if ANZ New Zealand intends to materially change its approach to incentives outlined in ANZ New Zealand's conduct and culture plan.

12.13 Proposed conduct regulations for financial institutions

The Financial Markets (Conduct of Institutions) Amendment Bill ("FMCI Bill") was introduced to the New Zealand Parliament in December 2019. The FMCI Bill would require financial institutions (including registered banks, licensed insurers and NBDTs) that are in the business of providing relevant services to:

- obtain a license under Part 6 of the FMCA;
- comply with a fair conduct principle (requiring them to treat consumers fairly, including by paying due regard to their interests);
- establish, implement, maintain and comply with an effective fair conduct program to operationalize the fair conduct principle; and
- comply with regulations that regulate incentives.

Financial institutions and intermediaries would be subject to the FMCA's compliance and enforcement tools such as civil pecuniary penalties for contraventions of various obligations, and licensed financial institutions would be subject to licensing actions such as censure and the imposition of action plans.

These proposals are intended to form the basis of a broad conduct regime that could be expanded over time with further obligations on regulated entities.

In August 2020, the Finance and Expenditure Committee released its report on the FMCI Bill, recommending it be passed with amendments. Among other things, the updated FMCI Bill now:

- clarifies the fair conduct principle by inserting a non-exhaustive list of relevant factors required to treat consumers fairly;
- changes the requirement that fair conduct programs must be published in full to requiring a summary of the program to be published and the program to be provided to the FMA;
- removing the duty for intermediaries to comply with fair conduct programs, and the duty for financial institutions to ensure intermediary compliance with fair conduct programs; and
- inserts a list of matters the Minister must have regard to before recommending to regulate or prohibit incentives.

In April 2021, the New Zealand Government released two discussion documents regarding the treatment of intermediaries under, and the development of regulations to support, the new conduct of financial institutions regime. This consultation may result in amendments to the FMCI Bill later in 2021.

12.14 Amendments to the Credit Contracts and Consumer Finance Act 2003

In December 2019, the Credit Contracts Legislation Amendment Act 2019 ("CCLA Act") was enacted. The CCLA Act makes a number of significant changes to the CCCFA, including:

- introducing a new duty on directors and senior managers of creditors under consumer credit contracts to exercise due diligence to ensure that the creditor complies with its duties and obligations under the CCCFA. Proposed remedies for failure to comply with this duty include compliance orders, civil pecuniary penalties, statutory damages and payment of compensation. This change takes effect on October 1, 2021;
- strengthening enforcement provisions, including by providing civil pecuniary penalties and statutory damages for breaches of lender responsibility principles;
- requiring lenders to keep records of their inquiries in relation to their compliance with the responsible lending principles and how they calculate credit and default fees. This change takes effect on October 1, 2021;
- amending the provisions relating to how disclosure is made, including in relation to electronic disclosure; and
- requiring debt collectors to disclose key information to the debtor at the commencement of debt collection action. This change takes effect on October 1, 2021.

Certain amendments contained in the CCLA Act (including changes to electronic disclosure rules and the introduction of civil pecuniary penalties) have already come into effect. As a result of the COVID-19 pandemic, the commencement of Part 5A of the CCLA Act, relating to fit and proper person certification, was delayed and will now come into force on October 1, 2021, and the commencement of the remaining provisions of the CCLA Act and new regulations will now occur on October 1, 2021. The ANZ New Zealand Group is undertaking a program of work in relation to its current CCCFA processes and the upcoming CCLA Act reforms.

12.15 Thematic review of registered banks' compliance with the RBNZ Liquidity Policy

The RBNZ is undertaking a thematic review of compliance with BS13, which it intends to complete by mid-2021. The BS13 Thematic Review is expected to deliver an assessment of the compliance of registered banks in New Zealand with the quantitative and qualitative requirements of BS13 as well as provide useful insights into the banking industry's current liquidity management practices. The findings from the BS13 Thematic Review are also intended to provide input into a forthcoming review of BS13. ANZ New Zealand is continuing to work with the RBNZ on the BS13 Thematic Review.

12.16 Cyber resilience guidance and information sharing consultation

In April 2021, the RBNZ released guidance that outlines its expectations on cyber resilience for regulated entities (including ANZ New Zealand). The guidance aims to raise awareness of, and ultimately promote, the cyber resilience of the financial sector, especially at the board and senior management level. This guidance draws upon leading international and national cybersecurity standards and guidelines and is intended to provide high-level principle-based recommendations for entities.

The RBNZ also plans to promote information sharing with other relevant government agencies including the National Cyber Security Centre, the NZ Computer Emergency Response Team and the FMA. Details of the RBNZ's information gathering and sharing plan are under development and expected to be published for public consultation in mid-2021.

12.17 Privacy Act 2020

The Privacy Act 2020 ("**Privacy Act**") came into effect on December 1, 2020. The Privacy Act enhances the role of the Privacy Commissioner and promotes early intervention and risk management by organizations that handle personal information (such as ANZ New Zealand). Key changes relevant to ANZ New Zealand include:

- the mandatory notification of privacy breaches that cause serious harm (or are likely to do so) to the Privacy Commissioner and affected parties, for which failure to comply is an offence subject to a fine of up to \$10,000 per breach;
- the ability for the Commissioner to issue compliance notices and data access notices, with a fine of up to \$10,000 for non-compliance; and
- the introduction of controls on the disclosure of information overseas, including the requirement to ensure overseas entities receiving New Zealanders' personal information have similar levels of privacy protection to those in New Zealand.

The Privacy Act affects the handling of personal information ANZ New Zealand receives from customers and counterparties. ANZ New Zealand has implemented a program to ensure compliance with the new privacy obligations from December 1, 2020.

Restrictions on ANZBGL's ability to provide financial support

12.18 Effect of APRA's Prudential Standards

The ANZ Group is subject to extensive prudential regulation by APRA. APRA's current or future requirements may have an adverse effect on the ANZ New Zealand Group's Position.

APS222 sets minimum requirements for ADIs in Australia, including ANZBGL, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes maximum limits on intra-group financial exposures.

Under APS222, ANZBGL's ability to provide financial support to ANZ New Zealand is subject to the following restrictions:

- ANZBGL should not undertake any third party dealings with the prime purpose of supporting the business of ANZ New Zealand;
- ANZBGL must not hold unlimited exposures (i.e., should be limited as to specified time or amount) to ANZ New Zealand (e.g., not provide a general guarantee covering any of ANZ New Zealand's obligations) either in aggregate or at an individual entity level;
- ANZBGL must not enter into cross-default clauses whereby a default by ANZ New Zealand on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default of ANZBGL on its obligations; and
- the level of exposure, net of exposures deducted from capital, of ANZBGL's Level 1 total capital base to ANZ New Zealand should not exceed:
 - (i) 50% on an individual exposure basis; or
 - (ii) 150% in aggregate to all related ADIs or equivalents.

In August 2019, APRA released an update to APS222. Changes that affected the quantum and nature of the financial support that ANZBGL can provide to the ANZ New Zealand Group were to:

- (i) change the Level 1 capital base used for setting the exposure limits from total capital to Tier 1 capital; and
- (ii) reduce the Australian ADIs' individual entity exposure to related ADIs (or overseas equivalents such as ANZ New Zealand) from 50% of Level 1 total capital to 25% of its Level 1 Tier 1 capital base, and the aggregate exposures from 150% of Level 1 total capital to 75% of its Level 1 Tier 1 capital base.

The implementation date for APS222 has been deferred by APRA to January 1, 2022. APRA may provide for entity-specific transitional arrangements or flexibility on a case-by-case basis.

Further, in October 2019, APRA released a discussion paper on draft revisions to APS111, which proposes to change the Level 1 capital treatment for Australian ADIs, such as ANZBGL, investing in ADIs (or overseas equivalents such as ANZ New Zealand) and insurance subsidiaries. The proposed implementation date for the revised APS111 standards is January 1, 2022. If implemented, these APS111 changes would result in:

- the initial investment, up to an amount equal to 10% of ANZBGL's net Level 1 CET1 capital base, being risk-weighted at 250% by ANZBGL; and
- the remainder of the investment being treated as a CET1 capital deduction by ANZBGL.

These APS111 changes would reduce ANZBGL's Level 1 Tier 1 capital base and exposure to ANZ New Zealand for the purposes of APS222 reporting. As a result, ANZBGL's expected exposure to ANZ New Zealand at January 1, 2022 would be compliant with the APS222 limits.

However, if the APS111 changes are not implemented and the APS222 changes become effective, it is still possible that the changes outlined in APRA's announcement in connection with APS222 could adversely impact the ANZ New Zealand Group's position, its credit ratings and its ability to grow its business as ANZBGL's exposure to ANZ New Zealand would be near the limit of 25% of Level 1 Tier 1 capital, although ANZBGL would be able to apply for transition relief.

In addition, APRA has confirmed that by January 1, 2021, no more than 5% of ANZBGL's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (including its subsidiaries incorporated in New Zealand, such as ANZ New Zealand, and ANZBGL's New Zealand branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the ANZ New Zealand Group during times of financial stress.

In November 2020, APRA further announced, that until the new APS111 is finalized and implemented, APRA will require any new or additional equity investments in banking and insurance subsidiaries, where the amount of that new or additional investments takes the aggregate value of the investment above 10% of an ADI's CET1 capital, to be fully funded by equity capital at the ADI parent company level. This treatment would apply to the proportion of the new or additional investment that is above 10% of an ADI's CET1 capital.

APRA has also confirmed that contingent funding support by ANZBGL to its New Zealand operations during times of financial stress must be provided on terms that are acceptable to APRA. At present, only covered bonds meet APRA's criteria for contingent funding. APRA also requires that ANZBGL's total exposures to its New Zealand operations must not exceed 50% of ANZBGL's Level 1 Tier 1 capital base.

12.19 Effect of the Level 3 framework

In addition, certain requirements of APRA's Level 3 framework relating to, among other things, group governance and risk exposures became effective on July 1, 2017. This framework also requires the ANZ Group to limit its financial and operational exposures to subsidiaries (including those in the ANZ New Zealand Group).

In determining the acceptable level of exposure to a subsidiary, the Board of ANZBGL should have regard to:

- the exposures that would be approved for third parties of broadly equivalent credit status; and
- the potential impact on ANZBGL's capital and liquidity positions and ability to continue operating in the event of a failure by the ANZ New Zealand Group.

These requirements are not expected to place additional restrictions on ANZBGL's ability to provide financial or operational support to the ANZ New Zealand Group.

12.20 Other APRA powers

ANZBGL may not provide financial support in breach of the Banking Act 1959 of the Commonwealth of Australia (the "**Banking Act**"). Under the Banking Act:

- APRA must exercise its powers and functions for the protection of a bank's depositors in Australia and for the promotion of financial system stability in Australia; and
- in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia will be available to meet that bank's deposit liabilities in Australia and certain liabilities to APRA in priority to all other liabilities of the bank.

The requirements of the Banking Act and the exercise by APRA of its powers have the potential to impact the management of the ANZ New Zealand Group's liquidity.

12.21 Australian Crisis Management

The Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 of the Commonwealth of Australia (the "**Crisis Management Act**") enhanced APRA's powers to facilitate the orderly resolution of the entities it regulates, such as ANZBGL (and their subsidiaries, such as ANZ New Zealand), in times of distress. Additional powers which could impact the ANZ New Zealand Group include greater oversight, management and directions powers in relation to ANZBGL and other ANZ Group entities which were previously not regulated by APRA, increased statutory management powers over regulated entities within the ANZ Group in Australia (but APRA may not appoint a statutory manager to ANZ New Zealand or ANZNI) and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments (the "**Statutory Conversion and Write-Off Provisions**").

The Statutory Conversion and Write-Off Provisions apply in relation to regulatory capital instruments issued by certain financial sector entities (including ADIs and their subsidiaries, such as ANZ New Zealand) that contain provisions for conversion or write-off for the purposes of APRA's prudential

standards. Where the Statutory Conversion and Write-Off Provisions apply to an instrument, that instrument may be converted in accordance with its terms. This is so despite any law (other than specified laws, currently those relating to the ability of a person to acquire interests in an Australian corporation or financial sector entity), the constitution of the issuer, any contract to which the issuer is a party, and any listing rules, operating rules or clearing and settlement rules applicable to the instrument. In addition, the Banking Act includes a moratorium on the taking of certain actions such as denying any obligation, accelerating any debt, closing out any transaction or enforcing any security on grounds relating to the operation of the Statutory Conversion and Write-Off Provisions.

12.22 Australian Banking Executive Accountability Regime

The Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018 of the Commonwealth of Australia established the Banking Executive Accountability Regime ("BEAR"). ANZBGL's obligations under the BEAR commenced on July 1, 2018.

The BEAR aims to strengthen the responsibility and accountability framework for the most senior and influential directors and executives in ADI groups which, in the case of ANZBGL, currently includes certain members of ANZBGL's executive committee (including ANZBGL's CEO) and the CEO of ANZ New Zealand.

Under the BEAR:

- ANZBGL is required to register individuals with APRA before appointing them to certain senior executive or director positions and maintain and provide APRA with a map of the roles and responsibilities of such persons across the ADI group, and to provide APRA with accountability statements for each of these senior executives or directors, detailing that individual's roles and responsibilities;
- where ANZBGL's registered senior executives and directors do not meet accountability obligations, APRA is empowered to disqualify those individuals as senior executives or directors without a court order (but subject to a right of administrative review in accordance with Part VI of the Banking Act);
- ANZBGL is obliged to set remuneration policies for directors and senior executives consistent with BEAR's requirements, including for the deferral of certain components of that remuneration; and
- ANZBGL may be liable for substantial penalties for failing to comply with its BEAR obligations.

There is potential for the obligations of ANZBGL's and ANZ New Zealand's accountable persons under the BEAR to conflict with certain New Zealand regulatory requirements.

The Australian Government announced in January 2020 that BEAR will be replaced by the Financial Accountability Regime ("FAR"), which proposes to extend the regime to other APRA-regulated entities and directors / senior executives to increase accountability. FAR would be jointly administered by APRA and ASIC and could impose larger civil penalties for any breaches.

12.23 APRA's Total Loss Absorbing Capacity Requirements

In July 2019, APRA announced its decision on loss-absorbing capacity pursuant to which it will require Australian D-SIBs, including ANZBGL, to increase their total capital by 3% of RWA by January 2024.

Based on the ANZ Group's capital position as at September 30, 2020, this represents an incremental increase in the total capital requirement of approximately A\$7.5 billion, with an equivalent decrease in other senior funding.

APRA has stated that it anticipates that Australian D-SIBs would satisfy the requirement predominantly with additional Tier 2 capital. APRA is considering, over the next four years, feasible alternative methods for raising subordinated capital equivalent to an additional 1% to 2% of RWA.

It is uncertain what impact this change may have on the ANZ New Zealand Group.

12.24 Dodd-Frank Act

The Dodd-Frank Act regulates many aspects of the business of banking in the United States and internationally. At this time, the Dodd-Frank Act has not had a material effect on ANZ New Zealand's or ANZNIL's operations, although ongoing developments and monitoring of required compliance programs may require the expenditure of resources and management attention. While the Commodity Futures Trading Commission ("CFTC") continues to issue new rules, and to modify existing rules in certain respects, governing swap dealers and swap transactions, most of the regulations have been finalized.

The "Volcker Rule" adopted under the Dodd-Frank Act, among other things, prohibits banks and their affiliates from engaging in certain "proprietary trading" (but allows certain activities such as underwriting, market making-related and risk-mitigating hedging activities) and limits the sponsorship of, and investment in, private equity funds and hedge funds, subject to certain important exceptions and exemptions.

Other Dodd-Frank Act regulations impose minimum margin requirements on uncleared swaps, require the central execution and clearing of standardized OTC derivatives on regulated trading platforms and clearing houses, set limits on the size of positions in certain types of derivatives and provide for heightened supervision of OTC derivatives dealers and major market participants. ANZBGL is a provisionally registered swap dealer under the CFTC regulations. Neither ANZ New Zealand nor ANZNIL are required to be registered swap dealers or major swap participants under the CFTC regulations. However, ANZ New Zealand and ANZNIL will be indirectly caught by certain of the CFTC's regulatory requirements, in connection with swap transactions entered into with counterparties that are U.S. swap dealers or U.S. major swap participants.

In November 2020, the CFTC adopted rules regarding cross-border transactions which, among other things, permit "substituted compliance" by swap dealers located in non-U.S. jurisdictions with regulatory schemes determined by the CFTC to be comparable to its own. The CFTC has previously made such a determination with respect to certain aspects of Australian law and regulation pursuant to guidance issued by the CFTC prior to its adoption of the cross-border rules, and that determination remains in effect under the new rules. Pursuant to that determination, ANZBGL is able to rely on substituted compliance with respect to certain aspects of CFTC rules in connection with transactions outside the U.S. with non-U.S. counterparties.

U.S. prudential regulators and the CFTC have implemented rules imposing initial and variation margin requirements on transactions in uncleared swaps and security-based swaps. As ANZBGL is supervised by the Board of Governors of the Federal Reserve System (“**FRB**”) and operates the New York Branch that is regulated by the Office of the Comptroller of the Currency (the “**OCC**”), it needs to comply with the uncleared swap margin rules promulgated by the FRB, Farm Credit Administration, FDIC, Federal Housing Financial Agency and the OCC. These rules impose requirements to collect and post initial and variation margin in respect of in-scope trading with in-scope counterparties.

The Dodd-Frank Act also requires ANZBGL to submit U.S. resolution plans to the FRB and the FDIC. ANZBGL submitted its most recent U.S. resolution plan in December 2018. ANZBGL also is subject to “enhanced prudential regulations” under Reg. YY, Subpart N, which was adopted pursuant to Section 165 of the Dodd-Frank Act, and which requires quarterly and annual certification of compliance with the financial and risk oversight requirements thereof. In October 2019, the FRB and the FDIC issued final rules that apply tailored requirements on resolution planning and a modification of the enhanced prudential standards applicable to foreign banking organizations, depending on the size of their U.S. operations and their risk profile. Under the final rules, ANZBGL is next required to submit a reduced resolution plan by July 1, 2022 because it continued to be a triennial reduced filer on October 1, 2020.

12.25 FATCA

FATCA requires FIs to undertake specific customer due diligence and provide information on account holders who are U.S. citizens or tax residents to the U.S. Federal tax authority, the Internal Revenue Services (“**IRS**”), either directly or via local tax authorities. If the required customer due diligence and provision of account holder information is not undertaken and provided in a manner and form meeting the applicable requirements, the ANZ New Zealand Group and/or persons owning assets in accounts with ANZ New Zealand Group members may be subjected to a 30% withholding tax on certain amounts. While such withholding tax may currently apply only to certain payments derived from sources within the United States, no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to the date that is two years after the date on which final U.S. regulations defining the term “foreign passthru payment” are enacted. There is currently no proposed or final definition of “foreign passthru payment” and it is therefore impossible to know whether certain payments could possibly be treated as foreign passthru payments.

The discussion above reflects proposed U.S. regulations that eliminate withholding on certain gross proceeds payments and delay the effective date for withholding on payments from sources outside the United States. The U.S. Treasury Department has indicated that taxpayers may rely on the proposed regulations. The discussion assumes that the regulations will be finalized in their current form and will be effective retroactively.

In addition to FATCA, the U.S. may require the ANZ New Zealand Group in certain circumstances to provide certain information to U.S. payers (withholding agents, custodians, etc.), and the ANZ New Zealand Group and/or its customers may face withholding tax if the ANZ New Zealand Group does not provide such information in compliance with the applicable rules and regulations. Moreover, even if the ANZ New Zealand Group does provide the required information, withholding may still be applicable to certain U.S. source payments.

In the case of New Zealand institutions and branches, such information is to be furnished to the IRD, which would then forward the information to the IRS pursuant to an IGA between the United States and New Zealand.

The ANZ Group (including the ANZ New Zealand Group) has made and is expected to make significant investments in order to comply with FATCA and its reporting requirements. New Zealand has enacted legislation to implement the IGA with the United States. It is possible that ANZ New Zealand and/or ANZNIL may become subject to U.S. withholding taxes under FATCA.

12.26 CRS

The OECD’s CRS requires certain FIs to report information regarding certain accounts (which may include the Notes) to their local tax authority and follow related account opening information collection and due diligence procedures. Holders of Notes may be requested to provide certain information and certifications to ensure compliance with the CRS. A jurisdiction that has signed a CRS Competent Authority and relevant Information Exchange Agreement may provide this information to other participating jurisdictions. The New Zealand Government has enacted legislation to give effect to the CRS.

New Zealand FIs that do not fully comply with the CRS may be subject to administrative penalties. See “Risk Factors—Risks relating to the ANZ New Zealand Group’s business—Increasing compliance costs, the risk of heightened penalties and ongoing regulatory scrutiny with respect to the significant obligations imposed by global tax reporting regimes (which are still evolving) may adversely affect the ANZ New Zealand Group’s Position” in this Offering Memorandum for more information.

12.27 Conditions of Registration for ANZ Bank New Zealand Limited

These conditions apply on and after April 29, 2021, except as provided otherwise. For the purposes of this section references to “\$” are to New Zealand dollars.

The registration of ANZ Bank New Zealand Limited (“**the bank**”) as a registered bank is subject to the following conditions:

1. That—
 - (a) the Total capital ratio of the banking group is not less than 8%;
 - (b) the Tier 1 capital ratio of the banking group is not less than 6%;
 - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
 - (d) the Total capital of the banking group is not less than \$30 million;

- (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after January 1, 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
- (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration,—

"supervisory adjustment" referred to in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is calculated as the scalar times the sum of:

- a) the greater of:
 - i. 27.66 percent of the exposure-at-default (EAD) amount of non-defaulted standard residential mortgage loans less the risk weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted standard residential mortgage loans; and
 - ii. zero;
- and
- b) the greater of:
 - i. 75.47 percent of the exposure-at-default (EAD) amount of non-defaulted corporate farm lending exposures less the risk weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted corporate farm lending exposures; and
 - ii. zero;

"standard residential mortgage loan" has the same meaning as in 4.7(a) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B), dated November 2015;

"corporate farm lending exposures" has the same meaning as in 4.4(c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 and elsewhere in this condition of registration is 1.06;

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1A. That—

- (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP') (BS12) dated December 2007;
- (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015; and
- (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015:

- (a) the model approval requirements in section 1.3A;
- (b) the compendium requirements in section 1.3B;
- (c) the minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and
- (d) the minimum qualitative requirements for using the Advanced Measurement Approach ("AMA") for operational risk set out in section 8.4(a) and sections 8.5 to 8.14.

- 1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
- (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit on distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit on distributions of the bank's earnings
0% – 0.625%	0%
>0.625 – 1.25%	20%
>1.25 – 1.875%	40%
>1.875 – 2.5%	50%

- (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
- (c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

- 1D. That, if the buffer ratio of the banking group is more than 2.5%, the bank must limit aggregate distributions, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank's earnings.

For the purposes of this condition of registration,—

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

"buffer ratio", "distributions" and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06;

the bank must not make any individual dividend payment contributing to aggregate distributions for a financial year until it has completed its interim financial accounts for the first six months of its financial year or its annual financial accounts for its full financial year, and must not make any such dividend payment less than six months after any previous such dividend payment.

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

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

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

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

In determining the total amount of the banking group's insurance business—

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

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

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

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

Credit rating of the bank¹	Connected exposure limit (% of the banking group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

(1) This table uses the rating scales of S&P, Fitch and Moody's. (Fitch's scale is identical to S&P.)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% 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 Exposures Policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the bank complies with the following corporate governance requirements:
- the board of the bank must have at least five directors;
 - the majority of the board members must be non-executive directors;
 - at least half of the board members must be independent directors;
 - an alternate director,—
 - for a non-executive director must be non-executive; and
 - for an independent director must be independent;
 - at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
 - the chairperson of the board of the bank must be independent; and
 - the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
- the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - the Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
- the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - the Reserve Bank has advised that it has no objection to that appointment.
9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
- the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
 - the committee must have at least three members;
 - every member of the committee must be a non-executive director of the bank;
 - the majority of the members of the committee must be independent; and
 - the chairperson of the committee must be independent and must not be the chairperson of the bank.

For the purposes of this condition of registration, “non-executive” and “independent” have the same meaning as in the Reserve Bank of New Zealand document entitled “Corporate Governance” (BS14) dated July 2014.

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

This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either October 1, 2023 or when the existing outsourcing arrangement becomes compliant with condition 21, from which point in time condition 21 will apply to that outsourcing arrangement.

For the purposes of this condition of registration:

- (a) the term “legal and practical ability to control and execute” is explained in the Reserve Bank of New Zealand document entitled “Outsourcing Policy” (BS11) dated January 2006; and
- (b) the term “existing outsourcing arrangement” is defined in the Reserve Bank of New Zealand document entitled “Outsourcing Policy” (BS11) dated April 2020.

12. That:
- (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
 - (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together “CEO”) is with the bank, and the terms and conditions of the CEO’s employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
 - (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.
13. Before and on 30 April 2021, that the banking group complies with the following quantitative requirements for liquidity-risk management:
- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
 - (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
 - (c) the one-year core funding ratio of the banking group is not less than 50 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled “Liquidity Policy” (BS13) dated January 2018 and “Liquidity Policy Annex: Liquid Assets” (BS13A) dated October 2018.

- 13A. On and after 1 May 2021, that the banking group complies with the following quantitative requirements for liquidity-risk management:
- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
 - (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
 - (c) the one-year core funding ratio of the banking group is not less than 50 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled “Liquidity Policy” (BS13) dated May 2021 and “Liquidity Policy Annex: Liquid Assets” (BS13A) dated May 2021.

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

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition,—

“total assets” means all assets of the banking group plus any assets held by any SPV that are not included in the banking group’s assets:

“SPV” means a person—

- (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

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

16. That—

- (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
- (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
 - (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

- (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
 - (i) all liabilities are frozen in full; and
 - (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
- (b) apply a *de minimis* to relevant customer liability accounts;
- (c) apply a partial freeze to the customer liability account balances;
- (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
- (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
- (f) reinstate customers’ access to some or all of their residual frozen funds.

For the purposes of this condition of registration, “*de minimis*”, “partial freeze”, “customer liability account”, and “frozen and unfrozen funds” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

18. That the bank has an Implementation Plan that—

- (a) is up-to-date; and
- (b) demonstrates that the bank’s prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: “Open Bank Resolution Pre-positioning Requirements Policy” (BS17) dated September 2013.

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that—

- (i) at the product-class level lists all liabilities, indicating which are—
 - (a) pre-positioned for Open Bank Resolution; and

- (b) not pre-positioned for Open Bank Resolution;
- (ii) is agreed to by the Reserve Bank; and
- (iii) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated April 2020.
22. That, for a loan-to-valuation measurement period ending on or before 30 June 2021, the total of the bank's qualifying new mortgage lending amount in respect of property investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
23. That, for a loan-to-valuation measurement period ending on or after 31 July 2021, the total of the bank's qualifying new mortgage lending amount in respect of property investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
24. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
25. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 22 to 25,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:

"loan-to-valuation measurement period" means—

- (a) the three calendar month period ending on the last day of May 2021; and
- (b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of June 2021.

12.28 Non-compliance with Conditions of Registration

Set out below are outstanding and recent instances of non-compliance by the ANZ New Zealand Group with its Conditions of Registration that were disclosed in the Half Year Disclosure Statement.

Material non-compliance with conditions of registration

A review of ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements was undertaken under section 95 of the RBNZ Act and was completed in April 2020. ANZ New Zealand has accepted the improvements identified in the review, and is working to rectify its processes. The RBNZ has stated that it is confident ANZ New Zealand will resolve this matter without issue, and has emphasized that the ANZ New Zealand Group remains sound and well capitalized.

As first reported in the ANZ New Zealand 2019 Disclosure Statement, ANZ New Zealand has not complied with condition of registration 1B in relation to the implementation of changes to rating models and processes that were not approved by the RBNZ.

Applying the last RBNZ approved methodologies to the affected exposures as at September 30, 2019 would have decreased RWA by NZ\$47 million (0.05%) in aggregate, which was not sufficient to affect the reported capital ratios.

Affected models and the initial dates of non-compliance are:

- Commercial Property Model Suite (Single Investment, Multi Investment, Hotel Investment, Special Purpose Asset Investment, Single Residential Development, Commercial Development, Englobo Land Pre Development) - 2011
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds) - 2009
- Project and Structured Finance - 2009
- Bank, Country & Sovereigns - 2008

ANZ New Zealand's model compendium required under section 1.3B of BS2B was found to be non-compliant as it included unapproved model changes.

The first tranche of remediated models was submitted to the RBNZ for approval in August 2020, a second tranche was submitted in November 2020, with a third submission completed in April 2021. As at April 30, 2021, fourteen remediated models had been submitted to the RBNZ for approval, with the three remaining models expected to be submitted before the end of 2021.

Other matters relevant to the conditions of registration

There are other matters currently under review where there may be more than one valid interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation ANZ New Zealand has applied, where appropriate it has sought guidance from, and will be liaising with, the RBNZ on these matters.

12.29 Section 95 reviews

On July 5, 2019, the RBNZ issued a notice under section 95 of the RBNZ Act requiring ANZ New Zealand to obtain two external reviews: the first on ANZ New Zealand's compliance with certain aspects of BS2B (*Capital Adequacy Review*); and the second on the effectiveness of ANZ New Zealand's directors' attestation and assurance framework (*Attestation Review*).

The Attestation Review and the Capital Adequacy Review were completed in December 2019 and April 2020, respectively. ANZ New Zealand is committed to implementing the recommendations and addressing the issues raised by these reviews.

Due to the impacts of the COVID-19 pandemic, the RBNZ extended the time period for addressing the Attestation Review recommendations, subject to ANZ New Zealand obtaining external interim reviews of the remediation activities being undertaken in respect of the Attestation Review and the Capital Adequacy Review, assessed as at March 2021, with final reviews being assessed as at September 2021 for the Attestation review and December 2021 for the Capital Models review. The March 2021 interim reviews have been finalized. The external reviewer has reported that ANZ New Zealand has made significant progress to address non-compliance issues and improvement areas identified by the Capital Adequacy Review, and the program of work is expected to be completed by December 2021.

The Attestation Review and the Capital Adequacy Review have highlighted the need for a broader program of improving ANZ New Zealand's processes covered by those reviews, and this program is now in its implementation phase.

For further information, see "—New Zealand Regulatory Developments—FMA and RBNZ conduct and culture review" and "—Non-compliance with Conditions of Registration".

12.30 Loan calculator remediation

In June 2017, ANZ New Zealand self-reported a problem with a loan calculator to the New Zealand Commerce Commission ("Commerce Commission"). The problem affected some of ANZ New Zealand's customers' loans that were varied between May 2015 and May 2016. The loan calculator was used to calculate customer repayments and loan terms when customers asked for changes to their home, personal and business loans. The problem resulted in some customers paying less than they should have on affected loans. ANZ New Zealand fixed the calculator in May 2016. ANZ New Zealand has previously credited approximately NZ\$8.4 million to affected customers to put the affected loans back into the position they would have been in had the error not occurred. In March 2020, the Commerce Commission announced it had agreed with ANZ New Zealand that ANZ New Zealand would pay some customers affected by the issue a further NZ\$29.4 million. These payments are nearing completion.

12.31 ANZNIL

ANZNIL is not a registered bank, and so is not directly subject to the Conditions of Registration imposed by the RBNZ, nor is it directly regulated by the RBNZ under the Reserve Bank Act. However, it is part of the banking group for purposes of ANZ New Zealand's registration.

13. PRESENTATION CURRENCY

ANZ New Zealand Group publishes consolidated financial statements in New Zealand Dollars. In Part B (Issuers and Guarantor Information) of this Offering Memorandum, unless otherwise stated or the context otherwise requires, references to "US\$", "USD" and "U.S. dollars" are to U.S. Dollars and references to "\$", "NZD" and "NZ\$" are to New Zealand Dollars. For the convenience of the reader, this Offering Memorandum contains translations of certain NZ dollar amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the NZ dollar amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise stated, amounts reported in U.S. dollars have been translated at the Noon Buying Rate for March 31, 2021, which was US\$0.6989 = NZ\$1.00.

14. OPERATING AND FINANCIAL REVIEW

The following discussion of statutory profit is based on the ANZ New Zealand Unaudited Financial Statements and 2020 ANZ New Zealand Financial Statements (attached as part of Annex A to this Offering Memorandum) prepared under NZ GAAP (refer to "Section 1: Key Information – Basis of Preparation" for a description of NZ GAAP).

14.1 Large/notable Items

Sale of OnePath Life (NZ) Limited

In November, 2018, ANZ Wealth New Zealand Limited sold OnePath Life (NZ) Limited ("OnePath Life NZ"), a licensed life insurer and a wholly-owned subsidiary of ANZ New Zealand, to a related party nominee of Cigna Corporation ("Cigna"). The sale included a 20-year strategic alliance for Cigna to provide life insurance solutions for ANZ New Zealand customers. Under the agreement, ANZ New Zealand will continue to distribute life insurance products to its customers, but these insurance products will be manufactured by Cigna's New Zealand licensed insurers.

Sale of UDC Finance Limited

On September 1, 2020, ANZ New Zealand announced the completion of the sale of its asset finance business, UDC, for NZ\$762 million to Shinsei Bank Limited. The sale followed a strategic review of UDC previously announced by ANZ New Zealand, and is in line with the ANZ New Zealand Group's strategy to simplify its business. The UDC results did not qualify for presentation as a discontinued operation and the 2019 ANZ New Zealand Financial Statements have not been restated.

ANZIS winds up Bonus Bonds Scheme

In November 2020, ANZ Investment Services (New Zealand) Limited, a wholly owned subsidiary of ANZ New Zealand ("ANZIS"), commenced the wind-up of the Bonus Bonds Scheme. The Bonus Bonds Scheme is a fund managed by ANZIS where eligible bondholders were entered into a monthly prize draw instead of earning interest or receiving investment gains or losses. As a result of the wind-up, bondholders are expected to receive cash distributions in proportion to the number of Bonus Bonds they hold.

15. RESULTS OF OPERATIONS – HALF YEAR

The table below presents the ANZ New Zealand Group's results for the six months ended March 31, 2021 and 2020 and for the financial year ended September 30, 2020.

15.1 ANZ New Zealand Group income statement

	Six months ended March 31			Year ended September 30
	2021 US\$m ¹	2021 ² NZ\$m	2020 ² NZ\$m	2020 ³ NZ\$m
Interest income	1,631	2,334	2,998	5,568
Interest expense	462	661	1,332	2,306
Net interest income	1,169	1,673	1,666	3,262
Other operating income	236	338	483	807
Net operating income	1,405	2,011	2,149	4,069
Operating expenses	540	772	836	1,752
Profit before credit impairment and income tax	865	1,239	1,313	2,317
Credit impairment charge / (release)	(49)	(70)	233	403
Profit before income tax	914	1,309	1,080	1,914
Income tax expense	253	362	296	541
Profit after income tax	661	947	784	1,373

(1) For the convenience of the reader, the financial data for the six months ended March 31, 2021 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for March 31, 2021 of NZ\$1.00=US\$0.6989.

(2) Source: ANZ New Zealand Unaudited Financial Statements.

(3) Source: 2020 ANZ New Zealand Financial Statements.

ANZ New Zealand Group results

Comparison of March 2021 with March 2020

Profit after income tax for the March 2021 half year compared to the March 2020 half year increased 21%, or \$163 million, to \$947 million.

Net interest income increased 0.4% from \$1,666 million in the March 2020 half year to \$1,673 million in the March 2021 half year. The change in net interest income includes a decrease of \$70 million due to the UDC divestment. Excluding this impact, the net interest income increase was driven by lending volume growth of 4%, reflecting strong growth in housing and deposit volume growth of 8%. The net interest margin decreased 12 basis points driven by lower yields on interest earning assets and interest bearing liabilities.

Other operating income decreased 30% from \$483 million in the March 2020 half year to \$338 million in the March 2021 half year. The main factors contributing to this include:

- Decreases in the mark-to-market value of economic hedge derivatives. A fair value loss of \$34 million was recorded in the March 2021 half year,

compared to a fair value gain of \$131 million in the March 2020 half year.

- Other operating income in the markets business increased by \$32 million in the March 2021 half year compared to the March 2020 half year, due to favorable credit spreads movement on securities held and valuation adjustments, partly offset by interest rate trading losses.
- Net Fee and commission income decreased \$9 million in the March 2021 half year compared to the March 2020 half year, due to reduction or removal of fees and lower volume related fee income due to COVID-19 impacts partly offset by customer remediation provision raised in the March 2020 half not repeated.
- In the March 2021 half year a gain on the sale of a legacy insurance portfolio \$14 million was recognized.

Operating expenses decreased \$64 million, from \$836 million in the March 2020 half year to \$772 million in the March 2021 half year due to UDC divestment impacts, lower remediation provisions raised, lower discretionary costs and a reduction in fulltime equivalent employees ("FTE").

Credit impairment charge decreased \$303 million, from a charge of \$233 million in the March 2020 half year to a release of \$70 million in the March 2021 half year. The collective provision charged decreased \$249 million, from a charge of \$189 million in the March 2020 half year to \$60 million release in the March 2021 half year reflecting an improving economic outlook. The individual provision charged decreased \$54 million, from a charge of \$44 million in the March 2020 half year to \$10 million release in the March 2021 half year due to a reduction in retail delinquency aided by financial assistance packages, write backs of bad debt and asset realization.

15.2 ANZ New Zealand Group balance sheet

	As at March 31		
	2021 US\$m ¹	2021 ² NZ\$m	2020 ² NZ\$m
Assets			
Cash and cash equivalents	3,899	5,579	7,746
Settlement balances receivable	312	447	404
Collateral paid	964	1,380	2,527
Trading securities	6,779	9,700	11,679
Derivative financial instruments	8,568	12,259	13,216
Investment securities	8,419	12,046	7,293
Net loans and advances	96,090	137,488	135,355
Deferred tax assets	257	368	283
Goodwill and other intangibles	2,158	3,088	3,267
Premises and equipment	384	549	620
Other assets	447	639	670
Total assets	128,277	183,543	183,060
Liabilities			
Settlement balances payable	2,009	2,874	2,265
Collateral received	840	1,202	1,290
Deposits and other borrowings	90,060	128,860	121,040
Derivative financial instruments	7,765	11,111	12,680
Current tax liability	58	83	92
Payables and other liabilities	930	1,331	1,191
Employee entitlements and other provisions	339	485	475
Debt issuances	14,504	20,752	28,883
Total liabilities	116,505	166,698	167,916
Net assets	11,772	16,845	15,144
Equity			
Share capital	8,309	11,888	11,888
Reserves	83	119	(15)
Retained earnings	3,380	4,838	3,271
Total equity	11,772	16,845	15,144

(1) For the convenience of the reader, the financial information as at March 31, 2021, has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for March 31, 2021 of NZ\$1.00=US\$0.6989.

(2) Source: ANZ New Zealand Unaudited Financial Statements.

Other Banking Data

	RBNZ minimum	As at March 31	
		2021	2020
Capital adequacy ratios			
Common equity tier 1 capital (%)	4.5	13.1	11.1
Tier 1 capital (%)	6.0	15.9	13.9
Total capital (%)	8.0	15.9	13.9
Buffer ratio (%)	2.5	7.9	5.9
Risk-weighted exposures (NZ\$ millions)¹		98,481	99,805

(1) Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by the RBNZ.

Comparison of March 2021 with March 2020

Total assets increased \$483 million, from \$183,060 million at March 31, 2020 to \$183,543 million at March 31, 2021. Key influences on the movement in assets include:

- Assets held for liquidity purposes comprise cash and cash equivalents, settlement balances receivable, trading securities, and investment securities. These assets in aggregate increased \$650 million to \$27,772 million at March 31, 2021, from \$27,122 million at March 31, 2020. The increase was reflective of overall liquidity management activities.
- Derivative financial instruments assets decreased \$957 million due to a decrease in unrealized gains on foreign exchange contracts partly offset by an increase in unrealized gains on interest rate contracts.
- Net loans and advances increased by \$2,133 million, or 2%, from \$135,355 million at March 31, 2020 to \$137,488 million at March 31, 2021. Gross loans and advances increased \$2,106 million at March 31, 2021 (including a decrease of \$3,499 million due to the UDC divestment), with housing loans increasing \$7,812 million reflecting system growth partly offset by a decrease in non-housing lending. The provision for credit impairment decreased by \$27 million to \$617 million at March 31, 2021, which is netted against gross loans and advances.

Total liabilities decreased by \$1,218 million, from \$167,916 million at March 31, 2020, to \$166,698 million at March 31, 2021. Key influences on the movement in liabilities include:

- Total deposits and other borrowings increased by 6%, or \$7,820 million, from \$121,040 million at March 31, 2020 to \$128,860 million at March 31, 2021. Customer deposits increased by 8%, or \$9,375 million, from \$113,411 million at March 31, 2020, to \$122,786 million at March 31, 2021, reflecting deposit gathering to fund growth in lending and government assistance schemes available to customers in response to COVID-19.
- Debt issuances decreased \$8,131 million at March 31, 2021. This decrease reflects maturities of \$5,226 million not replaced due to increased customer deposits and a negative exchange rate impact of \$2,905 million.
- Derivative financial instruments liabilities decreased \$1,569 million due to a decrease in unrealized losses on foreign exchange contracts partly offset by an increase in unrealized losses on interest rate contracts.

15.3 Results by segment – half year

For further information on the composition of the divisions refer to "Section 2: Information on the Group – Principal Activities".

The segments reported are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

	Six months ended March 31	
	2021	2020
	NZ\$m	NZ\$m
Retail	519	372
Commercial	303	217
Institutional	140	85
Other	(15)	110
Profit after income tax	947	784

SECTION 3: OPERATING AND FINANCIAL REVIEW

Retail

	Six months ended March 31	
	2021	2020
	NZ\$m	NZ\$m
Net interest income	983	921
Other operating income	248	253
Net operating income	1,231	1,174
Operating expenses	547	574
Profit before credit impairment and income tax	684	600
Credit impairment charge / (release)	(32)	83
Profit before income tax	716	517
Income tax expense	197	145
Profit after income tax	519	372
Net Loans and advances	92,112	84,676
Deposits	81,358	76,408

Retail profit after income tax of \$519 million for the March 2021 half year increased 40% compared to the March 2020 half year.

- Net interest income increased \$62 million, reflecting lending and deposit volume growth and favorable margins.
- Other operating income decreased 2% due to reduction or removal of fees and lower volume related fee income due to COVID-19 impacts partly offset by a gain from the sale of a legacy insurance portfolio and customer remediation provision raised in the March 2020 half not repeated.
- Operating expenses decreased 5% due to FTE reduction, lower discretionary costs and a remediation provision raised in the March 2020 half not repeated.
- Credit impairment charge decreased \$115 million, from a charge of \$83 million in the March 2020 half year to a release of \$32 million in the March 2021 half year. The collective provision charged decreased \$103 million, from a charge of \$63 million in the March 2020 half year to \$40 million release in the March 2021 half year reflecting an improving economic outlook. The individual provision charged decreased \$12 million, from a charge of \$21 million in the March 2020 half year to \$9 million charge in the March 2021 half year due to a reduction in delinquency from financial assistance packages and strong asset prices.
- Net loans and advances increased 9% in the March 2021 half year compared to the March 2020 half year, driven by increased housing lending reflecting system growth. Deposit volumes grew by 6% in the March 2021 half year compared to the March 2020 half year reflecting deposit gathering to fund growth in lending and government assistance schemes available to customers in response to COVID-19.

Commercial

	Six months ended March 31	
	2021	2020
	NZ\$m	NZ\$m
Net interest income	503	549
Other operating income	5	6
Net operating income	508	555
Operating expenses	118	147
Profit before credit impairment and income tax	390	408
Credit impairment charge	(31)	106
Profit before income tax	421	302
Income tax expense	118	85
Profit after income tax	303	217
Net loans and advances	38,832	43,559
Deposits	20,172	17,218

The Commercial segment includes the CommAgri business and UDC (up to September 1, 2020, the date of sale).

- The Commercial segment profit after income tax of \$303 million for the March 2021 half year increased 40% compared to the March 2020 half year.
- Net interest income decreased \$46 million, or 8%, in the March 2021 half year compared to the March 2020 half year. The change in net interest income includes a decrease of \$70 million due to the UDC divestment. Excluding this impact, the increase reflects deposit volume growth and favorable margins partly offset by lower lending volumes.
- Operating expenses were \$29 million, or 20%, lower in the March 2021 half year compared to the March 2020 half year due to UDC divestment impacts and lower discretionary costs.
- Credit impairment charge decreased \$137 million, from a charge of \$106 million in the March 2020 half year to a release of \$31 million in the March 2021 half year. The collective provision charged decreased \$105 million, from a charge of \$89 million in the March 2020 half year to \$16 million in the March 2021 half year.

SECTION 3: OPERATING AND FINANCIAL REVIEW

release in the March 2021 half year reflecting an improving economic outlook. The individual provision charged decreased \$32 million, from a charge of \$17 million in the March 2020 half year to \$15 million release in the March 2021 half year due write backs of bad debt and asset realization.

- Net loans and advances decreased \$4,727 million, or 11%, in the March 2021 half year compared to the March 2020 half year, including a decrease of \$3,437 million due to the UDC divestment. Deposit volumes grew by 17% in the March 2021 half year compared to the March 2020 half year.

Institutional

	Six months ended March 31	
	2021 NZ\$m	2020 NZ\$m
Net interest income	168	177
Other operating income	113	81
Net operating income	281	258
Operating expenses	94	96
Profit before credit impairment and income tax	187	162
Credit impairment charge	(7)	44
Profit before income tax	194	118
Income tax expense	54	33
Profit after income tax	140	85
Net loans and advances	6,533	7,110
Deposits	21,256	19,785

Institutional profit after income tax of \$140 million for the March 2021 half year increased 65% compared to the March 2020 half year.

- Net operating income increased 9% or \$23 million in the March 2021 half year compared to the March 2020 half year due to favorable credit spreads movement on securities held and valuation adjustments, partly offset by interest rate trading losses.
- Operating expenses were 2%, or \$2 million, lower in the March 2021 half year compared to the March 2020 half year due to lower discretionary costs.
- Credit impairment charge decreased \$51 million, from a charge of \$44 million in the March 2020 half year to a release of \$7 million in the March 2021 half year. The collective provision charged decreased \$41 million, from a charge of \$37 million in the March 2020 half year to \$4 million release in the March 2021 half year reflecting an improving economic outlook. The individual provision charged decreased \$10 million, from a charge of \$7 million in the March 2020 half year to a \$3 million release in the March 2021 half year due to write backs of bad debt.
- Loans and advances decreased \$577 million, or 8%, in the March 2021 half year compared to the March 2020 half year due to reduced borrowing needs of customers. Deposits increased \$1,471 million, or 7%, in the March 2021 half year compared to the March 2020 half due to build-up of cash balances to provide flexibility during the COVID environment.

Other

	Six months ended March 31	
	2021 NZ\$m	2020 NZ\$m
Profit after income tax	(15)	110

Other businesses mainly comprise support and Treasury functions that are centrally managed, with costs substantially charged to the operating business units, including: (i) the shareholder functions unit, which holds the ANZ New Zealand Group's equity, including subordinated debt; (ii) certain significant items including the costs of organizational restructuring; and (iii) non-core items, including volatility related to derivatives entered into to manage interest rate and foreign exchange risk that are not designated in accounting hedge relationships but are considered to be economic hedges.

The results in 2021 reflected decreases in the mark-to-market value of economic hedge derivatives. A fair value loss of \$34 million was recorded in the March 2021 half year, compared to a fair value gain of \$131 million in the March 2020 half year.

16. RESULTS OF OPERATIONS – FULL YEAR

16.1 ANZ New Zealand Group income statement

	Years ended September 30			
	2020 US\$m ¹	2020 ² NZ\$m	2019 ² NZ\$m	2018 ² NZ\$m
Interest income	3,679	5,568	6,423	6,390
Interest expense	1,524	2,306	3,179	3,240
Net interest income	2,156	3,262	3,244	3,150
Other operating income	533	807	946	1,126
Net operating income	2,689	4,069	4,190	4,276
Operating expenses	1,158	1,752	1,608	1,517
Profit before credit impairment and income tax	1,531	2,317	2,582	2,759
Credit impairment charge	266	403	101	55
Profit before income tax	1,265	1,914	2,481	2,704
Income tax expense	357	541	662	751
Profit after income tax	907	1,373	1,819	1,953

- (1) For the convenience of the reader, the financial information for the financial year ended September 30, 2020 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2020 of NZ\$1.00=US\$0.6608.
(2) Source: ANZ New Zealand Financial Statements.

ANZ New Zealand Group results

Comparison of 2020 with 2019

Profit after income tax for 2020 compared to 2019 decreased 25%, or \$446 million, to \$1,373 million.

Net interest income increased \$18 million, or 1%, from \$3,244 million in 2019 to \$3,262 million in 2020. The increase reflects lending and deposit volume growth. The net interest margin decreased 14 basis points in a competitive environment driven by a lower yield on interest earning assets, partly offset by lower funding costs. Period end lending volumes increased 0.1% in 2020 impacted by the divestment of UDC (\$3,398 million decrease in lending), mainly offset by growth in housing. Customer deposits increased 11% in 2020 reflecting COVID-19 measures which included the government wage subsidy and quantitative easing impacts.

Other operating income decreased \$139 million, or 15%, from \$946 million in 2019 to \$807 million in 2020. The main factors contributing to this decrease include:

- Favorable movements in credit spreads and gains on valuation adjustments increased income \$137 million
- Net Fee and commission income decreased \$108 million primarily due to fee changes and lower volume related fee income and waivers due to the impact of COVID-19
- Changes in life insurance contract assets due to movements in long term interest rates used to discount future cash flows, which had a zero value in September 2020 compared to a positive revaluation of \$8 million in 2019 reflecting the two months of revaluation prior to the sale of OnePath Life NZ to Cigna completed on November 30, 2018.
- Net income from insurance business decreased \$19 million in 2020, primarily due to the loss of income as a result of the OnePath Life NZ divestment.
- A net loss on sale from the divested operation of UDC (\$32 million) in 2020 compared to net gains on sale from divested operations of OnePath Life NZ (\$66 million) and Paymark Limited (\$39 million) in 2019.

Operating expenses increased \$144 million, or 9%, from \$1,608 million in 2019 to \$1,752 million in 2020, driven by inflation, investment costs relating to compliance, goodwill write-off, accelerated software amortization, restructuring and remediation projects, partly offset by productivity gains and divested operations.

The credit impairment charge increased \$302 million from a \$101 million charge in 2019 to a \$403 million charge in 2020. The individual provision charge increased \$43 million from a \$69 million charge in 2019 to a \$112 million charge in 2020, primarily due to higher levels of new and top up provisions raised. The collective provision charge was \$259 million higher from a \$32 million charge in 2019 compared to a \$291 million charge in 2020 due to revised economic adjustments in light of COVID-19.

Comparison of 2019 with 2018

Profit after income tax for 2019 compared to 2018 decreased 7%, or \$134 million, to \$1,819 million.

Net interest income increased \$94 million, or 3%, from \$3,150 million in 2018 to \$3,244 million in 2019. The increase reflects lending and deposit volume growth. The net interest margin decreased 4 basis points in a competitive environment driven by a lower yield on interest earning assets and customer remediation provisions raised, partly offset by lower funding costs. Period end lending volumes increased 5% in 2019, mainly reflecting growth in housing lending. Customer deposits increased 5% in 2019.

Other operating income decreased \$180 million, or 16%, from \$1,126 million in 2018 to \$946 million in 2019. The main factors contributing to this decrease include:

- Decrease in the mark-to-market value of economic hedge derivatives. Fair value losses of \$61 million were recorded in 2019, compared to fair value gains of \$66 million in 2018.
- Changes in life insurance contract assets due to movements in long term interest rates used to discount future cash flows resulting in a positive revaluation of net insurance policy assets of \$8 million in 2019 compared to a positive revaluation of \$21 million in 2018.
- Net income from insurance business decreased \$109 million in 2019, primarily due to the loss of income as a result of the OnePath Life NZ divestment.
- Net gains on sale from divested operations of OnePath Life NZ (\$66 million) and Pay mark Limited (\$39 million) in 2019.
- Decrease in other income due to a \$20 million cost recovery recognized in respect of the UDC terminated transaction process and insurance proceeds received of \$20 million in 2018, both of which were not repeated in 2019.

Operating expenses increased \$91 million, or 6%, from \$1,517 million in 2018 to \$1,608 million in 2019, driven by inflation, investment costs relating to compliance and remediation projects, partly offset by productivity gains and divested operations.

The credit impairment charge increased \$46 million from a \$55 million charge in 2018 to a \$101 million charge in 2019. The individual provision charge decreased \$31 million from a \$100 million charge in 2018 to a \$69 million charge in 2019, primarily due to lower levels of new provisions raised. The collective provision charge was \$77 million higher from a \$45 million release in 2018 compared to a \$32 million charge in 2019 due to customer downgrades, a dairy adjustment for increased risk on farm valuations in 2019 and an economic cycle adjustment in 2018 not repeated in 2019.

16.2 Analysis of major income and expense items

Net interest income

The following table shows the ANZ New Zealand Group's net interest income for the financial years ended September 30, 2020, 2019 and 2018.

	Years ended September 30		
	2020	2019	2018
	NZ\$m	NZ\$m	NZ\$m
Interest income	5,568	6,423	6,390
Interest expense	2,306	3,179	3,240
Net interest income	3,262	3,244	3,150

Comparison of 2020 with 2019

Net interest income totaled \$3,262 million in 2020, an increase of 1%, or \$18 million, over 2019. The movement in net interest income was driven by an increase of \$200 million due to average volume growth, partially offset by a decrease of \$182 million due to a change in average interest rate. Key influences on the result are discussed below.

Movements in average margin¹

The overall interest spread decreased from 1.78% in 2019 to 1.73% in 2020, with the yield on total average interest earning assets decreasing 83 basis points, and the yield on total average interest bearing liabilities decreasing 78 basis points. Key influences on the result include the following:

- The average yield on net loans and advances decreased 73 basis points from 4.60% in 2019 to 3.87% in 2020, primarily due to repricing in a lower interest rate environment and change in mix of the portfolio due to customers switching from floating into lower rate fixed home loans.
- The average yield on trading securities decreased 106 basis points from 2.45% in 2019 to 1.39% in 2020, primarily due to higher yielding assets being replaced by lower yielding assets.
- The average yield on commercial paper, deposits and other borrowings decreased 74 basis points from 2.28% in 2019 to 1.54% in 2020 and the average yield on unsubordinated debt decreased 97 basis points from 3.05% in 2019 to 2.08% in 2020, primarily due to a continued low interest rate environment.

Movements in average volume¹

- Average interest earning assets increased \$11,456 million, or 8% in 2020 compared to 2019. This increase was in average net loans and advances which increased \$4,922 million, or 4%, primarily reflecting growth in the housing lending market and assets held for liquidity purposes increasing \$6,590 million or 38% during 2020 reflecting RBNZ measures to inject liquidity into the banking system in response to COVID-19.
- Average interest bearing liabilities increased \$7,098 million during 2020, primarily due to increased commercial paper, deposits and other borrowings.
- Average commercial paper, deposits and other borrowings increased \$4,882 million, or 5%. This growth was driven by an increase of \$3,382 million in average customer deposits, commercial paper issued of \$888 million and certificates of deposit issued of \$457 million.
- Average unsubordinated debt and subordinated debt increased \$1,611 million during 2020 due to new issuances and foreign exchange impacts offset by maturities.

Comparison of 2019 with 2018

Net interest income totaled \$3,244 million in 2019, an increase of 3%, or \$94 million, over 2018. The movement in net interest income was driven by an increase due to a change in the average volume growth of \$232 million, partially offset by a decrease of \$138 million due to a change in average interest rate. Key influences on the result are discussed below.

Movements in average margin¹

The overall interest spread decreased from 1.83% in 2018 to 1.78% in 2019, with the yield on total average interest earning assets decreasing 18 basis points, and the yield on total average interest bearing liabilities decreasing 13 basis points. Key influences on the result include the following:

- The average yield on net loans and advances decreased 17 basis points from 4.78% in 2018 to 4.60% in 2019, primarily due to repricing and change in mix of the portfolio due to customers switching from floating into lower rate fixed home loans.
- The average yield on commercial paper, deposits and other borrowings decreased 9 basis points from 2.37% in 2018 to 2.28% in 2019 and the average yield on unsubordinated debt decreased 29 basis points from 3.34% in 2018 to 3.05% in 2019, primarily due to a continued low interest rate environment.
- The average yield on trading securities decreased 41 basis points from 2.86% in 2018 to 2.45% in 2019, primarily due to higher yielding assets being replaced by lower yielding assets.

1. Where applicable, references to average balances and ratios calculated using average balances have been referenced to the table "Average balance sheet and interest income/expense" under "Additional Financial and Statistical Information—Average balance sheet and interest income/expense". Unless otherwise stated, the methodology for calculating average balances is included in that table.

Movements in average volume¹

- Average interest earning assets increased \$6,833 million, or 5%, in 2019 compared to 2018. This increase was mainly in average net loans and advances which increased \$6,479 million, or 5%, during 2019. This primarily reflected growth in the housing lending market.
- Average interest bearing liabilities increased \$4,180 million during 2019, primarily due to increased commercial paper, deposits and other borrowings.
- Average commercial paper, deposits and other borrowings increased \$3,942 million, or 4%. This growth was driven by an increase of \$4,907 million in average customer deposits partly offset by a reduction in average certificates of deposit issued of \$719 million and commercial paper issued of \$255 million.
- Average unsubordinated debt and subordinated debt increased \$387 million during 2019 due to new issuances and foreign exchange impacts offset by maturities.

Other operating income

The following table shows the ANZ New Zealand Group's other operating income for the years ended September 30, 2020, 2019 and 2018.

	Years ended September 30		
	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Net fee and commission income	558	666	660
Net income from insurance business	-	27	149
Net foreign exchange earnings and other financial instruments income	261	117	250
Share of associates' profit	-	4	5
Gains / (losses) on sale of subsidiaries and associates	(32)	105	-
Other income	20	27	62
Other operating income	807	946	1,126

Comparison of 2020 with 2019

Other operating income totaled \$807 million in 2020, a decrease of \$139 million, or 15%, compared to 2019. Key influences on the result include the following:

- Net fee and commission income decreased \$108 million, or 16%. This was due to fee changes and lower volume related fee income and fee waivers due to the impact of COVID-19.
- There was no insurance business in 2020 as the sale of OnePath Life NZ to Cigna completed on November 30, 2018.
- Net foreign exchange earnings and other financial instruments income increased \$144 million in 2020 compared to 2019. This was due to balance sheet trading gains as central banks globally reduce cash rates, valuation adjustments and a decrease in fair value losses of \$32 million recorded in 2020, compared to fair value losses of \$61 million in 2019.
- The loss on sale of subsidiaries and associates in 2020 arose on the sale of UDC, compared to net gains on sale from divested operations of OnePath Life NZ (\$66 million) and Paymark Limited (\$39 million) in 2019.

Comparison of 2019 with 2018

Other operating income totaled \$946 million in 2019, a decrease of \$180 million, or 16%, compared to 2018. Key influences on the result include the following:

- Net fee and commission income increased \$6 million, or 1%. This was due to higher funds management income, which increased \$7 million as a result of growth in net inflow from investors and favorable market performance.
- Net income from insurance business decreased \$122 million, or 82%, due to the sale of OnePath Life NZ to Cigna which completed on November 30, 2018.
- Net foreign exchange earnings and other financial instruments income decreased \$133 million in 2019 compared to 2018. This was due to a decrease in the mark-to-market value of economic hedge derivatives. Fair value losses of \$61 million were recorded in 2019, compared to fair value gains of \$66 million in 2018.
- Gains on sale of subsidiaries and associates in 2019 are from the sale of OnePath Life NZ (\$66 million) and Paymark Limited (\$39 million).
- Other income decreased \$35 million, or 56%, due to a \$20 million cost recovery recognized in respect of the UDC termination transaction process and insurance proceeds received of \$20 million in 2018, both of which were not repeated in 2019.

Operating expenses

The following table shows the ANZ New Zealand Group's operating expenses for the years ended September 30, 2020, 2019 and 2018.

	Years ended September 30		
	2020	2019	2018
	NZ\$m	NZ\$m	NZ\$m
Personnel costs	988	922	891
Premises costs	157	153	153
Technology costs	239	205	225
Other costs	368	328	248
Operating expenses	1,752	1,608	1,517

Comparison of 2020 with 2019

Operating expenses totaled \$1,752 million in 2020, an increase of \$144 million, or 9%, over 2019. The key influences on the result include the following:

- Personnel costs increased \$66 million, or 7%, due to inflation, compliance, restructuring and remediation costs partly offset by productivity gains from simplifying the business and divested operations.
- Technology costs increased \$34 million, or 17%, in 2020 compared to 2019, due to project demand, compliance and accelerated software amortization.
- Other costs increased \$40 million, or 12%, in 2020 compared to 2019, due to goodwill write-off, investment relating to compliance and remediation projects and higher head office charges relating to project costs.

Comparison of 2019 with 2018

Operating expenses totaled \$1,608 million in 2019, an increase of \$91 million, or 6%, over 2018. The key influences on the result include the following:

- Personnel costs increased \$31 million, or 3%, due to inflation, long service leave provision top-up and compliance and remediation costs partly offset by productivity gains from simplifying the business and divested operations.
- Technology costs decreased \$20 million, or 9%, in 2019 compared to 2018, due to reduced project demand and one-off costs incurred in 2018, which was not repeated in 2019.
- Other costs increased \$80 million, or 32%, in 2019 compared to 2018, due to customer remediation and legal provisions raised, investment relating to compliance and remediation projects and higher head office charges relating to project costs.

16.3 ANZ New Zealand Group balance sheet

	As at September 30			
	2020 ¹ US\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Assets				
Cash and cash equivalents	5,450	8,248	2,363	2,200
Settlement balances receivable	250	378	193	656
Collateral paid	921	1,394	2,324	1,919
Trading securities	8,456	12,797	8,942	8,024
Derivative financial instruments	6,411	9,702	11,666	8,086
Investment securities	6,537	9,893	7,027	6,502
Net loans and advances	87,687	132,698	132,525	126,466
Assets held for sale	-	-	-	897
Investment in associates	-	-	-	6
Deferred tax assets	216	327	77	-
Goodwill and other intangibles	2,043	3,092	3,276	3,289
Premises and equipment	390	590	335	325
Other assets	414	625	688	642
Total assets	118,775	179,744	169,416	159,012
Liabilities				
Settlement balances payable	1,949	2,950	1,607	2,161
Collateral received	843	1,275	991	845
Deposits and other borrowings	82,640	125,061	113,427	108,008
Derivative financial instruments	5,453	8,252	11,042	8,095
Current tax liability	166	251	101	161
Deferred tax liabilities	-	-	-	21
Liabilities held for sale	-	-	-	334
Payables and other liabilities	737	1,115	1,159	947
Employee entitlements and other provisions	352	532	452	196
Debt issuances	16,149	24,439	26,207	25,135
Total liabilities	108,289	163,875	154,986	145,903
Total equity	10,486	15,869	14,430	13,109

(1) For the convenience of the reader, the financial information as at September 30, 2020 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for September 30, 2020 of NZ\$1.00=US\$0.6608.

Other banking data

	RBNZ minimum	As at September 30		
		2020	2019	2018
Capital adequacy ratios				
Common Equity Tier 1 capital (%)	4.5	11.7	10.8	11.1
Tier 1 capital (%)	6.0	14.4	13.6	14.4
Total capital (%)	8.0	14.4	13.6	14.4
Buffer ratio (%)	2.5	6.4	5.6	6.4
Risk-weighted exposures (NZ\$ millions)¹		102,290	97,070	82,147

(1) Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by the RBNZ.

Comparison of 2020 with 2019

Total assets increased \$10,328 million, from \$169,416 million as at September 30, 2019, to \$179,744 million as at September 30, 2020. Key influences on the movement in assets include:

- Assets held for liquidity purposes comprise cash and cash equivalents, settlement balances receivable, trading securities, and investment securities. These assets in aggregate increased \$12,791 million (\$31,316 million as at September 30, 2020, from \$18,525 million as at September 30, 2019). The increase was driven by cash held with the RBNZ. The RBNZ implemented quantitative easing and increased money supply in the New Zealand banking system in response to COVID-19.
- Derivative financial instruments assets decreased \$1,964 million due to a decrease in unrealized gains on foreign currency contracts partly offset by an increase in unrealized gains on interest rate contracts.
- Net loans and advances increased \$173 million, or 0.1%, as at September 30, 2020. Gross loans and advances increased \$370 million, with \$5,251 million of this being housing lending offset by a decrease of non-housing lending of \$2,704 million and finance lease and hire purchase receivables of \$1,863 million primarily due to the divestment of UDC. The credit impairment balance increased \$197 million to \$694 million as at September 30, 2020 due to economic adjustments in light of COVID-19, which is netted against gross loans and advances.

Total liabilities increased \$8,889 million, from \$154,986 million as at September 30, 2019, to \$163,875 million as at September 30, 2020. Key influences on the movement in liabilities include:

- Total deposits and other borrowings increased \$11,634 million, or 10%, as at September 30, 2020. Customer deposits increased \$11,627 million, or 11%, from 2019 to 2020 reflecting COVID-19 measures which included the government wage subsidy and quantitative easing impacts.
- Debt issuances decreased \$1,768 million during 2020. The decrease reflects new issuances of \$2,327 million, a negative exchange rate impact of \$211 million, and maturities of \$3,885 million.
- Derivative financial instruments liabilities decreased \$2,790 million due to a decrease in unrealized losses on foreign exchange contracts and interest rate contracts.

Comparison of 2019 with 2018

Total assets increased \$10,404 million, from \$159,012 million as at September 30, 2018, to \$169,416 million as at September 30, 2019. Key influences on the movement in assets include:

- Assets held for liquidity purposes comprise cash and cash equivalents, settlement balances receivable, trading securities, and investment securities. These assets in aggregate increased \$1,143 million (\$18,525 million as at September 30, 2019, from \$17,382 million as at September 30, 2018). The increase in assets held for liquidity purposes is reflective of overall liquidity management activities.
- Derivative financial instruments assets increased \$3,580 million due to an increase in unrealized gains on interest rate contracts and unrealized gains on foreign currency contracts.
- Net loans and advances increased \$6,059 million, or 5%, as at September 30, 2019. Gross loans and advances increased \$6,044 million, with \$5,612 million of this being housing lending. The credit impairment balance decreased \$15 million to \$497 million as at September 30, 2019, which is netted against gross loans and advances.

Total liabilities increased \$9,083 million, from \$145,903 million as at September 30, 2018, to \$154,986 million as at September 30, 2019. Key influences on the movement in liabilities include:

- Total deposits and other borrowings increased \$5,419 million, or 5%, as at September 30, 2019. Customer deposits increased \$5,181 million, or 5%, reflecting deposit gathering to fund growth in lending.
- Debt issuances increased \$1,072 million during 2019. The increase reflects new issuances of \$4,010 million, a positive exchange rate impact of \$971 million, and maturities of \$3,909 million.
- Derivative financial instruments liabilities increased \$2,947 million due to an increase in revaluation losses as interest rate contracts and unrealized losses on foreign exchange contracts.

16.4 Results by segment – full year

For further information on the composition of the divisions refer to "Section 2: Information on the ANZ New Zealand Group – Principal Activities".

The segments reported are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

	Years ended September 30		
	2020	2019	2018
	NZ\$m	NZ\$m	NZ\$m
Retail	670	916	992
Commercial	402	542	557
Institutional	352	267	261
Other	(51)	94	143
Profit after income tax	1,373	1,819	1,953

Retail

	Years ended September 30		
	2020	2019	2018
	NZ\$m	NZ\$m	NZ\$m
Net interest income	1,812	1,798	1,777
Other operating income	490	597	685
Net operating income	2,302	2,395	2,462
Operating expenses	1,214	1,078	1,036
Profit before credit impairment and income tax	1,088	1,317	1,426
Credit impairment charge	145	47	50
Profit before income tax	943	1,270	1,376
Income tax expense	273	354	384
Profit after income tax	670	916	992
Loans and advances	86,362	81,789	76,843
Deposits	79,867	73,866	70,259

Comparison of 2020 with 2019

Retail profit after income tax of \$670 million in 2020 decreased \$246 million, or 27%, compared to 2019.

- Net interest income increased \$14 million, or 1%, in 2020 compared to 2019 mainly due to lending and deposit volume growth and mix partly offset by deteriorating deposit margins in the low rate interest environment.
- Other operating income decreased \$107 million, or 18%, in 2020 compared to 2019 primarily due to fee changes and lower volume related fee income and fee waivers due to the impact of COVID-19.
- Operating expenses increased \$136 million, or 13%, in 2020 compared to 2019 due to inflation and investment relating to compliance and remediation projects, partly offset by productivity gains.
- The credit impairment charge increased \$98 million reflecting revised economic adjustments in light of COVID-19.
- Loans and advances increased \$4,573 million, or 6%, as at September 30, 2020 compared to September 30, 2019, primarily due to housing loan growth and a net \$452 million repurchase of mortgages from the New Zealand branch of ANZBGL. Deposit volumes grew by \$6,001 million, or 8%, as at September 30, 2020 compared to September 30, 2019 reflecting COVID-19 measures which included the government wage subsidy and quantitative easing impacts.

Comparison of 2019 with 2018

Retail profit after income tax of \$916 million in 2019 decreased \$76 million, or 8%, compared to 2018.

- Net interest income increased \$21 million, or 1%, in 2019 compared to 2018 mainly due to lending and deposit volume growth partly offset by customer remediation provisions raised and divested operations. Net interest margin was down 16 basis points year on year due to customer preference for lower margin fixed lending, a competitive environment and customer remediation.
- Other operating income decreased \$88 million, or 13%, in 2019 compared to 2018 due to the loss of income as a result of the OnePath Life NZ divestment.
- Operating expenses increased \$42 million, or 4%, in 2019 compared to 2018 due to inflation and investment relating to compliance and remediation projects, partly offset by productivity gains and divested operations.
- The credit impairment charge decreased \$3 million due to lower provisions raised.
- Loans and advances increased \$4,946 million, or 6%, as at September 30, 2019 compared to September 30, 2018, primarily due to housing loan growth and a net \$1,471 million repurchase of mortgages from the New Zealand branch of ANZBGL. Deposit volumes grew by \$3,607 million, or 5%, as at September 30, 2019 compared to September 30, 2018 due to a focus on deposit gathering to fund growth in lending.

Commercial

	Years ended September 30		
	2020	2019	2018
	NZ\$m	NZ\$m	NZ\$m
Net interest income	1,073	1,057	970
Other operating income	11	17	21
Net operating income	1,084	1,074	991
Operating expenses	303	274	258
Profit before credit impairment and income tax	781	800	733
Credit impairment charge	223	47	(41)
Profit before income tax	558	753	774
Income tax expense	156	211	217
Profit after income tax	402	542	557
Loans and advances	39,333	43,464	42,446
Deposits	18,437	16,138	16,842

Comparison of 2020 with 2019

The Commercial segment includes the Commercial and Agriculture business and UDC (up to September 1, 2020, the date of sale).

Commercial profit after income tax of \$402 million decreased \$140 million, or 26%, in 2020 compared to 2019.

- Net interest income increased \$16 million, or 2%, in 2020 compared to 2019. This reflected the positive impact from lending and deposit volume growth and repricing the lending book partly offset by deteriorating deposit margins in the low interest rate environment.
- Operating expenses increased \$29 million, or 11%, in 2020 compared to 2019 due to inflation and investment relating to compliance and remediation projects, partly offset by productivity gains.
- The credit impairment charge increased \$176 million in 2020 compared to 2019. The individual provision charge was \$30 million higher in 2020 compared to 2019 due to higher levels of new and top-up provisions raised. The collective provision charge was \$146 million higher in 2020 compared to 2019 reflecting revised economic adjustments in light of COVID-19.
- Loans and advances decreased \$4,131 million, or 10%, in 2020 compared to 2019 primarily due to the divestment of UDC. Deposit volumes increased \$2,299 million, or 14%, in 2020 compared to 2019.

Comparison of 2019 with 2018

Commercial profit after income tax of \$542 million decreased \$15 million, or 3%, in 2019 compared to 2018.

- Net interest income increased \$87 million, or 9%, in 2019 compared to 2018. This reflected the positive impact from lending and deposit volume growth and repricing the book.
- Operating expenses increased \$16 million, or 6%, in 2019 compared to 2018 due to inflation and investment relating to compliance and remediation projects, partly offset by productivity gains.
- The credit impairment charge increased \$88 million in 2019 compared to 2018. The individual provision charge was \$29 million higher in 2019 compared to 2018 due to a lower level of write-backs partly offset by a lower level of new provisions raised. The collective provision charge was \$59 million higher in 2019 compared to 2018 due to a dairy adjustment for increased risk on farm valuations in 2019 and an economic cycle adjustment in 2018 not repeated in 2019.
- Loans and advances increased \$1,018 million, or 2%, in 2019 compared to 2018. Deposit volumes decreased \$704 million, or 4%, in 2019 compared to 2018.

Institutional

	Years ended September 30		
	2020	2019	2018
	NZ\$m	NZ\$m	NZ\$m
Net interest income	345	344	325
Other operating income	378	250	265
Net operating income	723	594	590
Operating expenses	198	216	182
Profit before credit impairment and income tax	525	378	408
Credit impairment charge	35	7	46
Profit before income tax	490	371	362
Income tax expense	138	104	101
Profit after income tax	352	267	261
Loans and advances	6,993	7,270	7,166
Deposits	22,559	19,232	16,954

Comparison of 2020 with 2019

Institutional profit after income tax of \$352 million increased \$85 million, or 32%, in 2020 compared to 2019.

- Net operating income increased \$129 million, or 22%, in 2020 compared to 2019 mainly due to favorable movements in credit spreads and gains on derivative valuation adjustments.
- Operating expenses decreased \$18 million, or 8%, in 2020 compared to 2019 due to customer remediation and legal provisions raised in 2019 not repeated.
- The credit impairment charge increased \$28 million in 2020 compared to 2019 reflecting revised economic adjustments in light of COVID-19.

Comparison of 2019 with 2018

Institutional profit after income tax of \$267 million increased \$6 million, or 2%, in 2019 compared to 2018.

- Net operating income increased \$4 million, or 1%, in 2019 compared to 2018 mainly due to favorable movements in credit spreads.
- Operating expenses increased \$34 million, or 19%, in 2019 compared to 2018 due to customer remediation and legal provisions raised.
- The credit impairment charge decreased \$39 million in 2019 compared to 2018 due to specific customer provisions raised in 2018 not repeated in 2019.

Other

	Years ended September 30		
	2020	2019	2018
	NZ\$m	NZ\$m	NZ\$m
Profit / (loss) before income tax	(77)	87	192
Income tax credit	(26)	(7)	49
Profit / (loss) after income tax	(51)	94	143

Other businesses mainly comprise support and Treasury functions that are centrally managed, with costs substantially charged to the operating business units, including (i) the shareholder functions unit, which holds the ANZ New Zealand Group's equity, including subordinated debt; (ii) certain significant items including the costs of organizational restructuring; and (iii) non-core items, including volatility related to derivatives entered into to manage interest rate and foreign exchange risk that are not designated in accounting hedge relationships but are considered to be economic hedges.

Comparison of 2020 with 2019

- Changes on life insurance contract assets due to movements in long term interest rates used to discount future cash flows which had a zero value in September 2020 compared to a positive revaluation of \$8 million in 2019 reflecting the two months of revaluation prior to the sale of OnePath Life NZ.
- A net loss on sale from divested operation of UDC (\$32 million) in 2020 compared to net gains on sale from divested operations of OnePath Life NZ (\$66 million) and Paymark Limited (\$39 million) in 2019.
- Other minor movements with a decrease in net interest income and expenses.

Comparison of 2019 with 2018

- Decrease in the mark-to-market value of economic hedge derivatives. Fair value losses of \$61 million were recorded in 2019, compared to fair value gains of \$66 million in 2018.
- Changes on life insurance contract assets due to movements in long term interest rates used to discount future cash flows resulting in a positive revaluation of net insurance policy assets of \$8 million in 2019 compared to a positive revaluation of \$21 million in 2018.
- Net gains on sale from divested operations of OnePath Life NZ and Paymark Limited of \$66 million and \$39 million, respectively, in 2019.
- Decrease in other income due to a \$20 million cost recovery recognized in respect of the UDC terminated transaction process in 2018 not repeated in 2019.

17. CREDIT RISK

17.1 Loans and advances by category

The following table presents ANZ New Zealand's portfolio by category of loans and advances. The statistics reflect ANZ New Zealand's gross loan advances including provisions and net of unearned income.

	As at March 31		As at September 30		
	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Overdrafts	660	816	659	927	905
Credit cards	1,287	1,426	1,300	1,569	1,644
Term loans - housing	95,081	87,269	89,258	84,007	78,395
Term loans - non-housing	40,732	44,539	41,882	44,586	44,169
Lease receivables	-	142	-	157	183
Hire purchase	-	1,702	-	1,706	1,608
Subtotal	137,760	135,894	133,099	132,952	126,904
Unearned finance income	(23)	(221)	(26)	(237)	(239)
Capitalized brokerage and other origination fees	368	326	319	307	313
Gross loans and advances	138,105	135,999	133,392	133,022	126,978
Allowance for expected credit losses	(617)	(644)	(694)	(497)	(512)
Total net loans and advances	137,488	135,355	132,698	132,525	126,466

17.2 Credit quality

ANZ New Zealand maintains a systematic, continuous approach to the collection of loan arrears, and it issues notices of arrears or defaults in terms detailed in policies and procedures. For purposes of loan quality, ANZ New Zealand distinguishes between commercial loans and other (including residential mortgage) loans. ANZ New Zealand generally classifies commercial loans and housing loans as either performing, impaired or, in some cases, restructured assets.

ANZ New Zealand monitors consumer loan quality by independently verifying arrears and producing and distributing detailed credit performance reports to management. In addition, ANZ New Zealand closely examines the trends on arrears of various products within the portfolio to ensure measures are taken to correct and control any adverse trends that may be identified. ANZ New Zealand manages commercial loans through a watch and control list process pursuant to detailed policies and procedures. Secured impaired assets and larger unsecured impaired assets are managed individually and are subject to continuous review of recovery strategy and the adequacy of provisioning levels.

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

ANZ New Zealand's individual provisioning policy varies depending on the category of lending provided. ANZ New Zealand raises an individual provision on non-accrual loans based on expected security realization values less selling costs.

17.3 Impaired assets

Gross impaired assets have increased \$40 million, or 14.5%, from \$275 million at March 31, 2020, to \$315 million at March 31, 2021. The increase was driven by the recognition of new impaired assets in the non-retail portfolio. ANZ New Zealand continues its strategy of working with customers to return them to a productive status or to achieve maximum recoveries for ANZ New Zealand and the customer. Given subdued sales volumes across some asset markets, this strategy can involve extended work-outs for some customers but it is achieving adequate levels of assets realized or repaid, or provisions recovered. Bad debts written-off as at March 31, 2021, were \$28 million.

The following table presents ANZ New Zealand's impaired assets and details of individual provisions for credit impairment for the dates indicated:

	As at March 31		As at September 30		
	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Gross balances of impaired assets					
with individual provisions set aside	286	246	329	258	298
without individual provisions set aside	29	29	32	27	23
Gross impaired assets	315	275	361	285	321
Individual provision for credit impairment	96	98	128	108	130
Net impaired assets	219	177	233	177	191
Net impaired assets as a percentage of gross loans and advances (%)	0.16	0.13	0.18	0.13	0.15
Analysis of movements in impaired assets					
Balance at the beginning of the period	361	285	285	321	357
New and increased impaired assets	70	142	377	308	395
Impaired assets written off during the period	(28)	(64)	(92)	(106)	(149)
Impaired assets realized or transferred to performing	(88)	(88)	(195)	(238)	(282)
UDC divestment	-	-	(14)	-	-
Balance at the end of the period	315	275	361	285	321
Gross impaired assets as a percentage of gross loans and advances (%)	0.23	0.20	0.27	0.21	0.25
Gross impaired assets and 90 days past due assets as a percentage of gross loans and advances (%)	0.51	0.49	0.66	0.46	0.41
Interest income forgone on impaired assets during the period					
Net interest charged but not recognized in the income statement	5	2	8	7	11
Net interest charged and recognized in the income statement	4	5	9	10	9
Past due loans					
Details of size of gross impaired assets					
Less than one million	47	57	44	66	56
Greater than one million but less than ten million	124	169	139	156	126
Greater than ten million	144	49	178	63	139
Gross impaired assets	315	275	361	285	321
Past due loans not shown as impaired assets					
Gross loans past due not subject to individual provision ^{1, 2}	388	385	523	324	205
Total past due loans	703	660	884	609	526

(1) Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue on such loans continues to be recognized in the balance sheet.

(2) Despite the arrears of such loans, an assessment of the value of the security, including mortgage insurance in the case of residential loans, indicates that principal and interest should be recovered in full.

17.4 Credit impairment charge

Approximately 70% of ANZ New Zealand's impaired assets are covered by collateral security generally comprising real estate assets. ANZ New Zealand adopts loan recovery processes that aim to maximize the realizable value of this security in order to reduce write-offs and increase the recoveries achievable for ANZ New Zealand and its customers. Individual recovery strategies are reviewed regularly to ensure they remain appropriate for the current and forecast business environment and the respective property markets.

The credit impairment charge decreased \$303 million, or 130%, from a charge of \$233 million at March 31, 2020, to a release of \$70 million at March 31, 2021, driven by changes to economic outlook. See below for information on the economic assumptions used in calculating collective provisions.

The individual provision charge at March 31, 2021 decreased \$54 million from a charge of \$44 million at March 31, 2020, to a release of \$10 million at March 31, 2021, due to fewer new provisions and provision write-backs.

The following table presents details of the ANZ New Zealand Group's provisions for impaired assets for the periods indicated:

	As at March 31		As at September 30		
	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Collective provision					
Balance at the beginning of the period ¹	725	486	486	454	427
Charge / (release) to income statement	(60)	189	291	32	(45)
UDC divestment	-	-	(52)	-	-
Balance at the end of the period	665	675	725	486	382
Individual provision					
Balance at the beginning of the period	128	108	108	130	152
Charge to income statement	(10)	44	112	69	100
Recoveries	10	14	23	23	30
Bad debts written off	(28)	(64)	(92)	(106)	(149)
Discount unwind	(4)	(4)	(9)	(8)	(3)
UDC divestment	-	-	(14)	-	-
Balance at the end of the period	96	98	128	108	130
Total balance at the end of the period	761	773	853	594	512
The provision for impairment expressed as a percentage of gross impaired assets less interest reserved (%):					
Individual provisions	30.48	35.64	35.46	37.76	40.63
Total provisions	241.59	281.09	236.29	208.29	160.00
Collective provision for impairment expressed as a percentage of credit risk-weighted exposures (%)	0.81	0.80	0.88	0.59	0.54

(1) As NZ IFRS 9 was effective for the ANZ New Zealand Group from October 1, 2018, a transition adjustment of \$72 million was applied to the collective provision as at October 1, 2018. The collective provision as at March 31, 2018 and for previous financial years has not been restated.

17.5 Allowance for expected credit losses judgements and estimates

The ANZ New Zealand Group measures the allowance for expected credit losses (ECL) using an expected credit loss impairment model as required by NZ IFRS 9. The ANZ New Zealand Group's accounting policy for the recognition and measurement of the allowance for ECL is described in Note 12 to the 2020 ANZ New Zealand Financial Statements (attached as part of Annex A to this Offering Memorandum) which is consistent with that disclosed in the ANZ New Zealand Unaudited Financial Statements and prior year. The impact of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. This uncertainty is reflected in the ANZ New Zealand Group's assessment of expected credit losses from its credit portfolio which are subject to a number of management judgements and estimates.

The following table summarizes the key judgements and assumptions in relation to the ECL model inputs and the interdependencies between those inputs, and highlights significant changes during the half year ended March 31, 2021.

The judgements and associated assumptions have been made within the context of the impacts of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the ANZ New Zealand Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement / assumption	Description	Considerations for the half year ended March 31, 2021
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The ANZ New Zealand Group monitors the effectiveness of SICR criteria on an ongoing basis.	The relief packages offered to customers in response to COVID-19 in 2020 are no longer being offered, and the majority of customers who took up the relief have reverted back to their normal loan repayments. The relief packages, as well as government support measures, may have obscured repayment delinquencies that might otherwise have occurred and those that may still occur in the future. Thus the ANZ New Zealand Group has provided a component of ECL for expected delinquencies and increases in SICR.
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD), and exposure at default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioral characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	The PD, EAD and LGD models are subject to the ANZ New Zealand Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. During the half year ended March 31, 2021, an adjustment was made to the modelled outcome to account for continuing model uncertainties as a result of COVID-19. There were no material changes to the policies during the half year ended March 31, 2021.
Base case economic forecast	The ANZ New Zealand Group derives a forward looking "base case" economic scenario which reflects the ANZ New Zealand Group's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward looking variables (key economic drivers) used as model inputs in the current period. As at March 31, 2021, the base case assumptions have been updated to reflect the current phase of COVID-19, including containment in key geographies, government stimulus measures and roll-out of vaccines. In determining the expected path and timing out of the current economic downturn, assessments of the impact of central bank policies, government's actions, the response of business, and institution specific responses (such as payment deferrals) were considered. The expected outcomes of key economic drivers for the base case scenario as at March 31, 2021 are described below under the heading "Base case economic forecast assumptions".

SECTION 3: OPERATING AND FINANCIAL REVIEW

Judgement / assumption	Description	Considerations for the half year ended March 31, 2021
Probability weighting of each scenario (base case, upside, downside and severe downside scenarios) ^{1,2}	Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario at each measurement date.	The key consideration for probability weightings in the current period is the extent and timing of economic downturn caused by COVID-19. The ANZ New Zealand Group considers these weightings to provide the best estimate of the possible loss outcomes and has analyzed inter-relationships and correlations (over both the short and long term) within the ANZ New Zealand Group's credit portfolios in determining them. In addition to the base case forecast which reflects a significant improvement as we emerge from an economic environment heavily influenced by COVID-19, greater weighting continues to be applied to the downside scenario given the ANZ New Zealand Group's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognized. The uncertainty associated with the COVID-19 pandemic, including the roll-out of vaccines; and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models which are based on historical underlying data. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with continuing COVID-19 impacts. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular to retail, commercial and agri banking.

- (1) The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.
- (2) The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.

SECTION 3: OPERATING AND FINANCIAL REVIEW

Base case economic forecast assumptions

The uncertain evolution of the COVID-19 pandemic increases the risk to the economic forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- the extent and duration of measures, including the roll-out of vaccines, to contain the spread of COVID-19;
- the extent and duration of the economic downturn, along with the time required for economies to recover; and
- the effectiveness of government stimulus measures, in particular their impact on the magnitude of the economic downturn and the extent and duration of the recovery.

The economic drivers of the base case economic forecasts at March 31, 2021 are set out below. These reflect ANZ New Zealand Group's view of future macro-economic conditions at September 20, 2020. For years beyond the near term forecasts below, the ECL models project future year economic conditions including an assumption to eventual reversion to mid-cycle economic conditions.

New Zealand	Actual calendar year	Forecast calendar year	
	2020	2021	2022
Gross domestic product (GDP)	-3.0%	3.6%	3.7%
Unemployment	4.6%	5.4%	4.6%
Residential property prices	15.6%	17.9%	4.1%
Consumer price index (CPI)	1.7	1.9	1.6

The base case economic forecasts as at March 31, 2021 indicate a significant improvement in current and expected economic conditions from the forecasts as at September 30, 2020 reflecting the ongoing progress and actions in responding to the COVID-19 pandemic.

Probability weightings

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario. The key consideration for probability weightings in the current period is the effectiveness of actions taken in response to COVID-19 and the ability of vaccines to limit the impact of the virus.

The base case scenario represents a significant improvement in the forecasts since September 2020. Given the uncertainties associated with a potential recovery in the economy, greater weighting continues to be applied to the downside and severe downside scenarios given the ANZ New Zealand's assessment of downside risks.

The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The ANZ New Zealand Group considers these weightings to provide the best estimate of the possible loss outcomes and has analyzed inter-relationships and correlations (over both the short and long term) within the ANZ New Zealand's credit portfolios in determining them. The average weightings applied are set out below:

	March 31, 2021	September 30, 2020
Base	50%	50%
Upside	8%	8%
Downside	32%	32%
Severe downside	10%	10%

ECL - Sensitivity analysis

Given current economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future periods, ECL reported by the ANZ New Zealand Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at March 31, 2021:

	Total NZ\$ millions	Impact NZ\$ millions
If 1% of Stage 1 facilities were included in Stage 2	669	4
If 1% of Stage 2 facilities were included in Stage 1	664	(1)
100 % upside scenario	457	(208)
100 % base scenario	544	(121)
100 % downside scenario	802	137
100 % severe downside scenario	998	333

17.6 Credit risk concentration

The following table presents total lending risk by industry, including impaired assets, specific provisions and write-offs:

Analysis of total lending by industry sector is based on Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes. The presentation of this table aligns with the classifications in the data series "S34 – Banks: Assets – Loans by industry" published by the RBNZ. This series uses ANZSIC 2006 industry classifications.

As at March 31, 2021						
	Total lending NZ\$m	Impaired assets NZ\$m	Specific provision NZ\$m	Write-offs NZ\$m	Recoveries NZ\$m	Net write-off NZ\$m
Agriculture	16,743	223	21	5	-	5
Forestry and fishing, agriculture services	652	7	1	-	-	-
Manufacturing	2,437	9	8	-	-	-
Electricity, gas, water and waste services	1,066	-	-	-	-	-
Construction	1,168	2	2	-	-	-
Wholesale trade	1,207	5	4	-	-	-
Retail trade and accommodation	2,380	15	10	5	-	5
Transport, postal and warehousing	816	7	2	-	-	-
Finance and insurance services	1,024	-	7	-	-	-
Public administration and safety	315	-	-	-	-	-
Rental, hiring & real estate services	37,195	11	5	-	-	-
Professional, scientific, technical, administrative and support services	872	8	8	-	-	-
Households	69,227	17	5	18	10	8
Other	2,658	11	23	-	-	-
Total lending	137,760	315	96	28	10	18

As at September 30, 2020						
	Total lending NZ\$m	Impaired assets NZ\$m	Specific provision NZ\$m	Write-offs NZ\$m	Recoveries NZ\$m	Net write-off NZ\$m
Agriculture	17,049	254	45	5	-	5
Forestry and fishing, agriculture services	678	1	-	-	-	-
Manufacturing	2,407	17	7	-	-	-
Electricity, gas, water and waste services	1,098	-	-	1	-	1
Construction	1,150	3	2	-	-	-
Wholesale trade	1,243	4	3	-	-	-
Retail trade and accommodation	2,415	25	18	1	-	1
Transport, postal and warehousing	838	1	2	1	-	1
Finance and insurance services	1,075	2	7	25	3	22
Public administration and safety	283	-	-	-	-	-
Rental, hiring & real estate services	35,529	12	5	-	-	-
Professional, scientific, technical, administrative and support services	923	8	10	2	-	2
Households	65,694	23	5	57	19	38
Other	2,717	11	24	-	1	(1)
Total lending	133,099	361	128	92	23	69

17.7 Total credit provisions by industry

The following table presents a breakdown by category of ANZ New Zealand's total provisions for doubtful debts on loans and receivables:

	As at March 31, 2021		As at September 30, 2020	
	NZ\$m	%	NZ\$m	%
Collective provision	665	87	725	85
Agriculture	21	3	45	5
Forestry and fishing, agriculture services	1	-	-	-
Manufacturing	8	1	7	1
Electricity, gas, water and waste services	-	-	-	-
Construction	2	-	2	-
Wholesale trade	4	1	3	-
Retail trade and accommodation	10	1	18	2
Transport, postal and warehousing	2	-	2	-
Finance and insurance services	7	1	7	1
Public administration and safety	-	-	-	-
Rental, hiring & real estate services	5	1	5	1
Professional, scientific, technical, administrative and support services	8	1	10	1
Households	5	1	5	1
Other	23	3	24	3
Total provisions	761	100	853	100

17.8 Net movement in provision by industry category

The following table presents details of ANZ New Zealand's net movement in provision by industry category for the periods indicated:

	As at March 31		As at September 30		
	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Collective provision	(60)	189	291	32	(45)
Agriculture	(17)	2	22	18	16
Forestry and fishing, agriculture services	1	-	-	1	(1)
Manufacturing	1	(1)	5	(2)	(19)
Construction	-	2	3	2	2
Wholesale trade	1	-	-	(2)	(2)
Retail trade and accommodation	(3)	9	13	6	(6)
Transport, postal and warehousing	-	-	4	-	2
Finance and insurance services	-	-	1	(5)	56
Rental, hiring & real estate services	-	1	1	-	1
Professional, scientific, technical, administrative and support services	(2)	1	10	3	1
Households	8	21	40	50	50
Other	1	9	13	(2)	-
Net movement in provisions	(70)	233	403	101	55

17.9 Individual provisions as a result of bad debt write-offs by industry category

The following table presents details of ANZ New Zealand's reversal of individual provisions as a result of bad debt write-offs by industry category for the periods indicated:

	As at March 31		As at September 30		
	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Agriculture	(5)	(3)	(5)	(16)	(9)
Forestry and fishing, agriculture services	-	-	-	(1)	-
Manufacturing	-	-	-	(8)	(4)
Electricity, gas, water and waste services	-	-	(1)	-	-
Construction	-	(1)	-	(2)	(3)
Wholesale trade	-	-	-	(1)	(3)
Retail trade and accommodation	(5)	(1)	(1)	(8)	(4)
Transport, postal and warehousing	-	(1)	(1)	(1)	(1)
Finance and insurance services	-	(25)	(25)	(1)	(20)
Rental, hiring & real estate services	-	-	-	-	(3)
Professional, scientific, technical, administrative and support services	-	(2)	(2)	(1)	(1)
Households	(18)	(31)	(57)	(66)	(72)
Other	-	-	-	(1)	(29)
Total reversal of individual provisions	(28)	(64)	(92)	(106)	(149)

17.10 Mortgagee sales

Under New Zealand property law, holders of registered mortgages are able to exercise their right of power of sale when the customer has breached the terms of their loan or mortgage. Before any mortgagee sale can be initiated, a notice under the Property Law Act 2007 ("**PLA Notice**") must be issued. The PLA Notice is the formal legal notice of default and advises the customer that unless ANZ New Zealand is repaid in full by a set date then ANZ New Zealand may exercise its right of power of sale.

The table below presents the actual PLA Notices issued and mortgagee sales concluded from January 2018 to March 2021.

2018												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	14	14	12	14	12	9	13	5	5	6	11	2
Mortgagee sales concluded	1	-	2	1	5	3	3	4	4	1	1	1

2019												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	12	8	3	1	3	4	-	4	6	5	6	3
Mortgagee sales concluded	3	3	1	-	2	-	1	1	3	1	4	1

2020												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	7	9	3	-	-	-	-	-	-	-	-	-
Mortgagee sales concluded	2	-	1	-	-	-	-	-	-	-	-	-

2021												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLA issued	-	-	1									
Mortgagee sales concluded	-	-	-									

18. LIQUIDITY AND FUNDING

18.1 Capitalization and funding of the ANZ New Zealand Group

	As at March 31			As at September 30		
	2021 US\$m ¹	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Customer deposits and other liabilities						
Term deposits	30,237	43,264	51,769	50,069	54,984	51,298
On demand and short term deposits	41,403	59,240	47,215	53,910	42,329	41,602
Deposits not bearing interest	14,175	20,282	14,427	16,884	11,795	10,224
UDC secured investments	-	-	-	-	128	931
Customer deposits	85,815	122,786	113,411	120,863	109,236	104,055
Other funding liabilities ²	12,373	17,703	18,637	15,069	15,849	13,272
Total deposits and other funding liabilities	98,188	140,489	132,048	135,932	125,085	117,327
Wholesale funding						
Debt issuances ³	14,504	20,752	28,883	24,439	26,207	25,135
Certificates of deposit	983	1,407	1,695	1,782	1,484	910
Commercial paper	2,476	3,543	4,456	1,748	2,461	2,486
Other wholesale borrowings ⁴	786	1,124	1,478	668	246	557
Total wholesale funding	18,749	26,826	36,512	28,637	30,398	29,088
Total equity	11,773	16,845	15,144	15,869	14,430	13,109
Total capitalization and funding	128,709	184,160	183,704	180,438	169,913	159,524

(1) For the convenience of the reader, the financial information for the financial year ended March 31, 2021 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for March 31, 2021 of NZ\$1.00=US\$0.6989.

(2) Includes settlement balances payable, collateral received, derivative financial instruments, payables and other liabilities, provisions and net tax provisions.

(3) Includes amount of all outstanding unsubordinated debt (including senior debt and covered bonds) and subordinated debt at the end of the reported financial period.

(4) Includes securities sold under repurchase agreements and deposits from immediate parent company and NZ Branch.

ANZ New Zealand is required to meet RBNZ liquidity requirements as defined in the Conditions of Registration sections 13 and 14. For further discussion of these requirements, see "Supervision and Regulation—Conditions of Registration for ANZ Bank New Zealand Limited". Also, as a material subsidiary of ANZBGL, ANZ New Zealand is required to meet the Basel III liquidity coverage ratio as specified by APRA. The objective of the liquidity coverage ratio is to ensure that an ADI maintains an adequate level of unencumbered high quality liquid assets that can be readily converted into cash to meet its liquidity needs for a 30 calendar day time period under a severe stress scenario. ANZ New Zealand strictly observes its prudential obligations in relation to liquidity and funding risk as required by RBNZ's Conditions of Registration and APRA.

ANZ New Zealand's liquidity policies are designed to ensure that it maintains sufficient cash balances and liquid asset holdings to meet its obligations as they fall due, in both ordinary market conditions and during periods of stress. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and taxation, the payment of dividends to shareholders, and the ability to fund new and existing loan and contractual commitments.

ANZ New Zealand's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, jurisdiction, currency and concentration, on a cost effective basis.

Liquid assets are defined by the willingness of the RBNZ to accept them as collateral.

ANZ New Zealand's principal sources of liquidity are:

- the maturity of marketable securities;
- interest and principal repayments received from customer loans;
- customer deposits;
- proceeds from bonds, notes, and subordinated debt issues;
- fee income;
- interest and dividends from investments;
- security repurchase agreements with the RBNZ; and
- related party loans and asset sales, particularly involving the New Zealand branch of ANZBGL.

Developments in major offshore markets can adversely affect liquidity in short and/or long term global capital markets. Although these events may be unrelated to events in New Zealand, ANZ New Zealand can be exposed to them due to its requirement to fund regularly in the offshore market. While ANZ New Zealand has continued to fund in both short and long term markets at costs prevailing at the time, it has taken a number of actions to manage its short and long term funding risks effectively in this environment, including:

- increasing minimum holdings of liquid assets to improve its ability to manage periods of market illiquidity;

- As at March 31, 2021, ANZ New Zealand held NZ\$20,559 million of bonds which could be used for repurchase transactions with the RBNZ (September 30, 2020: NZ\$22,552 million);
- establishing an “in-house” RMBS structure to generate securities that meet the RBNZ criteria for eligible collateral for repurchase transactions, which significantly increases ANZ New Zealand's funding ability from the RBNZ. As at March 31, 2021, ANZ New Zealand held eligible RMBS collateral which could be used for repurchase transactions with the RBNZ generating NZ\$8,629 million of funding (September 30, 2020: NZ\$8,184 million);
- ensuring that the impact of increased funding costs is passed on to its businesses, which is reflected in pricing to customers;
- actively managing its maturity profile in line with its established policies and the RBNZ liquidity policy. For example the CFR is derived from customer deposits, as determined by the RBNZ, plus eligible term debt, plus tier 1 capital divided by Total Loans and Advances. The RBNZ CFR minimum requirement was reduced to 50% in March 2020 in response to the COVID-19 pandemic; and
- the assets of the ANZNZ Covered Bond Trust, are made up of certain housing loans and related securities originated by ANZ New Zealand and which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the ANZNZ Covered Bond Trust of issuances of covered bonds by ANZ New Zealand or ANZNIL from time to time. As at March 31, 2021, ANZNIL has on issue covered bonds with a face value of €2,500 million (September 30, 2020: €2,500 million). As at March 31, 2021, the ANZNZ Covered Bond Trust held NZ\$11.7 billion of assets (September 30, 2020: NZ\$11.5 billion).

Internal RMBS securitization

The RBNZ includes RMBS that satisfy criteria as acceptable collateral that banks can pledge and borrow against as part of its liquidity management arrangements designed to help ensure adequate liquidity for New Zealand financial institutions in the event of market disruption. ANZ New Zealand has an in-house RMBS facility that issues securities meeting the RBNZ criteria. The facility provides part of ANZ New Zealand's funding capability from the RBNZ. It also resulted in ANZ New Zealand's financial statements recognizing a payable and receivable of equal amount totaling NZ\$11,489 million as at March 31, 2021 (September 30, 2020: NZ\$10,893 million), to Kingfisher NZ Trust 2008-1, a consolidated entity. ANZ New Zealand's consolidated financial statements did not change as a result of establishing this facility.

18.2 Capitalization and funding of ANZNIL

The following table presents the capitalization and funding of ANZNIL as at March 31, 2021, and has been extracted from the ANZNIL Financial Statements, included as part of Annex A-1 to this Offering Memorandum.

	As at March 31			As at September 30		
	2021	2021	2020	2020	2019	2018
	US\$m¹	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Wholesale funding						
Debt issuances ²	11,419	16,339	22,503	18,875	19,691	18,781
Commercial paper	2,476	3,542	4,454	1,747	2,460	2,486
Total wholesale funding	13,895	19,881	26,957	20,622	22,151	21,267
Other funding liabilities ³	7	10	18	21	24	42
Total equity	8	11	4	6	4	5
Total capitalization and funding	13,910	19,902	26,979	20,649	22,179	21,314

(1) For the convenience of the reader, the financial information for the financial year ended March 31, 2021 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for March 31, 2021 of NZ\$1.00=US\$0.6989.

(2) Includes accrued interest payable, payables and other liabilities, and net tax provisions.

(3) Includes amount of all outstanding unsubordinated debt (including senior debt and covered bonds) at the end of the reported financial period.

18.3 Funding

The following table presents the ANZ New Zealand Group's funding for the dates indicated:

	As at March 31			As at September 30		
	2021 US\$m ¹	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Deposits and short-term borrowings						
<i>Unsecured</i>						
Customer deposits	85,815	122,786	113,411	120,863	109,108	103,124
Other deposits and borrowings	786	1,124	1,478	668	246	557
Certificates of deposit	983	1,407	1,695	1,782	1,484	910
Commercial paper	2,476	3,543	4,456	1,748	2,461	2,486
Total unsecured deposits and other borrowings	90,060	128,860	121,040	125,061	113,299	107,077
<i>Secured</i>						
UDC secured investments (debentures)	-	-	-	-	128	931
Total secured deposits	-	-	-	-	128	931
Debt issuances and long-term borrowings						
<i>Unsecured</i>						
Domestic	2,870	4,106	5,704	4,921	6,160	6,654
Off shore	8,667	12,401	18,549	14,996	15,587	14,552
Total unsecured debt issuances and long term borrowings	11,537	16,507	24,253	19,917	21,747	21,206
<i>Secured</i>						
Off shore - covered bonds	2,967	4,245	4,630	4,522	4,460	3,929
Total secured debt issuances and long term borrowings	2,967	4,245	4,630	4,522	4,460	3,929
Total customer deposits and wholesale funding	104,564	149,612	149,923	149,500	139,634	133,143
Represented by:						
Customer deposits	85,815	122,786	113,411	120,863	109,236	104,055
Wholesale	18,749	26,826	36,512	28,637	30,398	29,088
Total	104,564	149,612	149,923	149,500	139,634	133,143

(1) For the convenience of the reader, the financial information for the financial year ended March 31, 2021 has been translated from NZ dollars into U.S. dollars using the Noon Buying Rate for March 31, 2021 of NZ\$1.00=US\$0.6989.

Funding programs

ANZ New Zealand's current borrowing programs as at March 31, 2021, other than borrowings from its ultimate parent company, ANZBGL, are summarized in the table below. In addition to these programs, from time to time ANZ New Zealand issues subordinated debt securities in the New Zealand market that are subject to APRA and RBNZ approval.

Active borrowing programs	Program size (millions)	Amount outstanding (millions)	Issuing entity	Principal market	Governing law
Euro Commercial Paper Program - short term	US\$10,000	US\$-	ANZNIL ¹	Off shore non-US based	English
U.S. Commercial Paper Program - short term	US\$10,000	US\$2,472	ANZNIL ¹	Off shore US-based	New York
Domestic Term Note Program	Unlimited	NZ\$1,665	ANZ New Zealand	On shore	New Zealand
Euro Medium-Term Note Program	US\$10,000	US\$3,222	ANZ New Zealand and ANZNIL ¹	Off shore non-US based	English
U.S. Medium-Term Note Program	US\$10,000	US\$5,250	ANZ New Zealand and ANZNIL ¹	Off shore US-based	New York
ANZNZ Covered Bond Program	€8,000	€2,500	ANZ New Zealand and ANZNIL ^{1,2}	Off shore	English
Domestic Registered Certificate of Deposits Program	Unlimited	NZ\$1,407	ANZ New Zealand	On shore	New Zealand

(1) Borrowing obligations guaranteed by ANZ New Zealand.

(2) Borrowing obligations guaranteed by ANZ New Zealand and ANZNZ Covered Bond Trust Limited. Currently, ANZNIL has on issue covered bonds with a face value of €2,500 million.

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Debt issuances maturity profile

The following table presents an analysis of ANZ New Zealand's contractual cash obligations in respect of subordinated and unsubordinated debt issuances as at March 31, 2021. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows. As a result the amounts in the tables differ from those represented in the balance sheet.

	As at March 31, 2021			
	Due within 1 year NZ\$m	Due between 1 and 5 years NZ\$m	Due beyond 5 years NZ\$m	Total NZ\$m
Subordinated debt	6,456	8,978	3,639	19,073
Unsubordinated debt	-	1,503	938	2,441
Total debt issuances maturity	6,456	10,481	4,577	21,514

Wholesale funding maturities

As at March 31, 2021, maturities of the ANZ New Zealand Group's total wholesale funding were as follows:

	As at March 31, 2021				
	Extend 1 year or less NZ\$m	After 1 year through 5 years NZ\$m	After 5 years through 10 years NZ\$m	No maturity specified NZ\$m	Total NZ\$m
NZ\$ Subordinated Notes	-	1,503	938	-	2,441
Euro Fixed Rate Notes	3,120	3,852	831	-	7,803
A\$ Fixed Rate Notes	-	48	-	-	48
NZ\$ Fixed Rate Notes	190	1,475	-	-	1,665
US\$ Fixed Rate Notes	2,096	2,232	2,686	-	7,014
US\$ Floating Rate Notes	788	29	-	-	817
CHF Fixed Rate Notes	-	964	-	-	964
US\$ Commercial Paper	3,543	-	-	-	3,543
Registered Certificates of Deposit	1,407	-	-	-	1,407
Other wholesale borrowings	1,124	-	-	-	1,124
Total wholesale funding	12,268	10,103	4,455	-	26,826

ANZ New Zealand's liquidity policies are adopted by ANZ New Zealand's Board to ensure that it has sufficient funds available to meet all its known and potential commitments and to meet its regulatory obligations.

Based on the level of resources within ANZ New Zealand's businesses and its ability to access wholesale money markets and to issue debt securities should the need arise, ANZ New Zealand considers that its overall liquidity is sufficient to meet its current obligations to customers, policy holders and bondholders. ANZ New Zealand's business complies with the current liquidity requirements of the RBNZ.

Within ANZ New Zealand's business, liquidity relates to ANZ New Zealand's ability to make interest payments and to repay deposits. ANZ New Zealand's current policy is to ensure that liquid assets and funding capabilities are sufficient to meet expected cash flows under different scenarios. ANZ New Zealand's primary source of funding is from deposits, either on-demand or short-term deposits and term deposits. Although substantial portions of retail accounts are contractually repayable within one year, on-demand, or at short notice, customer deposit balances have traditionally provided a stable source of ANZ New Zealand's core long-term funding.

ANZ New Zealand also accesses the New Zealand and international debt capital markets under its various funding programs. As at March 31, 2021, ANZ New Zealand had on issue \$20,752 million of term debt securities (bonds, notes and subordinated debt).

18.4 Credit ratings

The cost and availability of ANZ New Zealand's senior unsecured financing is influenced by credit ratings. As at May 28, 2021, the credit ratings and rating outlooks for ANZ New Zealand's short-term and long-term senior unsecured debt were as follows:

Credit rating agency	Short-term debt	Long-term debt	Outlook
S&P	A-1+	AA-	Negative
Moody's	(P)P-1	A1	Stable
Fitch	F1	A+	Stable

S&P credit rating and outlook revisions

In April 2020, S&P revised the outlook on the long-term issuer credit rating for the Commonwealth of Australia to negative from stable. As a result of the sovereign action, S&P has also revised the credit rating outlook of the Australian major banks, including ANZBGL, and their New Zealand bank subsidiaries, including ANZ New Zealand, to negative from stable. S&P reaffirmed ANZ New Zealand's 'AA-' long-term and 'A-1+' short term issuer credit ratings. S&P also reaffirmed all the ratings on debt issued by ANZ New Zealand, including senior and AT1 capital instruments.

Fitch ratings revision

In April 2021, Fitch revised the outlook on ANZBGL and ANZ New Zealand to stable, from negative, and affirmed ANZ New Zealand's A+ long-term and F1 short-term issuer default rating.

Credit ratings are neither a rating of securities nor a recommendation to buy, hold or sell securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

The ability to sell assets quickly is also an important source of ANZ New Zealand's liquidity. ANZ New Zealand holds sizeable balances of government securities and other debt securities which could be sold or are eligible as collateral for borrowing from the RBNZ to provide additional funding should the need arise.

19. CAPITAL ADEQUACY

19.1 Capital adequacy in New Zealand

The bank prudential supervisor in New Zealand is the RBNZ. It imposes capital adequacy requirements on banks, the objective of which is to ensure that an adequate level of capital is maintained, thereby providing a buffer to absorb unanticipated losses from activities. The RBNZ's approach to assessing capital adequacy focuses on credit risk associated with the bank's exposures, market and operational risks and the quality and quantity of a bank's capital.

ANZ New Zealand is accredited by the RBNZ to use the IRB approach for calculating capital adequacy ratios except for ORC, which is calculated in accordance with BS2A from March 31, 2019.

The RBNZ has implemented the Basel III capital adequacy requirements, as modified to reflect New Zealand conditions. The RBNZ also required most New Zealand-incorporated registered banks, including ANZ New Zealand, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion to apply a countercyclical buffer of common equity with an indicative range of between 0 and 2.5%, although there is no formal upper limit.

Regulatory capital

Regulatory capital comprises CET1 capital, AT1 capital (together, "**Tier 1 capital**") and Tier 2 capital. Each category of capital is calculated net of associated regulatory adjustments. The resultant amount of capital forms the total capital base.

CET1 capital includes eligible paid-up ordinary shares, share premium, retained earnings (net of appropriations), accumulated other comprehensive income and other reserves (other than asset revaluation reserves), and minority interests less various prescribed regulatory deduction adjustments including goodwill.

AT1 capital includes eligible perpetual shares or debt and Tier 2 capital includes eligible subordinated long-term debt. Both AT1 capital and Tier 2 capital instruments must include non-viability trigger events. AT1 capital instruments classified as a liability under NZ GAAP must also include loss absorption requirements for a CET1 trigger event.

New Zealand banks are required to maintain a minimum ratio of total capital to total risk weighted exposures of 8%, of which a minimum of 6% must be held in Tier 1 capital and 4.5% must be held in CET1 capital. The numerator of the ratio is the capital base. The denominator of the ratio is total risk weighted exposures.

Where a capital adequacy ratio falls below its minimum ratio plus a buffer ratio of 2.5% of risk-weighted assets, ANZ New Zealand must limit any distributions payable to holders of AT1 capital instruments in accordance with its Conditions of Registration.

The RBNZ has undertaken a comprehensive review of the capital adequacy framework for registered banks in New Zealand. The new regime is currently expected to be implemented in stages, with a transition period of almost seven years before banks are required to fully comply with the new rules. In response to the COVID-19 pandemic, the RBNZ delayed the start date for the increase in bank capital requirements arising from the capital reforms for New Zealand-incorporated banks to 2022. Some aspects of the capital reforms will proceed during 2021, including the new eligibility criteria for capital instruments. The conclusion of the transition period is July 1, 2028. See "Supervision and Regulation—New Zealand Regulatory Developments—RBNZ review of capital requirements" for further discussion.

The RBNZ defines total regulatory capital as the sum of Tier 1 capital and Tier 2 capital. Tier 1 capital comprises CET1 capital and AT1 capital. Each category of capital is calculated net of the associated regulatory adjustments prescribed by the RBNZ.

19.2 ICAAP

ANZ New Zealand's ICAAP incorporates overall capital policies and objectives, capital management policies and plans, allocation of capital to business units and stress testing of both risk and capital positions.

ANZ New Zealand's core capital objectives are to:

- protect the interests of depositors, creditors and shareholders;
- ensure the safety and soundness of ANZ New Zealand's capital position; and
- ensure that the capital base supports ANZ New Zealand's risk appetite, and strategic business objectives, in an efficient and effective manner.

The Board holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes setting, monitoring and obtaining assurance for ANZ New Zealand's ICAAP policy and framework, standardized risk definitions for all material risks, materiality thresholds, capital adequacy targets and risk appetite.

ANZ New Zealand has minimum and trigger levels for CET1, Tier 1 and total capital to ensure sufficient capital is maintained to:

- meet minimum prudential requirements as defined in ANZ New Zealand's Conditions of Registration; and
- ensure consistency with ANZ New Zealand's overall risk profile and financial positions, taking into account its strategic focus and business plan.

ANZ New Zealand's Asset & Liability Committee ("**ALCO**") and its related Capital Management Forum are responsible for developing, implementing and maintaining ANZ New Zealand's ICAAP framework including on-going monitoring, reporting and compliance.

ANZ New Zealand's ICAAP is subject to independent and periodic review.

ANZ New Zealand has complied with all RBNZ minimum levels of capital requirements as required by ANZ New Zealand's Conditions of Registration during the current and comparative periods.

19.3 ANZ New Zealand's capitalization

ANZ New Zealand's Conditions of Registration, set by the RBNZ, specify the minimum capital requirements with which ANZ New Zealand must comply. The Conditions of Registration require capital adequacy ratios for ANZ New Zealand to be calculated in accordance with BS2B, except for determining the total capital requirement for operational risk which must be calculated in accordance with BS2A. BS2A and BS2B are the RBNZ's Basel III capital standards.

The following table provides details of ANZ New Zealand's Common Equity Tier 1, Tier 1 and Tier 2 capital position as at March 31, 2021, March 31, 2020 and September 30, 2020.

Capital ratios	RBNZ	As at March 31		As at September 30
	Minimum	2021	2020	2020
	%	%	%	%
Common equity tier 1 capital	4.5	13.1	11.1	11.7
Tier 1 capital	6.0	15.9	13.9	14.4
Total capital	8.0	15.9	13.9	14.4
Buffer ratio	2.5	7.9	5.9	6.4

Capital of ANZ New Zealand

	As at March 31		As at September 30
	2021	2020	2020
	NZ\$m	NZ\$m	NZ\$m
Tier 1 capital			
<i>Common equity tier 1 capital</i>			
Paid up ordinary shares issued by ANZ New Zealand	11,588	11,588	11,588
Retained earnings (net of appropriations)	4,838	3,271	3,863
Accumulated other comprehensive income and other disclosed reserves	119	(15)	118
<i>Less deductions from common equity tier 1 capital</i>			
Goodwill and intangible assets, net of associated deferred tax liabilities	(3,088)	(3,267)	(3,092)
Deferred tax assets less deferred tax liabilities relating to temporary differences	(396)	(314)	(356)
Cash flow hedge reserve	(77)	(18)	(110)
Expected losses to extent greater than total eligible allowances for impairment	(73)	(181)	(79)
Common equity tier 1 capital	12,911	11,064	11,932
<i>Additional tier 1 capital</i>			
Preference shares	300	300	300
ANZ Capital Notes	2,441	2,441	2,441
Net retained earnings of the Bonus Bonds Scheme	11	39	9
Additional tier 1 capital	2,752	2,780	2,750
Total tier 1 capital	15,663	13,844	14,682
Tier 2 capital	-	-	-
Total capital	15,663	13,844	14,682

19.4 Risk weighted assets

Risk weighted exposures

Credit risk exposures subject to the IRB approach

Under the IRB approach, banks use their own internal risk measures, subject to certain RBNZ impositions, for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

- Probability of Default ("PD") – an estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring;
- Exposure at Default ("EAD") – the expected facility exposure at default; and
- Loss Given Default ("LGD") – an estimate of the potential economic loss on a credit exposure, incurred as a result of obligor default and expressed as a percentage of the facility's EAD. For retail mortgage exposures, New Zealand banks apply downturn LGDs according to LVR prescribed bands as set out in BS2B. For Farm Lending, ANZ New Zealand has adopted RBNZ prescribed LVR based downturn LGDs along with a minimum maturity of 2.5 years and the removal of the firm size adjustment.

Under the IRB approach credit exposures (both on and off-balance sheet) are allocated to an asset class (sovereign, bank, corporate, retail mortgage and other retail) depending on borrower type. In addition, equity exposures and other assets such as premises and equipment, cash and claims on the RBNZ are separately identified and risk weighted according to the requirements of BS2B.

Specialized lending exposures subject to the slotting approach

Banks use slotting tables prescribed by the RBNZ rather than internal estimates to determine risk weighted exposures for exposures classified under Specialized lending.

Exposures subject to the standardized approach

The exceptions to IRB treatment are three minor portfolios where, due to systems constraints, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document BS2A.

Operational Risk

Banks are required to hold capital against operational risks associated with their business. ANZ New Zealand uses the Standardized approach for determining its regulatory capital requirement for operational risk in accordance with BS2A.

Market Risk

Banks are required to hold capital against interest rate, foreign currency and equity risks (together, "market risk"). ANZ New Zealand uses a standardized methodology for the calculation of market risk as prescribed by the RBNZ's BS2A/BS2B Capital Adequacy Framework.

Total risk weighted exposures and capital requirements

	As at March 31, 2021			As at September 30, 2020		
	Exposure at default	Risk weighted exposure or implied risk weighted exposure ¹	Total capital requirement	Exposure at default	Risk weighted exposure or implied risk weighted exposure ¹	Total capital requirement
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Exposures subject to the IRB approach	182,951	53,987	4,319	179,475	54,748	4,380
Specialized lending exposures	12,997	11,318	905	13,424	11,985	959
Exposures subject to standardized approach	8,567	1,879	151	11,947	2,034	163
Equity exposures	1	5	-	1	5	-
Total credit risk	204,516	67,189	5,375	204,847	68,772	5,502
Operational risk	n/a	10,234	819	n/a	10,139	811
Market risk	n/a	5,671	454	n/a	9,405	752
Supervisory adjustment	n/a	15,387	1,231	n/a	13,974	1,118
Total	n/a	98,481	7,879	n/a	102,290	8,183

(1) Total credit risk-weighted exposures include a scalar of 1.06 in accordance with ANZ New Zealand's Conditions of Registration.

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Exposures subject to the IRB approach

The following table presents ANZ New Zealand's credit risk exposures under the IRB approach:

	Probability of default	Total value	Exposure at default	Exposure-weighted LGD used for the capital calculation	Exposure-weighted risk weight	Risk weighted assets ¹	Minimum capital requirement
As at March 31, 2021	%	NZ\$m	NZ\$m	%	%	NZ\$m	NZ\$m
Corporate	2.55	132,361	45,647	39	53	25,832	2,067
Sovereign	0.01	27,379	16,757	5	1	235	19
Bank	0.05	2,310,137	9,666	55	27	2,777	222
Retail mortgages	0.91	102,324	102,940	19	17	19,076	1,526
Other retail	2.14	7,788	7,941	79	72	6,067	485
Total	1.25	2,579,989	182,951	27	28	53,987	4,319

As at September 30, 2020

Corporate	2.62	128,842	46,398	39	54	26,696	2,136
Sovereign	0.01	33,498	18,142	5	1	236	19
Bank	0.04	2,380,088	9,791	54	31	3,168	253
Retail mortgages	1.10	96,318	96,940	18	18	18,339	1,467
Other retail	2.26	8,040	8,204	79	73	6,309	505
Total	1.38	2,646,786	179,475	27	29	54,748	4,380

(1) Total credit risk-weighted exposures include a scalar of 1.06 in accordance with ANZ New Zealand's Conditions of Registration.

IRB credit exposures include the following undrawn commitments and other off-balance sheet amounts:

	As at March 31, 2021		As at September 30, 2020	
	Total value	Exposure at default	Total value	Exposure at default
	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Undrawn commitments and other off-balance sheet amounts excluding market related contracts				
Corporate	13,059	12,321	13,249	12,595
Sovereign	91	86	73	72
Bank	1,315	1,154	1,325	1,179
Retail mortgages	8,925	9,368	8,866	9,313
Other retail	5,109	5,199	5,245	5,344
Market related contracts				
Corporate	87,210	1,705	82,388	1,348
Sovereign	10,567	106	15,285	127
Bank	2,304,020	4,039	2,373,317	4,239
Retail mortgages	-	-	-	-
Other retail	-	-	-	-

Capital held for other material risks

In accordance with its Conditions of Registration, ANZ New Zealand is also required to determine an internal capital allocation for other material risks not covered by regulatory capital requirements. The internal capital allocation for ANZ New Zealand's other material risks as at March 31, 2021, was NZ\$274 million (NZ\$293 million as at September 30, 2020). The other material risks identified include pension risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk and software risk.

20. GOODWILL

As at March 31, 2021, the balance of goodwill recorded as an asset on the ANZ New Zealand Group's balance sheet as a result of acquisitions was \$3,006 million (\$3,006 million as at September 30, 2020).

Management judgement is used to assess the recoverable value of goodwill and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. ANZ New Zealand Group reassess the recoverability of the carrying value at each reporting date.

A number of key judgements are required in the determination of whether or not a goodwill balance is impaired:

- the level at which goodwill is allocated – consistent with prior periods the CGUs to which goodwill is allocated are the ANZ New Zealand Group's four revenue generating segments that benefit from relevant historical business combinations generating goodwill.
- determination of the carrying amount of each CGU which includes an allocation, on a reasonable and consistent basis of corporate assets and liabilities that are not directly attributable to the CGUs to which goodwill is allocated.
- assessment of the recoverable amount of each CGU used to determine whether the carrying amount of goodwill is supported is based on judgements including the selection of the model and key assumptions used to calculate the recoverable amount.

The assessment of the recoverable amount of each CGU has been made within the context of the ongoing impact of COVID-19, and reflects expectations of future events that are believed to be reasonable under the circumstances. The rapidly evolving consequences of COVID-19 and government, business and consumer responses create heightened uncertainty in these estimates and any variations could have a positive or adverse impact on the determination of recoverable amounts.

Goodwill arose on the acquisition of the NBNZ Holdings Limited group on December 1, 2003, and the carrying amount reflects amortization recognized before the application of NZ IFRS from October 1, 2004 and subsequent business disposals. Remaining other intangible assets, relating to funds management rights, have been assessed as having indefinite useful lives and arose on the acquisition of the ING Holdings (NZ) Limited (now ANZ Wealth New Zealand Limited) group on November 30, 2009.

The annual impairment test is performed as at the end of February each year and, as ANZBGL's market capitalization was below its net asset value, and considering uncertainties surrounding COVID-19, we assessed the carrying value of goodwill as at February 28, 2021.

Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs of disposal ("FVLCD") and its value-in use ("VIU"). We use a value-in-use approach to estimate the recoverable amount of the CGU to which each goodwill component is allocated.

These calculations use cash flow projections based on a number of financial budgets within each CGU covering an initial forecast period. These projections also incorporate economic assumptions including GDP, inflation, unemployment, residential and commercial property prices, the impact of the restriction imposed by the RBNZ on the payment of ordinary dividends by all New Zealand-incorporated registered banks, and the implementation of the RBNZ's increased capital requirements. Cash flows beyond the forecast period are extrapolated using the terminal growth rate. These cash flow projections are discounted using a discount rate derived using a capital asset pricing model.

Future changes in the assumptions upon which the calculation is based may materially impact this assessment, resulting in the potential impairment of part or all of the goodwill balances.

Further details about the assumptions and sensitivity testing performed is included in note 7 of the ANZ New Zealand Unaudited Financial Statements.

21. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS

ANZ New Zealand guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including ANZBGL. The risk arising 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 as for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

The gross value of the instruments and facilities reflects the level of ANZ New Zealand's activity in the various products and not the much smaller net risk exposure. As ANZ New Zealand does not believe that any irrecoverable liability will arise from the settlement of these types of transactions, they are not recorded as on-balance sheet financial instruments.

ANZ New Zealand does not disclose fair value information in respect of off-balance sheet financial instruments, other than derivatives, as it does not believe the estimated fair value is material. Under NZ IFRS, the fair value of derivatives is already reflected in the financial statements.

The face or contract values and credit equivalent amount for ANZ New Zealand's off-balance sheet financial instruments are as follows:

	As at March 31		As at September 30		
	2021 NZ\$m	2020 NZ\$m	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m
Contract amount of:					
Credit related commitments					
Undrawn facilities	27,709	27,399	28,273	26,600	27,245
Guarantees and contingent liabilities					
Guarantees and letters of credit	1,298	1,232	1,309	1,248	1,531
Performance related contingencies	1,585	1,516	1,434	1,502	1,329
Contracts for outstanding capital expenditure					
Commitments with certain drawdown due within one year	10	14	11	6	7

Off-balance sheet financial instruments

By their nature, ANZ New Zealand's activities are principally related to the use of financial instruments including derivatives. ANZ New Zealand accepts deposits from customers at both fixed and floating rates, and for various periods, and seek to earn an interest margin by investing these funds in high quality assets. ANZ New Zealand 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.

ANZ New Zealand also seeks to earn interest margins through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances; ANZ New Zealand also enters into guarantees and other commitments such as letters of credit and performance, and other, bonds.

22. ADDITIONAL FINANCIAL AND STATISTICAL INFORMATION

Presented below is additional financial and statistical information for the ANZ New Zealand Group's business for the periods indicated. For additional information concerning the ANZ New Zealand Group's financial results for the financial years ended September 30, 2020, 2019 and 2018, see "Operating and Financial Review" in this Offering Memorandum and the Disclosure Statements.

22.1 Average balance sheet and interest income/expense

The following table presents the major categories of interest earning assets and interest bearing liabilities and the respective interest rates that ANZ New Zealand earned or paid for the periods indicated. Average balances have been calculated using monthly balances prepared on the same basis as balances included in the ANZ New Zealand Financial Statements. Interest income figures include interest income on non-accrual loans to the extent cash payments in the nature of interest have been received. Non-accrual loans are included under the interest earning asset category "Net loans and advances".

	Years ended September 30								
	2020			2019			2018		
	Average balance NZ\$m	Interest NZ\$m	Average rate %	Average balance NZ\$m	Interest NZ\$m	Average rate %	Average balance NZ\$m	Interest NZ\$m	Average rate %
Assets									
<i>Interest earning assets</i>									
Trading securities	10,626	148	1.39	8,299	203	2.45	8,384	240	2.86
Investment securities	7,533	143	1.90	6,532	157	2.40	6,450	159	2.47
Net loans and advances	135,172	5,234	3.87	130,250	5,985	4.60	123,771	5,912	4.78
Other interest earning financial assets	8,255	43	0.52	5,049	78	1.54	4,692	79	1.68
Total interest earning assets	161,586	5,568	3.45	150,130	6,423	4.28	143,297	6,390	4.46
<i>Non-interest earning assets</i>									
Provision for impairment	(597)	-	-	(489)	-	-	(567)	-	-
Property, plant and equipment	596	-	-	327	-	-	354	-	-
Other assets	15,810	-	-	14,811	-	-	15,341	-	-
Total non-interest earning assets	15,809	-	-	14,649	-	-	15,128	-	-
Total assets	177,395	5,568	-	164,779	6,423	-	158,425	6,390	-
Liabilities									
<i>Interest bearing liabilities</i>									
Term deposits ⁽¹⁾	53,806	1,366	2.54	54,349	1,788	3.29	50,175	1,711	3.41
Other deposits and borrowings	48,446	236	0.49	43,909	477	1.09	43,885	526	1.20
Commercial paper	3,473	30	0.86	2,585	38	1.47	2,841	58	2.04
	105,725	1,632	1.54	100,843	2,303	2.28	96,901	2,295	2.37
Unsubordinated debt	24,040	501	2.08	22,431	684	3.05	21,585	721	3.34
Subordinated debt	2,441	146	5.98	2,439	171	7.01	2,898	196	6.76
Other interest bearing financial liabilities	2,143	27	1.26	1,538	21	1.37	1,687	28	1.66
Total interest bearing liabilities	134,349	2,306	1.72	127,251	3,179	2.50	123,071	3,240	2.63
<i>Non-interest bearing liabilities</i>									
Other liabilities	27,865	-	-	23,778	-	-	22,168	-	-
Total non-interest bearing liabilities	27,865	-	-	23,778	-	-	22,168	-	-
Total liabilities	162,214	2,306	-	151,029	3,179	-	145,239	3,240	-
Net assets	15,181	3,262	-	13,750	3,244	-	13,186	3,150	-

(1) Term deposits include quoted rate term deposits, negotiable certificates of deposit and floating rate certificates of deposit.

22.2 Volume and rate analysis

The following table attributes variances in the ANZ New Zealand Group's interest income and interest expense to changes in volume and rate for the financial year ended September 30, 2020, compared with the financial year ended September 30, 2019, and for the financial year ended September 30, 2019, compared with the financial year ended September 30, 2018. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. Average balances have been calculated using monthly balances prepared on the same basis as balances included in the ANZ New Zealand Financial Statements.

	Years ended September 30					
	2020 v. 2019			2019 v. 2018		
	Increase / (decrease) due to:			Increase / (decrease) due to:		
	Change in volume NZ\$m	Change in rate NZ\$m	Net change NZ\$m	Change in volume NZ\$m	Change in rate NZ\$m	Net change NZ\$m
Interest earning assets						
Trading securities	57	(112)	(55)	(2)	(35)	(37)
Investment securities	24	(38)	(14)	2	(4)	(2)
Gross loans and advances	227	(978)	(751)	309	(236)	73
Other interest earning financial assets	50	(85)	(35)	6	(7)	(1)
Change in interest income	358	(1,213)	(855)	315	(282)	33
Interest bearing liabilities						
Term deposits	(18)	(404)	(422)	142	(65)	77
Other deposits and borrowings	49	(290)	(241)	-	(49)	(49)
Commercial paper	13	(21)	(8)	(5)	(15)	(20)
	44	(715)	(671)	137	(129)	8
Unsubordinated debt	49	(232)	(183)	28	(65)	(37)
Subordinated debt	-	(25)	(25)	(31)	6	(25)
Other interest bearing financial liabilities	8	(2)	6	(3)	(4)	(7)
Change in interest expense	101	(974)	(873)	131	(192)	(61)
Change in net interest income	257	(239)	18	184	(90)	94

22.3 Interest rate repricing

The interest rate sensitivity analysis of on-balance sheet financial assets and liabilities has been prepared on the basis of contractual maturity or next repricing date, whichever is the earlier, except where the contractual terms are not considered to be reflective of interest rate sensitivity, for example, those assets and liabilities priced at the ANZ New Zealand Group's discretion. In such cases, the rate sensitivity is based upon historically observed and/or anticipated rate sensitivity.

Interest rate exposure is monitored by an independent function to ensure that aggregate risk is managed within Board determined policy. The policy ensures that the ANZ New Zealand Group is not exposed to unpalatable variations in economic value and net interest income due to interest rates. Simulation modelling and net gap analysis are undertaken, taking into account the projected change in asset and liability levels and mix. The aggregate interest rate exposure of the balance sheet, including net interest income at risk over the next two years, and the present value sensitivity of the net gap, are reviewed on a monthly basis, under various interest rate scenarios.

The ANZ New Zealand Group's repricing "gap position" as at March 31, 2021, is presented in the following table:

	As at March 31, 2021						
	Total NZ\$m	Up to 3 months NZ\$m	3 to 6 months NZ\$m	6 to 12 months NZ\$m	1 to 2 years NZ\$m	Over 2 years NZ\$m	Non-interest bearing NZ\$m
Financial assets							
Cash and cash equivalents	5,579	5,327	-	-	-	-	252
Settlement balances receivable	447	-	-	-	-	-	447
Collateral paid	1,380	1,380	-	-	-	-	-
Trading securities	9,700	1,331	133	175	782	7,279	-
Derivative financial instruments	12,259	-	-	-	-	-	12,259
Investment securities	12,046	439	-	486	595	10,525	1
Net loans and advances	137,488	64,818	19,632	33,651	15,310	4,614	(537)
Other financial assets	551	-	-	-	-	-	551
Total financial assets	179,450	73,295	19,765	34,312	16,687	22,418	12,973
Financial liabilities							
Settlement balances payable	2,874	1,630	-	-	-	-	1,244
Collateral received	1,202	1,202	-	-	-	-	-
Deposits and other borrowings	128,860	83,996	13,872	7,247	2,397	1,066	20,282
Derivative financial instruments	11,111	-	-	-	-	-	11,111
Debt issuances	20,752	3,568	2,277	3,102	1,350	10,455	-
Lease liabilities	277	12	12	23	86	144	-
Other financial liabilities	869	598	-	-	-	-	271
Total financial liabilities	165,945	91,006	16,161	10,372	3,833	11,665	32,908
Hedging instruments	-	63,675	(65,857)	2,054	(3,210)	3,338	-
Interest sensitivity gap	13,505	45,964	(62,253)	25,994	9,644	14,091	(19,935)

Board of Directors of ANZ New Zealand**Composition of Board of Directors**

At the date of this Offering Memorandum, the members of ANZ New Zealand's Board are as follows:

Name	Age	Position
Rt Hon Sir John Key	59	Independent Non-Executive Director and Chair, ANZ New Zealand and Independent Non-Executive Director, ANZBGL
Shayne Elliott	57	Non-Executive Director, ANZ New Zealand and Executive Director and Chief Executive Officer, ANZBGL
Maile Carnegie	51	Non-Executive Director, ANZ New Zealand and Group Executive – Digital and Australia Transformation, ANZBGL
Antonia Watson	51	Executive Director and Chief Executive Officer, ANZ New Zealand and Group Executive, ANZBGL
Antony Carter	63	Independent Non-Executive Director
Joan Withers	67	Independent Non-Executive Director
Mark Verbiest	63	Independent Non-Executive Director
Alison Gerry	56	Independent Non-Executive Director

For the purposes of this Offering Memorandum, the business address of each member of the Board is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand.

As at the date of this Offering Memorandum, no conflicts of interest and no potential conflicts of interest exist between any duties owed to ANZ New Zealand by the members of the Board listed above and their private interests and/or other duties outside of the ANZ New Zealand Group. In respect of potential conflicts of interest that may arise in the future, ANZ New Zealand has processes for the management of such conflicts such that ANZ New Zealand does not expect any actual conflict of interest would arise.

The Board of ANZ New Zealand has adopted a Board Charter which sets out the Board's purpose, powers and responsibilities.

Rt Hon Sir John Key. Sir John Key was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on October 18, 2017 and succeeded Mr. John Judge as Chair on January 1, 2018. Sir John brings considerable experience in international banking and knowledge of the Asia-Pacific region to the Board. Sir John Key was also appointed to the Board of Directors of ANZBGL on February 28, 2018. He is also a Director of Palo Alto Networks Inc. and a member of the Zespri International Limited Advisory Board. Sir John Key was Prime Minister of New Zealand from 2008 to 2016 and has previously worked for Merrill Lynch and Bankers Trust New Zealand.

Shayne Elliott. Mr. Elliott was appointed a Non-Executive Director of the Board of ANZ New Zealand on August 11, 2009. Mr. Elliott was appointed Director and Chief Executive Officer of ANZBGL on January 1, 2016. He formerly held the following positions with ANZBGL: Chief Financial Officer from June 2012; Chief Financial Officer Designate from March 2012; and Chief Executive Officer, Institutional from June 2009 to March 2012. Before joining ANZBGL, Mr. Elliott spent more than 20 years at Citigroup and was Head of Business Development for EFG Hermes, the largest investment bank in the Middle East. Mr. Elliott is also a Director of the Financial Markets Foundation for Children and a member of both the Australian Banking Association Council and the Business Council of Australia.

Maile Carnegie. Ms. Carnegie was appointed as a Non-Executive Director of the Board of ANZ New Zealand on May 15, 2021. Ms. Carnegie is currently the Group Executive – Digital and Australia Transformation of ANZBGL. Before joining ANZBGL in 2016, Ms. Carnegie was Managing Director, Australia and New Zealand for Google and Managing Director, Australia and New Zealand for Procter and Gamble. Ms. Carnegie currently chairs the Vice Chancellor's Advisory Board for the University of Technology Sydney, is a Trustee of the Australian Museum Trust, and has been a panel member of the Prime Minister's Independent Review of the Australia Public Service and chaired the Business Council of Australia's Innovation Task Force.

Antonia Watson. Ms. Watson was appointed as CEO and Executive Director of the Board of ANZ New Zealand on December 18, 2019. Ms. Watson had been Acting CEO of ANZ New Zealand since May 31, 2019. Prior to her appointment as Acting CEO, Ms. Watson held roles as Managing Director, Retail & Business Banking and as Chief Financial Officer, of ANZ New Zealand. Ms. Watson spent 13 years at Morgan Stanley, where she was General Manager of their business services and technology center in Budapest and held various Finance roles in Sydney and London. Ms. Watson is also a director of ANZ Holdings (New Zealand) Limited, a banking representative director of Banking Ombudsman Scheme Limited, a champion and member of the Governance Group of Champions for Change and is a member of the New Zealand Bankers Association's governing body.

Antony Carter. Mr. Carter was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on August 26, 2011. Mr. Carter was Managing Director of Foodstuffs (Auckland) and Foodstuffs (New Zealand), New Zealand's largest retail organization, from 2001 to 2010. Mr. Carter has extensive experience in retailing, having joined Foodstuffs in 1994. Prior to this he owned and operated several Mitre 10 hardware stores and was a Director and later Chair of Mitre 10 New Zealand Limited. Mr. Carter is Chair of T R Group Limited and My Food Bag Group Limited. He is also a Director of Datacom Group Limited and Vector Limited.

Joan Withers. Mrs. Withers was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on July 1, 2013. Mrs. Withers has an extensive career in management and governance roles in New Zealand, being the former Chair of Television New Zealand and Mercury NZ Limited, and former CEO of Fairfax Media and The Radio Network. Mrs. Withers is also the Chair of The Warehouse Group Limited and a Director of On Being Bold Limited, Origin Energy Limited (ASX listed) and Sky Network Television Limited. Mrs. Withers has an MBA from the University of Auckland.

Mark Verbiest. Mr. Verbiest was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on October 10, 2013. Mr. Verbiest has extensive experience in telecommunications, corporate governance and the digital economy. Mr. Verbiest brings a wealth of knowledge gained from a variety of sectors, including SOEs, Government bodies and the private sector. Mr. Verbiest is currently Chair of Freightways Limited and Meridian Energy Limited and will take up the role of Chair of Summerset Group Holdings Limited from July 1, 2021.

Alison Gerry. Ms. Gerry was appointed as an independent Non-Executive Director of the Board of ANZ New Zealand on October 18, 2019. Ms. Gerry has extensive experience in the financial services and infrastructure sectors. In her executive career, Ms. Gerry worked for both corporates and for financial institutions in Australasia and London in trading, finance and risk roles. Ms. Gerry is a Chartered Fellow of the Institute of Directors. Ms. Gerry is Chair of Sharesies Limited and is also a Director of Infratil Limited, Wellington International Airport Limited, On Being Bold Limited, Asteron Life Limited and Vero Insurance New Zealand Limited.

Remuneration of ANZ New Zealand directors

The directors were paid an aggregate of \$1,231,965, \$1,109,179 and \$1,127,324 in directors' fees for the financial years ended September 30, 2020, 2019 and 2018, respectively.

Related party transactions

As permitted under New Zealand law, ANZ New Zealand extends loans to directors and executives. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. For further information, refer to Note 27 of the 2020 ANZ New Zealand Financial Statements.

Board of Directors of ANZNIL

At the date of this Offering Memorandum, the members of ANZNIL's Board of Directors are as follows:

Name	Age	Principal Outside Activities
Stewart Taylor	48	Chief Financial Officer, ANZ New Zealand and Director, ANZ Holdings (New Zealand) Limited
Christopher O'Neale	60	Managing Director of the New Zealand Branch of ANZBGL and Head of Asset and Liability Management, ANZ New Zealand

For the purposes of this Offering Memorandum, the business address of each member of the Board of Directors of ANZNIL is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand.

As at the date of this Offering Memorandum, no conflicts of interest and no potential conflicts of interest exist between any duties owed to ANZNIL by the members of its Board of Directors listed above and their private interests and/or other duties outside of ANZNIL. In respect of potential conflicts of interest that may arise in the future, ANZNIL has processes for the management of such conflicts such that ANZNIL does not expect any actual conflict of interest would arise.

Board committees

To assist in the execution of its responsibilities, the Board has established committees, including an Audit Committee, a Human Resources Committee, a Risk Committee and a Conduct and Culture Committee, each with a charter, to assist and support the Board in the conduct of its duties and obligations. The Chair of the ANZ New Zealand Board is a member of each committee.

Audit Committee — The purpose of the Audit Committee is to assist the Board by ensuring the integrity of ANZ New Zealand's financial controls, reporting systems and internal audit standards, and providing oversight and review of:

- (a) the financial reporting principles and policies, controls, systems and procedures applicable to ANZ New Zealand and its subsidiaries;
- (b) compliance of ANZ New Zealand and its subsidiaries with the financial reporting, prudential reporting and audit requirements of the ANZ Group;
- (c) the effectiveness of ANZ New Zealand's internal control and risk management framework;
- (d) the work and internal audit standards of Internal Audit;
- (e) the integrity of ANZ New Zealand and its subsidiaries' financial statements and the independent audit thereof and compliance with relevant New Zealand legal and regulatory requirements thereof;
- (f) any due diligence procedures; and
- (g) prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting.

In carrying out its responsibilities and duties, the Audit Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

The current members of the Audit Committee are Mr. Verbiest (Chair), Mrs. Withers, Mr. Carter, Sir John Key, and Ms. Gerry.

Human Resources Committee — This Committee is responsible for reviewing and, where necessary, making recommendations to the Board in respect of remuneration policies and practices, including the remuneration arrangements relating to the Chair, Directors, Chief Executive, and nominated senior management and executive officers and the remuneration structures of all other classes of persons covered by the ANZ Remuneration Policy.

The Human Resources Committee will also assist the Board by reviewing and monitoring the conduct of ANZ New Zealand with respect to talent and culture matters, including but not limited to employee engagement, leadership capability and succession, culture and diversity.

The current members of the Human Resources Committee are Mrs. Withers (Chair), Mr. Carter, Mr. Verbiest, Sir John Key, Ms. Gerry and Mr. Elliott.

Risk Committee — The purpose of the Risk Committee is to:

- (a) assist the Board in the effective discharge of its responsibilities to exercise due care, diligence and skill in the oversight of business, market, credit, capital, financial, operational, compliance, liquidity and funding, insurance and reputation risk management;
- (b) oversee management's implementation and maintenance of ANZ New Zealand's risk and compliance management frameworks. This will enable an institution-wide view to be taken of ANZ New Zealand's current and future risk position relative to its risk appetite and capital strength; and
- (c) oversee compliance with ANZ New Zealand's regulatory obligations.

The Risk Committee will aim to seek fair customer outcomes and financial market integrity when carrying out its duties.

The current members of the Risk Committee are Mr. Carter (Chair), Mr. Verbiest, Mrs. Withers, Sir John Key and Ms. Gerry.

Conduct and Culture Committee — The purpose of the Conduct and Culture Committee is to assist the Board in relation to conduct and culture matters, including:

- (a) actively encourage and promote good conduct and culture at ANZ New Zealand;
- (b) ensure ANZ New Zealand's principles, policies, processes and control frameworks (including product design and distribution) focus on achieving good customer outcomes, where relevant;
- (c) oversee the effectiveness of ANZ New Zealand's framework for managing poor conduct at ANZ New Zealand;
- (d) ensure ANZ New Zealand implements appropriate action in response to legislation, regulatory reviews (including ANZ New Zealand's response to the recommendations in the reports from the FMA and RBNZ review of conduct and culture in New Zealand retail banks and insurance companies, including (but not limited to) the 'Bank conduct and Culture' industry report published on November 5, 2018 and the ANZ New Zealand specific report published on November 28, 2018) and industry guidance on conduct, culture and good customer outcomes; and
- (e) other matters relating to ANZ New Zealand's customers and organizational culture.

For more information, see "Supervision and Regulation—New Zealand Regulatory Developments—FMA and RBNZ conduct and culture review" and "Supervision and Regulation—New Zealand Regulatory Developments—FMA review of sales incentives structures in the New Zealand banking industry" in this Offering Memorandum.

In carrying out its responsibilities and duties, the Conduct and Culture Committee will aim to seek fair customer and community outcomes in its deliberations.

The current members of the Conduct and Culture Committee are Ms. Gerry (Chair), Mr. Verbiest, Mr. Carter, Sir John Key, Mrs. Withers, Mr. Elliott, Ms. Carnegie and Ms. Watson.

Board practices

Currently, ANZ New Zealand's Board consists of eight directors, five of whom are independent non-executive directors. The Board includes two executives of ANZBGL. Board composition is reviewed when a vacancy arises or if it is considered that the Board would benefit from the services of a new director, given the existing mix of skills and experience of the Board.

Under ANZ New Zealand's Conditions of Registration, no appointment of any director or chief executive officer or Chair shall be made to the Board unless a copy of the curriculum vitae of the proposed appointee has been provided to the RBNZ and the RBNZ has advised that it has no objection to the appointment. The Conditions of Registration require that the Chair and at least half of the directors on the Board be independent.

The Board collectively and each director individually has the right to seek independent professional advice at ANZ New Zealand's expense.

In accordance with the New Zealand Companies Act 1993, directors must keep the Board advised, on an on-going basis, of any interest that could potentially conflict with ANZ New Zealand's own interests. A director who is interested in a transaction may attend meetings and vote on a matter relating to the transaction. However, the Board has adopted a guideline whereby a director with an interest in a transaction should not be present during any discussions, and should not vote on any matter pertaining to that particular transaction.

ANZ New Zealand's constitution

ANZ New Zealand's constitution is available online on the searchable register at <https://companies-register.companiesoffice.govt.nz/>. No information on that website forms part of or is incorporated by reference in this Offering Memorandum. Under ANZ New Zealand's constitution, the Board holds all necessary powers for the management of the business and operation of the company. In particular, there are no restrictions in ANZ New Zealand's constitution on ANZ New Zealand borrowing or providing a guarantee.

The Board has the power to issue shares in different classes and on different terms and conditions. Under the constitution, the Board is expressly authorized to issue further shares ranking equally with, or in priority to, existing shares, whether as to voting rights or distributions or otherwise and such issue is not deemed to be an action affecting the rights attached to the existing shares. However, where ANZ New Zealand takes action which affects the rights attached to shares (other than by way of issue of further shares ranking equally with, or in priority to, existing shares) such action must be approved by special resolution of each affected interest group. There are no restrictions in ANZ New Zealand's constitution on changes in capital, rights to own securities or restrictions on foreign shareholders.

There is no shareholding qualification for directors of ANZ New Zealand, and no mandatory retirement age. The Board has the power to fix each director's remuneration and ANZ New Zealand shall indemnify every director or employee out of the assets of ANZ New Zealand to the maximum extent permitted by law. Directors can be appointed and removed by the shareholders of ANZ New Zealand, although the Board has the power at any time to also appoint directors.

Under the New Zealand Companies Act 1993, directors who are interested in a transaction of ANZ New Zealand are required to disclose their interest. Failure to disclose this interest will not affect the validity of the transaction or the ability of the director to attend and vote at the relevant board meeting, but the director can be personally liable and if ANZ New Zealand does not receive fair value under the transaction, the transaction may be voided within three months of its disclosure to all shareholders of ANZ New Zealand.

In regard to shareholders, the power to:

- (a) alter, revoke or adopt a new constitution,
- (b) approve a major transaction, or
- (c) approve an amalgamation, put ANZ New Zealand into liquidation or apply for the removal of ANZ New Zealand from the register of companies,

must be exercised by special resolution of the shareholders under the New Zealand Companies Act 1993. All other powers reserved to shareholders may be exercised by an ordinary resolution of shareholders. Resolutions can be passed at a meeting of shareholders or pursuant to a written resolution in lieu of a meeting.

Employees

All employees are located in New Zealand except for one employee located in ANZNIL's London branch. Full-time equivalent employees include employees that are employed on a full-time basis, part-time basis or that are on a fixed term contract, casual employees and independent contractors.

	As at March 31		2020	As at September 30	
	2021	2020		2019	2018
Number of full-time equivalent employees	7,213	7,532	7,210	7,491	7,511

Industrial Relations Developments

The large majority of ANZ New Zealand employees are covered by individual employment agreements. ANZ New Zealand's collective employment agreement with FirstUnion, which covers approximately 12% of New Zealand employees, was renewed on August 1, 2020 and expires on July 31, 2022. Management is not involved in any significant disputes with labor unions in New Zealand.

Australia and New Zealand Banking Group Limited

The following information regarding the ANZ New Zealand Group's ultimate parent company, ANZBGL, is presented solely for reference. ANZBGL is not providing a guarantee or any other type of credit support of the ANZ NZ Notes or the ANZNIL Notes.

Overview

ANZBGL and its subsidiaries (together, the "**ANZ Group**"), which began its Australian operations in 1835 and its New Zealand operations in 1840, is one of the four major banking groups headquartered in Australia. ANZBGL is a public company limited by shares incorporated in Australia and was registered in the State of Victoria on July 14, 1977. ANZBGL's registered office is located at Level 9, 833 Collins Street, Docklands, Victoria, 3008, Australia and the telephone number is +61 3 9683 9999. ANZBGL's Australian Business Number is ABN 11 005 357 522.

The ANZ Group provides a broad range of banking and financial products and services to retail, small business, corporate and institutional customers. Geographically, operations span Australia, New Zealand, a number of countries in the Asia Pacific region, the UK, France, Germany and the United States.

As of March 31, 2021, the ANZ Group had total assets of \$1,018.3 billion and shareholders' equity excluding non-controlling interests of \$62.6 billion. In terms of total assets among banking groups, the ANZ Group ranked second in Australia¹ as of March 31, 2021 and first in New Zealand² as of March 31, 2021.

ANZBGL's principal ordinary share listing and quotation is on the ASX. Its ordinary shares are also quoted on the New Zealand Stock Exchange (the "NZX"). At the close of trading on March 31, 2021, ANZBGL had a market capitalization of \$80.2 billion, which ranked among the top six largest companies listed on the ASX³.

¹ Source: Commonwealth Bank of Australia results announcement for the fiscal half year ended December 31, 2020; National Australia Bank results announcement for the fiscal half year ended March 31, 2021; Westpac Banking Corporation results announcement for the fiscal half year ended March 31, 2021.

² Source: Reserve Bank of New Zealand Bank Financial Strength Dashboard (<https://bankdashboard.rbnz.govt.nz/summary>) for the quarter ending December 31, 2020.

³ Source: IRESS.

Business Model

The ANZ Group's business model primarily consists of raising funds through customer deposits and the wholesale debt markets and lending those funds to customers. In addition, the ANZ Group operates a Markets business which earns revenue from sales, trading and risk management activities. The ANZ Group also provides payments and clearing solutions.

The ANZ Group's primary lending activities are personal lending covering residential home loans, credit cards and overdrafts, and lending to corporate and institutional customers.

The ANZ Group's income is derived from a number of sources, primarily:

- Net interest income – represents the difference between the interest income the ANZ Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;
- Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services. It includes net funds management income;
- Share of associates' profits – represents the ANZ Group's share of the profit of an entity over which the ANZ Group has significant influence but not control; and
- Other income – includes income earned from the provision of insurance solutions, revenue generated from sales, trading and risk management activities in the Markets business, net foreign exchange earnings and gains and losses from economic and revenue and expense hedges.

SECTION 5: MAJOR SHAREHOLDERS, DESCRIPTION OF ORDINARY SHARES AND CONSTITUENT DOCUMENTS AND RELATED PARTY TRANSACTIONS

Strategy

The ANZ Group's strategy is focused on improving the financial wellbeing of its customers; having the right people who listen, learn and adapt; putting the best tools and insights into their hands; and focusing on those few things that it believes really add value to customers and doing them right the first time.

In particular, ANZ Group wants to help customers:

- save for, buy and own a liveable home,
- start or buy and grow their business and adopt sustainable business practices,
- move capital and goods around the region and adopt sustainable business practices.

In doing so, ANZ Group seeks to improve the financial wellbeing of our customers, people and communities by helping them make the most of their money throughout their lives; supporting household, business and financial practices that improve environmental sustainability; and improving the availability of suitable and affordable housing options for all Australians and New Zealanders.

Purpose				
ANZ Group's purpose is to shape a world where people and communities thrive				
Strategic Imperatives	Strategy			Creating value for our stakeholders
Create a simpler, better capitalized, better balanced bank	Improving the financial wellbeing of customers...			Decent returns for shareholders
Build a superior experience for our people and customers in order to compete in the digital age	...looking to save for, buy and own a home	...looking to start, buy and grow a business	...looking to move capital and goods around the region	Great experience for customers
Focus our efforts where we can carve out a winning position	...with people who listen, learn and adapt	...with the best tools and insights		Engaged, adaptable & capable employees
Drive a purpose and values led transformation of the Bank	...with flexible, resilient, digital infrastructure that supports great customer experience at lower cost			Improved financial wellbeing, housing and environmental sustainability outcomes for customers and communities

Principal activities of the ANZ Group

The ANZ Group operates on a divisional structure with five continuing divisions: Australia Retail and Commercial, Institutional, New Zealand, Pacific and Technology, Services & Operations ("TSO") and Group Centre.

The divisions reported below are consistent with operating segments as defined in AASB 8 *Operating Segments* and with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As of March 31, 2021, the principal activities of the five continuing divisions were:

Australia Retail and Commercial

The Australia Retail and Commercial division comprises the following business units.

- Retail provides products and services to consumer customers in Australia via the branch network, mortgage specialists, contact centers and a variety of self-service channels (internet banking, phone banking, ATMs, website and digital banking) and third party brokers.
- Commercial provides a full range of banking products and financial services, including asset financing, across the following customer segments: medium to large commercial customers and agribusiness customers across regional Australia, small business owners and high net worth individuals and family groups, in addition to financial planning services provided by salaried financial planners and investment lending secured by approved securities.

Institutional

The Institutional division services government, global institutional and corporate customers across three product sets: Transaction Banking, Corporate Finance and Markets.

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing, commodity financing as well as cash management solutions, deposits, payments and clearing.
- Corporate Finance provides loan products, loan syndication, specialized loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- Markets provide risk management services on foreign exchange, interest rates, credit, commodities and debt capital markets in addition to managing the ANZ Group's interest rate exposure and liquidity position.

New Zealand

See "Overview" in Part B (Issuers and Guarantor Information) of this Offering Memorandum.

Pacific

The Pacific division provides products and services to retail customers, small to medium-sized enterprises, institutional customers and governments located in the Pacific Islands. Products and services include retail products provided to consumers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

TSO and Group Centre

TSO and Group Centre division provides support to the operating divisions, including technology, group operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. Group Centre includes residual components of Group divestments, Group Treasury, Shareholder Functions and minority investments in Asia.

Risk Management Policies

ANZ New Zealand recognizes the importance of effective risk management to its business success. ANZ New Zealand is committed to achieving strong control and a distinctive risk management capability that enables ANZ New Zealand's business units to meet their performance objectives.

ANZ New Zealand approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The risk management 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 ANZ New Zealand's risk management policies, procedures and systems, overseen by an independent team of risk professionals;
- the use of risk tools, applications and processes to execute the global risk management strategy across ANZ New Zealand;
- business unit level accountability, as the "first line of defense", and for the management of risks in alignment with ANZ New Zealand's strategy; and
- independent oversight to ensure business unit level compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

ANZ New Zealand 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 ANZ New Zealand's response to emerging risk issues and trends, and that the requisite culture and practices are in place across ANZ New Zealand, are conducted within ANZ New Zealand and also by ANZBGL. 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. ANZ New Zealand's Risk Committee, which is a committee of the Board, assists with this function. The role of the Committee is to assist the Board in the effective discharge of its responsibilities for business, market, credit, capital, financial, operational, compliance, liquidity and funding, insurance and reputational risk management, and to liaise and consult with the ANZBGL Risk Committee as required. ANZ New Zealand has an independent risk management function, which, via the Chief Risk Officer, coordinates risk management directly between Business Unit risk functions and ANZBGL Risk Management functions.

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

ANZ New Zealand's risk management policies are essentially the same as ANZBGL's but are tailored where required to suit the local New Zealand regulatory and business environment.

The Audit Committee, which is a committee of the Board, has responsibility for reviewing all aspects of published financial statements and internal and external audit processes. It meets at least four times a year, and reports directly to the Board.

Credit Risk

ANZ New Zealand 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 ANZ New Zealand's Vision and Values and secondly, by Credit Principles and Policies. ANZ New Zealand also maintains a Bank-wide risk appetite framework and business writing strategies for each of its major business units which give practical effect to the credit and risk appetite frameworks. These strategy papers are reviewed by the appropriate management committees and the Board. 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, organization and staff.

Risk Management's responsibilities for credit risk policy and management are executed through dedicated departments, which support ANZ New Zealand's business units. All major business unit credit decisions require approval from 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 Risk services ANZ New Zealand's commercial, investment banking and rural lending activities through dedicated teams. Retail Risk services ANZ New Zealand's small business and consumer customers. The Portfolio Reporting team within Risk Management provides an independent overview of credit risk across ANZ New Zealand at a portfolio level. ANZ New Zealand allows discretion for transaction approvals at the business unit level in both the retail and wholesale lending sectors, with larger transactions approved by Retail Risk and Wholesale Risk.

Market Risk

ANZ New Zealand has a market risk management and control framework, to support trading and balance sheet management activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within the trading and balance sheet portfolios. This approach and related analysis identify the range of possible outcomes that can be expected over a given period of time, and establish the relative likelihood of those outcomes and allocate an appropriate amount of capital to support these activities.

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 Value at Risk ("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; and
- credit spread risk is the potential loss arising from a decline in value of an instrument due to a movement of its margin or spread relative to a benchmark.

VaR Methodology: All the above risks are measured using a VaR methodology. The VaR methodology is a statistical estimate of the likely daily loss and is based on historical market movements. The confidence level is such that there is a 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely, there is a 1% probability of the decrease in market value exceeding the VaR estimate on any given day. ANZ New Zealand has adopted the historical simulation methodology as the 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 ANZ New Zealand 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 VaR framework and detailed control limits. In all trading areas ANZ New Zealand has implemented models that calculate VaR exposures, monitor risk exposures against defined limits on a daily basis, and "stress test" trading portfolios. The ALCO, comprising executive management, provides 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 ALCO.

- interest rate risk management's objective is to produce strong and stable net interest income over time. ANZ New Zealand 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 re-pricing 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 recognized or unrecognized, 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. ANZ New Zealand maintains sufficient liquid funds to meet commitments based on historical and forecasted cash flow requirements. Liquidity risk is measured through cash flow modelling, with profiles produced for both normal business and short-term crisis conditions. The RBNZ introduced a Liquidity Policy (BS13 and BS13A) covering the management of liquidity risk by registered banks in New Zealand which took effect from March 30, 2010. A description of these requirements is covered under "Supervision and Regulation—Conditions of Registration for ANZ Bank New Zealand Limited";
- equity risk is the potential loss arising from the decline in the value of equity instruments held by the ANZ New Zealand Group due to changes in their equity market prices or implied volatilities;
- prepayment risk is the potential risk to earnings or market value from when a customer prepays all or part of a fixed rate mortgage and where any customer fee charged is not sufficient to offset the loss in value to ANZ New Zealand of this financial asset due to movements in interest rates and other pricing factors. As far as possible the true economic cost is passed through to customers in line with their terms and conditions and relevant legislation; and
- basis risk is the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing. This is managed through active review of product margins.

Operational Risk

Operational risk is the risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people, systems, management of data and data integrity, but excludes strategic risk.

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.

Operational risk is typically classified into risk event type categories to measure and compare risks on a consistent basis. Examples of operational risk events according to category are as follows:

- internal fraud: fraud involving ANZ New Zealand's employees, contractors or any internal party who acts by deception or with dishonesty to obtain property belonging to another or obtain financial advantage for themselves or cause any financial disadvantage to the ANZ New Zealand Group or others;
- external fraud: fraudulent acts or attempts which originate from outside the ANZ New Zealand Group, more commonly associated with digital banking, lending, and cards products. Specific threats include ATM skimming, malware and phishing attacks and fraudulent applications and transactions, where financial advantage is obtained;
- employment practices and workplace safety: employee relations, diversity and discrimination, and health and safety risks to ANZ New Zealand's employees;
- loss of key staff or inadequate management of human resources including the CEO and the management team of the CEO;
- clients, products and business practices: risk of market manipulation or anti-competitive behavior, failure to comply with disclosure obligations, product defects, incorrect advice, money laundering and misuse or unauthorized disclosure of customer information;
- business disruption (including systems failures): risk that ANZ New Zealand's banking operating systems are disrupted or fail;
- damage to physical assets: risk that a natural disaster or terrorist or vandalism attack damages ANZ New Zealand's buildings or property; and
- execution, delivery and process management: is associated with losses resulting from, among other things, process errors made by ANZ New Zealand's employees caused by inadequate or poorly designed internal processes, or the poor execution of standard processes, vendor, supplier or outsource provider failures in the management of data and data integrity or failed mandatory reporting errors.

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

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

Compliance

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

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

The compliance policies and their supporting framework seek to minimize material risks to the ANZ New Zealand 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 Risk Management division provides policy and framework, monitoring and reporting, as well as leadership in areas such as anti-money laundering procedures and matters of prudential compliance. OREC, the Chief Risk Officer, the ANZ New Zealand Board and the Risk Committee of the ANZBGL Board conduct Board and Executive oversight.

Internal Audit Function

ANZ New Zealand's Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management.

Operating under a Board approved Charter, the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the CEO and the external auditor. The Internal Audit Plan is developed using a risk based approach and is reviewed quarterly. The Audit Committee approves the plan.

All audit activities are conducted in accordance with local and international auditing standards, and the results of the activities are reported to the Audit Committee and management. These results influence the performance assessment of business heads. Furthermore, Internal Audit monitors the remediation of audit issues and reports the current status of any outstanding audits.

Other Contingent Liabilities

See "Risk Factors—Legal and regulatory risk—Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's Position" in this Offering Memorandum.

Other Court Proceedings

There are outstanding court proceedings, claims and possible claims for and against the ANZ New Zealand Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances, the ANZ New Zealand Group has not disclosed the estimated financial impact of the individual items, either because it is not practicable to do so, or because such disclosure may prejudice seriously the interests of the ANZ New Zealand Group.

Regulatory Reviews and Customer Exposures

See "Risk Factors—Legal and regulatory risk—Litigation and contingent liabilities may adversely affect the ANZ New Zealand Group's Position" in this Offering Memorandum.

Annex A -ANZ New Zealand and ANZNIL Financial Statements

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1. ANZ Bank New Zealand Limited Group Disclosure Statement for the six months ended March 31, 2021.
2. ANZ Bank New Zealand Limited Group Disclosure Statement for the financial year ended September 30, 2020.
3. ANZ Bank New Zealand Limited Group Disclosure Statement for the financial year ended September 30, 2019.
4. ANZ New Zealand (Int'l) Limited Financial Statements for the six months ended March 31, 2021.
5. ANZ New Zealand (Int'l) Limited Financial Statements for the financial year ended September 30, 2020.
6. ANZ New Zealand (Int'l) Limited Financial Statements for the financial year ended September 30, 2019.

ANZ BANK NEW ZEALAND LIMITED REGISTERED BANK DISCLOSURE STATEMENT

FOR THE SIX MONTHS ENDED 31 MARCH 2021
NUMBER 95 | ISSUED MAY 2021



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GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group, We or Our means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Holdings (New Zealand) Limited.

Ultimate Parent Bank means Australia and New Zealand Banking Group Limited.

Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

New Zealand business means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

NZ Branch means the New Zealand business of the Ultimate Parent Bank.

ANZ New Zealand means the New Zealand business of the Overseas Banking Group.

Registered Office is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

the Order means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

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INTERIM FINANCIAL STATEMENTS

INCOME STATEMENT

For the six months ended 31 March	Note	2021 NZ\$m	2020 NZ\$m
Interest income		2,334	2,998
Interest expense		(661)	(1,332)
Net interest income		1,673	1,666
Other operating income	2	338	483
Operating income		2,011	2,149
Operating expenses	3	(772)	(836)
Profit before credit impairment and income tax		1,239	1,313
Credit impairment release / (charge)	6	70	(233)
Profit before income tax		1,309	1,080
Income tax expense		(362)	(296)
Profit for the period		947	784

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March	2021 NZ\$m	2020 NZ\$m
Profit for the period	947	784
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	43	(17)
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(3)	(65)
Realised losses transferred to the income statement	4	14
Income tax attributable to the above items	(11)	19
Other comprehensive income after tax	33	(49)
Total comprehensive income for the period	980	735

BALANCE SHEET

As at	Note	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
Assets			
Cash and cash equivalents		5,579	8,248
Settlement balances receivable		447	378
Collateral paid		1,380	1,394
Trading securities		9,700	12,797
Derivative financial instruments		12,259	9,702
Investment securities		12,046	9,893
Net loans and advances	5	137,488	132,698
Deferred tax assets		368	327
Goodwill and other intangible assets	7	3,088	3,092
Premises and equipment		549	590
Other assets		639	625
Total assets		183,543	179,744
Liabilities			
Settlement balances payable		2,874	2,950
Collateral received		1,202	1,275
Deposits and other borrowings	8	128,860	125,061
Derivative financial instruments		11,111	8,252
Current tax liabilities		83	251
Payables and other liabilities		1,331	1,115
Employee entitlements		137	143
Other provisions	9	348	389
Debt issuances	10	20,752	24,439
Total liabilities		166,698	163,875
Net assets		16,845	15,869
Equity			
Share capital		11,888	11,888
Reserves		119	118
Retained earnings		4,838	3,863
Total equity		16,845	15,869

INTERIM FINANCIAL STATEMENTS

CASH FLOW STATEMENT

	2021 NZ\$m	2020 NZ\$m
For the six months ended 31 March		
Profit after income tax	947	784
Adjustments to reconcile to net cash flows from operating activities:		
Depreciation and amortisation	63	69
Loss on sale and impairment of premises and equipment	1	-
Net derivatives/foreign exchange adjustment	(776)	1,260
Other non-cash movements	115	117
<i>Net (increase)/decrease in operating assets:</i>		
Collateral paid	14	(203)
Trading securities	3,097	(2,737)
Net loans and advances	(4,790)	(2,830)
Other assets	(124)	(399)
<i>Net increase/(decrease) in operating liabilities:</i>		
Deposits and other borrowings	3,799	7,613
Settlement balances payable	(76)	658
Collateral received	(73)	299
Other liabilities	22	(278)
Total adjustments	1,272	3,569
Net cash flows from operating activities¹	2,219	4,353
Cash flows from investing activities		
Investment securities:		
Purchases	(4,046)	(1,050)
Proceeds from sale or maturity	1,509	768
Other assets	(17)	(21)
Net cash flows from investing activities	(2,554)	(303)
Cash flows from financing activities		
Debt issuances ²		
Issue proceeds	-	2,327
Redemptions	(2,307)	(966)
Repayment of lease liabilities	(23)	(24)
Dividends paid	(4)	(4)
Net cash flows from financing activities	(2,334)	1,333
Net change in cash and cash equivalents	(2,669)	5,383
Cash and cash equivalents at beginning of period	8,248	2,363
Cash and cash equivalents at end of period	5,579	7,746

¹ Net cash provided by operating activities includes income taxes paid of NZ\$582 million (2020: NZ\$485 million).

² Movement in debt issuances (Note 10 debt issuances) also includes an NZ\$1,089 million decrease (2020: NZ\$901 million increase) from the effect of foreign exchange rates, a NZ\$336 million decrease (2020: NZ\$320 million increase) from changes in fair value hedging instruments and a NZ\$45 million increase (2020: NZ\$94 million increase) of other changes.

STATEMENT OF CHANGES IN EQUITY

	Share capital NZ\$m	Investment securities revaluation reserve NZ\$m	Cash flow hedging reserve NZ\$m	Retained earnings NZ\$m	Total equity NZ\$m
As at 1 October 2019	11,888	(6)	27	2,521	14,430
Impact on transition to NZ IFRS 16 <i>Leases</i>	-	-	-	(17)	(17)
As at 1 October 2019 (adjusted)	11,888	(6)	27	2,504	14,413
Profit or loss	-	-	-	784	784
Unrealised losses recognised directly in equity	-	(38)	(27)	-	(65)
Realised losses transferred to the income statement	-	-	14	-	14
Actuarial loss on defined benefit schemes	-	-	-	(17)	(17)
Income tax credit on items recognised directly in equity	-	11	4	4	19
Total comprehensive income for the period	-	(27)	(9)	771	735
Transactions with Immediate Parent Company in its capacity as owner:					
Preference dividends paid	-	-	-	(4)	(4)
Transactions with Immediate Parent Company in its capacity as owner	-	-	-	(4)	(4)
As at 31 March 2020	11,888	(33)	18	3,271	15,144
As at 1 October 2020	11,888	8	110	3,863	15,869
Profit or loss	-	-	-	947	947
Unrealised gains / (losses) recognised directly in equity	-	49	(52)	-	(3)
Realised losses / (gains) transferred to the income statement	-	(2)	6	-	4
Actuarial gain on defined benefit schemes	-	-	-	43	43
Income tax credit / (expense) on items recognised directly in equity	-	(13)	13	(11)	(11)
Total comprehensive income for the period	-	34	(33)	979	980
Transactions with Immediate Parent Company in its capacity as owner:					
Preference dividends paid	-	-	-	(4)	(4)
Transactions with Immediate Parent Company in its capacity as owner	-	-	-	(4)	(4)
As at 31 March 2021	11,888	42	77	4,838	16,845

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. ABOUT OUR INTERIM FINANCIAL STATEMENTS

BASIS OF PREPARATION

These are the condensed consolidated interim financial statements (financial statements) for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') and should be read in conjunction with the Banking Group's financial statements for the year ended 30 September 2020.

On 7 May 2021, the Directors resolved to authorise the issue of these financial statements.

These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice (NZ GAAP), as defined in the Financial Reporting Act 2013;
- NZ IAS 34 *Interim Financial Reporting* and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities; and
- IAS 34 *Interim Financial Reporting*.

The financial statements consolidate the financial statements of the Bank and its subsidiaries.

We present the financial statements in New Zealand dollars and have rounded values to the nearest million dollars (NZ\$m), unless otherwise stated.

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the previous full year financial statements.

BASIS OF MEASUREMENT

These 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;
- financial instruments measured at fair value through other comprehensive income; and
- financial instruments designated at fair value through profit and loss.



KEY JUDGEMENTS AND ESTIMATES

The preparation of these financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of accounting policies. Discussion of the critical accounting estimates and judgements, which include complex or subjective decisions or assessments, are provided in the previous full year financial statements. Such estimates and judgements are reviewed on an ongoing basis.

A brief explanation of the key estimates, assumptions and judgements that have changed during the six months ended 31 March 2021 follows:

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted our customers, operations and the Banking Group's performance. The outbreak necessitated governments to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. It has affected different regions at different times and at varying degrees and there remains a risk of subsequent waves of infection. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the impact, extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes disruption to capital markets, and the impacts on credit quality, liquidity, unemployment, consumer spending, as well as specific sector impacts and other restructuring activities; and
- the efficacy, extent and pace of roll-out of vaccines, as well as the effectiveness of government and central bank measures that have been and will be put in place to support businesses and consumers through this disruption.

The Banking Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2021 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Banking Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, carrying values of goodwill, fair value measurement, and recoverable amounts of non-financial assets.

The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note in these financial statements and/or in the relevant note in the previous full year financial statements. Readers should consider these disclosures in light of the inherent uncertainty described above.

2. OTHER OPERATING INCOME

	2021 NZ\$m	2020 NZ\$m
For the six months ended 31 March		
(i) Fee and commission income		
Lending fees	16	17
Non-lending fees	341	374
Commissions	18	21
Funds management income	131	133
Fee and commission income	506	545
Fee and commission expense	(230)	(260)
Net fee and commission income	276	285
(ii) Other income		
Net trading gains	66	68
Fair value gain / (loss) on hedging activities and financial liabilities designated at fair value	(26)	119
Net foreign exchange earnings and other financial instruments income	40	187
Other	22	11
Other income	62	198
Other operating income	338	483

3. OPERATING EXPENSES

	2021 NZ\$m	2020 NZ\$m
For the six months ended 31 March		
Personnel		
Salaries and related costs	421	454
Superannuation costs	14	15
Other	9	24
Personnel	444	493
Premises		
Rent	9	12
Depreciation	40	45
Other	20	20
Premises	69	77
Technology		
Depreciation and amortisation	23	24
Subscription licences and outsourced services	62	60
Other	18	22
Technology (excluding personnel)	103	106
Other		
Advertising and public relations	17	24
Professional fees	31	31
Freight, stationery, postage and communication	21	21
Charges from Ultimate Parent Bank	53	41
Other	34	43
Other	156	160
Operating expenses	772	836

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4. SEGMENT REPORTING

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

There were no material changes to the Banking Group's reportable segments during the six months ended 31 March 2021.

Retail

Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.

Commercial

Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises, the agricultural business segment, government and government related entities.

Institutional

The Institutional division services governments, global institutional and corporate customers across three product sets: Transaction Banking, Corporate Finance and Markets.

- **Transaction Banking** provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- **Corporate Finance** provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- **Markets** provide risk management services on foreign exchange, interest rates, credit, commodities and debt capital markets in addition to managing the Banking Group's interest rate exposure and liquidity position.

Other

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

	Retail		Commercial		Institutional		Other		Total	
For the six months ended 31 March	2021 NZ\$m	2020 NZ\$m	2021 NZ\$m	2020 NZ\$m	2021 NZ\$m	2020 NZ\$m	2021 NZ\$m	2020 NZ\$m	2021 NZ\$m	2020 NZ\$m
Net interest income	983	921	503	549	168	177	19	19	1,673	1,666
Net fee and commission income										
- Lending fees	7	8	-	-	9	9	-	-	16	17
- Non-lending fees	308	343	5	5	28	26	-	-	341	374
- Commissions	17	21	-	-	1	-	-	-	18	21
- Funds management income	131	133	-	-	-	-	-	-	131	133
- Fee and commission expense	(230)	(260)	-	-	-	-	-	-	(230)	(260)
Net fee and commission income	233	245	5	5	38	35	-	-	276	285
Other income	15	8	-	1	75	46	(28)	143	62	198
Other operating income	248	253	5	6	113	81	(28)	143	338	483
Operating income	1,231	1,174	508	555	281	258	(9)	162	2,011	2,149
Operating expenses	(547)	(574)	(118)	(147)	(94)	(96)	(13)	(19)	(772)	(836)
Profit before credit impairment and income tax	684	600	390	408	187	162	(22)	143	1,239	1,313
Credit impairment release / (charge)	32	(83)	31	(106)	7	(44)	-	-	70	(233)
Profit / (loss) before income tax	716	517	421	302	194	118	(22)	143	1,309	1,080
Income tax expense	(197)	(145)	(118)	(85)	(54)	(33)	7	(33)	(362)	(296)
Profit / (loss) after income tax	519	372	303	217	140	85	(15)	110	947	784

	Retail		Commercial		Institutional		Other		Total	
	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20
As at	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Financial position										
Goodwill	1,011	1,011	926	926	1,069	1,069	-	-	3,006	3,006
Net loans and advances	92,112	86,362	38,832	39,333	6,533	6,993	11	10	137,488	132,698
Customer deposits	81,358	79,867	20,172	18,437	21,256	22,559	-	-	122,786	120,863

Other segment

The Other segment profit/(loss) after tax comprises:

	2021	2020
	NZ\$m	NZ\$m
For the six months ended 31 March		
Central functions	1	3
Group Centre	8	11
Economic hedges	(24)	96
Total	(15)	110

5. NET LOANS AND ADVANCES

	Note	31 Mar 21	30 Sep 20
		NZ\$m	NZ\$m
Overdrafts		660	659
Credit cards		1,287	1,300
Term loans - housing		95,081	89,258
Term loans - non-housing		40,732	41,882
Subtotal		137,760	133,099
Unearned income		(23)	(26)
Capitalised brokerage and other origination costs		368	319
Gross loans and advances		138,105	133,392
Allowance for expected credit losses	6	(617)	(694)
Net loans and advances		137,488	132,698

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ\$306 million as at 31 March 2021 (30 September 2020: NZ\$287 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

6. ALLOWANCE FOR EXPECTED CREDIT LOSSES

This note should be read in conjunction with the estimates, assumptions and judgements relating to COVID-19 included in Note 1.

ALLOWANCE FOR EXPECTED CREDIT LOSSES – BALANCE SHEET

Net loans and advances – at amortised cost

Allowance for Expected Credit Losses (ECL) is included in net loans and advances.

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
As at 1 October 2020	162	347	79	106	694
Transfer between stages	21	(20)	(2)	1	-
New and increased provisions (net of collective provision releases)	(33)	1	(15)	38	(9)
Write-backs	-	-	-	(36)	(36)
Bad debts written-off (excluding recoveries)	-	-	-	(28)	(28)
Discount unwind	-	-	-	(4)	(4)
As at 31 March 2021	150	328	62	77	617

Off-balance sheet credit related commitments – undrawn and contingent facilities

Allowance for ECL is included in other provisions.

As at 1 October 2020	79	55	3	22	159
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(11)	(1)	-	(3)	(15)
As at 31 March 2021	71	51	3	19	144

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

	2021 NZ\$m	2020 NZ\$m
For the six months ended 31 March		
New and increased provisions		
- Collectively assessed	(60)	189
- Individually assessed	36	73
Write-backs	(36)	(15)
Recoveries of amounts previously written-off	(10)	(14)
Total credit impairment charge / (release)	(70)	233

LOAN DEFERRAL AND RELIEF PACKAGES

From March 2020, the Banking Group offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates. The loan deferral and relief packages are considered to be a loan modification under NZ IFRS 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification).

These relief packages were phased out during the six months ended 31 March 2021. In the case of loan deferral packages, 86% of all customers who took advantage of a deferral package have reverted back to loan repayments, with the remainder having been either restructured or, for less than 2% of customers, transferred to hardship. For those customers who took up loan deferral packages, it is considered that the packages, as well as government support measures, may have obscured repayment delinquencies that might otherwise have occurred over the loan deferral period and those that may still occur in the future. Thus the Banking Group has provided a component of ECL for expected delinquencies and increases in Significant Increase in Credit Risk (SICR) for this population of loans.

Facilities which transitioned to interest-only or took up term extensions offered as a result of COVID-19, are now subsumed within the normal loan population and are managed accordingly.



KEY JUDGEMENTS AND ESTIMATES

In estimating individually assessed ECL for Stage 3 exposures, the Banking Group makes judgements and assumptions in relation to expected repayments, the realisable value of collateral, business prospects for the customer, competing claims and the likely cost and duration of the work-out process. Judgements and assumptions in respect of these matters have been updated to reflect the ongoing and potential impact of COVID-19.

In estimating collectively assessed ECL, the Banking Group makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Banking Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs, and highlights significant changes during the current period.

The judgements and associated assumptions have been made in the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. The Banking Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement / assumption	Description	Considerations for the six months ended 31 March 2021
Determining when a SICR has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Banking Group monitors the effectiveness of SICR criteria on an ongoing basis.	The relief packages offered to customers in response to COVID-19 in 2020 are no longer being offered, and the majority of customers who took up the relief have reverted back to their normal loan repayments. The relief packages, as well as government support measures, may have obscured repayment delinquencies that might otherwise have occurred and those that may still occur in the future. Thus the Banking Group has provided a component of ECL for expected delinquencies and increases in SICR.
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	The PD, EAD and LGD models are subject to the Banking Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. During the six months ended 31 March 2021 an adjustment was made to the modelled outcome to account for continuing model uncertainties as a result of COVID-19. There were no material changes to the policies during the six months ended 31 March 2021.

NOTES TO THE INTERIM FINANCIAL STATEMENTS



KEY JUDGEMENTS AND ESTIMATES

Judgement / assumption	Description	Considerations for the six months ended 31 March 2021
Base case economic forecast	The Banking Group derives a forward looking "base case" economic scenario which reflects our view of future macro-economic conditions.	There have been no changes to the types of forward looking variables (key economic drivers) used as model inputs in the current period. As at 31 March 2021, the base case assumptions have been updated to reflect the current phase of COVID-19, including containment in key geographies, government stimulus measures and roll-out of vaccines. In determining the expected path and timing out of the current economic downturn, assessments of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as payment deferrals) were considered. The expected outcomes of key economic drivers for the base case scenario as at 31 March 2021 are described below under the heading "Base case economic forecast assumptions".
Probability weighting of each scenario (base case, upside, downside and severe downside scenarios)^{1,2}	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case scenario at each measurement date.	The key consideration for probability weightings in the current period is the extent and timing of recovery from the economic downturn caused by COVID-19. The Banking Group considers these weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Banking Group's credit portfolios in determining them. In addition to the base case forecast which reflects a significant improvement as we emerge from an economic environment heavily influenced by COVID-19, greater weighting continues to be applied to the downside scenario given the Banking Group's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised. The uncertainty associated with the COVID-19 pandemic, including the roll-out of vaccines, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models which are based on historical underlying data. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with continuing COVID-19 impacts. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular to retail, commercial and agri banking.

1. The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.
2. The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.



KEY JUDGEMENTS AND ESTIMATES

Base case economic forecast assumptions

The uncertain evolution of the COVID-19 pandemic increases the risk to the economic forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- the extent and duration of measures, including the roll-out of vaccines, to contain the spread of COVID-19;
- the extent and duration of the economic downturn, along with the time required for economies to recover; and
- the effectiveness of government stimulus measures, in particular their impact on the magnitude of the economic downturn and the extent and duration of the recovery.

The economic drivers of the base case economic forecasts at 31 March 2021 are set out below. These reflect our view of future macro-economic conditions at 31 March 2021. For years beyond the near term forecasts below, the ECL models project future year economic conditions including an assumption to eventual reversion to mid-cycle economic conditions.

New Zealand	Actual calendar year	Forecast calendar year	
	2020	2021	2022
Gross domestic product (GDP)	-3.0%	3.6%	3.7%
Unemployment	4.6%	5.4%	4.6%
Residential property prices	15.6%	17.4%	4.1%
Consumer price index (CPI)	1.7	1.9	1.6

The base case economic forecasts as at 31 March 2021 indicate a significant improvement in current and expected economic conditions from the forecasts as at 30 September 2020 reflecting the ongoing progress and actions in responding to the COVID-19 pandemic.

Probability weightings

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario. The key consideration for probability weightings in the current period is the effectiveness of actions taken in response to COVID-19 and the ability of vaccines to limit the impact of the virus.

The base case scenario represents a significant improvement in the forecasts since September 2020. Given the uncertainties associated with a potential recovery in the economy, greater weighting continues to be applied to the downside and severe downside scenarios given the Banking Group's assessment of downside risks.

The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Banking Group considers these weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Banking Group's credit portfolios in determining them. The average weightings applied are set out below:

	31 Mar 21	30 Sep 20
Base	50%	50%
Upside	8%	8%
Downside	32%	32%
Severe downside	10%	10%

ECL - sensitivity analysis

Given current economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future periods, ECL reported by the Banking Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 31 March 2021:

	Total NZ\$m	Impact NZ\$m
If 1% of Stage 1 facilities were included in Stage 2	669	4
If 1% of Stage 2 facilities were included in Stage 1	664	(1)
100% upside scenario	457	(208)
100% base scenario	544	(121)
100% downside scenario	802	137
100% severe downside scenario	998	333

NOTES TO THE INTERIM FINANCIAL STATEMENTS

7. GOODWILL AND OTHER INTANGIBLE ASSETS

	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
Goodwill	3,006	3,006
Funds management rights (indefinite life)	76	76
Software	6	10
Goodwill and other intangible assets	3,088	3,092

GOODWILL AND OTHER INTANGIBLE ASSETS ALLOCATED TO CASH-GENERATING UNITS (CGUs)

Goodwill arose on the acquisition of the NBNZ Holdings Limited group on 1 December 2003, and the carrying amount reflects amortisation recognised before the application of NZ IFRS from 1 October 2004 and subsequent business disposals. Funds management rights, assessed as having indefinite useful lives, arose on the acquisition of the ING Holdings (NZ) Limited (now ANZ Wealth New Zealand Limited) group on 30 November 2009.

Goodwill and funds management rights are allocated to CGUs as follows:

	Goodwill		Management rights	
	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
Cash generating unit				
Retail and business banking	893	893	-	-
Wealth	118	118	76	76
Retail segment	1,011	1,011	76	76
Commercial	926	926	-	-
Institutional	1,069	1,069	-	-
Total	3,006	3,006	76	76

Annual goodwill impairment test

The annual impairment test is performed as at the end of February each year. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs of disposal (FVLCD) and its value-in use (VIU). We use a value-in-use approach to estimate the recoverable amount of the CGU to which each goodwill component is allocated. Based on this assessment no impairment was identified for any CGU, and therefore a FVLCD calculation was not required.

VALUE-IN-USE

These calculations use cash flow projections based on a number of financial budgets within each CGU covering an initial forecast period. These projections also incorporate economic assumptions including GDP, inflation, unemployment, residential and commercial property prices, the impact of the restriction imposed by the RBNZ on the payment of ordinary dividends by all New Zealand incorporated registered banks, and the implementation of the RBNZ's increased capital requirements. Cash flows beyond the forecast period are extrapolated using the terminal growth rate. These cash flow projections are discounted using a discount rate derived using a capital asset pricing model.

Future changes in the assumptions upon which the calculation is based may materially impact this assessment, resulting in the potential impairment of part or all of the goodwill balances.

Input / assumption	Values applied in 28 February 2021 impairment test
Forecast period and projections	To 30 September 2028 - an extended forecast period was used to cover the implementation period of the RBNZ's increased capital requirements over the period 1 July 2021 to 1 July 2028.
Revenue growth over forecast period	Comprises impacts of net interest margin and volume growth, arising from planned responses to known regulatory and economic forecasts. Average annual forecast revenue growth rates are shown below.
Credit impairment over forecast period	Varies by CGU, based on ECL modelling for 2021 to 2023, before returning to long run experience levels for 2024 to 2028. Long run experience levels are based on the Banking Group's bad debts written off, net of recoveries, since 2004 of 0.15% of gross loans and advances. Credit impairment for each CGU as a percentage of forecast gross loans and advances for 2024 to 2028 is shown below.
Terminal growth rate	2.0% - based on 2023 forecast inflation from the RBNZ's February 2021 Monetary Policy Statement.
Discount rate	Post tax: 9.4% (February 2020: 9.3%). The main variables in the calculation of the discount rate used are the risk free rate, beta and the market risk premium. The risk free rate was the traded 10 year New Zealand government bond yield as at 28 February 2021 of 1.9%. The market risk premium was estimated using a range of methods incorporating historical and forward looking market data. Beta was consistent with observable measures applied in the regional banking sector.

The values of the average revenue growth, credit impairment as a percentage of forecast gross loans and advances, and pre-tax discount rates assumptions by CGU are shown in the table below. The implied pre-tax discount rates are significantly higher than the post-tax discount rate above because regulatory capital retention over the forecast period is not tax effected.

Cash generating unit	Revenue growth		Credit impairment		Pre-tax discount rate	
	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20
Retail and business banking	6.1%	5.8%	0.13%	0.13%	17.5%	16.7%
Wealth	3.4%	2.7%	0.10%	0.01%	16.4%	16.0%
Commercial	4.2%	4.8%	0.21%	0.22%	17.8%	17.1%
Institutional	4.5%	0.6%	0.21%	0.12%	17.3%	17.0%

We performed stress tests for key sensitivities in each CGU. A change, considered to be reasonably possible by management, in key assumptions would not cause the recoverable amounts of the Retail & business banking and Wealth CGUs to exceed their carrying amounts, but would do so for the Commercial and Institutional CGUs.

A summary of the amounts by which key assumptions for Commercial and Institutional must change in order for their recoverable amounts to equal their carrying amounts is shown below.

	Commercial		Institutional	
	Forecast Value	Change required	Forecast Value	Change required
Amount by which recoverable amount exceeds carrying amount (NZ\$m)	513	n/a	386	n/a
Value of assumption and change (in basis points) required to reduce recoverable amount to nil:				
Average annual revenue growth over forecast period	4.2%	-87 bp	4.5%	-113 bp
Average annual credit impairment FY24-FY28	0.21%	+17 bp	0.21%	+73 bp
Discount rate	9.4%	+63 bp	9.4%	+80 bp
Terminal growth rate	2.0%	-106 bp	2.0%	-140 bp



KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

Goodwill

A number of key judgements are required in the determination of whether or not a goodwill balance is impaired:

- the level at which goodwill is allocated – consistent with prior periods the CGUs to which goodwill is allocated are the Banking Group's four revenue generating segments that benefit from relevant historical business combinations generating goodwill.
- determination of the carrying amount of each CGU which includes an allocation, on a reasonable and consistent basis of corporate assets and liabilities that are not directly attributable to the CGUs to which goodwill is allocated.
- assessment of the recoverable amount of each CGU used to determine whether the carrying amount of goodwill is supported is based on judgements including the selection of the model and key assumptions used to calculate the recoverable amount.

The assessment of the recoverable amount of each CGU has been made within the context of the ongoing impact of COVID-19, and reflects expectations of future events that are believed to be reasonable under the circumstances. The rapidly evolving consequences of COVID-19 and government, business and consumer responses create heightened uncertainty in these estimates and any variations could have a positive or adverse impact on the determination of recoverable amounts.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

8. DEPOSITS AND OTHER BORROWINGS

	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
Term deposits	43,264	50,069
On demand and short term deposits	59,240	53,910
Deposits not bearing interest	20,282	16,884
Total customer deposits	122,786	120,863
Certificates of deposit	1,407	1,782
Commercial paper	3,543	1,748
Securities sold under repurchase agreements	1,113	646
Deposits from Immediate Parent Company and NZ Branch	11	22
Deposits and other borrowings	128,860	125,061

9. OTHER PROVISIONS

	Note	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
ECL allowance on undrawn facilities	6	144	159
Customer remediation		121	141
Restructuring costs		31	36
Leasehold make good		23	23
Other ¹		29	30
Total other provisions		348	389

1 Other provisions comprise various other provisions including losses arising from other legal action, operational issues, and warranties and indemnities provided in connection with various disposals of businesses and assets.

10. DEBT ISSUANCES

The Banking Group uses a variety of funding programmes to issue unsubordinated debt (including senior debt and covered bonds) and subordinated debt. The difference between unsubordinated debt and subordinated debt is that holders of unsubordinated debt take priority over holders of subordinated debt owed by the relevant issuer and subordinated debt will be repaid by the relevant issuer only after the repayment of claims of depositors, other creditors and the senior debt holders.

	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
Senior debt	14,066	17,476
Covered bonds	4,245	4,522
Total unsubordinated debt	18,311	21,998
Subordinated debt (additional tier 1 capital)	2,441	2,441
Total debt issued	20,752	24,439

Covered bonds are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust (the Covered Bond Trust). The Covered Bond Trust is a member of the Banking Group, whereas the Covered Bond Guarantor is not a member of the Banking Group.

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

11. CREDIT RISK

This note should be read in conjunction with the estimates, assumptions and judgements relating to COVID-19 in Note 1 and ECL in Note 6.

Maximum exposure to credit risk

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

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

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

	Reported		Excluded ¹		Maximum exposure to credit risk	
	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
On-balance sheet positions						
Net loans and advances	137,488	132,698	-	-	137,488	132,698
Other financial assets:						
Cash and cash equivalents	5,579	8,248	211	187	5,368	8,061
Settlement balances receivable	447	378	-	-	447	378
Collateral paid	1,380	1,394	-	-	1,380	1,394
Trading securities	9,700	12,797	-	-	9,700	12,797
Derivative financial instruments	12,259	9,702	-	-	12,259	9,702
Investment securities	12,046	9,893	-	-	12,046	9,893
Other financial assets ²	551	547	-	-	551	547
Total other financial assets	41,962	42,959	211	187	41,751	42,772
Subtotal	179,450	175,657	211	187	179,239	175,470
Off-balance sheet commitments						
Undrawn and contingent facilities ³	30,448	30,857	-	-	30,448	30,857
Total	209,898	206,514	211	187	209,687	206,327

¹ Bank notes and coins and cash at bank within cash and cash equivalents.

² Other financial assets mainly comprise accrued interest and acceptances.

³ Undrawn facilities and contingent facilities include guarantees, letters of credit and performance related contingencies, net of collectively assessed and individually assessed allowance for expected credit losses.

Credit quality

We use the Banking Group's internal customer credit rating (CCR) to manage the credit quality of financial assets. To enable wider comparisons, the Banking Group's CCRs are mapped to external rating agency scales as follows:

Credit quality description	Internal CCR	The Banking Group customer requirements	Moody's Rating	S&P Global Ratings
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7+ to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 – Caa	B – CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or 'the facility') is classified as defaulted.	n/a	n/a

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Net loans and advances

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
As at 31 March 2021					
Strong	106,586	2,087	-	-	108,673
Satisfactory	21,964	3,918	-	-	25,882
Weak	522	1,685	-	-	2,207
Defaulted	-	-	683	315	998
Subtotal	129,072	7,690	683	315	137,760
Allowance for ECL	(150)	(328)	(62)	(77)	(617)
Net loans and advances at amortised cost	128,922	7,362	621	238	137,143
Coverage ratio	0.12%	4.27%	9.08%	24.44%	0.45%
Unearned income					(23)
Capitalised brokerage and other origination costs					368
Net carrying amount					137,488

As at 30 September 2020

Strong	98,259	5,508	-	-	103,767
Satisfactory	21,446	4,578	-	-	26,024
Weak	405	1,734	-	-	2,139
Defaulted	-	-	808	361	1,169
Subtotal	120,110	11,820	808	361	133,099
Allowance for ECL	(162)	(347)	(79)	(106)	(694)
Net loans and advances at amortised cost	119,948	11,473	729	255	132,405
Coverage ratio	0.13%	2.94%	9.78%	29.36%	0.52%
Unearned income					(26)
Capitalised brokerage and other origination costs					319
Net carrying amount					132,698

Off-balance sheet commitments - undrawn and contingent facilities

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
As at 31 March 2021					
Strong	25,165	194	-	-	25,359
Satisfactory	3,848	1,160	-	-	5,008
Weak	19	140	-	-	159
Defaulted	-	-	31	35	66
Gross undrawn and contingent facilities	29,032	1,494	31	35	30,592
Allowance for ECL included in other provisions (refer to Note 9)	(71)	(51)	(3)	(19)	(144)
Net undrawn and contingent facilities	28,961	1,443	28	16	30,448
Coverage ratio	0.24%	3.41%	9.68%	54.29%	0.47%

As at 30 September 2020

Strong	25,525	302	-	-	25,827
Satisfactory	3,949	974	-	-	4,923
Weak	27	179	-	-	206
Defaulted	-	-	19	41	60
Gross undrawn and contingent facilities	29,501	1,455	19	41	31,016
Allowance for ECL included in other provisions (refer to Note 9)	(79)	(55)	(3)	(22)	(159)
Net undrawn and contingent facilities	29,422	1,400	16	19	30,857
Coverage ratio	0.27%	3.78%	15.79%	53.66%	0.51%

12. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities carried at fair value on the balance sheet

The Banking Group categorises financial assets and financial liabilities carried at fair value into a fair value hierarchy as required by NZ IFRS 13 *Fair Value Measurement* based on the observability of inputs used to measure the fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 – valuations where significant unobservable inputs are used to measure the fair value of the asset or liability.

The table below summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
Assets								
Trading securities	8,854	8,848	846	3,949	-	-	9,700	12,797
Derivative financial instruments	10	8	12,247	9,691	2	3	12,259	9,702
Investment securities	12,045	9,892	-	-	1	1	12,046	9,893
Total	20,909	18,748	13,093	13,640	3	4	34,005	32,392
Liabilities								
Deposits and other borrowings	-	-	3,543	1,748	-	-	3,543	1,748
Derivative financial instruments	19	4	11,092	8,248	-	-	11,111	8,252
Other financial liabilities	598	158	-	-	-	-	598	158
Total	617	162	14,635	9,996	-	-	15,252	10,158

Financial assets and financial liabilities not measured at fair value

Below is a comparison of the carrying amounts as reported on the balance sheet and fair values of financial asset and financial liability categories other than those categories where the carrying amount is at fair value or considered a reasonable approximation of fair value.

The fair values below have been calculated using discounted cash flow techniques where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.

	Carrying amount		Fair value	
	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
Financial assets				
Net loans and advances ¹	137,488	132,698	137,903	133,305
Total	137,488	132,698	137,903	133,305
Financial liabilities				
Deposits and other borrowings ²	125,317	123,313	125,439	123,486
Debt issuances ¹	20,752	24,439	21,165	24,748
Total	146,069	147,752	146,604	148,234

¹ Fair value hedging is applied to certain financial instruments within these categories. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

² Excludes commercial paper (Note 8 deposits and other borrowings) designated at fair value through profit or loss.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

13. COMMITMENTS AND CONTINGENT LIABILITIES

	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
Credit related commitments and contingencies		
Contract amount of:		
Undrawn facilities	27,709	28,273
Guarantees and letters of credit	1,298	1,309
Performance related contingencies	1,585	1,434
Total	30,592	31,016

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

Other contingent liabilities

There are outstanding court proceedings, claims and possible claims for and against the Banking Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to Note 9 other provisions) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice seriously the interests of the Banking Group.

Regulatory and customer exposures

In recent years there has been an increase in the number of matters on which the Banking Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in New Zealand and globally. The Banking Group has received various notices and requests for information from its regulators as part of both industry-wide and Banking Group-specific reviews, and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, may include a range of matters including responsible lending practices, regulated lending financial transactions, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

Reviews under section 95 of the Reserve Bank of New Zealand Act 1989 (RBNZ Act)

On 5 July 2019, the RBNZ issued a notice under section 95 of the RBNZ Act requiring the Bank to obtain two external reviews: the first on the Bank's compliance with certain aspects of the RBNZ Banking Supervision Handbook document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) (*Capital Adequacy Review*); and the second on the effectiveness of the Bank's directors' attestation and assurance framework (*Attestation Review*).

The Attestation Review and the Capital Adequacy Review were completed in December 2019 and April 2020, respectively. The Bank is committed to implementing the recommendations and addressing the issues raised by these reviews.

Due to the impacts of the COVID-19 pandemic, the RBNZ extended the time period for addressing the Attestation Review recommendations, subject to the Bank obtaining external interim reviews of the remediation activities being undertaken in respect of the Attestation Review and the Capital Adequacy Review, assessed as at March 2021, with final reviews being assessed as at September 2021 for the Attestation review and December 2021 for the Capital Models review. The interim review of the Attestation Review is in the process of being finalised. The interim review of the Capital Adequacy Review has been completed. The external reviewer has reported that the Bank has made significant progress to address non-compliance issues and improvement areas identified by the Capital Adequacy Review, and the programme of work is expected to be completed by December 2021.

The Attestation Review and the Capital Adequacy Review have highlighted the need for a broader programme of improving the Bank's processes covered by those reviews, and this programme is now in its implementation phase.

Warranties and indemnities

The Banking Group has provided warranties, indemnities and other commitments in favour of the purchaser in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments.

14. SUBSEQUENT EVENTS

On 31 March 2021, the RBNZ announced that it was easing the restrictions preventing banks from paying any dividends on ordinary shares and redeeming non-common equity tier 1 capital instruments that were put in place in April 2020. The changes to the dividend restrictions allow the Bank to pay up to a maximum of 50% of its earnings as dividends. The 50% dividend restriction will remain in place until 1 July 2022 at which point the RBNZ intends to remove the restrictions entirely, subject to no significant worsening in economic conditions. The Bank's conditions of registration were amended on 29 April 2021 to bring the 50% dividend restriction into effect.

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REGISTERED BANK DISCLOSURES

This section contains the additional disclosures required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Section	Order reference	Page
B1. General disclosures	Schedule 3	25
B2. Additional financial disclosures	Schedule 5	27
B3. Asset quality	Schedule 7	32
B4. Capital adequacy under the internal models based approach, and regulatory liquidity ratios	Schedule 11	36
B5. Concentration of credit exposures to individual counterparties	Schedule 13	43
B6. Insurance business	Schedule 16	43

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 18 for further details, and to page 27 for the amount of assets of the ANZ Covered Bond Trust pledged as security for covered bonds.

No other material obligations of the Bank are guaranteed as at 7 May 2021.

Changes in the Bank's Board of Directors

Michelle Jablko resigned as a Non-Executive Director on 1 February 2021. As at 7 May 2021, there have been no other changes to the Directors of the Bank since 30 September 2020, the balance date of the last full year disclosure statement.

Auditors

KPMG, 18 Viaduct Harbour Avenue, Auckland, New Zealand.

Conditions of registration

Changes to the Bank's conditions of registration

Effective 1 March 2021, the Bank's conditions of registration have been amended to include restrictions on high loan-to-valuation residential mortgage lending to owner-occupiers and investors.

Since 31 March 2021, the Bank's conditions of registration have been amended to:

- ease restrictions on dividends on ordinary shares to 50% of the Bank's earnings (effective 29 April 2021);
- include further restrictions on high loan-to-valuation residential mortgage lending to investors (effective 1 May 2021); and
- refer to updated versions of BS13 *Liquidity Policy* and BS13A *Liquidity Policy Annex: Liquid Assets* (effective 1 May 2021).

Material non-compliance with conditions of registration

A review of the Bank's compliance with the RBNZ's capital adequacy requirements was undertaken under section 95 of the RBNZ Act and was completed in April 2020. The Bank has accepted the improvements identified in the review, and is working to rectify its processes. The RBNZ has stated that it is confident the Bank will resolve this matter without issue, and has emphasised that the Banking Group remains sound and well capitalised.

As first reported in the disclosure statement for the year ended 30 September 2019, the Bank has not complied with condition of registration 1B in relation to the implementation of changes to rating models and processes that were not approved by the RBNZ.

Applying the last RBNZ approved methodologies to the affected exposures as at 30 September 2019 would have decreased Risk Weighted Assets (RWA) by NZ\$47 million (0.05%) in aggregate, which was not sufficient to affect the reported capital ratios.

Affected models and the initial dates of non-compliance are:

- Commercial Property Model Suite (Single Investment, Multi Investment, Hotel Investment, Special Purpose Asset Investment, Single Residential Development, Commercial Development, Englobo Land Pre Development) - 2011
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds) - 2009
- Project and Structured Finance - 2009
- Bank, Country & Sovereigns - 2008

The Bank's model compendium required under section 1.3B of BS2B was found to be non-compliant as it included unapproved model changes.

The first tranche of remediated models was submitted to the RBNZ for approval in August 2020, a second tranche was submitted in November 2020, with a third submission completed in April 2021. As at 30 April 2021, fourteen remediated models had been submitted to the RBNZ for approval, with the three remaining models expected to be submitted before the end of 2021.

Other matters relevant to the conditions of registration

There are other matters currently under review where there may be more than one valid interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation the Bank has applied, where appropriate it has sought guidance from, and will be liaising with, the RBNZ on these matters.

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group is included in Note 13 commitments and contingent liabilities.

REGISTERED BANK DISCLOSURES

Credit rating

As at 7 May 2021, the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars.

The Bank's credit ratings are:

Rating agency	Credit rating	Qualification
S&P Global Ratings	AA-	Outlook Negative
Fitch Ratings	A+	Outlook Stable
Moody's Investors Service	A1	Outlook Stable

Other material matters

RBNZ review of capital requirements

Between May 2017 and December 2019, the RBNZ conducted a comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks. The RBNZ's final decisions on the capital review as they relate to the Bank are set out below. In response to the COVID-19 pandemic, the RBNZ delayed the start date for the increased capital requirements to support credit availability. The new regime is expected to be implemented in stages from 1 July 2021.

- The Banking Group's total capital requirement will increase to 18% of RWA, including tier 1 capital of at least 16% of RWA. Up to 2.5% of the tier 1 capital requirement can be made up of additional tier 1 (AT1) capital, with the remainder of the tier 1 requirement made up of common equity tier 1 (CET1) capital. The increased capital ratios requirement will be implemented progressively from 1 July 2022 to 1 July 2028. AT1 capital must consist of perpetual preference shares, which may be redeemable. The total capital requirement can also include tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The tier 1 capital requirement will include a CET1 prudential capital buffer of 9% of RWA. This will include: a 2% domestic, systemically important bank capital buffer; a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and a 5.5% capital conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at 31 March 2021, the Bank had approximately NZ\$2,741 million of AT1 instruments that will progressively lose eligible regulatory capital treatment over a seven year transition period from 1 July 2021 to 1 July 2028.
- As an internal ratings based approach accredited bank, the Banking Group's RWA outcomes will be increased to approximately 90% of what would be calculated under the standardised approach. This will be achieved by applying an 85% output floor from 1 January 2022, and increasing the credit RWA scalar from 1.06 to 1.20 from 1 October 2022.
- The Banking Group will be required to report RWA, and resulting capital ratios, using both the internal models and the standardised approaches from 1 January 2022.

The RBNZ's reforms will result in a material increase in the level of capital that the Banking Group is required to hold, although the amount of the increase is currently uncertain. The reforms could have a material impact on the Banking Group and its business, including on its capital allocation and business planning.

Since 30 September 2018, CET1 capital has increased by NZ\$3.8 billion to NZ\$12.9 billion at 31 March 2021 and total capital has increased by NZ\$3.8 billion to NZ\$15.7 billion, in preparation for these changes and due to the RBNZ's COVID-19 related dividend restrictions.

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

As at 31 March 2021	NZ\$m
Total interest earning and discount bearing assets	166,477
Total interest and discount bearing liabilities	133,037
Total amounts due from related entities	4,417
Total amounts due to related entities	6,514

Assets charged as security for liabilities

These amounts exclude the amounts disclosed as collateral paid on the balance sheet that relate to derivative liabilities. The terms and conditions of the collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Bank's covered bond programme.

The carrying amounts of assets pledged as security are as follows:

As at 31 March 2021	NZ\$m
Securities sold under agreements to repurchase	1,113
Residential mortgages pledged as security for covered bonds	11,696

Additional information on the income statement

The amounts of net trading gains or losses and other fair value adjustments are included in Note 2 other operating income. The Banking Group does not have any loans and advances designated at fair value through profit or loss. Other operating income for the purposes of the Order comprises net fee and commission income, and all other items of other income (all in Note 2 other operating income).

REGISTERED BANK DISCLOSURES

Additional information on concentrations of credit risk

Analysis of financial assets by industry is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC), except that Agriculture is shown separately as required by the Order.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances NZ\$m	Other financial assets NZ\$m	Off-balance sheet credit related commitments NZ\$m	Total NZ\$m
As at 31 March 2021				
New Zealand residents				
Agriculture	16,743	57	1,107	17,907
Forestry and fishing, agriculture services	652	6	145	803
Manufacturing	2,437	167	2,138	4,742
Electricity, gas, water and waste services	1,066	486	1,838	3,390
Construction	1,168	16	864	2,048
Wholesale trade	1,207	86	1,790	3,083
Retail trade and accommodation	2,380	22	865	3,267
Transport, postal and warehousing	816	131	712	1,659
Finance and insurance services	901	8,705	1,831	11,437
Public administration and safety ¹	315	14,506	836	15,657
Rental, hiring & real estate services	37,195	1,360	2,324	40,879
Professional, scientific, technical, administrative and support services	872	8	458	1,338
Households	68,042	165	13,680	81,887
All other New Zealand residents ²	1,985	112	1,898	3,995
Subtotal	135,779	25,827	30,486	192,092
Overseas				
Finance and insurance services	123	15,907	106	16,136
Households	1,185	3	-	1,188
All other non-NZ residents	673	14	-	687
Subtotal	1,981	15,924	106	18,011
Gross subtotal	137,760	41,751	30,592	210,103
Allowance for ECL	(617)	-	(144)	(761)
Subtotal	137,143	41,751	30,448	209,342
Unearned income	(23)	-	-	(23)
Capitalised brokerage and other origination costs	368	-	-	368
Maximum exposure to credit risk	137,488	41,751	30,448	209,687

¹ Public administration and safety includes exposures to local government administration and central government administration, defence and public safety.

² Other includes exposures to mining, information media and telecommunications, education and training, health care and social assistance and arts, recreation and other services.

Additional information on concentrations of funding

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one NZSIOC.

As at 31 March 2021	Note	NZ\$m
Funding composition		
Customer deposits	8	122,786
<i>Wholesale funding</i>		
Debt issuances		20,752
Certificates of deposit and commercial paper		4,950
Other borrowings		1,124
Total wholesale funding		26,826
Total funding		149,612
 Customer deposits by industry - New Zealand residents		
Agriculture, forestry and fishing		4,264
Manufacturing		2,764
Construction		2,951
Wholesale trade		2,487
Retail trade and accommodation		2,287
Financial and insurance services		12,958
Rental, hiring and real estate services		4,365
Professional, scientific, technical, administrative and support services		6,331
Public administration and safety		1,916
Arts, recreation and other services		2,179
Households		65,697
All other New Zealand residents ¹		5,072
		113,271
Customer deposits by industry - overseas		
Households		8,803
All other non-NZ residents		712
		9,515
Total customer deposits		122,786
Wholesale funding (financial and insurance services industry)		
New Zealand		6,294
Overseas		20,532
Total wholesale funding		26,826
Total funding		149,612
 Concentrations of funding by geography		
New Zealand		119,565
Australia		1,171
United States		11,836
Europe		10,216
Other countries		6,824
Total funding		149,612

¹ Other includes mining; electricity, gas, water and waste services; transport, postal and warehousing; information media and telecommunications; education and training; health care and social assistance.

REGISTERED BANK DISCLOSURES

Additional information on interest rate sensitivity

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

As at 31 March 2021	Total NZ\$m	Up to 3 months NZ\$m	Over 3 to 6 months NZ\$m	Over 6 to 12 months NZ\$m	Over 1 to 2 years NZ\$m	Over 2 years NZ\$m	Not bearing interest ¹ NZ\$m
Assets							
Cash and cash equivalents	5,579	5,327	-	-	-	-	252
Settlement balances receivable	447	-	-	-	-	-	447
Collateral paid	1,380	1,380	-	-	-	-	-
Trading securities	9,700	1,331	133	175	782	7,279	-
Derivative financial instruments	12,259	-	-	-	-	-	12,259
Investment securities	12,046	439	-	486	595	10,525	1
Net loans and advances	137,488	64,818	19,632	33,651	15,310	4,614	(537)
Other financial assets	551	-	-	-	-	-	551
Total financial assets	179,450	73,295	19,765	34,312	16,687	22,418	12,973
Liabilities							
Settlement balances payable	2,874	1,630	-	-	-	-	1,244
Collateral received	1,202	1,202	-	-	-	-	-
Deposits and other borrowings	128,860	83,996	13,872	7,247	2,397	1,066	20,282
Derivative financial instruments	11,111	-	-	-	-	-	11,111
Debt issuances	20,752	3,568	2,277	3,102	1,350	10,455	-
Lease liabilities	277	12	12	23	86	144	-
Other financial liabilities	869	598	-	-	-	-	271
Total financial liabilities	165,945	91,006	16,161	10,372	3,833	11,665	32,908
Hedging instruments	-	63,675	(65,857)	2,054	(3,210)	3,338	-
Interest sensitivity gap	13,505	45,964	(62,253)	25,994	9,644	14,091	(19,935)

¹ Excludes non-coupon bearing discount financial assets and financial liabilities which are shown as repricing on their maturity date.

Additional information on liquidity risk

Maturity analysis of financial liabilities

The table below provides residual contractual maturity analysis of financial liabilities at 31 March 2021 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

As at 31 March 2021	On demand NZ\$m	Less than 3 months NZ\$m	3 to 12 months NZ\$m	1 to 5 years NZ\$m	After 5 years NZ\$m	Total NZ\$m
Settlement balances payable	2,510	365	-	-	-	2,875
Collateral received	-	1,202	-	-	-	1,202
Deposits and other borrowings	79,522	24,304	21,978	3,659	-	129,463
Derivative financial liabilities (trading)	-	8,971	-	-	-	8,971
Debt issuances ¹	-	1,025	5,431	10,481	4,577	21,514
Lease liabilities	-	13	39	169	81	302
Other financial liabilities	-	42	7	226	486	761
Derivative financial instruments (balance sheet management)						
- gross inflows	-	1,367	2,900	3,981	300	8,548
- gross outflows	-	(1,388)	(2,924)	(4,106)	(266)	(8,684)

¹ Any callable wholesale debt instruments have been included at their next call date.

At 31 March 2021, NZ\$10 million of the Banking Group's NZ\$14 million of non-credit related commitments and all NZ\$30,592 million of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which the Banking Group may be required to pay.

Liquidity portfolio

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

As at 31 March 2021	NZ\$m
Cash and balances with central banks	4,939
Certificates of deposit	380
Central and local government bonds	11,997
Government treasury bills	329
Other bonds	7,853
Total liquidity portfolio	25,498

Assets held in the Banking Group's liquidity portfolio include short term cash held with the RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated New Zealand domestic corporates. These assets would be accepted as collateral by the RBNZ in repurchase transactions. At 31 March 2021, the Banking Group would be eligible to enter into repurchase transactions with a value of NZ\$20,559 million. The Bank also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ\$8,629 million at 31 March 2021.

Reconciliation of mortgage related amounts

As at 31 March 2021	Note	NZ\$m
Term loans - housing ¹	5	95,081
Less: fair value hedging adjustment		(3)
Less: housing loans made to corporate customers		(1,682)
Add: unsettled re-purchases of mortgages from the NZ Branch		3
On-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	93,399
Add: off-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	8,925
Total residential mortgage exposures subject to the IRB approach (per LVR analysis)	B4	102,324

¹ Term loans – housing includes loans secured over residential property for owner-occupier, residential property investment and business purposes.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY

This section should be read in conjunction with the estimates, assumptions and judgements relating to COVID-19 and ECL included in Note 1, Note 6 and Note 11 to the financial statements.

Movements in components of loss allowance – total

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - total					
As at 1 October 2020	162	347	79	106	694
Transfer between stages	21	(20)	(2)	1	-
New and increased provisions (net of collective provision releases)	(33)	1	(15)	38	(9)
Write-backs	-	-	-	(36)	(36)
Recoveries of amounts previously written off	-	-	-	(10)	(10)
Credit impairment charge	(12)	(19)	(17)	(7)	(55)
Bad debts written-off (excluding recoveries)	-	-	-	(28)	(28)
Add back recoveries of amounts previously written off	-	-	-	10	10
Discount unwind	-	-	-	(4)	(4)
As at 31 March 2021	150	328	62	77	617

Off-balance sheet credit related commitments - total

As at 1 October 2020	79	55	3	22	159
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(11)	(1)	-	(3)	(15)
Credit impairment charge	(8)	(4)	-	(3)	(15)
As at 31 March 2021	71	51	3	19	144

Impacts of changes in gross financial assets on loss allowances - total

Gross loans and advances - total

As at 1 October 2020	120,110	11,820	808	361	133,099
Net transfers in to each stage	3,150	147	35	8	3,340
Amounts drawn from new or existing facilities	22,623	535	61	62	23,281
Additions	25,773	682	96	70	26,621
Net transfers out of each stage	(189)	(3,096)	(55)	-	(3,340)
Amounts repaid	(16,622)	(1,716)	(166)	(88)	(18,592)
Deletions	(16,811)	(4,812)	(221)	(88)	(21,932)
Amounts written off	-	-	-	(28)	(28)
As at 31 March 2021	129,072	7,690	683	315	137,760
Loss allowance as at 31 March 2021	150	328	62	77	617

Off-balance sheet credit related commitments - total

As at 1 October 2020	29,501	1,455	19	41	31,016
Net transfers in to each stage	15	121	7	1	144
New and increased facilities and drawn amounts repaid	4,648	173	9	3	4,833
Additions	4,663	294	16	4	4,977
Net transfers out of each stage	(129)	(15)	-	-	(144)
Reduced facilities and amounts drawn	(5,003)	(240)	(4)	(10)	(5,257)
Deletions	(5,132)	(255)	(4)	(10)	(5,401)
As at 31 March 2021	29,032	1,494	31	35	30,592
Loss allowance as at 31 March 2021	71	51	3	19	144

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances are 0.45% of gross balances as at 31 March 2021, down from 0.52% as at 30 September 2020. The NZ\$92 million (10.8%) decrease in loss allowances was driven by a decrease in the proportion of gross balances in Stage 2 and Stage 3, and changes in the forward looking economic scenarios as described in Note 6 to the financial statements.

Movements in components of loss allowance – residential mortgages

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - residential mortgages					
As at 1 October 2020 ¹	20	63	29	8	120
Transfer between stages	13	(12)	(1)	-	-
New and increased provisions (net of collective provision releases)	(14)	(4)	(15)	3	(30)
Write-backs	-	-	-	(3)	(3)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge	(1)	(16)	(16)	-	(33)
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 31 March 2021	19	47	13	8	87

Off-balance sheet credit related commitments - residential mortgages

As at 1 October 2020	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 31 March 2021	-	-	-	-	-

Impacts of changes in gross financial assets on loss allowances - residential mortgages

Gross loans and advances - residential mortgages

As at 1 October 2020	81,057	5,859	512	24	87,452
Net transfers in to each stage	3,150	-	-	1	3,151
Amounts drawn from new or existing facilities	17,147	254	5	8	17,414
Additions	20,297	254	5	9	20,565
Net transfers out of each stage	-	(3,096)	(55)	-	(3,151)
Amounts repaid	(10,633)	(742)	(77)	(15)	(11,467)
Deletions	(10,633)	(3,838)	(132)	(15)	(14,618)
Amounts written off	-	-	-	-	-
As at 31 March 2021	90,721	2,275	385	18	93,399
Loss allowance as at 31 March 2021	19	47	13	8	87

Off-balance sheet credit related commitments - residential mortgages

As at 1 October 2020	8,793	73	-	-	8,866
Net transfers in to each stage	15	-	-	-	15
New and increased facilities and drawn amounts repaid	1,348	6	1	-	1,355
Additions	1,363	6	1	-	1,370
Net transfers out of each stage	-	(15)	-	-	(15)
Reduced facilities and amounts drawn	(1,285)	(11)	-	-	(1,296)
Deletions	(1,285)	(26)	-	-	(1,311)
Amounts written off	-	-	-	-	-
As at 31 March 2021	8,871	53	1	-	8,925
Loss allowance as at 31 March 2021	-	-	-	-	-

1 Amounts have been updated to reclassify a total net NZ\$17 million relating to residential mortgages previously included in corporate.

Explanation of how changes in the gross carrying amounts of residential mortgages contributed to changes in loss allowance

While gross balances have increased, there has been a decrease in the proportion of gross balances in Stage 2 and Stage 3. The NZ\$33 million (27.3%) decrease in loss allowances on residential mortgage exposures is primarily driven by changes in the forward looking economic scenarios as described in Note 6 to the financial statements. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 93% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80% (refer to page 40).

REGISTERED BANK DISCLOSURES

Movements in components of loss allowance – other retail exposures

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - other retail exposures					
As at 1 October 2020 ¹	11	60	26	8	105
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(6)	(1)	(7)	20	6
Write-backs	-	-	-	(3)	(3)
Recoveries of amounts previously written off	-	-	-	(9)	(9)
Credit impairment charge / (release)	(1)	(6)	(7)	8	(6)
Bad debts written-off (excluding recoveries)	-	-	-	(18)	(18)
Add back recoveries of amounts previously written off	-	-	-	9	9
Discount unwind	-	-	-	-	-
As at 31 March 2021	10	54	19	7	90

Off-balance sheet credit related commitments - other retail exposures

As at 1 October 2020	19	13	3	-	35
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(8)	1	(1)	-	(8)
Credit impairment charge	(5)	(2)	(1)	-	(8)
As at 31 March 2021	14	11	2	-	27

Impacts of changes in gross financial assets on loss allowances - other retail exposures

Gross loans and advances - other retail exposures

As at 1 October 2020 ²	2,570	165	49	11	2,795
Net transfers in to each stage	-	20	9	1	30
Amounts drawn from new or existing facilities	331	11	2	20	364
Additions	331	31	11	21	394
Net transfers out of each stage	(30)	-	-	-	(30)
Amounts repaid	(407)	(32)	(20)	(3)	(462)
Deletions	(437)	(32)	(20)	(3)	(492)
Amounts written off	-	-	-	(18)	(18)
As at 31 March 2021	2,464	164	40	11	2,679
Loss allowance as at 31 March 2021	10	54	19	7	90

Off-balance sheet credit related commitments - other retail exposures

As at 1 October 2020 ²	5,183	47	15	-	5,245
Net transfers in to each stage	-	13	2	-	15
New and increased facilities and drawn amounts repaid	139	4	2	-	145
Additions	139	17	4	-	160
Net transfers out of each stage	(15)	-	-	-	(15)
Reduced facilities and amounts drawn	(268)	(9)	(4)	-	(281)
Deletions	(283)	(9)	(4)	-	(296)
As at 31 March 2021	5,039	55	15	-	5,109
Loss allowance as at 31 March 2021	14	11	2	-	27

¹ Amounts have been updated to reclassify a total net NZ\$31 million relating to other retail exposures previously included in corporate.

² For consistency with capital adequacy classifications, amounts have been updated to reclassify NZ\$1,179 million of gross loans and advances previously included in corporate and NZ\$635 million of off balance sheet credit related commitments to corporate.

Explanation of how changes in the gross carrying amounts of other retail exposures contributed to changes in loss allowance

The NZ\$23 million (16.4%) decrease in loss allowances is primarily driven by changes in the forward looking economic scenarios as described in Note 6 to the financial statements.

Movements in components of loss allowance – corporate exposures¹

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - corporate exposures					
As at 1 October 2020 ²	131	224	24	90	469
Transfer between stages	3	(3)	(1)	1	-
New and increased provisions (net of collective provision releases)	(13)	6	7	15	15
Write-backs	-	-	-	(30)	(30)
Recoveries of amounts previously written off	-	-	-	(1)	(1)
Credit impairment charge	(10)	3	6	(15)	(16)
Bad debts written-off (excluding recoveries)	-	-	-	(10)	(10)
Add back recoveries of amounts previously written off	-	-	-	1	1
Discount unwind	-	-	-	(4)	(4)
As at 31 March 2021	121	227	30	62	440

Off-balance sheet credit related commitments - corporate exposures

As at 1 October 2020	60	42	-	22	124
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	(3)	(2)	1	(3)	(7)
Credit impairment charge	(3)	(2)	1	(3)	(7)
As at 31 March 2021	57	40	1	19	117

Impacts of changes in gross financial assets on loss allowances - corporate exposures

Gross loans and advances - corporate exposures

As at 1 October 2020 ³	36,483	5,796	247	326	42,852
Net transfers in to each stage	-	127	26	6	159
Amounts drawn from new or existing facilities	5,145	270	54	34	5,503
Additions	5,145	397	80	40	5,662
Net transfers out of each stage	(159)	-	-	-	(159)
Amounts repaid	(5,582)	(942)	(69)	(70)	(6,663)
Deletions	(5,741)	(942)	(69)	(70)	(6,822)
Amounts written off	-	-	-	(10)	(10)
As at 31 March 2021	35,887	5,251	258	286	41,682
Loss allowance as at 31 March 2021	121	227	30	62	440

Off-balance sheet credit related commitments - corporate exposures

As at 1 October 2020 ³	15,525	1,335	4	41	16,905
Net transfers in to each stage	-	108	5	1	114
New and increased facilities and drawn amounts repaid	3,161	163	6	3	3,333
Additions	3,161	271	11	4	3,447
Net transfers out of each stage	(114)	-	-	-	(114)
Reduced facilities and amounts drawn	(3,450)	(220)	-	(10)	(3,680)
Deletions	(3,564)	(220)	-	(10)	(3,794)
As at 31 March 2021	15,122	1,386	15	35	16,558
Loss allowance as at 31 March 2021	57	40	1	19	117

¹ Also includes all other non-retail exposure classes in net loans and advances and off balance sheet credit related commitments to reconcile to the respective totals for the Banking Group.

² Amounts have been updated to reclassify aggregate amounts of NZ\$17 million to residential mortgages and NZ\$31 million to other retail.

³ For consistency with capital adequacy classifications of other retail exposures, amounts have been updated to reclassify NZ\$1,179 million of gross loans and advances to other retail exposures and NZ\$635 million of off balance sheet credit related commitments from other retail exposures.

Explanation of how changes in the gross carrying amounts of corporate exposures contributed to changes in loss allowance

The NZ\$36 million (6.1%) decrease in loss allowances is primarily driven by small decrease in the proportion of gross balances in Stage 2 and changes in the forward looking economic scenarios as described in Note 6 to the financial statements.

REGISTERED BANK DISCLOSURES

Past due assets and other asset quality information

	Residential mortgages NZ\$m	Other retail exposures NZ\$m	Corporate exposures NZ\$m	Total NZ\$m
As at 31 March 2021				
Past due assets				
Less than 30 days past due	449	91	259	799
At least 30 days but less than 60 days past due	139	16	200	355
At least 60 days but less than 90 days past due	67	8	36	111
At least 90 days past due	347	26	15	388
Total past due but not individually impaired	1,002	141	510	1,653
Other asset quality information				
Undrawn facilities with impaired customers	-	-	35	35
Other assets under administration	3	1	-	4

The Banking Group does not have any loans and advances designated at fair value.

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS

RBNZ Basel III capital ratios

As at 31 March	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	2021	2020	2021	2020
Common equity tier 1 capital	4.5%	13.1%	11.1%	12.7%	10.7%
Tier 1 capital	6.0%	15.9%	13.9%	15.5%	13.5%
Total capital	8.0%	15.9%	13.9%	15.5%	13.5%
Buffer ratio	2.5%	7.9%	5.9%	n/a	n/a

Capital of the Banking Group

As at 31 March 2021	NZ\$m
Tier 1 capital	
<i>Common equity tier 1 (CET1) capital</i>	
Paid up ordinary shares issued by the Bank	11,588
Retained earnings (net of appropriations)	4,838
Accumulated other comprehensive income and other disclosed reserves	119
<i>Less deductions from common equity tier 1 capital</i>	
Goodwill and intangible assets, net of associated deferred tax liabilities	(3,088)
Deferred tax assets less deferred tax liabilities relating to temporary differences	(396)
Cash flow hedge reserve	(77)
Expected losses to the extent greater than total eligible allowances for impairment	(73)
Common equity tier 1 capital	12,911
<i>Additional tier 1 capital</i>	
Preference shares ¹	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN) ²	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN) ²	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2) ²	938
Retained earnings of the Bonus Bonds Scheme ³	102
<i>Less deductions from additional tier 1 capital</i>	
Surplus retained earnings of the Bonus Bonds Scheme ³	(91)
Additional tier 1 capital	2,752
Total tier 1 capital	15,663
Tier 2 capital	-
Total capital	15,663

1 Classified as equity on the balance sheet under NZ GAAP.

2 Classified as a liability on the balance sheet under NZ GAAP.

3 Bonus Bonds Scheme is not consolidated on the balance sheet under NZ GAAP but retained earnings are classified as AT1 capital for capital adequacy purposes as set out in BS2B.

Capital requirements of the Banking Group

As at 31 March 2021	Total exposures after credit risk mitigation NZ\$m	Risk weighted exposure or implied risk weighted exposure ¹ NZ\$m	Total capital requirement NZ\$m
Total credit risk	204,516	67,189	5,375
Operational risk	n/a	10,234	819
Market risk	n/a	5,671	454
Supervisory adjustment	n/a	15,387	1,231
Total	n/a	98,481	7,879

¹ The calculation of risk weighted credit exposures includes a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

Capital structure

Ordinary shares—common equity tier 1 capital

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

Preference shares—additional tier 1 capital

All preference shares were issued by the Bank to the Immediate Parent Company and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. The key terms of the preference shares are as follows:

Dividends are payable at the discretion of the directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year.

The preference shares are redeemable, subject to prior written approval of the RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares; or
- on any dividend payment date; or
- on any date if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

The preference shares may be redeemed for nil consideration should a non-viability trigger event occur.

The preference shares qualify as AT1 capital for RBNZ's capital adequacy purposes.

In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and ANZ capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.

Additional tier 1 (AT1) capital notes

AT1 capital notes are fully paid convertible non-cumulative perpetual subordinated notes. The AT1 capital notes rank equally with each other and with the Bank's preference shares. Holders of AT1 capital notes do not have any right to vote in general meetings of the Bank.

As at 31 March 2021, ANZ NZ CN carried a BBB- credit rating from S&P Global Ratings.

AT1 capital notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

Interest payments on the AT1 capital notes are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements).

Where specified, AT1 capital notes provide the Bank with an early redemption or conversion option on a specified date and in certain other circumstances (such as a tax or regulatory event). Early redemption is subject to RBNZ's, and in the case of ANZ NZ CN, APRA's prior written approval.

REGISTERED BANK DISCLOSURES

Each of the AT1 capital notes will immediately convert into a variable number of ordinary shares of the:

- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN and ANZ NZ ICN2); or
 - Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number (ANZ NZ CN)
- if:
- the Banking Group's, or in the case of the ANZ NZ CN the Overseas Banking Group's Level 2, common equity tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
 - RBNZ directs the Bank to convert or write-off the notes or a statutory manager is appointed to the Bank and decides that the Bank must convert or write-off the notes or, in the case of the ANZ NZ CN, APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable – known as a Non-Viability Trigger Event.

Where specified, AT1 capital notes mandatorily convert into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) (based on the net assets per share in the Bank's recently published Disclosure Statement) or the Ultimate Parent Bank (ANZ NZ CN) (based on the average market value of the shares immediately prior to conversion less a 1% discount):

- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

However, the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

The table below show the key details of the AT1 capital notes on issue at 31 March 2021:

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount	NZ\$500 million	NZ\$1,003 million	NZ\$938 million
Face value	NZ\$1	NZ\$100	NZ\$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Floating rate: (New Zealand 3 month Bank bill rate + 3.5%)	Floating rate: (New Zealand 6 month Bank Bill rate + 3.8%)	Floating rate: (New Zealand 6 month Bank Bill rate + 6.29%)
Issuer's early redemption or conversion option	n/a	24 March 2023	15 June 2026 and each 5th anniversary
Mandatory conversion date	25 May 2022	24 March 2025	n/a
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes

Reserves – common equity tier 1 capital

Accumulated other comprehensive income and other disclosed reserves includes the cash flow hedging reserve of NZ\$77 million and the investment securities revaluation reserve of NZ\$42 million as at 31 March 2021.

Retained earnings of the Bonus Bonds Scheme – additional tier 1 capital

The Bonus Bonds Scheme is consolidated for capital adequacy purposes, and its retained earnings are included in additional tier 1 capital less 8.5% of the consolidated risk-weighted assets that relate to the Bonus Bonds Scheme.

Credit risk subject to the Internal Ratings Based (IRB) approach

IRB credit exposures by exposure class and customer credit rating

	Probability of default %	Total value NZ\$m	Exposure at default NZ\$m	Exposure- weighted LGD used for the capital calculation %	Exposure- weighted risk weight %	Risk weighted assets NZ\$m	Minimum capital requirement NZ\$m
As at 31 March 2021							
Corporate							
0 - 2	0.05	68,818	6,071	62	36	2,301	184
3 - 4	0.31	43,059	22,380	37	41	9,648	772
5	1.00	13,923	11,367	33	58	7,022	562
6	2.26	4,099	3,678	32	75	2,906	232
7 - 8	17.49	1,820	1,521	40	177	2,852	228
Default	100.00	642	630	39	165	1,103	89
Total corporate exposures ¹	2.55	132,361	45,647	39	53	25,832	2,067
Sovereign							
0	0.01	27,287	16,670	5	1	230	18
1 - 8	0.47	92	87	5	6	5	1
Total sovereign exposures	0.01	27,379	16,757	5	1	235	19
Bank							
0	0.03	1	1	65	51	-	-
1	0.03	43,773	3,518	37	27	1,006	80
2 - 4	0.05	2,266,361	6,145	65	27	1,767	141
5 - 8	10.85	2	2	65	223	4	1
Total bank exposures	0.05	2,310,137	9,666	55	27	2,777	222
Residential mortgages							
0 - 3	0.20	34,587	34,972	12	5	2,023	162
4	0.45	42,630	42,772	20	16	7,341	587
5	0.90	21,038	21,124	24	32	7,262	581
6	1.95	3,426	3,430	26	60	2,197	176
7 - 8	4.68	235	235	26	91	228	18
Default	100.00	408	407	16	6	25	2
Total residential mortgages exposures	0.91	102,324	102,940	19	17	19,076	1,526
Other retail							
0 - 2	0.10	543	546	77	49	286	23
3 - 4	0.26	4,551	4,633	78	55	2,701	216
5	1.10	1,146	1,157	78	83	1,020	82
6	2.70	685	717	83	108	823	66
7 - 8	8.62	810	836	87	137	1,212	97
Default	100.00	53	52	81	44	25	1
Total other retail exposures	2.14	7,788	7,941	79	72	6,067	485
Total credit risk exposures subject to the IRB approach	1.25	2,579,989	182,951	27	28	53,987	4,319

¹ During the six months ended 31 March 2021, two immaterial issues impacting the calculation of RWA for corporate exposures were identified. They related to the tenor treatment for performance guarantee products (estimated impact +NZ\$106m RWA) and the measurement of security coverage for corporate customers with residential mortgages (estimated impact +NZ\$143m RWA). There is no impact on reported capital ratios and remediation is in progress.

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IRB credit exposures include the following undrawn commitments and other off-balance sheet amounts:

	Total value NZ\$m	Exposure at default NZ\$m
As at 31 March 2021		
Undrawn commitments and other off-balance sheet amounts excluding market related contracts		
Corporate	13,059	12,321
Sovereign	91	86
Bank	1,315	1,154
Residential mortgages	8,925	9,368
Other retail	5,109	5,199
Market related contracts		
Corporate	87,210	1,705
Sovereign	10,567	106
Bank	2,304,020	4,039
Residential mortgages	-	-
Other retail	-	-

Additional mortgage information

As required by RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off-balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which have been accepted by the customer.

	On-balance sheet NZ\$m	Off-balance sheet NZ\$m	Total NZ\$m
As at 31 March 2021			
LVR range			
Does not exceed 60%	45,957	6,261	52,218
Exceeds 60% and not 70%	19,631	1,218	20,849
Exceeds 70% and not 80%	21,841	1,063	22,904
Does not exceed 80%	87,429	8,542	95,971
Exceeds 80% and not 90%	4,299	148	4,447
Exceeds 90%	1,671	235	1,906
Total	93,399	8,925	102,324

Specialised lending subject to the slotting approach

	Total exposures after credit risk mitigation NZ\$m	Risk weight %	Risk weighted assets NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
As at 31 March 2021				
On-balance sheet exposures				
Strong	5,924	70	4,396	352
Good	5,175	90	4,937	395
Satisfactory	408	115	497	40
Weak	80	250	211	16
Default	13	-	-	-

	Exposure at default NZ\$m	Average risk weight %	Risk weighted assets NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
As at 31 March 2021				
Off-balance sheet exposures				
Undrawn commitments and other off-balance sheet exposures	1,397	86	1,277	102

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

Credit risk exposures subject to the standardised approach

As at 31 March 2021	Total exposure after credit risk mitigation NZ\$m	Average risk weight %	Risk weighted exposure NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
On-balance sheet exposures				
Cash and gold bullion	211	-	-	-
Sovereign and central banks	4,696	-	-	-
Multilateral development banks and other international organisations	-	-	-	-
Public sector entities	-	-	-	-
Banks	-	-	-	-
Corporate	1,215	7	94	8
Residential mortgages	-	-	-	-
Past due assets	-	-	-	-
Other assets	1,152	100	1,221	98

As at 31 March 2021	Total exposure or principal amount NZ\$m	Average credit conversion factor %	Credit equivalent amount NZ\$m	Average risk weight %	Risk weighted exposure NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
Off-balance sheet exposures						
Undrawn commitments and other off-balance sheet exposures	631	72	452	99	473	38
Market related contracts						
Foreign exchange contracts	-	n/a	-	-	-	-
Interest rate contracts	1,469,287	n/a	841	10	91	7
Other - OTC etc	-	n/a	-	-	-	-

Equity exposures

As at 31 March 2021	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-

Credit risk mitigation

Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

As at 31 March 2021	For portfolios subject to the standardised approach: total value of exposures covered by eligible financial collateral (after haircut) NZ\$m	For all portfolios: total value of exposures covered by guarantees or credit derivatives ¹ NZ\$m
Exposure class		
Sovereign	-	-
Bank	-	-
Corporate (including specialised lending)	-	833
Residential mortgage	-	-
Other	-	-

¹ Covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures.

REGISTERED BANK DISCLOSURES

Operational risk

As required by its conditions of registration, the Banking Group uses the standardised approach to the calculation of its operational risk capital requirement. As at 31 March 2021, the Banking Group had an implied risk weighted exposure of NZ\$10,234 million for operational risk and an operational risk capital requirement of NZ\$819 million.

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 31 March 2021.

	Implied risk weighted exposure		Aggregate capital charge	
	Period end NZ\$m	Peak NZ\$m	Period end NZ\$m	Peak NZ\$m
As at 31 March 2021				
Interest rate risk	5,598	11,377	448	910
Foreign currency risk	72	112	6	9
Equity risk	1	1	-	-

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration. Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk and software risk. As at 31 March 2021, the Banking Group's internal capital allocation for these other material risks is NZ\$274 million (March 2020: NZ\$343 million).

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios

As at 31 March	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2021	2020	2021	2020
Common equity tier 1 capital	12.4%	10.8%	12.2%	10.6%
Tier 1 capital	14.3%	12.5%	14.2%	12.6%
Total capital	18.3%	15.5%	18.6%	15.8%

The Ultimate Parent Bank and the Overseas Banking Group are required to hold minimum capital as determined by APRA, which is at least equal to that specified under the Basel III capital framework.

APRA has authorised the Ultimate Parent Bank and the Overseas Banking Group to use:

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. There are however small portfolios (mainly retail and local corporates in Pacific, and local corporates in Asia) where the Overseas Banking Group applies the standardised approach.
- the Advanced Measurement Approach (AMA) for the operational risk weighted asset equivalent.

The Overseas Banking Group exceeded the minimum capital requirements set by APRA as at 31 March 2021 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 31 March 2021. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 31 March 2021, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website [anz.com](https://www.anz.com).

Regulatory liquidity ratios

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank's liquid assets, adjusted for expected cash inflows and outflows during a 1-month or 1-week period of stress. It is expressed as a ratio over the bank's total funding. The Banking Group must maintain its 1-month and 1-week mismatch ratios above zero on a daily basis. The 1-month and 1-week mismatch ratios are averaged over the quarter.

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. From 2 April 2020, the minimum amount of core funding was lowered from 75% to 50% of a bank's total loans. The Banking Group must maintain its core funding ratio above the regulatory minimum on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	31 Mar 21	31 Dec 20
Quarterly average 1-week mismatch ratio	6.5%	9.2%
Quarterly average 1-month mismatch ratio	6.2%	9.1%
Quarterly average core funding ratio	90.8%	92.3%

B5. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit exposures to individual counterparties at the reporting date on the basis of actual exposures. Peak end-of-day aggregate credit exposures are measured on the basis of internal limits that were not materially exceeded between the reporting date for the previous disclosure statement and the reporting date for the Disclosure Statement.

The exposure information in the table below excludes exposures to:

- connected persons (i.e. other members of the Overseas Banking Group and Directors of the Bank);
- the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 31 Mar 21	Peak end of day over 6 months to 31 Mar 21
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	1	1
with a long-term credit rating of A- or A3 or above, or its equivalent	1	1
- 10% to less than 15% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1 capital	2	2
with a long-term credit rating of A- or A3 or above, or its equivalent	2	2
- 10% to less than 15% of CET1 capital	1	1
- 30% to less than 35% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

B6. INSURANCE BUSINESS

As at 31 March 2021, the Banking Group does not conduct any insurance business.

DIRECTORS' STATEMENT

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
- The Disclosure Statement is not false or misleading.

Over the six months ended 31 March 2021, after due enquiry, each Director believes that:

- ANZ Bank New Zealand Limited has complied in all material respects with each condition of registration that applied during that period except as noted on page 25¹;
 - Credit exposures to connected persons were not contrary to the interests of the Banking Group; and
 - ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.
1. In accordance with the Order, ANZ Bank New Zealand Limited has complied in all material respects with each of its conditions of registration that applied during the period if the RBNZ has not published any information about a breach on its website, and has not notified ANZ Bank New Zealand Limited of any material breach.

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 7 May 2021.

Antony Carter



Shayne Elliott



Alison Gerry



Rt Hon Sir John Key, GNZM AC



Mark Verbiest



Antonia Watson



Joan Withers



INDEPENDENT AUDITOR'S REVIEW REPORT



TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE HALF YEAR DISCLOSURE STATEMENT

REPORT ON THE INTERIM FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTIONS B2, B3, B5 AND B6

CONCLUSION

Based on our review of the interim financial statements and the registered bank disclosures (together referred to as 'the half year disclosure statement') of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) on pages 4 to 43, nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 4 to 22 do not present fairly in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*, in all material respects, the Banking Group's financial position as at 31 March 2021 and its financial performance and cash flows for the six month period ended on that date; and
- the registered bank disclosures in sections B2, B3, B5 and B6 disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order) respectively, do not fairly state, in all material respects, the matters to which they relate in accordance with those schedules.

We have completed a review of the accompanying half year disclosure statement which comprises:

- the interim financial statements formed of:
 - the consolidated balance sheet as at 31 March 2021;
 - the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the six month period then ended; and
 - notes, including a summary of significant accounting policies and other explanatory information.
- the registered bank disclosures prescribed in Schedules 5, 7, 13, 16 and 18 of the Order.

BASIS FOR CONCLUSION

A review of the half year disclosure statement in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance, agreed upon procedures and other assurance engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as reviewer of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

EMPHASIS OF MATTER – NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the half year disclosure statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to Capital adequacy.

Further details of the matters relating to capital adequacy are described below in our qualified review conclusion on the registered bank disclosures in section B4 relating to capital adequacy and regulatory liquidity ratios.

Our conclusion on the interim financial statements and registered bank disclosures in sections B2, B3, B5 and B6 is not modified in respect of these matters.

RESPONSIBILITIES OF THE DIRECTORS FOR THE INTERIM FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTIONS B1, B2, B3, B5 AND B6

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the interim financial statements and registered bank disclosures in accordance with IAS 34, NZ IAS 34 and Schedules 3, 5, 7, 13, 16 and 18 of the Order;
- implementing necessary internal controls to enable the preparation of interim financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REVIEW REPORT

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE INTERIM FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTIONS B2, B3, B5 AND B6

Our responsibility is to express a conclusion on the interim financial statements and registered bank disclosure statements in sections B2, B3, B5 and B6 based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to attention that causes us to believe that:

- the interim financial statements do not present fairly, in all material respects, the Banking Group's financial position as at 31 March 2021 and its financial performance and cash flows for the six month period ended on that date;
- the interim financial statements do not, in all material respects, comply with IAS 34 and NZ IAS 34; and
- the registered bank disclosures in sections B2, B3, B5 and B6 does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the interim financial statements and the registered bank disclosures in sections B2, B3, B5 and B6. This description forms part of our independent review report.

REPORT ON THE REGISTERED BANK DISCLOSURES IN SECTION B4 RELATING TO CAPITAL ADEQUACY AND REGULATORY LIQUIDITY RATIOS (SECTION B4)

QUALIFIED REVIEW CONCLUSION

We have reviewed the registered bank disclosures, as disclosed in section B4 of the half year disclosure statement for the six month period ended 31 March 2021, which are required to be disclosed in accordance with Schedule 11 of the Order.

Based on our review, with the exception of the matter described below, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy and Regulatory Liquidity Ratios, disclosed in section B4 of the half year disclosure statement, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

BASIS FOR QUALIFIED CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the 'Auditor's Responsibilities for the review of the registered bank disclosures in section B4' section of our report.

As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

As described in section B1, the Banking Group has identified that it was not compliant with Condition of Registration 1B in relation to the operation of versions of the following rating models and processes, which were not approved by the Reserve Bank of New Zealand (in some cases since 2008):

- Commercial Property Model Suite (Single Investment, Multi Investment, Hotel Investment, Special Purpose Asset Investment, Single Residential Development, Commercial Development, Englobo Land Pre Development);
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds);
- Project and Structured Finance; and
- Bank, Country and Sovereigns.

In this respect, the Capital Adequacy Ratios disclosed in section B4 of the half year disclosure statement have not been disclosed in accordance with Schedule 11 of the Order, with section B1 disclosing the Banking Group's calculation of the corresponding impact on risk weighted assets. The Banking Group is remediating these models and has submitted fourteen of the seventeen affected models to the Reserve Bank of New Zealand for approval.

The above matters do not affect the Regulatory Liquidity information, which is also disclosed in section B4.

RESPONSIBILITIES OF THE DIRECTORS FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors, on behalf of the Banking Group, are responsible for the preparation and fair presentation of the registered bank disclosures in section B4 of the half year disclosure statement in accordance with Schedule 11 of the Order.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE REGISTERED BANK DISCLOSURES IN SECTION B4

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the registered bank disclosures in section B4 is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the registered bank disclosures in section B4. This description forms part of our independent review report.

USE OF THIS INDEPENDENT REVIEW REPORT

This independent review report is made solely to the shareholder of the Banking Group. Our review work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our review work, this independent review report, or any of the opinions we have formed.



KPMG
Auckland

7 May 2021

ANZ BANK NEW ZEALAND LIMITED ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2020
NUMBER 94 | ISSUED NOVEMBER 2020



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ANNUAL REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2020

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Bank has agreed that the Annual Report of the Banking Group need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2020 and the audit report on those financial statements.

For and on behalf of the Board of Directors:



Rt Hon Sir John Key, GNZM AC
Chair
17 November 2020



Antonia Watson
Executive Director
17 November 2020

GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group, We or Our means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Holdings (New Zealand) Limited.

Ultimate Parent Bank means Australia and New Zealand Banking Group Limited.

Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

New Zealand business means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

NZ Branch means the New Zealand business of the Ultimate Parent Bank.

ANZ New Zealand means the New Zealand business of the Overseas Banking Group.

OnePath means OnePath Life (NZ) Limited.

UDC means UDC Finance Limited.

Registered Office is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

the Order means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

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FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2020 NZ\$m	2019 NZ\$m
Interest income		5,568	6,423
Interest expense		(2,306)	(3,179)
Net interest income	2	3,262	3,244
Other operating income	2	807	915
Net income from insurance business	2	-	27
Share of associates' profit	2	-	4
Operating income		4,069	4,190
Operating expenses	3	(1,752)	(1,608)
Profit before credit impairment and income tax		2,317	2,582
Credit impairment charge	12	(403)	(101)
Profit before income tax		1,914	2,481
Income tax expense	4	(541)	(662)
Profit for the year		1,373	1,819

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2020 NZ\$m	2019 NZ\$m
Profit for the year	1,373	1,819
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	(6)	(33)
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised gains / (losses) recognised directly in equity	122	(31)
Realised losses transferred to the income statement	12	14
Income tax attributable to the above items	(36)	15
Other comprehensive income after tax	92	(35)
Total comprehensive income for the year	1,465	1,784

BALANCE SHEET

As at 30 September	Note	2020 NZ\$m	2019 NZ\$m
Assets			
Cash and cash equivalents	7	8,248	2,363
Settlement balances receivable		378	193
Collateral paid		1,394	2,324
Trading securities	8	12,797	8,942
Derivative financial instruments	9	9,702	11,666
Investment securities	10	9,893	7,027
Net loans and advances	11	132,698	132,525
Deferred tax assets ¹	4	327	77
Goodwill and other intangible assets	19	3,092	3,276
Premises and equipment ¹		590	335
Other assets		625	688
Total assets		179,744	169,416
Liabilities			
Settlement balances payable		2,950	1,607
Collateral received		1,275	991
Deposits and other borrowings	13	125,061	113,427
Derivative financial instruments	9	8,252	11,042
Current tax liabilities		251	101
Payables and other liabilities ¹		1,115	1,159
Employee entitlements		143	138
Other provisions	20	389	314
Debt issuances	14	24,439	26,207
Total liabilities		163,875	154,986
Net assets		15,869	14,430
Equity			
Share capital	21	11,888	11,888
Reserves		118	21
Retained earnings ¹		3,863	2,521
Total equity		15,869	14,430

¹ On adoption of NZ IFRS 16 *Leases* on 1 October 2019, the Banking Group recognised right-of-use assets of NZ\$309 million presented within Premises and equipment and lease liabilities of NZ\$333 million presented within Payables and other liabilities. This resulted in a reduction to opening retained earnings of NZ\$17 million and an increase in deferred tax assets of NZ\$7 million. Comparative information has not been restated. Refer to Note 1 for further details.

For and on behalf of the Board of Directors:



Rt Hon Sir John Key, GNZM AC
Chair
17 November 2020



Antonia Watson
Executive Director
17 November 2020

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	Note	2020 NZ\$m	2019 NZ\$m
Profit after income tax		1,373	1,819
Adjustments to reconcile to net cash flows from operating activities:			
Depreciation and amortisation		158	81
Loss on sale and impairment of premises and equipment		5	10
Goodwill impairment		28	-
Net derivatives/foreign exchange adjustment		(1,044)	246
Proceeds from divestments net of intangibles disposed of, classified as investing activities		(533)	(646)
Other non-cash movements		20	(130)
<i>Net (increase)/decrease in operating assets:</i>			
Collateral paid		930	(405)
Trading securities		(3,855)	(918)
Net loans and advances		(173)	(6,059)
Other assets		(372)	1,136
<i>Net increase/(decrease) in operating liabilities:</i>			
Deposits and other borrowings		11,634	5,419
Settlement balances payable		1,343	(554)
Collateral received		284	146
Other liabilities		(112)	53
Total adjustments		8,313	(1,621)
Net cash flows from operating activities¹		9,686	198
Cash flows from investing activities			
Investment securities:			
Purchases		(5,569)	(2,347)
Proceeds from sale or maturity		2,790	1,963
Proceeds from divestments	26	659	747
Other assets		(64)	(88)
Net cash flows from investing activities		(2,184)	275
Cash flows from financing activities			
Debt issuances ²			
Issue proceeds		2,327	4,010
Redemptions		(3,885)	(3,909)
Repayment of lease liabilities ³		(50)	-
Dividends paid		(9)	(411)
Net cash flows from financing activities		(1,617)	(310)
Net change in cash and cash equivalents		5,885	163
Cash and cash equivalents at beginning of year		2,363	2,200
Cash and cash equivalents at end of year		8,248	2,363

¹ Net cash provided by operating activities includes income taxes paid of NZ\$691 million (2019: NZ\$780 million).

² Movement in debt issuances (Note 14 Debt Issuances) also includes a NZ\$557 million decrease (2019: NZ\$418 million increase) from the effect of foreign exchange rates, a NZ\$286 million increase (2019: NZ\$657 million increase) from changes in fair value hedging instruments and a NZ\$61 million increase (2019: NZ\$104 million decrease) of other changes.

³ Relates to repayments of lease liabilities which the Banking Group commenced recognising on 1 October 2019 following the adoption of NZ IFRS 16. Comparative information has not been restated.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ\$m	Investment securities revaluation reserve NZ\$m	Cash flow hedging reserve NZ\$m	Retained earnings NZ\$m	Total equity NZ\$m
As at 1 October 2018		11,888	11	22	1,188	13,109
Impact on transition to NZ IFRS 9 <i>Financial Instruments</i>		-	-	-	(52)	(52)
As at 1 October 2018 (adjusted)		11,888	11	22	1,136	13,057
Profit or loss		-	-	-	1,819	1,819
Unrealised losses recognised directly in equity		-	(24)	(7)	-	(31)
Realised losses transferred to the income statement		-	-	14	-	14
Actuarial loss on defined benefit schemes		-	-	-	(33)	(33)
Income tax credit / (expense) on items recognised directly in equity		-	7	(2)	10	15
Total comprehensive income for the year		-	(17)	5	1,796	1,784
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	-	-	-	(400)	(400)
Preference dividends paid	21	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(411)	(411)
As at 30 September 2019		11,888	(6)	27	2,521	14,430
As at 1 October 2019		11,888	(6)	27	2,521	14,430
Impact on transition to NZ IFRS 16 <i>Leases</i>	1	-	-	-	(17)	(17)
As at 1 October 2019 (adjusted)		11,888	(6)	27	2,504	14,413
Profit or loss		-	-	-	1,373	1,373
Unrealised gains recognised directly in equity		-	19	103	-	122
Realised losses transferred to the income statement		-	-	12	-	12
Actuarial loss on defined benefit schemes		-	-	-	(6)	(6)
Income tax credit / (expense) on items recognised directly in equity		-	(5)	(32)	1	(36)
Total comprehensive income for the year		-	14	83	1,368	1,465
Transactions with Immediate Parent Company in its capacity as owner:						
Preference dividends paid	21	-	-	-	(9)	(9)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(9)	(9)
As at 30 September 2020		11,888	8	110	3,863	15,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') for the year ended 30 September 2020. The Bank is incorporated and domiciled in New Zealand. The address of the Bank's registered office and its principal place of business is ANZ Centre, 23-29 Albert Street, Auckland, New Zealand.

On 17 November 2020, the Directors resolved to authorise the issue of these financial statements.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Banking Group's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Banking Group's business during the period – for example: business acquisitions or disposals (qualitative factor);
- the information relates to an aspect of the Banking Group's operations that is important to its future performance (qualitative factor); or
- the information is required under legislative requirements of the Financial Markets Conduct Act 2013 or by the Banking Group's principal regulator, RBNZ.

This section of the financial statements:

- outlines the basis upon which the Banking Group's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact the financial statements.

BASIS OF PREPARATION

These financial statements are general purpose (Tier 1) financial statements prepared by a 'for profit' entity, in accordance with the requirements of the Financial Markets Conduct Act 2013. These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice (NZ GAAP), as defined in the Financial Reporting Act 2013;
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities; and
- International Financial Reporting Standards (IFRS).

We present the financial statements of the Banking Group in New Zealand dollars, which is the Banking Group's functional and presentation currency. We have rounded values to the nearest million dollars (NZ\$m), unless otherwise stated.

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except for the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments;
- financial instruments measured at fair value through other comprehensive income; and
- financial instruments measured at fair value through profit and loss.

BASIS OF CONSOLIDATION

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the group when we determine that the Bank has control over the entity. Control exists when the Banking Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. We assess power by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity. We have eliminated, on consolidation, the effect of all transactions between entities in the Banking Group.

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as investment securities measured at fair value through other comprehensive income in the investment securities revaluation reserve in equity.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)



KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Banking Group's accounting policies, management has made a number of judgements and applied estimates and assumptions about past and future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within the relevant notes to the financial statements.

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted our customers, operations and the Banking Group's performance. The outbreak necessitated governments to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. It has affected different regions at different times and at varying degrees and there remains a risk of subsequent waves of infection. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, and subsequent recovery. This includes the impacts on capital markets and liquidity, credit quality, increasing unemployment, declines in consumer spending, reductions in production, and other restructuring activities; and
- the effectiveness of government and central bank measures to support businesses and consumers through this disruption and economic downturn.

The Banking Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 September 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Banking Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

NZ IFRS 16 LEASES (NZ IFRS 16)

NZ IFRS 16 became effective for the Banking Group from 1 October 2019 and replaced the previous standard NZ IAS 17 *Leases* (NZ IAS 17). NZ IFRS 16 primarily impacts the Banking Group's property and technology leases which were previously classified as operating leases. Under NZ IAS 17, operating leases were not recognised on the balance sheet and rent payments were expensed over the lease term.

Under NZ IFRS 16, the Banking Group recognises all leases (except for leases of low value assets and short term leases) on the balance sheet under a single accounting model. Accordingly, the Banking Group recognises its right to use an underlying leased asset over the lease term as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Banking Group recognises depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

As permitted by the standard, the Banking Group does not recognise ROU assets and lease liabilities for leases of low value items and short term leases (less than 12 months). Instead, the lease payments associated with these leases are recognised as operating expense in the income statement on a straight-line basis over the lease term.

The Banking Group has applied the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial leases was measured as if NZ IFRS 16 had always been applied to the leases. For all other leases, the initial ROU asset was measured as equal to the initial lease liability plus any future make good obligations associated with exiting the lease.

The implementation of NZ IFRS 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease.

Based on the modified retrospective transition approach, the Banking Group recognised lease liabilities of NZ\$333 million presented within Payables and other liabilities and ROU assets of NZ\$309 million presented within Premises and equipment. This resulted in a reduction to opening retained earnings of NZ\$17 million and an increase in deferred tax assets of NZ\$7 million as of 1 October 2019. Comparatives have not been restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

In addition, the Banking Group elected to apply the following practical expedients as permitted under the modified retrospective transition approach:

- Impairment of ROU assets at the transition date was assessed by relying on onerous lease provisions previously recognised as of 30 September 2019 under NZ IAS 17;
- Initial direct costs associated with entering leases prior to the transition date were excluded from the carrying value of ROU assets recognised at transition;
- No ROU assets or lease liabilities were recognised for certain leases with less than 12 months remaining as of the transition date; these leases were treated as short-term leases with all lease payments recognised in rent expense as incurred; and
- Hindsight was used to determine the lease term of contracts that contained options to extend the lease.

The following table reconciles the operating lease commitments disclosed under NZ IAS 17 as at 30 September 2019 to the opening lease liabilities recognised under NZ IFRS 16 as at 1 October 2019.

	NZ\$m
Operating lease commitments as at 30 September 2019	279
Increase in lease term for extension options	93
Total undiscounted lease payments	372
Effect of discounting at a weighted average incremental borrowing rate of 2.75%	(39)
Total lease liabilities under NZ IFRS 16	333

INTEREST RATE BENCHMARK REFORM

Background

Interbank offered rates (IBORs), such as the London Interbank Offered Rate (LIBOR), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBORs has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (RFRs) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

Accounting amendments

In response to the uncertainty about the long-term viability of these benchmark rates, and LIBOR in particular, the International Accounting Standards Board (IASB) has established a project to consider the financial reporting implications of the reform. The transition from IBORs is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, as well as fair value methodologies and disclosures.

In November 2019, the External Reporting Board (XRB) issued XRB amending standard *Interest Rate Benchmark Reform*, which amends certain existing hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. The Banking Group elected to early adopt the amendments from 1 October 2019 which have not had a significant impact on the Banking Group. These amendments address the accounting effects of uncertainty in the period leading up to the reform arising from the Banking Group's ability to satisfy the existing prospective hedge effectiveness requirements of NZ IAS 39 *Financial Instruments: Recognition and Measurement* (NZ IAS 39). This uncertainty arises as it is not known when the hedged items (such as debt issuances) and associated hedging instruments (such as interest rate swaps) will be changed to reference the RFRs, or if both the hedging item and the associated hedging instrument will move to the new rates at the same time. The Banking Group has applied this amendment to all hedge accounted relationships (cash flow or fair value hedges) where the reform gives rise to uncertainties about the timing or amount of IBOR based cash flows of the hedged item or hedging instrument.

In September 2020, the XRB issued *Interest Rate Benchmark Reform - Phase 2*, which is mandatory for the Banking Group for the 2022 financial year. This standard addresses issues that may affect the Banking Group at the point of transition from an existing IBOR rate to a RFR, including the effects of changes to contractual cash flows or hedging relationships. The standard includes amendments in respect of:

- *Modification of a financial asset or a financial liability measured at amortised cost*
IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Banking Group. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate. As a result, no immediate gain or loss is recognised. This applies when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.
- *Additional relief for hedging relationships*
The Standard also amends a number of existing hedge accounting requirements that will assist the Banking Group to maintain its existing hedge accounted relationships post IBOR transition. The Banking Group will continue to record any ongoing hedge ineffectiveness, including that generated by changes as a result of interest rate reform, within the income statement.

The Banking Group is in the process of assessing the impact of the new standard on its financial statements.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

Impact of IBOR reform

The Banking Group has exposure to IBORs through its issuance of debt, the structural interest rate risk position, products denominated in foreign currencies and associated hedging activities in our markets and treasury businesses within the Institutional and Other segments respectively.

The Banking Group has established a programme to manage the transition. The programme includes the assessment and actions necessary to accommodate the transition to RFRs as they apply to internal processes and systems including pricing, risk management, documentation and hedge arrangements. The programme includes management of the impact on customers.

Impact of IBOR reform on the Banking Group's hedging relationships

Certain IBORs are subject to replacement RFRs. The Banking Group has hedge accounting relationships referencing IBORs, with the most significant interest rate benchmarks for these hedging relationships being US dollar LIBOR, Euro Interbank Offered Rate (Euribor), Bank Bill Swap Rate (BBSW) and Bank Bill Market (BKBM).

Of these benchmarks the Banking Group expects BBSW, BKBM and Euribor to exist as benchmark rates for the foreseeable future and therefore does not believe its BBSW, BKBM or Euribor benchmark fair value or cash flow hedges to be directly impacted by IBOR reform.

The table below details the carrying values of the Banking Group's exposures designated in hedge accounting relationships that will be impacted by IBOR reform, principally US dollar LIBOR. The nominal value of the associated hedging instruments is also included:

			As at 30 September 2020
			US dollar LIBOR exposures
			NZ\$m
Hedged items			
Debt issuances			9,218
	Notional designated up to 31 December 2021 NZ\$m	Notional designated beyond 31 December 2021 NZ\$m	Total notional amount NZ\$m
Hedging Instruments			
Fair value hedges	2,659	6,078	8,737

As at 30 September 2020, the Banking Group also has Swiss franc LIBOR exposures designated in hedge accounting relationships of NZ\$1,031 million.

In addition to hedge accounted relationships that will be impacted by IBOR reform, the Banking Group has exposures to other financial instruments referencing an IBOR that are also subject to reform. The Banking Group is continuing to monitor market developments in relation to the transition to RFRs from IBORs and their impact on the Banking Group's financial assets and liabilities to ensure that there are no unexpected consequences or disruption from the transition.

NZ IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS (NZ IFRIC 23)

NZ IFRIC 23 became effective for the Banking Group from 1 October 2019. NZ IFRIC 23 clarifies application of recognition and measurement requirements in NZ IAS 12 *Income Taxes* where there is uncertainty over income tax treatments. As the Banking Group's existing policy aligned with the requirements of NZ IFRIC 23, it had no material impact on the Banking Group.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2020, and have not been applied by the Banking Group in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

NZ IFRS 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging both financial and non-financial risks. NZ IFRS 9 provides the Banking Group with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. The Banking Group continues to apply the hedge accounting requirements of NZ IAS 39.

REVISED CONCEPTUAL FRAMEWORK

In May 2018 the XRB issued a revised Conceptual Framework for Financial Reporting. The new framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally, it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework will apply to the Banking Group from 1 October 2020 and is not expected to have a material impact on the Banking Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING INCOME

	Note	2020 NZ\$m	2019 NZ\$m
Net interest income			
Interest income by type of financial asset			
Financial assets at amortised cost		5,277	6,062
Trading securities		148	203
Investment securities		143	157
Financial assets at fair value through profit or loss		-	1
Interest income		5,568	6,423
Interest expense by type of financial liability			
Financial liabilities at amortised cost		(2,272)	(3,134)
Financial liabilities designated at fair value through profit or loss		(34)	(45)
Interest expense		(2,306)	(3,179)
Net interest income		3,262	3,244
Other operating income			
(i) Fee and commission income			
Lending fees		33	33
Non-lending fees		673	796
Commissions		57	65
Funds management income		258	257
Fee and commission income		1,021	1,151
Fee and commission expense		(463)	(485)
Net fee and commission income		558	666
(ii) Other income			
Net foreign exchange earnings and other financial instruments income ¹		261	117
Sale of UDC	26	(32)	-
Sale of OnePath	26	-	66
Sale of investment in Paymark Limited (Paymark)	26	-	39
Other		20	27
Other income		249	249
Other operating income		807	915
Net income from insurance business		-	27
Share of associates' profit		-	4
Operating income		4,069	4,190

¹ Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cashflow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit or loss.

2. OPERATING INCOME (continued)



RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest income and expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, assets measured at fair value through other comprehensive income or designated at fair value through profit or loss in net interest income. For assets held at amortised cost we use the effective interest rate method to calculate amortised cost. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

We recognise fees and costs, which form an integral part of the financial instruments (for example, loan origination fees and costs), using the effective interest rate method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or financial liability.

OTHER OPERATING INCOME

Fee and commission income

We recognise fees or commissions:

- that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) when the significant act has been completed; and
- charged for providing ongoing services (for example, maintaining and administering existing facilities, funds management services) as income over the period the service is provided.

Net foreign exchange earnings and other financial instruments income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;
- the ineffective portions of fair value hedges and cash flow hedges;
- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading; and
- amounts released from the investment securities revaluation reserve in equity when a debt instrument classified as FVOCI is sold.

NET INCOME FROM INSURANCE BUSINESS

We recognise:

- premiums with a regular due date as income on an accruals basis;
- claims on an accruals basis once our liability to the policyholder has been confirmed under the terms of the contract; and
- change in life insurance contract asset, net of liability for reinsurance, under the Margin of Service (MoS) model.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates in the consolidated financial statements. Under the equity method, the Banking Group's share of the after tax results of associates is included in the income statement and the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. OPERATING EXPENSES

	Note	2020 NZ\$m	2019 NZ\$m
Personnel			
Salaries and related costs		886	858
Superannuation costs		29	29
Other		73	35
Personnel		988	922
Premises			
Rent		21	81
Depreciation		96	32
Other		40	40
Premises¹		157	153
Technology			
Depreciation and amortisation		62	48
Subscription licences and outsourced services		138	116
Other		39	41
Technology (excluding personnel)		239	205
Other			
Advertising and public relations		43	47
Amortisation of other intangible assets		-	1
Professional fees		58	64
Freight, stationery, postage and communication		41	44
Goodwill impairment	19	28	-
Charges from Ultimate Parent Bank		97	60
Other		101	112
Other		368	328
Operating expenses		1,752	1,608

¹ Following the adoption of NZ IFRS 16 on 1 October 2019, with the exception of low value leases and leases of less than 12 months, expenses associated with leases are shown as depreciation of the ROU asset and interest expense associated with the lease liability (comparatives not restated).



RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Banking Group over the period in which an asset is consumed or once a liability is created.

SALARIES AND RELATED COSTS – ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave, and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Banking Group expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Banking Group has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2020 NZ\$m	2019 NZ\$m
Profit before income tax	1,914	2,481
Prima facie income tax expense at 28%	536	695
Tax effect of permanent differences:		
Imputed and non-assessable dividends	-	(1)
Sale of UDC	9	-
Sale of OnePath and Paymark	-	(29)
Tax provisions no longer required	(3)	(4)
Non-assessable income and non-deductible expenditure	2	2
Subtotal	544	663
Income tax over provided in previous years	(3)	(1)
Income tax expense	541	662
Current tax expense	821	740
Adjustments recognised in the current year in relation to the current tax of prior years	(3)	(1)
Deferred tax income relating to the origination and reversal of temporary differences	(277)	(77)
Income tax expense	541	662
Effective tax rate	28.3%	26.7%



RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except when the tax relates to items recognised directly in equity and other comprehensive income, in which case we recognise the tax directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total dividend NZ\$m
Financial Year 2019		
Dividend paid in March 2019	6.3 cents	400
Financial Year 2020		
No dividends were paid during the year ended 30 September 2020	-	-

IMPUTATION CREDIT ACCOUNT

	2020 NZ\$m	2019 NZ\$m
Imputation credits available	6,443	5,660

The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the New Zealand resident imputation group and other companies in the Banking Group that are not in the New Zealand resident imputation group. The imputation credit balance available includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

6. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

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

Retail

Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.

Commercial

Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises, the agricultural business segment, government and government related entities.

Institutional

The Institutional division services governments, global institutional and corporate customers across three product sets: Transaction Banking, Corporate Finance and Markets.

- **Transaction Banking** provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- **Corporate Finance (previously Loans and Specialised Finance)** provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- **Markets** provide risk management services on foreign exchange, interest rates, credit, commodities and debt capital markets in addition to managing the Banking Group's interest rate exposure and liquidity position.

Other

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

6. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

	Retail		Commercial ¹		Institutional		Other		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
For the year ended 30 September	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Net interest income	1,812	1,798	1,073	1,057	345	344	32	45	3,262	3,244
Net fee and commission income										
- Lending fees	15	16	1	1	17	16	-	-	33	33
- Non-lending fees	610	714	10	16	53	62	-	4	673	796
- Commissions	57	65	-	-	-	-	-	-	57	65
- Funds management income	258	257	-	-	-	-	-	-	258	257
- Fee and commission expense	(463)	(485)	-	-	-	-	-	-	(463)	(485)
Net fee and commission income	477	567	11	17	70	78	-	4	558	666
Other income	13	7	-	-	308	172	(72)	70	249	249
Net income from insurance business	-	19	-	-	-	-	-	8	-	27
Share of associates' profits	-	4	-	-	-	-	-	-	-	4
Other operating income	490	597	11	17	378	250	(72)	82	807	946
Operating income	2,302	2,395	1,084	1,074	723	594	(40)	127	4,069	4,190
Operating expenses	(1,214)	(1,078)	(303)	(274)	(198)	(216)	(37)	(40)	(1,752)	(1,608)
Profit before credit impairment and income tax	1,088	1,317	781	800	525	378	(77)	87	2,317	2,582
Credit impairment charge	(145)	(47)	(223)	(47)	(35)	(7)	-	-	(403)	(101)
Profit before income tax	943	1,270	558	753	490	371	(77)	87	1,914	2,481
Income tax expense	(273)	(354)	(156)	(211)	(138)	(104)	26	7	(541)	(662)
Profit / (loss) after income tax	670	916	402	542	352	267	(51)	94	1,373	1,819
Financial position										
Goodwill	1,011	1,039	926	1,052	1,069	1,069	-	-	3,006	3,160
Net loans and advances	86,362	81,789	39,333	43,464	6,993	7,270	10	2	132,698	132,525
Customer deposits	79,867	73,866	18,437	16,138	22,559	19,232	-	-	120,863	109,236

¹ UDC was part of the Commercial segment until the sale on 1 September 2020, refer to Note 26 Divestments for further details.

OTHER SEGMENT

The Other segment profit after income tax comprises:

	2020 NZ\$m	2019 NZ\$m
Central functions	4	3
Technology and Group Centre ^{1,2,3}	(33)	215
Economic hedges ²	(22)	(43)
Revaluation of insurance policies from changes in interest rates ³	-	(81)
Total	(51)	94

¹ Technology and Group Centre's other income for the year ended 30 September 2020 includes the NZ\$32 million loss on sale of UDC (2019: NZ\$66 million gain on sale of OnePath and the NZ\$39 million gain on sale of Paymark) (Note 2 Operating Income).

² Amounts for the year ended 30 September 2020 include the transfer of NZ\$23 million of accumulated after tax unrealised losses on economic hedges of UDC loans and advances to Technology and Group Centre. These losses were transferred upon the sale of UDC.

³ Amounts for the year ended 30 September 2019 include the transfer of NZ\$86 million of accumulated after tax gains previously recognised in revaluation of insurance policies from changes in interest rates to Technology and Group Centre. These gains were transferred upon the sale of OnePath.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL ASSETS



CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under NZ IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows;
- FVOCI: financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- FVTPL: any other financial assets not falling into the categories above are measured at FVTPL.

Fair value option for financial assets

A financial asset may be irrevocably designated at FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

7. CASH AND CASH EQUIVALENTS

	2020 NZ\$m	2019 NZ\$m
Coins, notes and cash at bank	187	192
Securities purchased under agreements to resell in less than 3 months	782	297
Balances with central banks	7,108	1,448
Settlement balances receivable within 3 months	171	426
Cash and cash equivalents	8,248	2,363

8. TRADING SECURITIES

	2020 NZ\$m	2019 NZ\$m
Government securities ¹	11,251	7,667
Corporate and financial institution securities ¹	1,546	1,275
Trading securities	12,797	8,942

¹ In 2020, the Banking Group reclassified trading securities issued by development banks and supra-nationals from Corporate and financial institution securities to Government securities. Comparative information has been restated accordingly, with NZ\$3,313 million reclassified as Government securities from Corporate and financial institution securities.



RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any revaluation recognised in the profit or loss.



KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to measure the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets 2020 NZ\$m	Liabilities 2020 NZ\$m	Assets 2019 NZ\$m	Liabilities 2019 NZ\$m
Fair value				
Derivative financial instruments - held for trading	8,423	(6,887)	10,734	(9,755)
Derivative financial instruments - designated in hedging relationships	1,279	(1,365)	932	(1,287)
Derivative financial instruments	9,702	(8,252)	11,666	(11,042)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Banking Group's derivative financial instruments have been categorised as follows:

Trading	Derivatives held in order to: • meet customer needs for managing their own risks. • manage risk in the Banking Group that are not in a designated hedge accounting relationship. • undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in hedging relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • hedges of the Banking Group's exposures to interest rate risk and currency risk. • hedges of other exposures relating to non-trading positions.

TYPES

The Banking Group offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal amount at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which one party exchanges one series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Banking Group offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign exchange	Currencies at current or determined rates of exchange.
Interest rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa, and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Banking Group's derivative financial instruments are held for trading. The fair value of derivative financial instruments held for trading are:

	Assets 2020 NZ\$m	Liabilities 2020 NZ\$m	Assets 2019 NZ\$m	Liabilities 2019 NZ\$m
Fair value				
Interest rate contracts				
Forward rate agreements	7	(8)	6	(6)
Futures contracts	8	(4)	10	(10)
Swap agreements	5,926	(3,714)	6,059	(4,671)
Options purchased	3	(2)	3	-
Total	5,944	(3,728)	6,078	(4,687)
Foreign exchange contracts				
Spot and forward contracts	1,009	(955)	2,264	(1,785)
Swap agreements	1,432	(2,155)	2,340	(3,225)
Options purchased	26	-	35	(1)
Options sold	-	(27)	1	(35)
Total	2,467	(3,137)	4,640	(5,046)
Commodity contracts and credit default swaps	12	(22)	16	(22)
Derivative financial instruments - held for trading	8,423	(6,887)	10,734	(9,755)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group uses two types of hedge accounting relationships:

	Fair value hedge	Cash flow hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: - all changes in the fair value of the underlying item relating to the hedged risk; and - the change in the fair value of the derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.
Recognition of ineffective hedge portion	Recognised immediately in other operating income.	
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.

Under the policy choice provided by NZ IFRS 9, the Banking Group has continued to apply the hedge accounting requirements of NZ IAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair value of derivative financial instruments designated in hedging relationships are:

	2020			2019		
	Nominal amount NZ\$m	Assets NZ\$m	Liabilities NZ\$m	Nominal amount NZ\$m	Assets NZ\$m	Liabilities NZ\$m
Fair value hedges						
Interest rate swap agreements	27,905	644	(818)	25,956	365	(727)
Cash flow hedges						
Interest rate swap agreements	41,191	635	(547)	37,730	567	(560)
Derivative financial instruments - designated in hedging relationships	69,096	1,279	(1,365)	63,686	932	(1,287)

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2020 is:

	Average interest rate	Less than 3 months NZ\$m	3 to 12 months NZ\$m	1 to 5 years NZ\$m	After 5 years NZ\$m	Total NZ\$m
Nominal amount						
Fair value hedges						
Interest rate	1.54%	79	3,196	16,221	8,409	27,905
Cash flow hedges						
Interest rate	1.83%	5,195	12,890	21,477	1,629	41,191

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

	Average interest rate	Less than 3 months NZ\$m	3 to 12 months NZ\$m	1 to 5 years NZ\$m	After 5 years NZ\$m	Total NZ\$m
Nominal amount						
Fair value hedges						
Interest rate	1.88%	-	1,860	15,587	8,509	25,956
Cash flow hedges						
Interest rate	2.22%	531	3,010	30,561	3,628	37,730

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Ineffectiveness						Amount reclassified from the cash flow hedge reserve to profit and loss	
	Change in value of hedging instrument		Change in value of hedged item		Hedge ineffectiveness recognised in profit and loss			
	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m
Fair value hedges ¹								
Interest rate	217	459	(215)	(464)	2	(5)	-	-
Cash flow hedges ¹								
Interest rate	103	(6)	(103)	7	-	1	12	14

¹ All instruments are held within derivative financial instruments.

Hedge ineffectiveness recognised is classified within other operating income. Reclassification adjustments to the statement of comprehensive income are recognised within net interest income.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Banking Group's fair value hedges as at 30 September 2020 are as follows:

	Balance sheet presentation	Hedged risk	Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
			Assets NZ\$m	Liabilities NZ\$m	Assets NZ\$m	Liabilities NZ\$m
Fixed rate loans and advances	Net loans and advances	Interest rate	1,542	-	10	-
Fixed rate debt issuances	Debt issuances	Interest rate	-	(18,029)	-	(643)
Fixed rate investment securities (FVOCI) ¹	Investment securities	Interest rate	9,679	-	322	-
Total			11,221	(18,029)	332	(643)

Hedged items in relation to the Banking Group's fair value hedges as at 30 September 2019 are as follows:

	Balance sheet presentation	Hedged risk	Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
			Assets NZ\$m	Liabilities NZ\$m	Assets NZ\$m	Liabilities NZ\$m
Fixed rate loans and advances	Net loans and advances	Interest rate	1,122	-	-	-
Fixed rate debt issuances	Debt issuances	Interest rate	-	(18,784)	-	(357)
Fixed rate investment securities (FVOCI) ¹	Investment securities	Interest rate	6,745	-	259	-
Total			7,867	(18,784)	259	(357)

¹ The carrying amount of debt instruments at fair value through other comprehensive income does not include the fair value hedge adjustment since accounting for the hedge relationship results in the transfer of the hedge adjustment out of other comprehensive income to the income statement to match the profit or loss on the hedging instrument.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the balance sheet is NZ\$11 million (2019: less than NZ\$1 million).

Hedged items in relation to the Banking Group's cash flow hedges are as follows:

	Hedged risk	Continuing hedges		Discontinued hedges	
		2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m
Floating rate loans and advances	Interest rate	577	516	-	(1)
Floating rate customer deposits	Interest rate	(421)	(465)	(4)	(13)

All cash flow hedges relate to hedges of interest rate risk and the movements in the cash flow hedge reserve are shown in the statement of changes in equity on page 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)



RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired.
Impact on the income statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 21 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Banking Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.



KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to measure the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

10. INVESTMENT SECURITIES

	2020 NZ\$m	2019 NZ\$m
Investment securities measured at fair value through other comprehensive income		
Debt securities	9,892	7,026
Equity securities	1	1
Total	9,893	7,027

	Less than 3 months NZ\$m	3 to 12 months NZ\$m	1 to 5 years NZ\$m	After 5 years NZ\$m	No maturity NZ\$m	Total NZ\$m
As at 30 September 2020						
Government securities ¹	1,021	641	6,662	1,168	-	9,492
Corporate and financial institution securities ¹	3	113	284	-	-	400
Equity securities	-	-	-	-	1	1
Total	1,024	754	6,946	1,168	1	9,893

As at 30 September 2019						
Government securities ¹	162	391	4,732	1,360	-	6,645
Corporate and financial institution securities ¹	3	35	343	-	-	381
Equity securities	-	-	-	-	1	1
Total	165	426	5,075	1,360	1	7,027

¹ In 2020, the Banking Group reclassified investment securities issued by development banks and supra-nationals from Corporate and financial institution securities to Government securities. Comparative information has been restated accordingly, with NZ\$1,844 million reclassified as Government securities from Corporate and financial institution securities.



RECOGNITION AND MEASUREMENT

Investment securities are those financial assets in security form (that is, transferable debt or equity instruments) that are not held for trading purposes. By way of exception, bills of exchange (a form of security/transferable instrument) which are used to facilitate the Banking Group's customer lending activities are classified as loans and advances (rather than investment securities) to better reflect the substance of the arrangement.

Non-trading equity instruments may be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Assets disclosed as investment securities are subject to the general classification and measurement policy for financial assets outlined at the commencement of the Banking Group's Financial Asset disclosures on page 18.



KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to measure the fair value of assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for the Banking Group:

	Note	2020 NZ\$m	2019 NZ\$m
Overdrafts		659	927
Credit cards		1,300	1,569
Term loans - housing		89,258	84,007
Term loans - non-housing		41,882	44,586
Finance lease and hire purchase receivables		-	1,863
Subtotal		133,099	132,952
Unearned income		(26)	(237)
Capitalised brokerage/mortgage origination fees		319	307
Gross loans and advances		133,392	133,022
Allowance for expected credit losses	12	(694)	(497)
Net loans and advances		132,698	132,525
<i>Residual contractual maturity:</i>			
Within one year		35,158	27,816
More than one year		97,540	104,709
Net loans and advances		132,698	132,525

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ\$287 million as at 30 September 2020 (2019: NZ\$739 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.



RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Banking Group provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party.

The Banking Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Banking Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Banking Group's balance sheet, however if substantially all the risks and rewards are transferred, the Banking Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Banking Group derecognises the asset. If control over the asset is not lost, the Banking Group continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

Assets disclosed as net loans and advances are subject to the general classification and measurement policy for financial assets outlined on page 18. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policy outlined in Note 12.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

ALLOWANCE FOR EXPECTED CREDIT LOSSES – BALANCE SHEET

Net loans and advances – at amortised cost

Allowance for Expected Credit Losses (ECL) is included in net loans and advances.

	Stage 1	Stage 2	Stage 3		Total
	NZ\$m	NZ\$m	Collectively assessed NZ\$m	Individually assessed NZ\$m	NZ\$m
As at 1 October 2018	160	171	40	130	501
Transfer between stages	29	(40)	3	8	-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121	158
Write-backs	-	-	-	(48)	(48)
Bad debts written-off (excluding recoveries)	-	-	-	(106)	(106)
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	164	194	42	97	497
Transfer between stages	25	(30)	4	1	-
New and increased provisions (net of collective provision releases)	(2)	206	34	157	395
Write-backs	-	-	-	(34)	(34)
Bad debts written-off (excluding recoveries)	-	-	-	(92)	(92)
Discount unwind	-	-	-	(9)	(9)
Sale of UDC (refer to Note 26 Divestments)	(25)	(23)	(1)	(14)	(63)
As at 30 September 2020	162	347	79	106	694

Off-balance sheet credit related commitments – undrawn and contingent facilities

Allowance for ECL is included in other provisions.

As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
As at 30 September 2019	60	24	2	11	97
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	17	36	1	11	65
Sale of UDC (refer to Note 26 Divestments)	(1)	(2)	-	-	(3)
As at 30 September 2020	79	55	3	22	159

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances are 0.5% of gross balances as at 30 September 2020, up from 0.4% as at 30 September 2019. The NZ\$259 million (43.6%) increase in loss allowances was driven by an increase in the proportion of gross balances in Stage 2 and Stage 3, and changes in the forward looking economic scenarios and changes in probability weightings as described in the key judgements and estimates section below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

	2020 NZ\$m	2019 NZ\$m
New and increased provisions		
- Collectively assessed	291	32
- Individually assessed	169	140
Write-backs	(34)	(48)
Recoveries of amounts previously written-off	(23)	(23)
Total credit impairment charge	403	101

COVID-19 LOAN DEFERRAL AND RELIEF PACKAGES

Since March 2020, the Banking Group has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided has included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates. Refer to Key Judgements and Estimates in this note for details on the impact of deferrals where there has been a Significant Increase in Credit Risk (SICR).

Loan deferral and relief packages are considered to be a loan modification under NZ IFRS 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification). The table below shows the outstanding balance as at 30 September 2020 of all loans that have been modified (both substantial and non-substantial modifications):

Assistance package category	Total loans outstanding as at 30 September 2020 NZ\$m
Loan deferral package	
Retail	4,002
Commercial and other	208
Interest Only	
Retail	2,470
Commercial and other	534
Term extensions	
Retail	660
Commercial and other	71
Total	7,945
Retail	7,132
Commercial and other	813
Total	7,945

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)



RECOGNITION AND MEASUREMENT

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

The measurement of expected credit losses reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a SICR since origination, an allowance equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from default events that are possible within the next 12 months from the reporting date. For instruments with a remaining maturity of less than 12 months, expected credit losses are estimated based on default events that are possible over the remaining time to maturity.
- Stage 2: Where there has been a SICR since origination, an allowance equivalent to lifetime ECL is recognised reflecting expected credit losses resulting from all possible default events over the expected life of a financial instrument. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.
- Stage 3: Where there is objective evidence of impairment, an allowance equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

MEASUREMENT OF EXPECTED CREDIT LOSSES

ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- Probability of default (PD) – the estimate of the likelihood that a borrower will default over a given period;
- Exposure at default (EAD) – the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- Loss given default (LGD) – the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward looking information through the use of macro-economic variables.

EXPECTED LIFE

When estimating ECL for exposures in Stage 2 and 3, the Banking Group considers the expected lifetime over which it is exposed to credit risk.

For non-retail portfolios, the Banking Group uses the maximum contractual period as the expected lifetime for non-revolving credit facilities. For non-retail revolving credit facilities, such as corporate lines of credit, the expected life reflects the Banking Group's contractual right to withdraw a facility as part of a contractually agreed annual review, after taking into account the applicable notice period.

For retail portfolios, the expected lifetime is determined using behavioural term, taking into account expected repayment behaviour and substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Banking Group, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Banking Group's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the income statement.

MODIFIED FINANCIAL ASSETS

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)



RECOGNITION AND MEASUREMENT

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

Stage 2 assets are those that have experienced a SICR since origination. In determining what constitutes a SICR, the Banking Group considers both qualitative and quantitative information:

- **Internal credit rating grade**
For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination and is measured by application of thresholds.

For non-retail portfolios, a SICR is determined by comparing the Customer Credit Rating (CCR) applicable to a facility at reporting date to the CCR at origination of that facility. A CCR is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward looking information. CCRs are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

For retail portfolios, a SICR is determined, depending on the type of facility, by either comparing the scenario weighted lifetime probability of default at the reporting date to that at origination, or by reference to customer behavioural score thresholds. The scenario weighted lifetime probability of default may increase significantly if:
 - there has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
 - there has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.
- **Backstop criteria**
The Banking Group uses 30 days past due arrears as a backstop criteria for both non-retail and retail portfolios. For retail portfolios only, facilities are required to demonstrate three to six months of good payment behaviour prior to being allocated back to Stage 1.
- **COVID-19 initiatives**
For facilities subject to the COVID-19 payment deferral arrangements noted above, an assessment of SICR has been determined based on various measures of the customer's current financial position and earnings capacity from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Customers in higher risk categories, and those who have requested deferral extension are classified as having a SICR.

FORWARD LOOKING INFORMATION

Forward looking information is incorporated into both our assessment of whether a financial asset has experienced a SICR since its initial recognition and in our estimate of ECL. In applying forward looking information for estimating ECL, the Banking Group considers four probability-weighted forecast economic scenarios as follows:

- **Base case scenario**
The base case scenario is our view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs the Banking Group's Internal Capital Adequacy Assessment Process (ICAAP) which is the process the Banking Group applies in strategic and capital planning over a 3 year time horizon;
- **Upside and downside scenarios**
The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over the long term horizons; and
- **Severe downside scenario**
The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

The four scenarios are described in terms of macro-economic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the portfolio and country of the borrower. Examples of the variables include unemployment rates, GDP growth rates, house price indices, commercial property price indices and consumer price indices.

Probability weighting each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.

Where applicable, adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

**KEY JUDGEMENTS AND ESTIMATES**

In estimating collectively assessed ECL, the Banking Group makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Banking Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions in relation to the ECL model inputs and the interdependencies between those inputs, and highlights significant changes during the current period.

The judgements and associated assumptions have been made within the context of the impacts of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Banking Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement / assumption	Description	Considerations for the year ended 30 September 2020
Determining when a SICR has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Banking Group monitors the effectiveness of SICR criteria on an ongoing basis.	In response to the impacts of COVID-19, various packages, such as payment deferrals, have been offered to eligible retail and commercial customers. The Banking Group does not consider that when a customer is first provided assistance, all things being equal, that there has been a SICR and a consequent impact on ECL when assessing provisions. Subsequent to take-up, customers have been contacted to discuss available options once the packages reach their end date. This additional information on the customer's financial position and ability to recommence their loan repayments is used to assist in classification of customers into risk categories. Customers in high risk categories, and those who have requested a deferral extension, have been classified as having a SICR.
Measuring both 12-month and lifetime credit losses	The PD, LGD, and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	The PD, EAD and LGD models are subject to the Banking Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. There were no material changes to the models during the year ended 30 September 2020. There were no changes to behavioural lifetime estimates during the year ended 30 September 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)



KEY JUDGEMENTS AND ESTIMATES

Judgement / assumption	Description	Considerations for the year ended 30 September 2020
Base case economic forecast	The Banking Group derives a forward looking "base case" economic scenario which reflects our view of the most likely future macro-economic conditions.	There have been no changes to the types of forward looking variables (key economic drivers) used as model inputs in the current year. As at 30 September 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as payment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2020 are described below under the heading "Base case economic forecast assumptions".
Probability weighting of each scenario (base case, upside, downside and severe downside scenarios)^{1,2}	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. The Banking Group considers these weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Banking Group's credit portfolios in determining them. In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside and severe downside scenarios given the Banking Group's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised. The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for retail, commercial and agri banking.

1. The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.
2. The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

**KEY JUDGEMENTS AND ESTIMATES****Base case economic forecast assumptions**

The uncertain evolution of the COVID-19 pandemic increases the risk to the economic forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- the extent and duration of measures to stop or reduce the speed of the spread of COVID-19;
- the extent and duration of the economic downturn, along with the time required for economies to recover; and
- the effectiveness of government stimulus measures, in particular their impact on the magnitude of the economic downturn and the extent and duration of the recovery.

The economic drivers of the base case economic forecasts at 30 September 2020 are set out below. These reflect our view of the most likely future macro-economic conditions at 30 September 2020. For years beyond the near term forecasts below, the ECL models project future year economic conditions including an assumption to eventual reversion to mid-cycle economic conditions.

New Zealand	Forecast calendar year		
	2020	2021	2022
Gross domestic product (GDP)	-5.6%	2.0%	5.6%
Unemployment	5.7%	9.1%	6.5%
Residential property prices	-0.3%	0.9%	4.1%
Consumer price index (CPI)	1.6	1.0	1.2

The base case economic forecasts as at 30 September 2020 reflect a significant deterioration in current and expected economic conditions from the forecasts as at 30 September 2019 reflecting the emergence and ongoing impact of the COVID-19 pandemic.

Probability weightings

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

In addition to the base case forecast which reflects largely the negative economic consequences of COVID-19, greater weighting has been applied to the downside and severe downside scenarios given the Banking Group's assessment of downside risks.

The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Banking Group considers these weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Banking Group's credit portfolios in determining them. The average weightings applied are set out below:

	2020	2019
Base	50%	50%
Upside	8%	16%
Downside	32%	29%
Severe downside	10%	5%

ECL - Sensitivity analysis

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Banking Group's allowance for ECL. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future periods, ECL reported by the Banking Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 30 September 2020:

	ECL NZ\$m	Impact NZ\$m
If 1% of Stage 1 facilities were included in Stage 2	731	6
If 1% of Stage 2 facilities were included in Stage 1	724	(1)
100% upside scenario	461	(264)
100% base scenario	631	(94)
100% downside scenario	839	114
100% severe downside scenario	1,045	320

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL LIABILITIES



CLASSIFICATION AND MEASUREMENT

Financial liabilities

Financial liabilities are measured at amortised cost, or fair value through profit or loss (when they are held for trading). Additionally, financial liabilities can be designated at FVTPL where:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains one or more embedded derivatives unless:
 - the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or
 - the embedded derivative is closely related to the host financial liability.

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss.

13. DEPOSITS AND OTHER BORROWINGS

	Note	2020 NZ\$m	2019 NZ\$m
Term deposits		50,069	54,984
On demand and short term deposits		53,910	42,329
Deposits not bearing interest		16,884	11,795
UDC secured investments	17	-	128
Total customer deposits		120,863	109,236
Certificates of deposit		1,782	1,484
Commercial paper		1,748	2,461
Securities sold under repurchase agreements		646	203
Deposits from Immediate Parent Company and NZ Branch	27	22	43
Deposits and other borrowings		125,061	113,427
<i>Residual contractual maturity:</i>			
Within one year		121,421	109,696
More than one year		3,640	3,731
Deposits and other borrowings		125,061	113,427
<i>Carried on balance sheet at:</i>			
Amortised cost		123,313	110,966
Fair value through profit or loss (designated on initial recognition)		1,748	2,461
Deposits and other borrowings		125,061	113,427



RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

- are not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designated them as measured at fair value through profit or loss.

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for details.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Banking Group's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit or loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Banking Group. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the income statement.

14. DEBT ISSUANCES

The Banking Group uses a variety of funding programmes to issue unsubordinated debt (including senior debt and covered bonds) and subordinated debt. The difference between unsubordinated debt and subordinated debt is that holders of unsubordinated debt take priority over holders of subordinated debt owed by the relevant issuer and subordinated debt will be repaid by the relevant issuer only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2020 NZ\$m	2019 NZ\$m
Senior debt	17,476	19,307
Covered bonds	4,522	4,460
Total unsubordinated debt	21,998	23,767
Subordinated debt (Additional Tier 1 capital)	2,441	2,440
Total debt issued	24,439	26,207

TOTAL DEBT ISSUED BY CURRENCY

The table below shows the Banking Group's issued debt by currency of issue, which broadly represents the debt holders' base location.

	2020 NZ\$m	2019 NZ\$m
AUD Australian dollars	49	48
EUR Euro	8,332	8,200
NZD New Zealand dollars	4,921	6,160
CHF Swiss Francs	1,053	1,522
USD United States dollars	10,084	10,277
Total debt issued	24,439	26,207
<i>Residual contractual maturity:</i>		
Within one year	5,133	4,580
More than one year	19,306	21,627
Total debt issued	24,439	26,207

Covered bonds are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust (the Covered Bond Trust). The Covered Bond Trust is a member of the Banking Group, whereas the Covered Bond Guarantor is not a member of the Banking Group.

SUBORDINATED DEBT

Certain subordinated debt qualifies as regulatory capital for the Banking Group and is classified as Additional Tier 1 (AT1) capital for RBNZ's capital adequacy purposes depending on its term and conditions. The Banking Group's AT1 Capital, which is comprised of perpetual capital instruments, includes ANZ NZ Capital Notes (ANZ NZ CN), ANZ NZ Internal Capital Notes 1 (ANZ NZ ICN), and ANZ NZ Internal Capital Notes 2 (ANZ NZ ICN2).

AT1 CAPITAL

AT1 capital notes are fully paid convertible non-cumulative perpetual subordinated notes. The AT1 capital notes rank equally with each other and with the Bank's preference shares. Holders of AT1 capital notes do not have any right to vote in general meetings of the Bank.

As at 30 September 2020, ANZ NZ CN carried a BBB- credit rating from S&P Global Ratings.

AT1 capital notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

Interest payments on the AT1 capital notes are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements).

Where specified, AT1 capital notes provide the Bank with an early redemption or conversion option on a specified date and in certain other circumstances (such as a tax or regulatory event). Early redemption is subject to RBNZ's, and in the case of ANZ NZ CN, APRA's prior written approval.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. DEBT ISSUANCES (continued)

Each of the AT1 capital notes will immediately convert into a variable number of ordinary shares of the:

- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN and ANZ NZ ICN2); or
 - Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number (ANZ NZ CN)
- if:
- the Banking Group's, or in the case of the ANZ NZ CN the Overseas Banking Group's Level 2, common equity tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
 - RBNZ directs the Bank to convert or write-off the notes or a statutory manager is appointed to the Bank and decides that the Bank must convert or write-off the notes or, in the case of the ANZ NZ CN, APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable – known as a Non-Viability Trigger Event.

Where specified, AT1 capital notes mandatorily convert into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) (based on the net assets per share in the Bank's most recently published Disclosure Statement) or the Ultimate Parent Bank (ANZ NZ CN) (based on the average market value of the shares immediately prior to conversion less a 1% discount):

- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

However, the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

The table below shows the key details of the AT1 capital notes on issue at 30 September in both the current and the prior year:

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount	NZ\$500 million	NZ\$1,003 million	NZ\$938 million
Face value	NZ\$1	NZ\$100	NZ\$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Floating rate: (New Zealand 3 month Bank bill rate + 3.5%)	Floating rate: (New Zealand 6 month Bank Bill rate + 3.8%)	Floating rate: (New Zealand 6 month Bank Bill rate + 6.29%)
Issuer's early redemption or conversion option	n/a ¹	24 March 2023	15 June 2026 and each 5th anniversary
Mandatory conversion date	25 May 2022	24 March 2025	n/a
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value as at 30 September 2020 (net of issue costs)	NZ\$500 million	NZ\$1,003 million	NZ\$938 million

¹ On 2 April 2020, RBNZ announced that locally incorporated banks, including the Bank, should not redeem capital notes at this time. Accordingly, the Bank was not permitted to, and did not, redeem ANZ NZ CN on 25 May 2020 (the Optional Exchange Date). Further, the Bank did not exercise its option to convert ANZ NZ CN into ordinary shares of the Ultimate Parent Bank on the Optional Exchange Date.



RECOGNITION AND MEASUREMENT

Debt issuances are measured at amortised cost. Where the Banking Group enters into a fair value hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Event or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives arise because the amount of shares issued on conversion following any of those trigger events is subject to the maximum conversion number, however they have no value as of the reporting date given the remote nature of those triggering events.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Banking Group's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Banking Group's key material risks.

This note details the Banking Group's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks:

Key material financial risks	Key sections applicable to this risk
Overview	An overview of our Risk Management Framework
Credit risk The risk of financial loss resulting from: - a counterparty failing to fulfil its obligations; or - a decrease in credit quality of a counterparty resulting in financial loss. Credit risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	- Credit risk overview, management and control responsibilities - Maximum exposure to credit risk - Credit quality - Concentrations of credit risk - Collateral management
Market risk The risk to the Banking Group's earnings arising from: - changes in interest rates, foreign exchanges rates, credit spreads, volatility and correlations; or - fluctuations in bond, commodity or equity prices.	- Market risk overview, management and control responsibilities - Measurement of market risk - Traded and non-traded market risk - Foreign currency risk – structural exposure
Liquidity and funding risk The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: - repaying depositors or maturing wholesale debt; or - the Banking Group having insufficient capacity to fund increases in assets.	- Liquidity risk overview, management and control responsibilities - Key areas of measurement for liquidity risk - Liquidity portfolio management - Funding position - Residual contractual maturity analysis of the Banking Group's liabilities

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under NZ IFRS 7.

The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework (RMF). The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Banking Group including:

- the Risk Appetite Statement (RAS), which sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuit of its strategic objectives and business plan; and
- the Risk Management Strategy (RMS), which describes the Banking Group's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies, measures, evaluates, monitors, reports and controls or mitigates material risks.

The Banking Group, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At the Banking Group, risk is everyone's responsibility.

The Banking Group has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect the Banking Group's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

Internal Audit Function

Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. Operating under a Board approved Charter, the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the Chief Executive Officer and the external auditor. The Internal Audit Plan is developed using a risk based approach and is reviewed quarterly. The Audit Committee approves the plan.

All audit activities are conducted in accordance with local and international auditing standards, and the results of the activities are reported to the Audit Committee and management. These results influence the performance assessment of business heads. Furthermore, Internal Audit monitors the remediation of audit issues and reports the current status of any outstanding audits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Banking Group's major sources of income. As this activity is also a key material risk, the Banking Group dedicates considerable resources to its management. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from interbank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Banking Group when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Banking Group's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Banking Group can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover such factors as cash cover and sovereign backing. For retail and some small business lending, we group exposures into large homogeneous pools – and the LGD is assigned at the pool level.

Our specialist credit risk teams develop and validate the Banking Group's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, internal capital allocation, and credit provisioning.

All customers with whom the Banking Group has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Banking Group's internal CCR to manage the credit quality of financial assets. To enable wider comparisons, the Banking Group's CCRs are mapped to external rating agency scales as follows:

Credit quality description	Internal CCR	The Banking Group customer requirements	Moody's Rating	S&P Global Ratings
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7+ to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 – Caa	B – CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or 'the facility') is classified as defaulted.	n/a	n/a

15. FINANCIAL RISK MANAGEMENT (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

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

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

	Reported		Excluded ¹		Maximum exposure to credit risk	
	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m
On-balance sheet positions						
Net loans and advances	132,698	132,525	-	-	132,698	132,525
Other financial assets:						
Cash and cash equivalents	8,248	2,363	187	192	8,061	2,171
Settlement balances receivable	378	193	-	-	378	193
Collateral paid	1,394	2,324	-	-	1,394	2,324
Trading securities	12,797	8,942	-	-	12,797	8,942
Derivative financial instruments	9,702	11,666	-	-	9,702	11,666
Investment securities	9,893	7,027	-	-	9,893	7,027
Other financial assets ²	547	622	-	-	547	622
Total other financial assets	42,959	33,137	187	192	42,772	32,945
Subtotal	175,657	165,662	187	192	175,470	165,470
Off-balance sheet commitments						
Undrawn and contingent facilities ³	30,857	29,253	-	-	30,857	29,253
Total	206,514	194,915	187	192	206,327	194,723

¹ Bank notes and coins and cash at bank within cash and cash equivalents.

² Other financial assets mainly comprise accrued interest and acceptances.

³ Undrawn facilities and contingent facilities include guarantees, letters of credit and performance related contingencies, net of collectively assessed and individually assessed allowance for expected credit losses.

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15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

An analysis of the Banking Group's credit risk exposure is presented in the following tables based on the Banking Group's internal rating by stage without taking account of the effects of any collateral or other credit enhancements.

Net loans and advances

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
As at 30 September 2020					
Strong	98,259	5,508	-	-	103,767
Satisfactory	21,446	4,578	-	-	26,024
Weak	405	1,734	-	-	2,139
Defaulted	-	-	808	361	1,169
Subtotal	120,110	11,820	808	361	133,099
Allowance for ECL	(162)	(347)	(79)	(106)	(694)
Net loans and advances at amortised cost	119,948	11,473	729	255	132,405
Coverage ratio	0.13%	2.94%	9.78%	29.36%	0.52%
Unearned income					(26)
Capitalised brokerage/mortgage origination fees					319
Net carrying amount					132,698

As at 30 September 2019

Strong	95,589	2,270	-	-	97,859
Satisfactory	26,402	4,621	-	-	31,023
Weak	1,224	2,117	-	-	3,341
Defaulted	-	-	444	285	729
Subtotal	123,215	9,008	444	285	132,952
Allowance for ECL	(164)	(194)	(42)	(97)	(497)
Net loans and advances at amortised cost	123,051	8,814	402	188	132,455
Coverage ratio	0.13%	2.15%	9.46%	34.04%	0.37%
Unearned income					(237)
Capitalised brokerage/mortgage origination fees					307
Net carrying amount					132,525

Other financial assets

	2020 NZ\$m	2019 NZ\$m
Strong	42,275	32,342
Satisfactory	447	575
Weak	50	28
Defaulted	-	-
Total carrying amount	42,772	32,945

15. FINANCIAL RISK MANAGEMENT (continued)

Off-balance sheet commitments - undrawn and contingent facilities

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
As at 30 September 2020					
Strong	25,525	302	-	-	25,827
Satisfactory	3,949	974	-	-	4,923
Weak	27	179	-	-	206
Defaulted	-	-	19	41	60
Gross undrawn and contingent facilities	29,501	1,455	19	41	31,016
Allowance for ECL included in Other provisions (refer to Note 20)	(79)	(55)	(3)	(22)	(159)
Net undrawn and contingent facilities	29,422	1,400	16	19	30,857
Coverage ratio	0.27%	3.78%	15.79%	53.66%	0.51%
As at 30 September 2019					
Strong	23,296	59	-	-	23,355
Satisfactory	4,883	641	-	-	5,524
Weak	312	137	-	-	449
Defaulted	-	-	3	19	22
Gross undrawn and contingent facilities	28,491	837	3	19	29,350
Allowance for ECL included in Other provisions (refer to Note 20)	(60)	(24)	(2)	(11)	(97)
Net undrawn and contingent facilities	28,431	813	1	8	29,253
Coverage ratio	0.21%	2.87%	66.67%	57.89%	0.33%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Banking Group monitors its credit portfolio to manage risk concentration and rebalance the portfolio. The Banking Group also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

Analysis of financial assets by industry sector is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC), except that Agriculture is shown separately as required by the Order.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m
New Zealand residents								
Agriculture	17,049	17,855	70	84	862	1,021	17,981	18,960
Forestry and fishing, agriculture services	678	1,255	5	9	113	225	796	1,489
Manufacturing	2,407	2,682	161	378	2,350	2,004	4,918	5,064
Electricity, gas, water and waste services	1,098	1,414	567	514	1,991	1,834	3,656	3,762
Construction	1,150	1,832	26	32	955	1,039	2,131	2,903
Wholesale trade	1,243	1,488	69	94	1,797	1,681	3,109	3,263
Retail trade and accommodation	2,415	2,956	27	29	992	961	3,434	3,946
Transport, postal and warehousing	838	1,309	159	137	738	864	1,735	2,310
Finance and insurance services	948	816	11,139	6,203	1,800	1,627	13,887	8,646
Public administration and safety ¹	283	343	16,395	9,723	883	1,105	17,561	11,171
Rental, hiring & real estate services	35,529	33,340	1,270	1,212	2,314	3,112	39,113	37,664
Professional, scientific, technical, administrative and support services	923	1,126	7	11	545	631	1,475	1,768
Households	64,522	61,515	167	210	13,757	11,278	78,446	73,003
All other New Zealand residents ²	2,059	2,537	153	242	1,796	1,847	4,008	4,626
Subtotal	131,142	130,468	30,215	18,878	30,893	29,229	192,250	178,575
Overseas								
Finance and insurance services	127	148	12,540	14,030	123	121	12,790	14,299
Households	1,172	1,553	3	5	-	-	1,175	1,558
All other non-NZ residents	658	783	14	32	-	-	672	815
Subtotal	1,957	2,484	12,557	14,067	123	121	14,637	16,672
Gross total	133,099	132,952	42,772	32,945	31,016	29,350	206,887	195,247
Allowance for ECL	(694)	(497)	-	-	(159)	(97)	(853)	(594)
Subtotal	132,405	132,455	42,772	32,945	30,857	29,253	206,034	194,653
Unearned income	(26)	(237)	-	-	-	-	(26)	(237)
Capitalised brokerage / mortgage origination fees	319	307	-	-	-	-	319	307
Maximum exposure to credit risk	132,698	132,525	42,772	32,945	30,857	29,253	206,327	194,723

¹ Public administration and safety includes exposures to local government administration and central government administration, defence and public safety.

² Other includes exposures to mining, information media and telecommunications, education and training, health care and social assistance and arts, recreation and other services.

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations. Where there is sufficient collateral, an expected credit loss is not recognised. This is largely the case for certain lending products that are secured by corresponding investment for which margin loans are utilised and for reverse repurchase agreements. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables. During the period there was no change in our collateral policies.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans – housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans – business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, investment securities, derivatives and other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by the Banking Group when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent liabilities	Collateral for off-balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m
Net loans and advances	132,698	132,525	125,770	124,249	6,928	8,276
Other financial assets	42,772	32,945	2,761	1,857	40,011	31,088
Off-balance sheet positions	30,857	29,253	15,291	14,152	15,566	15,101
Total	206,327	194,723	143,822	140,258	62,505	54,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Banking Group's trading and balance sheet management activities and the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risk and compliance with market risk policies to the Bank's Asset & Liability Committee (ALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Banking Group level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded market risk	Non-traded market risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: • Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. • Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. • Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. • Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. • Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Banking Group's possible daily loss based on historical market movements.

The Banking Group's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR, and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using a one-day holding period. For stressed VaR we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

The Banking Group measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR for the relevant holding period.

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	2020				2019			
	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m
Traded value at risk 99% confidence								
Foreign exchange	0.7	2.0	0.2	0.7	0.5	1.0	0.2	0.5
Interest rate	6.1	8.7	1.0	3.2	1.4	2.5	0.6	1.2
Credit	1.2	1.6	0.4	0.8	0.6	0.7	0.3	0.4
Diversification benefit ¹	(1.3)	n/a	n/a	(0.9)	(0.7)	n/a	n/a	(0.8)
Total VaR	6.7	10.3	1.1	3.8	1.8	2.6	0.8	1.3

¹ The diversification benefit reflects risks that offset across categories. The high and low VaR figures reported for each factor did not necessarily occur on the same day as the high and low VaR reported for the Banking Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Banking Group's banking book, while ensuring the Banking Group maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Banking Group's future net interest income. This risk arises from two principal sources, namely 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. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the Banking Group.

	2020				2019			
	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m
Non-traded value at risk 99% confidence								
Total VaR	29.1	29.1	9.5	16.6	10.0	10.0	7.4	8.4

We undertake scenario analysis to stress test the impact of extreme events on the Banking Group's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2020	2019
Impact of 1% rate shock		
As at period end	-0.6%	0.2%
Maximum exposure	1.5%	1.0%
Minimum exposure	-0.6%	-0.7%
Average exposure (in absolute terms)	0.5%	0.3%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Where it is considered appropriate, the Banking Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily Australian Dollar, US Dollar and US Dollar correlated). The primary objective of hedging is to ensure that, if practical, the effect of changes in foreign exchange rates on the consolidated capital ratios are minimised.

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15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that the Banking Group is either:

- unable to meet its payment obligations (including repaying depositors or maturing wholesale debt) when they fall due; or
- does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.

Management of liquidity and funding is overseen by ALCO. The Banking Group's liquidity and funding risks are governed by a set of principles approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards and include:

- maintaining the ability to meet all payment obligations in the immediate term;
- ensuring that the Banking Group has the ability to meet 'survival horizons' under Banking Group specific and general market liquidity stress scenarios to meet cash flow obligations over the short to medium term;
- maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the liquidity and funding risk profile;
- ensuring the liquidity management framework is compatible with local regulatory requirements;
- preparing daily liquidity reports and scenario analysis to quantify the Banking Group's positions;
- targeting a diversified funding base to avoid undue concentrations by investor type, maturity, market source and currency;
- holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- establishing a detailed contingency plan to cover different liquidity crisis events.

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Supervision and regulation

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

Scenario modelling

A key component of the Banking Group's liquidity management framework is scenario modelling.

Potential severe liquidity crisis scenarios which model the behaviour of cash flows where there is a problem (real or perceived) may include, but are not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under these scenarios the Banking Group may have significant difficulty rolling over or replacing funding. The Banking Group's liquidity policy requires sufficient high quality liquid assets to be held to meet its liquidity needs for the following 30 calendar days under the modelled scenarios.

As of 30 September 2020 the Banking Group was in compliance with the above scenarios.

Structural balance sheet metrics

The Banking Group's liquidity management framework also encompasses structural balance sheet metrics such as the RBNZ core funding ratio. These metrics are designed to limit the amount of wholesale funding required to be rolled over within a 1 year timeframe and so interact with the liquidity scenarios to maintain the Banking Group's liquidity position.

Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency with targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term and long-term wholesale funding is managed and executed by Treasury operations.

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

Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. Annually, a funding plan is approved by the Bank's Board. The plan is supplemented by regular updates and is linked to the Banking Group's three year strategic planning cycle.

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

The Banking Group holds a diversified portfolio of cash and high quality liquid securities primarily to support liquidity risk management. The size of the Banking Group's liquidity portfolio is determined with consideration of the amount required to meet the requirements of its internal and regulatory liquidity scenario metrics.

Total liquidity portfolio

	2020 NZ\$m	2019 NZ\$m
Cash and balances with central banks	7,385	1,734
Certificates of deposit	389	374
Central and local government bonds	10,729	7,922
Government treasury bills	3,909	55
Other bonds	7,525	7,256
Total liquidity portfolio	29,937	17,341

Assets held in the Banking Group's liquidity portfolio include short term cash held with RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated New Zealand domestic corporates. These assets would be accepted as collateral by RBNZ in repurchase transactions. At 30 September 2020, the Banking Group would be eligible to enter into repurchase transactions with a value of NZ\$22,552 million (2019: NZ\$15,607 million). The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ\$8,184 million at 30 September 2020 (2019: NZ\$7,179 million).

Liquidity crisis contingency planning

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

FUNDING POSITION

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

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one NZSIOC.

	Note	2020 NZ\$m	2019 NZ\$m
Funding composition			
Customer deposits	13	120,863	109,236
<i>Wholesale funding</i>			
Debt issuances		24,439	26,207
Certificates of deposit and commercial paper		3,530	3,945
Other borrowings		668	246
Total wholesale funding		28,637	30,398
Total funding		149,500	139,634
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		4,109	3,727
Manufacturing		2,863	2,152
Construction		2,750	2,194
Wholesale trade		2,407	2,020
Retail trade and accommodation		2,280	1,543
Financial and insurance services		14,491	11,458
Rental, hiring and real estate services		3,691	3,210
Professional, scientific, technical, administrative and support services		5,748	5,467
Public administration and safety		2,043	1,479
Arts, recreation and other services		2,199	1,968
Households		64,203	59,131
All other New Zealand residents ¹		4,280	3,553
		111,064	97,902
Customer deposits by industry - overseas			
Households		9,219	10,118
All other non-NZ residents		580	1,216
		9,799	11,334
Total customer deposits		120,863	109,236
Wholesale funding (financial and insurance services industry)			
New Zealand		6,814	7,799
Overseas		21,823	22,599
Total wholesale funding		28,637	30,398
Total funding		149,500	139,634
Concentrations of funding by geography			
New Zealand		117,878	105,701
Australia		1,243	775
United States		12,223	13,844
Europe		10,976	11,139
Other countries		7,180	8,175
Total funding		149,500	139,634

¹ Other includes mining; electricity, gas, water and waste services; transport, postal and warehousing; information media and telecommunications; education and training; health care and social assistance.

15. FINANCIAL RISK MANAGEMENT (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE BANKING GROUP'S FINANCIAL LIABILITIES

The tables below provide residual contractual maturity analysis of financial liabilities at 30 September 2020 and 30 September 2019 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how the Banking Group manages its liquidity risk. The management of this risk is detailed on page 46.

	On demand NZ\$m	Less than 3 months NZ\$m	3 to 12 months NZ\$m	1 to 5 years NZ\$m	After 5 years NZ\$m	Total NZ\$m
2020						
Settlement balances payable	2,378	573	-	-	-	2,951
Collateral received	-	1,275	-	-	-	1,275
Deposits and other borrowings	70,794	25,610	25,685	3,895	-	125,984
Derivative financial liabilities (trading)	-	6,374	-	-	-	6,374
Debt issuances ¹	-	450	5,061	14,762	4,840	25,113
Lease liabilities ²	-	13	39	178	99	329
Other financial liabilities	-	80	6	98	68	252
Derivative financial instruments (balance sheet management)						
- gross inflows	-	392	1,924	6,638	366	9,320
- gross outflows	-	(496)	(2,042)	(6,502)	(282)	(9,322)
2019						
Settlement balances payable	1,114	504	-	-	-	1,618
Collateral received	-	991	-	-	-	991
Deposits and other borrowings	54,183	27,187	29,476	4,065	-	114,911
Derivative financial liabilities (trading)	-	9,530	-	-	-	9,530
Debt issuances ¹	-	284	4,859	16,925	5,277	27,345
Other financial liabilities	-	148	28	106	108	390
Derivative financial instruments (balance sheet management)						
- gross inflows	-	842	2,067	8,426	714	12,049
- gross outflows	-	(974)	(2,444)	(9,084)	(723)	(13,225)

¹ Any callable wholesale debt instruments have been included at their next call date. Refer to Note 14 Debt Issuances for subordinated debt call dates.

² On adoption of NZ IFRS 16 on 1 October 2019, the Banking Group recognised right-of-use assets of NZ\$309 million presented within Premises and equipment and lease liabilities of NZ\$333 million presented within Payables and other liabilities. This resulted in a reduction to opening retained earnings of NZ\$17 million and an increase in deferred tax assets of NZ\$7 million. Comparative information has not been restated. Refer to Note 1 for further details.

At 30 September 2020, NZ\$14 million (2019: NZ\$59 million) of the Banking Group's non-credit related commitments and NZ\$31,016 million (2019: NZ\$29,350 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which the Banking Group may be required to pay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Banking Group carries a significant number of financial instruments on the balance sheet at fair value. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

The Banking Group has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Banking Group holds offsetting risk positions, then the Banking Group uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* (NZ IFRS 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or liability	Fair value approach
Financial instruments classified as: - Trading securities - Derivative financial assets and financial liabilities - Investment securities	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instrument are discounted using wholesale market interest rates, or market borrowing rates for debt with similar maturities or with a yield curve appropriate for the remaining term to maturity.

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with the carrying amounts as reported on the balance sheet.

		2020			2019		
	Note	At amortised cost NZ\$m	At fair value NZ\$m	Total NZ\$m	At amortised cost NZ\$m	At fair value NZ\$m	Total NZ\$m
Financial assets							
Cash and cash equivalents	7	8,248	-	8,248	2,363	-	2,363
Settlement balances receivable		378	-	378	193	-	193
Collateral paid		1,394	-	1,394	2,324	-	2,324
Trading securities	8	-	12,797	12,797	-	8,942	8,942
Derivative financial instruments	9	-	9,702	9,702	-	11,666	11,666
Investment securities	10	-	9,893	9,893	-	7,027	7,027
Net loans and advances	11	132,698	-	132,698	132,525	-	132,525
Other financial assets		547	-	547	622	-	622
Total		143,265	32,392	175,657	138,027	27,635	165,662
Financial liabilities							
Settlement balances payable		2,950	-	2,950	1,607	-	1,607
Collateral received		1,275	-	1,275	991	-	991
Deposits and other borrowings	13	123,313	1,748	125,061	110,966	2,461	113,427
Derivative financial instruments	9	-	8,252	8,252	-	11,042	11,042
Debt issuances	14	24,439	-	24,439	26,207	-	26,207
Other financial liabilities		679	158	837	628	213	841
Total		152,656	10,158	162,814	140,399	13,716	154,115

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

FAIR VALUE HIERARCHY

The Banking Group categorises assets and liabilities carried at fair value into a fair value hierarchy as required by NZ IFRS 13 based on the observability of inputs used to measure the fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 – valuations where significant unobservable inputs are used to measure the fair value of the asset or liability.

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m
Assets								
Trading securities	8,848	8,319	3,949	623	-	-	12,797	8,942
Derivative financial instruments	8	10	9,691	11,653	3	3	9,702	11,666
Investment securities	9,892	7,026	-	-	1	1	9,893	7,027
Total	18,748	15,355	13,640	12,276	4	4	32,392	27,635
Liabilities								
Deposits and other borrowings	-	-	1,748	2,461	-	-	1,748	2,461
Derivative financial instruments	4	11	8,248	11,031	-	-	8,252	11,042
Other financial liabilities	158	213	-	-	-	-	158	213
Total	162	224	9,996	13,492	-	-	10,158	13,716

Fair value designation

We designate commercial paper (included in deposits and other borrowings) as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Banking Group's basis of estimating fair values of the financial instruments carried at amortised cost:

Financial asset and liability	Fair value approach
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Banking Group's cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Banking Group to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to the Banking Group for that instrument.

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Banking Group's balance sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Banking Group provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

	Categorised into fair value hierarchy									
	Carrying amount		Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non- observable inputs (Level 3)		Fair value (total)	
	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m
Financial assets										
Net loans and advances	132,698	132,525	-	-	133	167	133,172	132,920	133,305	133,087
Total	132,698	132,525	-	-	133	167	133,172	132,920	133,305	133,087
Financial liabilities										
Deposits and other borrowings	123,313	110,966	-	-	123,486	111,098	-	-	123,486	111,098
Debt issuances	24,439	26,207	2,637	2,848	22,111	23,737	-	-	24,748	26,585
Total	147,752	137,173	2,637	2,848	145,597	134,835	-	-	148,234	137,683



KEY JUDGEMENTS AND ESTIMATES

The Banking Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the balance sheet date.

The majority of valuation models the Banking Group uses employ only observable market data as inputs. This has not changed as a result of COVID-19, however, the Banking Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

For certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Banking Group considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 9 Derivative Financial Instruments) to reflect the Banking Group's assessment of factors that market participants would consider in setting fair value.

17. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard CSA that forms part of the ISDA Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements; and
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Banking Group's covered bond programmes.

The carrying amounts of assets pledged as security are as follows:

	2020 NZ\$m	2019 NZ\$m
Securities sold under agreements to repurchase ¹	646	203
Assets pledged as collateral for UDC secured investments ²	-	3,484
Total assets of the ANZ NZ Covered Bond Trust pledged as security for covered bonds	11,474	11,600

¹ The amounts disclosed as securities sold under arrangements to repurchase include both:

- assets pledged as security which continue to be recognised on the Banking Group's balance sheet; and
- assets repledged, which are included in the disclosure below.

² UDC secured investments were secured by a security interest over all of UDC's assets. The Banking Group divested of UDC during 2020 and, therefore, there are no longer any associated collateral balances requiring disclosure by the Banking Group.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The Banking Group has received collateral associated with various financial instruments. Under certain transactions the Banking Group has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that we have sold or repledged is as follows:

	2020 NZ\$m	2019 NZ\$m
Fair value of assets which can be sold or repledged	790	300
Fair value of assets sold or repledged	290	81

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. OFFSETTING

We offset financial assets and financial liabilities in the balance sheet (in accordance with NZ IAS 32 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and financial liabilities are presented on a gross basis.

The Banking Group does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over collateralisation.

	Total amounts recognised in the balance sheet NZ\$m	Amounts not subject to master netting agreement or similar NZ\$m	Amount subject to master netting agreement or similar			
			Total NZ\$m	Financial instruments NZ\$m	Financial collateral (received)/ pledged NZ\$m	Net amount NZ\$m
2020						
Derivative financial instruments	9,702	(3,257)	6,445	(4,462)	(342)	1,641
Reverse repurchase agreements ¹	782	-	782	-	(782)	-
Total financial assets	10,484	(3,257)	7,227	(4,462)	(1,124)	1,641
Derivative financial instruments	(8,252)	2,890	(5,362)	4,462	417	(483)
Repurchase agreements ²	(646)	-	(646)	-	646	-
Total financial liabilities	(8,898)	2,890	(6,008)	4,462	1,063	(483)
2019						
Derivative financial instruments	11,666	(3,061)	8,605	(6,468)	(541)	1,596
Reverse repurchase agreements ¹	297	-	297	-	(297)	-
Total financial assets	11,963	(3,061)	8,902	(6,468)	(838)	1,596
Derivative financial instruments	(11,042)	2,340	(8,702)	6,468	858	(1,376)
Repurchase agreements ²	(203)	-	(203)	-	203	-
Total financial liabilities	(11,245)	2,340	(8,905)	6,468	1,061	(1,376)

¹ Reverse repurchase agreements are presented in the balance sheet within cash and cash equivalents.

² Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill		Software		Other intangibles		Total	
	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m
Balance at start of year	3,160	3,160	40	53	76	76	3,276	3,289
Additions	-	-	3	9	-	-	3	9
Disposals ¹	(126)	-	-	-	-	-	(126)	-
Amortisation expense	-	-	(33)	(22)	-	-	(33)	(22)
Impairment expense ²	(28)	-	-	-	-	-	(28)	-
Balance at end of year	3,006	3,160	10	40	76	76	3,092	3,276

¹ Relates to the sale of UDC, refer to Note 26 Divestments.

² Relates to the wind up of the Bonus Bonds Scheme, see below.

GOODWILL AND OTHER INTANGIBLE ASSETS ALLOCATED TO CASH-GENERATING UNITS (CGUs)

Goodwill arose on the acquisition of the NBNZ Holdings Limited group on 1 December 2003, and the carrying amount reflects amortisation recognised before the application of NZ IFRS from 1 October 2004 and subsequent business disposals. Remaining other intangible assets, relating to funds management rights, have been assessed as having indefinite useful lives and arose on the acquisition of the ING Holdings (NZ) Limited (now ANZ Wealth New Zealand Limited) group on 30 November 2009.

Goodwill and other intangible assets with indefinite useful lives are allocated to CGUs as follows:

	Goodwill		Other intangibles	
	2020 NZ\$m	2019 NZ\$m	2020 NZ\$m	2019 NZ\$m
Cash generating unit				
Retail and business banking	893	893	-	-
Wealth	118	146	76	76
Retail segment	1,011	1,039	76	76
Commercial	926	1,052	-	-
Institutional	1,069	1,069	-	-
Total	3,006	3,160	76	76

Impairment expense recognised

On 26 August 2020, ANZ Investment Services (New Zealand) Limited (ANZIS), a subsidiary of the Bank and Manager of the Bonus Bonds Scheme (Bonus Bonds), announced that it intended to start winding up Bonus Bonds no later than 31 October 2020. The wind up formally commenced on 31 October 2020.

ANZIS contributed NZ\$28 million of goodwill when it joined the Wealth CGU, which is reported in the Retail segment. As ANZIS ceased charging Bonus Bonds management fees from 1 September 2020, the recoverable amount of ANZIS operations relating to the management of Bonus Bonds was considered to be nil, and therefore this goodwill was impaired. This was a value in use assessment, and no discount rate was required as there were no future cash inflows to discount.

Impairment testing as at 30 September 2020

The annual impairment test is performed as at the end of February each year and, as the Overseas Banking Group's market capitalisation was below its net asset value, and considering uncertainties surrounding COVID-19, we assessed the carrying value of goodwill as at 30 September 2020.

Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs of disposal (FVLCD) and its value-in use (VIU). We use a value-in-use approach to estimate the recoverable amount of the CGU to which each goodwill component is allocated. We also estimated the FVLCD for each CGU as at 30 September 2020, however as the VIU was higher for all CGUs except Institutional, where the FVLCD was not materially higher, the disclosures below are for the VIU assessment. Based on this assessment no impairment was identified for any CGU.

VALUE-IN-USE

These calculations use cash flow projections based on a number of financial budgets within each CGU covering an initial forecast period. These projections also incorporate economic assumptions including GDP, inflation, unemployment, residential and commercial property prices, the impact of the restriction imposed by the RBNZ on the payment of ordinary dividends by all New Zealand incorporated registered banks, and the implementation of the RBNZ's increased capital requirements. Cash flows beyond the forecast period are extrapolated using the terminal growth rate. These cash flow projections are discounted using a discount rate derived using a capital asset pricing model.

Future changes in the assumptions upon which the calculation is based may materially impact this assessment, resulting in the potential impairment of part or all of the goodwill balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Input / assumption	Values applied in 30 September 2020 impairment test
Forecast period and projections	Eight years - an extended forecast period was used to cover the implementation period of the RBNZ's increased capital requirements over the period 1 July 2021 to 1 July 2028.
Revenue growth over forecast period	Comprises impacts of net interest margin and volume growth, arising from planned responses to known regulatory and economic forecasts, and a forecast increase in the Official Cash Rate (OCR) to 2.5% by 2028. Average annual forecast revenue growth varies by CGU as follows: Retail & business banking +5.8%; Wealth +2.7%; Commercial +4.8%; Institutional +0.6%.
Credit impairment over forecast period	Varies by CGU, based on ECL modelling for 2021 to 2023, before returning to long run experience levels for 2024 to 2028. Long run experience levels are based on the Banking Group's bad debts written off, net of recoveries, since 2004 of 0.15% of gross loans and advances. Values applied for 2024 to 2028 (all as a proportion of forecast gross loans and advances) were: Retail & business banking 0.13%; Wealth 0.01%; Commercial 0.22%; Institutional 0.12%.
Terminal growth rate	1.5% - based on 2023 forecast inflation from the RBNZ's August 2020 Monetary Policy Statement
Discount rate	9.3% (February 2019: 11.1%). Implied pre-tax: Retail & business banking 16.7%; Wealth 16.0%; Commercial 17.1%; Institutional 17.0%. (February 2019: 14.7%). The main variables in the calculation of the discount rate used are the risk free rate, beta and the market risk premium. The risk free rate was the traded 10 year New Zealand government bond yield as at 30 September 2020 of 0.46%. The market risk premium was calculated using observed changes in the NZX50 index and average annual traded 10 year New Zealand government bond yields since 2003. Beta was consistent with observable measures applied in the regional banking sector. The 30 September 2020 implied pre-tax discount rates are significantly higher than the post-tax discount rate because of the impact of regulatory capital retention over the forecast period which is not tax effected.

We performed stress tests for key sensitivities in each CGU. A change, considered to be reasonably possible by management, in key assumptions would not cause the recoverable amounts of the Retail & business banking and Wealth CGUs to exceed their carrying amounts, but would do so for the Commercial and Institutional CGUs.

A summary of the amounts by which key assumptions for Commercial and Institutional must change in order for their recoverable amounts to equal their carrying amounts is shown below.

	Commercial		Institutional	
	Forecast Value	Change required	Forecast Value	Change required
Amount by which recoverable amount exceeds carrying amount (NZ\$m)	599	n/a	174	n/a
Value of assumption and change (in basis points) required to reduce recoverable amount to nil:				
Average annual revenue growth over forecast period (including impact of OCR)	4.8%	-100 bp	0.6%	-50 bp
Average annual credit impairment FY24-FY28	0.22%	+21 bp	0.12%	+34 bp
Discount rate	9.3%	+70 bp	9.3%	+40 bp
Terminal growth rate	1.5%	-510 bp	1.5%	-180 bp

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

**RECOGNITION AND MEASUREMENT**

The table below details how we recognise and measure different intangible assets:

Intangible	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Banking Group has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of "off the shelf" software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing more than NZ\$20 million are capitalised as assets. Those less than NZ\$20 million are expensed in the year in which the costs are incurred.	Management fee rights.
Carrying value	Cost less any accumulated impairment losses. Allocated to the CGU to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at cost less impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 2-5 years; however major core infrastructure may be amortised up to 7 years subject to approval by the Audit Committee. Purchased software is amortised over 2 years unless it is considered integral to other assets with a longer useful life.	Management fee rights have an indefinite life and are reviewed for impairment at least annually or when there is an indication of impairment.
Amortisation method	Not applicable.	Straight-line method.	Not applicable.

**KEY JUDGEMENTS AND ESTIMATES**

Management judgement is used to assess the recoverable value of goodwill and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

Goodwill

A number of key judgements are required in the determination of whether or not a goodwill balance is impaired:

- the level at which goodwill is allocated – consistent with prior periods the CGUs to which goodwill is allocated are the Group's four revenue generating segments that benefit from relevant historical business combinations generating goodwill.
- determination of the carrying amount of each CGU which includes an allocation, on a reasonable and consistent basis of corporate assets and liabilities that are not directly attributable to the CGUs to which goodwill is allocated.
- assessment of the recoverable amount of each CGU used to determine whether the carrying amount of goodwill is supported is based on judgements including the selection of the model and key assumptions used to calculate the recoverable amount.

The assessment of the recoverable amount of each CGU has been made within the context of the ongoing impact of COVID-19, and reflects expectations of future events that are believed to be reasonable under the circumstances. The rapidly evolving consequences of COVID-19 and government, business and consumer responses create heightened uncertainty in these estimates and any variations could have a positive or adverse impact on the determination of recoverable amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. OTHER PROVISIONS

	Note	2020 NZ\$m	2019 NZ\$m
ECL allowance on undrawn facilities	12	159	97
Customer remediation		141	139
Restructuring costs		36	25
Leasehold make good		23	23
Other		30	30
Total other provisions		389	314

Movements in other provisions

	Customer remediation NZ\$m	Restructuring costs NZ\$m	Leasehold make good NZ\$m	Other NZ\$m
Balance at start of year	139	25	23	30
New and increased provisions made during the year	93	21	6	13
Provisions used during the year	(81)	(10)	(6)	(11)
Unused amounts reversed during the year	(4)	-	-	(2)
Sale of UDC (refer to Note 26 Divestments)	(6)	-	-	-
Balance at end of year	141	36	23	30

Customer remediation

Customer remediation includes provisions for expected refunds to customers and other counterparties, remediation project costs and related customer, counterparty and regulatory claims, penalties and litigation outcomes.

Restructuring costs

Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Banking Group, including the OnePath separation, or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

Leasehold make good

Provisions associated with leased premises where, at the end of a lease, the Banking Group is required to remove any fixtures and fittings installed in the leased property. This obligation arises immediately upon installation. Estimated make good costs are added to the leasehold improvement asset (within premises and equipment) upon installation and amortised over the lease term.

Other

Other provisions comprise various other provisions including losses arising from other legal action, operational issues, and warranties and indemnities provided in connection with various disposals of businesses and assets.

20. OTHER PROVISIONS (continued)



RECOGNITION AND MEASUREMENT

The Banking Group recognises provisions where there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

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



KEY JUDGEMENTS AND ESTIMATES

The Banking Group holds provisions for various obligations including customer remediation, restructuring costs, leasehold make good and litigation related claims. These provisions involve judgements regarding the outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including the number of impacted customers, the average refund per customer and the associated remediation costs. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments are made to the provisions where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ\$ millions	
	2020	2019	2020	2019
Ordinary shares ¹	6,345,755,498	6,345,755,498	11,588	11,588
Preference shares	300,000,000	300,000,000	300	300
Total share capital	6,645,755,498	6,645,755,498	11,888	11,888

¹ There are no uncalled shares (2019: 650,712).

Preference shares

The key terms of the preference shares are as follows:

Dividends

Dividends are payable at the discretion of the Directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year.

Redemption features

The preference shares are redeemable, subject to prior written approval of RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares; or
- on any dividend payment date; or
- on any date if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

The preference shares may be redeemed for nil consideration should a non-viability trigger event occur.

The preference shares qualify as AT1 capital for RBNZ's capital adequacy purposes.



RECOGNITION AND MEASUREMENT

Ordinary shares

Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Bank, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to:

- on a show of hands, one vote; and
- on a poll, one vote, for each share held.

Preference shares

All preference shares were issued by the Bank to the Immediate Parent Company and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis.

In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and AT1 capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.

Reserves:

Cash flow hedge reserve

Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the underlying impacts profit and loss.

Investment securities revaluation reserve

Includes the changes in fair value and exchange differences on our revaluation of investment securities financial assets, net of deferred taxes to be realised upon disposal of the asset.

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

The Banking Group's core capital objectives are to:

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

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

The Banking Group has minimum and trigger levels for common equity tier 1, tier 1 and total capital that ensure sufficient capital is maintained to:

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

ALCO and its related Capital Management Forum are responsible for developing, implementing and maintaining the Banking Group's ICAAP framework, including ongoing monitoring, reporting and compliance. The Banking Group's ICAAP is subject to independent and periodic review.

Throughout the year, the Banking Group maintained compliance with RBNZ's minimum capital ratios.

REGULATORY ENVIRONMENT

As the Bank is a registered bank in New Zealand, it is primarily regulated by RBNZ under the Reserve Bank of New Zealand Act 1989. The Bank must comply with the minimum regulatory capital requirements, capital ratios and specific reporting levels that RBNZ sets. RBNZ requirements are summarised below:

	Regulatory capital definition	Minimum capital ratios
Common Equity Tier 1 (CET1) capital	Comprises ordinary share capital, retained earnings, and certain accounting reserves. Some amounts (e.g. the value of goodwill) must be deducted to determine the final value of CET1 capital.	CET1 capital divided by total risk weighted assets must be at least 4.5%.
Tier 1 capital	CET1 capital plus additional tier 1 instruments, which comprise high-quality capital and must: • provide a permanent and unrestricted commitment of funds; • be freely available to absorb losses; and • provide for fully discretionary capital distributions.	Tier 1 capital divided by total risk weighted assets must be at least 6.0%.
Total capital	Tier 1 plus Tier 2 capital. Tier 2 instruments include some subordinated instruments and accounting reserves that are not included in Tier 1 capital. Some amounts are deducted in determining the value of Tier 2 instruments.	Total capital divided by total risk weighted assets must be at least 8.0%.
Capital buffer	The Capital buffer is actual CET1 capital in excess of any of the minimum capital requirements imposed on the Bank.	Capital buffer divided by total risk weighted assets should be at least 2.5%.
Reporting levels		
Solo consolidated	The registered bank plus subsidiaries which are funded exclusively and wholly owned by the registered bank.	
Banking Group	The registered bank's consolidated group.	

The Bank measures capital adequacy and reports to RBNZ on a Banking Group basis monthly, and measures capital adequacy on a Solo consolidated basis quarterly. Banking Group and Solo consolidated capital ratios are reported publicly in six-monthly disclosure statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

The following table provides details of the Banking Group's capital ratios at 30 September:

	2020 NZ\$m	2019 NZ\$m
Unaudited		
Qualifying capital		
Tier 1		
Shareholder's equity	15,869	14,430
Preference shares included in Additional Tier 1 capital	(300)	(300)
Gross Common Equity Tier 1 capital	15,569	14,130
Deductions	(3,637)	(3,684)
Common Equity Tier 1 capital	11,932	10,446
Additional tier 1 capital	2,750	2,780
Tier 1 capital	14,682	13,226
Tier 2 capital	-	-
Total capital	14,682	13,226
Capital adequacy ratios		
Common Equity Tier 1	11.7%	10.8%
Tier 1	14.4%	13.6%
Total	14.4%	13.6%
Buffer ratio	6.4%	5.6%
Risk weighted assets	102,290	97,070

23. CONTROLLED ENTITIES

The following table lists the subsidiaries of the Bank. All subsidiaries are 100% owned and incorporated in New Zealand.

	Nature of business
ANZ Bank New Zealand Limited	Registered bank
ANZ Custodial Services New Zealand Limited	Custodian and nominee
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ National Staff Superannuation Limited	Staff superannuation scheme trustee
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Securities Limited	Custodian
ANZ Wealth New Zealand Limited	Holding company
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Investments Nominees Limited	Custodian and nominee
OneAnswer Nominees Limited	Wrap services provider
ANZNZ Covered Bond Trust ¹	Securitisation entity
Arawata Assets Limited	Property
Endeavour Finance Limited	Investment
Kingfisher NZ Trust 2008-1 ¹	Securitisation entity

¹ The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in Note 24 Structured Entities.

Changes in controlled entities

UDC was sold to Shinsei Bank on 1 September 2020 (refer to Note 26 Divestments).

Arawata Finance Limited and Karapiro Investments Limited amalgamated with the Bank on 30 September 2020.



RECOGNITION AND MEASUREMENT

The Banking Group subsidiaries are those entities it controls through:

- being exposed to, or having rights to, variable returns from the entity; and
- being able to affect those returns through its power over the entity.

The Banking Group assesses whether it has power over those entities by examining the Banking Group's existing rights to direct the relevant activities of the entity.

24. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities (being those that significantly affect the entity's returns) are directed by means of contractual arrangement. A SE often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well defined objective;
- insufficient equity to permit the SE to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

SEs are classified as subsidiaries and consolidated when control exists. If the Banking Group does not control a SE, then it is not consolidated. This note provides information on both consolidated and unconsolidated SEs.

The Banking Group's involvement with SEs is as follows:

Type	Details
Securitisation	The Banking Group uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle we created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible'). The Banking Group is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated. As at 30 September 2020 and 30 September 2019, the Banking Group had not entered into any repurchase agreements with RBNZ for residential mortgage backed securities issued and therefore no collateral had been accepted by RBNZ under this facility. Additionally, the Banking Group may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.
ANZNZ Covered Bond Trust (the Covered Bond Trust)	Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied. The Banking Group is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.
Structured finance arrangements	The Banking Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Banking Group may provide risk management products (derivatives) to the SE. In all instances, the Banking Group does not control these SEs. Further, the Banking Group's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	The Banking Group is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme. These MIS are financed through the issue of units to investors and the Banking Group considers them to be SEs. The Banking Group's interests in these MIS are limited to receiving fees for services or providing risk management products (derivatives). These interests do not create significant exposures to the MIS that would allow the Banking Group to control the funds. Therefore, these MIS are not consolidated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

Financial or other support provided to Consolidated Structured Entities

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2019: nil).

UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group's interest in Unconsolidated Structured Entities

An 'interest' in an unconsolidated SE is any form of contractual or non-contractual involvement with a SE that exposes the Banking Group to variability of returns from the performance of that SE. These interests include, but are not limited to: holdings of debt or equity securities; derivatives that pass on risks specific to the performance of the SE; lending; loan commitments; financial guarantees; and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure is made if the Banking Group's involvement is not more than a passive interest - for example: when the Banking Group's involvement constitutes a typical customer-supplier relationship. On this basis, exposures to unconsolidated SEs that arise from lending, trading and investing activities are not considered disclosable interests - unless the design of the structured entity allows the Banking Group to participate in decisions about the relevant activities (being those that significantly affect the entity's returns).
- 'interests' do not include derivatives intended to expose the Banking Group to market risk (rather than performance risk specific to the SE) or derivatives through which the Banking Group creates, rather than absorbs, variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The Banking Group earned funds management fees from its MIS of NZ\$197 million (2019: NZ\$198 million) during the year. As at 30 September 2020, the Banking Group had total funds under management of NZ\$35.2 billion (2019: NZ\$34.1 billion) of which NZ\$21.2 billion (2019: NZ\$20.6 billion) related to its MIS, with the largest individual fund being approximately NZ\$3.5 billion (2019: NZ\$3.3 billion).

The Banking Group did not provide any non-contractual support to unconsolidated SEs during the year (2019: nil): nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group may also sponsor unconsolidated SEs in which it has no disclosable interest.

For the purposes of this disclosure, the Banking Group considers itself the 'sponsor' of an unconsolidated SE if it is the primary party involved in the design and establishment of that SE and:

- the Banking Group is the major user of that SE; or
- the Banking Group's name appears in the name of that SE, or on its products; or
- the Banking Group provides implicit or explicit guarantees of that SE's performance.

The Bank has sponsored the ANZ PIE Fund, which invests only in deposits with the Bank. The Banking Group does not provide any implicit or explicit guarantees of the capital value or performance of investments in the ANZ PIE Fund. There was no income received from, nor assets transferred to, this entity during the year.



KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether control exists over Structured Entities involved in securitisation activities, structured finance transactions and investment funds. Judgement is required in relation to the existence of:

- power over the relevant activities (being those that significantly affect the entity's returns); and
- exposure to variable returns of that entity.

25. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business the Banking Group enters into transactions where it transfers financial assets directly to third parties. These transfers may give rise to the Banking Group fully, or partially, derecognising those financial assets - depending on the Banking Group's exposure to the risks and rewards or control over the transferred assets. If the Banking Group retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Banking Group's balance sheet in its entirety.

Covered bonds

The Banking Group operates a covered bond programme to raise funding. Refer to Note 24 Structured Entities for further details. The covered bonds issued externally are included within debt issuances.

Repurchase agreements

When the Banking Group sells securities subject to repurchase agreements under which we retain substantially all the risks and rewards of ownership, then those assets do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Covered bonds		Repurchase agreements	
	2020	2019	2020	2019
	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Current carrying amount of assets transferred	11,474	11,600	650	203
Carrying amount of associated liabilities	4,522	4,460	646	203

26. DIVESTMENTS

2020 - UDC

On 1 September 2020, the Banking Group sold UDC to Shinsei Bank. The Banking Group recognised a net loss on sale of NZ\$32 million, which is included in other operating income. This net loss comprised a gain on sale of the net assets of UDC of NZ\$94 million less an allocation of goodwill from the Commercial segment of NZ\$126 million.

2019 - OnePath and Paymark

On 30 November 2018, the Banking Group sold OnePath to Cigna Corporation and on 11 January 2019, the Banking Group sold its 25% shareholding in Paymark to Ingenico Group. The Banking Group recognised net gains on sale of NZ\$66 million and NZ\$39 million respectively, which are included in other operating income.

Assets and liabilities sold

	UDC 2020 NZ\$m	OnePath 2019 NZ\$m	Paymark 2019 NZ\$m
Net loans and advances	3,286	-	-
Life insurance contract assets	-	675	-
Investments in associates	-	-	7
Deferred tax assets	21	-	-
Goodwill and other intangible assets	-	101	-
Investments backing insurance contract liabilities	-	101	-
Premises and equipment	10	-	-
Other assets	7	9	-
Total external assets	3,324	886	7
Current tax liabilities	-	18	-
Deferred tax liabilities	-	178	-
Payables and other liabilities	11	146	-
Provisions, including employee entitlements	10	2	-
Total external liabilities	21	344	-
Deposits with the Bank	221	50	-
Funding provided by, and other amounts payable to, the Bank	(2,990)	(3)	-
Net amounts receivable from / (payable to) the Bank	(2,769)	47	-
Net assets of the divested entities	534	589	7
Additional goodwill allocated to sale	126	-	-
Net assets sold	660	589	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. RELATED PARTY DISCLOSURES

Key management personnel and their related parties

Key management personnel (KMP) are defined as directors and those executives having authority and responsibility for planning, directing and controlling the activities of the Banking Group. Executive roles included in KMP are the Bank's Chief Executive Officer (CEO), all executives reporting directly to the Bank's CEO, and the CEO – NZ Branch.

	2020 NZ\$000	2019 NZ\$000
Key management personnel compensation¹		
Salaries and short-term employee benefits	10,449	10,827
Post-employment benefits	256	297
Other long-term benefits ²	107	39
Termination benefits ³	1,155	2,233
Share-based payments	2,679	2,242
Total	14,646	15,638

¹ Includes former disclosed KMPs until the end of their employment.

² Comprises long service leave accrued during the year.

³ Includes payments for accrued annual leave, long service leave and pay in lieu of notice in accordance with contract, payable on cessation.

	2020 NZ\$m	2019 NZ\$m
Transactions and balances with key management personnel and their related parties¹		
Secured loans and advances	22	23
Credit related commitments (undrawn loan facilities)	3	5
Interest income	1	1
Customer deposits ²	17	14
Payables and other liabilities (share-based payments liability)	2	2

¹ Includes KMP, close family members of KMP and entities that are controlled or jointly controlled by KMP or their close family members, of the Banking Group and its parent companies.

² Includes holdings of units in the ANZ PIE Fund (a sponsored unconsolidated structured entity) which are invested solely in deposits of the Bank.

Loans made to KMP and their 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, including the term of the loan, security required and the interest rate. No amounts have been written off or forgiven, or individually assessed allowances for expected credit losses raised in respect of these balances (2019: nil).

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. In addition to the amounts above:

- Aggregate amounts for each of unsecured loans and advances, interest expense, fee income, insurance premium income, debt issuances and collectively assessed credit impairment charge and allowance for expected credit losses were less than NZ\$1 million for both years presented.
- KMP and their related parties also hold units in MIS managed by the Banking Group. Transactions and balances in respect of these, MIS holdings are not disclosed because those MIS are unconsolidated structured entities and not included in the financial statements of the Banking Group.
- A close family member of a member of KMP is an employee of the Banking Group and received total compensation of NZ\$0.1 million (2019: NZ\$0.1 million).
- Some KMP pay the Banking Group for the use of carparks in premises owned or leased by the Banking Group. These amounts were less than NZ\$0.1 million (2019: less than NZ\$0.1 million).

Transactions with other members of the Overseas Banking Group and associates

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

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

27. RELATED PARTY DISCLOSURES (continued)

Transactions	2020 NZ\$m	2019 NZ\$m
Immediate Parent Company		
Dividends paid	9	411
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Interest income	13	19
Interest expense	115	135
Fee income	1	4
Other operating income	18	24
Operating expenses	97	60
Mortgages repurchased from the NZ Branch	371	1,098
Associates		
Direct fee expense	-	4
Dividends received	-	3
Share of associates' profit	-	4
Outstanding balances		
Immediate Parent Company		
Derivative financial instruments	3	-
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Cash and cash equivalents	166	79
Collateral paid	-	810
Derivative financial instruments	2,849	3,933
Other assets	48	58
Total due from related parties	3,066	4,880
Immediate Parent Company		
Deposits and other borrowings	11	33
Derivative financial instruments	-	4
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances payable	85	66
Deposits and other borrowings	173	11
Derivative financial instruments	2,877	4,777
Payables and other liabilities	31	24
Debt issuances	1,972	1,956
Associates		
Deposits and other borrowings	1	1
Post-employment benefit plans for the benefit of employees of the Banking Group		
Deposits and other borrowings	-	2
Total due to related parties	5,150	6,874

Balances due from / to other members of the Overseas Banking Group and associates are unsecured. The Bank has provided guarantees and commitments to, and received guarantees from, these entities as follows. For the year ended 30 September 2019, fees associated with the provision of financial guarantees to/by the Ultimate Parent Bank may be lower than those for similar transactions with unrelated parties.

	2020 NZ\$m	2019 NZ\$m
Financial guarantees provided by the Ultimate Parent Bank	264	456
Financial guarantees provided to the Ultimate Parent Bank	123	114
Undrawn credit commitments provided to the Immediate Parent Company	250	250
Undrawn credit commitments provided to associates	1	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. COMMITMENTS AND CONTINGENT LIABILITIES

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2020 NZ\$m	2019 NZ\$m
Contract amount of:		
Undrawn facilities	28,273	26,600
Guarantees and letters of credit	1,309	1,248
Performance related contingencies	1,434	1,502
Total	31,016	29,350

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total undrawn facilities of NZ\$28,273 million (2019: NZ\$26,600 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

Guarantees, letters of credit and performance related contingencies relate to transactions that the Banking Group has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Banking Group issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Banking Group to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total guarantees and letters of credit of NZ\$1,309 million (2019: NZ\$1,248 million) and total performance related contingencies of NZ\$1,434 million (2019: NZ\$1,502 million) mature within 12 months.

PROPERTY RELATED COMMITMENTS

	2020 NZ\$m	2019 NZ\$m
Property capital expenditure		
Contracts for outstanding capital expenditure (not later than 1 year)	11	6
Total capital expenditure commitments for property	11	6
Lease rentals		
Land and Buildings ¹	-	279
Furniture and equipment	5	7
Motor vehicles	5	6
Total lease rental commitments	10	292
Due within 1 year	3	53
Due later than 1 year but not later than 5 years	7	148
Due later than 5 years	-	91
Total lease rental commitments	10	292

¹ Lease commitments for land and buildings are recognised on the balance sheet following the application of NZ IFRS 16 from 1 October 2019. Refer to Note 1 for further details.

28. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

OTHER CONTINGENT LIABILITIES

There are outstanding court proceedings, claims and possible claims for and against the Banking Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to Note 20 Other Provisions) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice seriously the interests of the Banking Group.

Regulatory and customer exposures

In recent years there has been an increase in the number of matters on which the Banking Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in New Zealand and globally. The Banking Group has received various notices and requests for information from its regulators as part of both industry-wide and Banking Group-specific reviews, and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, may include a range of matters including responsible lending practices, regulated lending financial transactions, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

Commerce Commission settlement

Between June 2015 and May 2016, the Bank had an issue with a loan calculator which meant some interest to be charged to customers was left out when calculating their repayments or loan term. On 2 March 2020, the Commerce Commission announced it had agreed with the Bank that the Bank would pay some customers affected by the issue a further NZ\$29.4 million, in addition to the NZ\$8.4 million the Bank has paid previously. All amounts in relation to this matter were provided for in the period to 30 September 2019. These payments are nearing completion.

Reviews under section 95 of the Reserve Bank of New Zealand Act 1989 (RBNZ Act)

On 5 July 2019, the RBNZ issued a notice under section 95 of the RBNZ Act, requiring the Bank to obtain two external reviews, the first on the Bank's compliance with certain aspects of the RBNZ Banking Supervision Handbook document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and the second on the effectiveness of the Bank's directors' attestation and assurance framework.

- The director attestation and assurance framework review was completed in December 2019, and the Bank is committed to implementing the recommendations identified and addressing the issues raised. On 11 December 2019, the RBNZ issued a further notice under section 95 of the RBNZ Act, requiring the Bank to obtain an external review of the improvements made to the Bank's directors' attestation and assurance framework. Due to the impacts of the COVID-19 pandemic, in May 2020, the RBNZ agreed to extend the time period for addressing the directors' attestation recommendations, subject to the Bank obtaining an external interim review, assessed as at March 2021, with a final review of the Bank's directors' attestation and assurance framework being assessed as at September 2021.
- The report regarding the Bank's compliance with the RBNZ's capital adequacy requirements was completed in April 2020. This report identified instances of both current and historical non-compliance with capital adequacy requirements. The Bank has accepted the findings of this review, and is working with the RBNZ to rectify the issues identified. The RBNZ has stated that it is confident the Bank will resolve this matter without issue, and has emphasised that the Banking Group remains sound and well capitalised. In May 2020, a detailed remediation plan, which includes key dates on model submissions, was submitted to the RBNZ. The Bank also submitted the first tranche of model documentation to RBNZ in August 2020, a key milestone in the section 95 models remediation. In October 2020, the RBNZ notified the Bank that it should obtain an external interim review of certain remediation activities relating to the report on capital adequacy requirements, assessed as at March 2021, with a final review of those activities being assessed as at September 2021 (to reflect the close relationship between these improvements and those being undertaken for directors' attestation and assurance).

The Section 95 reviews have highlighted the need for a broader programme of improving the Bank's processes covered by those reviews, and this programme is underway.

Warranties and indemnities

The Banking Group has provided warranties, indemnities and other commitments in favour of the purchaser in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. COMPENSATION OF AUDITORS

	2020 NZ\$000	2019 NZ\$000
KPMG New Zealand		
Audit or review of financial statements ¹	1,953	1,852
Audit related services:		
Prudential and regulatory services ²	308	1,418
Offer documents assurance or review	94	111
Other assurance services ^{3,4}	116	25
Total audit related services	518	1,554
Total compensation of auditors relating to the Banking Group	2,471	3,406
Fees related to certain managed funds not recharged ⁴	93	70
Total compensation of auditors	2,564	3,476

¹ Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.

² Includes fees for reviews and controls reports required by regulations.

³ Includes fees for other reviews and agreed upon procedures engagements. Comparative information has been restated to reclassify certain fees relating to managed funds and not recharged to those funds.

⁴ Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements, registry audits, supervisor reporting and other agreed upon procedures engagements. Comparative information has been restated to reclassify certain fees previously included in other assurance services.

The Banking Group's Policy allows KPMG New Zealand to provide assurance and other audit related services that, while outside the scope of the statutory audit, are consistent with the role of an external auditor. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG New Zealand may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

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REGISTERED BANK DISCLOSURES

This section contains the additional disclosures required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Section	Order reference	Page
B1. General disclosures	Schedule 2	73
B2. Additional financial disclosures	Schedule 4	85
B3. Asset quality	Schedule 7	86
B4. Capital adequacy under the internal models based approach, and regulatory liquidity ratios	Schedule 11	95
B5. Concentration of credit exposures to individual counterparties	Schedule 13	100
B6. Credit exposures to connected parties	Schedule 14	101
B7. Insurance business, securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products	Schedule 15	102
B8. Risk management policies	Schedule 17	104

B1. GENERAL DISCLOSURES (UNAUDITED)

Details of ultimate parent bank and ultimate holding company

The ultimate parent bank and ultimate holding company of the Bank is Australia and New Zealand Banking Group Limited (Ultimate Parent Bank). The address for service of the Ultimate Parent Bank is ANZ Centre, Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Restrictions on the Ultimate Parent Bank's ability to provide financial support

Effect of APRA's Prudential Standards

The Banking Group is subject to extensive prudential regulation by APRA. APRA's current or future requirements may have an adverse effect on the Bank's business, results of operations, liquidity, capital resources or financial condition.

APRA Prudential Standard APS 222 *Associations with Related Entities* (APS 222) sets minimum requirements for authorised deposit-taking institutions (ADIs) in Australia, including the Ultimate Parent Bank, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes maximum limits on intra-group financial exposures.

Under APS 222, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to the following restrictions:

- 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 must not hold unlimited exposures (i.e. should be limited as to specified time or amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default by the Ultimate Parent Bank on its obligations; and
- the level of exposure, net of exposures deducted from capital, of the Ultimate Parent Bank's Level 1 total capital base to the Bank should not exceed: (A) 50% on an individual exposure basis; or (B) 150% in aggregate (being exposures to all similar regulated ADI equivalent entities related to the Ultimate Parent Bank).

In August 2019, APRA announced that it will amend APS222 to reduce the limits for Australian ADIs' individual entity exposure to related ADIs (or overseas equivalents) from 50% of Level 1 total capital to 25% of Level 1 Tier 1 capital, and aggregate exposures from 150% of Level 1 total capital to 75% of Level 1 Tier 1 capital. As exposures are measured net of capital deductions, the proposed changes to APRA's capital regulations (contained in APS111 – as defined below) will affect the measurement of ADI exposures. The implementation date for these changes has been deferred by APRA to 1 January 2022 (12 month deferral from initial implementation date of 1 January 2021).

In October 2019, APRA released a discussion paper on draft revisions to the prudential standard APS111 *Capital Adequacy: Measurement of Capital* (APS111) for consultation. The most material change arising from APRA's proposal is in relation to the treatment of capital investments for each banking and insurance subsidiary at Level 1, with the tangible component of the investment changing from a 400% risk weighting to:

- 250% risk weighting up to an amount equal to 10% of the Ultimate Parent Bank's net Level 1 Common Equity Tier 1 (CET1) capital; and
- the remainder of the investment will be treated as a CET1 capital deduction.

In November 2020, APRA further announced, that until the new APS111 is finalised and implemented, APRA will require any new or additional equity investments in banking and insurance subsidiaries, where the amount of that new or additional investments takes the aggregate value of the investment above 10 per cent of an ADI's CET1 capital, to be fully funded by equity capital at the ADI parent company level. This treatment would apply to the proportion of the new or additional investment that is above 10 per cent of an ADI's CET1 capital.

The Ultimate Parent Bank continues to review the implications for its current investments. The net impact on the Overseas Banking Group is unclear and will depend upon a number of factors including the capitalisation of the affected subsidiaries at the time of implementation, the final form of the prudential standard, as well as the effect of management actions being pursued that have the potential to materially offset the impact of these proposals. Based on the Ultimate Parent Bank's current investment as at 30 September 2020 in its affected subsidiaries and in the absence of any offsetting management actions, the above proposals imply a reduction in the Ultimate Parent Bank's Level 1 CET1 capital of up to approximately AUD 2.5 billion (~70 basis points). There would be no impact on the Overseas Banking Group's Level 2 CET1 capital ratio arising from these proposed changes. The proposed implementation date of 1 January 2021 for these changes is currently under review by APRA and is expected to be delayed to 1 January 2022. In addition, APRA has confirmed that by 1 January 2021, no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (including its subsidiaries incorporated in New Zealand, such as the Banking Group and the New Zealand Branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

APRA has also confirmed that contingent funding support by the Ultimate Parent Bank to the Bank during times of financial stress must be provided on terms that are acceptable to APRA. At present, only covered bonds meet APRA's criteria for contingent funding.

Effect of the Level 3 framework

In addition, certain requirements of APRA's Level 3 framework relating to, among other things, group governance and risk exposures became effective on 1 July 2017. This framework also requires that the Ultimate Parent Bank must limit its financial and operational exposures to subsidiaries (including the Bank).

In determining the acceptable level of exposure to a subsidiary, the Board of the Ultimate Parent Bank should have regard to:

- the exposures that would be approved for third parties of broadly equivalent credit status;
- the potential impact on the Ultimate Parent Bank's capital and liquidity positions; and
- the Ultimate Parent Bank's ability to continue operating in the event of a failure by the Bank.

These requirements are not expected to place additional restrictions on the Ultimate Parent Bank's ability to provide financial or operational support to the Bank.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Other APRA powers

The Ultimate Parent Bank may not provide financial support in breach of the Australian Banking Act 1959 (the Banking Act). Under the Banking Act:

- APRA must exercise its powers and functions for the protection of a bank's depositors in Australia and for the promotion of financial system stability in Australia; and
- in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia are to be available to meet that bank's deposit liabilities in Australia in priority to all other liabilities of the bank.

The requirements of the Banking Act and the exercise by APRA of its powers have the potential to impact the management of the liquidity of the Bank.

Interests in 5% or more of voting securities of the Bank

The Immediate Parent Company holds 100% of the voting securities of the Bank. The Immediate Parent Company has the direct ability to appoint 100% of the Directors of the Bank, subject to RBNZ advising that it has no objection to the appointment in accordance with the Bank's conditions of registration. RBNZ also has the power under section 113B of the Reserve Bank of New Zealand Act 1989, after obtaining the consent of the Minister of Finance, to remove, replace, or appoint directors in certain circumstances.

Priority of creditors' claims

In the event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Customer deposits are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 35 for further details, and to page 53 for the amount of assets of the ANZ Covered Bond Trust pledged as security for covered bonds.

No other material obligations of the Bank are guaranteed as at 17 November 2020.

Auditors

KPMG, 18 Viaduct Harbour Avenue, Auckland, New Zealand.

Directors

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

Transactions with Directors

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

Board Audit Committee

There is a Board Audit Committee which covers audit matters. The committee has six members. Each member is a non-executive Director, the majority of whom satisfy the criteria for independence.

Policy of the Board of Directors for avoiding or dealing with conflicts of interest

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the Board has adopted a protocol setting out the procedures for Directors to follow to disclose and manage conflicts of interest. This protocol will be reviewed annually. In addition:

- at least once in each year, Directors are requested to confirm and disclose, in terms of section 140(1) of the Companies Act 1993, 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.
- Directors are also requested to confirm and make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993.

In addition to the disclosures referred to above, Directors disclose relevant interests which they have before discussion of particular business items. Disclosures are entered into the Bank's Interests Register. The Companies Act 1993 allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. However, under the protocol 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.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

**Rt Hon Sir John Key, GNZM AC****Antonia Watson****Antony Carter, CNZM**

Position	Independent Non-Executive Director and Chair	Chief Executive Officer and Director	Independent Non-Executive Director
Occupation	Company Director	Chief Executive Officer New Zealand and Group Executive	Company Director
Qualifications	BCom, DCom (Honoris Causa)	BCom (Hons), GAICD	BE (Hons), ME, MPhil, CFinD, FNZIM
Resides	Auckland, New Zealand	Auckland, New Zealand	Auckland, New Zealand
Other company directorships	Australia and New Zealand Banking Group Ltd, Dairy Investment Fund Ltd, Kyro Capital Ltd, Palo Alto Networks Inc, Sashimi Holdings Ltd, Thirty Eight JK Ltd	ANZ Holdings (New Zealand) Ltd, Mehek Holdings Ltd	Avonhead Mall Ltd, Datacom Group Ltd, Loughborough Investments Ltd, Modern Merchants Ltd, Strategic Interchange Ltd, Tetrad Corporation Ltd, T R Group Ltd, Vector Ltd

**Shayne Elliott****Alison Gerry****Michelle Jablko**

Position	Non-Executive Director	Independent Non-Executive Director	Non-Executive Director
Occupation	Chief Executive Officer, Australia and New Zealand Banking Group Ltd	Company Director	Chief Financial Officer, Australia and New Zealand Banking Group Ltd
Qualifications	BCom	BMS (Hons), MAppFin, CFinD	LLB (Hons), B.Ec (Hons)
Resides	Melbourne, Australia	Queenstown, New Zealand	Melbourne, Australia
Other company directorships	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children	Asteron Life Ltd, Glendora Avocados Ltd, Glendora Holdings Ltd, Infratil Ltd, On Being Bold Ltd, Sharesies Ltd, Sharesies Group Ltd, Sharesies Nominee Ltd, Vero Insurance New Zealand Ltd, Vero Liability Insurance Ltd, Wellington International Airport Ltd	ANZ Holdings (New Zealand) Ltd, Bialik College Ltd

**Mark Verbiest****Joan Withers**

Position	Independent Non-Executive Director	Independent Non-Executive Director
Occupation	Company Director	Company Director
Qualifications	LLB, CFinD	MBA, CFinD
Resides	Wanaka, New Zealand	Auckland, New Zealand
Other company directorships	Bear Fund NZ Ltd, Freightways Ltd, Meridian Energy Ltd	On Being Bold Ltd, Origin Energy Ltd, Sky Network Television Ltd, The Warehouse Group Ltd, The Warehouse Planit Trustees Ltd, The Warehouse Management Trustee Company Ltd, The Warehouse Management Trustee Company No.2 Ltd

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Conditions of registration

The following conditions of registration were applicable as at 30 September 2020, and have applied from 1 May 2020.

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

1. That—
 - (a) the Total capital ratio of the banking group is not less than 8%;
 - (b) the Tier 1 capital ratio of the banking group is not less than 6%;
 - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
 - (d) the Total capital of the banking group is not less than \$30 million;
 - (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
 - (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration, —

"supervisory adjustment" referred to in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is calculated as the scalar times the sum of:

- (a) the greater of:
 - i. 27.66 percent of the exposure-at-default (EAD) amount of non-defaulted standard residential mortgage loans less the risk-weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted standard residential mortgage loans; and
 - ii. zero;

and

- (b) the greater of:
 - i. 75.47 percent of the exposure-at-default (EAD) amount of non-defaulted corporate farm lending exposures less the risk-weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted corporate farm lending exposures; and
 - ii. zero;

"standard residential mortgage loan" has the same meaning as in 4.7(a) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B), dated November 2015;

"corporate farm lending exposures" has the same meaning as in 4.4(c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 and elsewhere in this condition of registration is 1.06;

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

- 1A. That—
 - (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP') (BS12) dated December 2007;
 - (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015; and
 - (c) the bank determines an internal capital allocation for each identified and measured "other material risk".
- 1B. That the bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015:
 - (a) the model approval requirements in section 1.3A;
 - (b) the compendium requirements in section 1.3B;
 - (c) the minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and
 - (d) the minimum qualitative requirements for using the Advanced Measurement Approach ("AMA") for operational risk set out in section 8.4(a) and sections 8.5 to 8.14.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

- (a) according to the following table, limit any distributions of the bank's earnings payable to holders of Additional Tier 1 capital instruments to the percentage limit on distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit on distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875 - 2.5%	60%

- (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
- (c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

An Additional Tier 1 capital instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

1D. That the bank must make no distributions, whether paid out of earnings, or out of accumulated previous years' retained earnings or other reserves included within the banking group's total capital, other than discretionary payments payable to holders of Additional Tier 1 capital instruments to the extent permitted by condition 1C.

For the purposes of this condition of registration,—

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

"total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

"distributions" and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

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

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

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

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

In determining the total amount of the banking group's insurance business—

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

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

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

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

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% 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 Exposures Policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the bank complies with the following corporate governance requirements:
- the board of the bank must have at least five directors;
 - the majority of the board members must be non-executive directors;
 - at least half of the board members must be independent directors;
 - an alternate director, —
 - for a non-executive director must be non-executive; and
 - for an independent director must be independent;
 - at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
 - the chairperson of the board of the bank must be independent; and
 - the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).
- For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.
7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
- the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - the Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
- the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
- the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
 - the committee must have at least three members;
 - every member of the committee must be a non-executive director of the bank;
 - the majority of the members of the committee must be independent; and
 - the chairperson of the committee must be independent and must not be the chairperson of the bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

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

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

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

- (a) that the bank's clearing and settlement obligations due on a day can be met on that day;
- (b) that the bank's financial risk positions on a day can be identified on that day;
- (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
- (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2023 or when the existing outsourcing arrangement becomes compliant with condition 21, from which point in time condition 21 will apply to that outsourcing arrangement.

For the purposes of this condition of registration:

- (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and
- (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy (BS11)" dated April 2020.

12. That:

- (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
- (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
- (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:

- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
- (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
- (c) the one-year core funding ratio of the banking group is not less than 50 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2018.

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

- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition,—

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

"SPV" means a person—

- (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

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

16. That—

- (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
- (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
 - (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—
- close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
 - all liabilities are frozen in full; and
 - no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
 - apply a *de minimis* to relevant customer liability accounts;
 - apply a partial freeze to the customer liability account balances;
 - reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
 - maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
 - reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That the bank has an Implementation Plan that—
- is up-to-date; and
 - demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that—
- at the product-class level lists all liabilities, indicating which are—
 - pre-positioned for Open Bank Resolution; and
 - not pre-positioned for Open Bank Resolution;
 - is agreed to by the Reserve Bank; and
 - if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.
- For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated April 2020.

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

Changes since 31 March 2020

Effective 2 April 2020, the Bank's conditions of registration were amended to:

- include restrictions on payments of dividends on ordinary shares;
- reduce the minimum requirement for the core funding ratio from 75% to 50%; and
- refer to the revised version of the RBNZ Banking Supervision Handbook document BS11 which extends the transition period to 6 years, with this revised version of BS11 becoming fully effective from 1 October 2021.

Effective 1 May 2020, the Bank's conditions of registration were amended to remove restrictions on high loan-to-valuation residential mortgage lending.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Non-compliance with conditions of registration

a) Condition of Registration 1B – non-compliance with BS2B

A review of the Bank's compliance with the RBNZ's capital adequacy requirements was undertaken under section 95 of the RBNZ Act and was completed in April 2020. The Bank has accepted the improvements identified in the review, and is working to rectify its processes. The RBNZ has stated that it is confident the Bank will resolve this matter without issue, and has emphasised that the Banking Group remains sound and well capitalised.

As first reported in the disclosure statement for the year ended 30 September 2019, the Bank has not complied with condition of registration 1B in relation to the implementation of changes to rating models and processes that were not approved by the RBNZ.

Applying the last RBNZ approved methodologies to the affected exposures as at 30 September 2019 would have decreased Risk Weighted Assets (RWA) by NZ\$47 million (0.05%) in aggregate, which was not sufficient to affect the reported capital ratios.

Affected models and the initial dates of non-compliance are:

- Commercial Property Model Suite (Single Investment, Multi Investment, Hotel Investment, Special Purpose Asset Investment, Single Residential Development, Commercial Development, Englobo Land Pre Development) - 2011
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds) - 2009
- Project and Structured Finance - 2009
- Bank, Country & Sovereigns - 2008

The Bank's model compendium required under section 1.3B of BS2B was found to be non-compliant as it included unapproved model changes.

The first tranche of remediated models was submitted to RBNZ for approval in August 2020, and the second tranche was submitted in November 2020. Remediation of the remaining models is expected to be submitted to RBNZ in 2021.

Further to the above, in May 2020 the Bank identified that its approach to enhancing wholesale risk grades in the presence of a guarantee was not compliant with BS2B. The estimated impact as at 31 March 2020 was an understatement of RWA of NZ\$26 million (0.03%), which is not sufficient to affect the reported capital ratios. The Bank has updated the calculation of RWA as at 30 September 2020 in line with the approach agreed with RBNZ.

b) Condition of Registration 1B – historical non-compliance with BS2B

The Bank has identified one counterparty that had been misclassified as sovereign, inconsistent with the definition in BS2B paragraph 4.5, since December 2017. The estimated impact as at 31 March 2020 was an understatement of RWA of NZ\$383 million (0.38%), and an overstatement of the Banking Group's capital ratios of 0.05%. This issue was corrected for the calculation of RWA from 30 April 2020, and did not result in non-compliance with the Bank's conditions of registration over the year ended 30 September 2020. However, until 31 December 2018, Condition of Registration 1B required compliance with all aspects of BS2B and, as a result, the Bank had not complied with Condition of Registration 1B in respect of this matter between December 2017 and 31 December 2018.

c) Condition of Registration 5 - Exposures to connected persons not on more favourable terms (BS8)

As first reported in the disclosure statement for the year ended 30 September 2019, from time to time, the Bank provides a guarantee or standby letter of credit to a third party in respect of an obligation of a customer of the Ultimate Parent Bank. The Ultimate Parent Bank provides a counter-guarantee or standby letter of credit to the Bank, giving the Bank recourse directly to the Ultimate Parent Bank if the guarantee or standby letter of credit the Bank provides in respect of the customer's obligations is called upon. The Bank charges the Ultimate Parent Bank a fee for this service. However, through an internal review, the Bank identified that since January 2014 this fee had been lower than the fee charged for this same service provided to unrelated banks and, as a result, the Bank has not complied with condition of registration 5.

The Bank has implemented a revised pricing methodology for all new transactions entered into from 1 January 2020. The Bank has also retrospectively applied the revised pricing methodology to all such transactions, including those where the Bank has provided a similar counter-guarantee or standby letter of credit to the Ultimate Parent Bank, that were active during the year ended 30 September 2020, resulting in additional net income of less than NZ\$1 million.

d) Condition of Registration 13 - Liquidity ratios (BS13)

The following were reported as matters of non-compliance with BS13 in the disclosure statement for the year ended 30 September 2019. These matters were not sufficient to affect the reported liquidity ratios.

- The liquidity ratio calculation system and the system of record for certain bond liabilities and certain swaps calculate future cash flows differently. The difference had been known since 2017. Processes have been updated with effect from 31 January 2020 to ensure the calculations comply with BS13.
- Since 2010, the Bank has calculated the next cash inflow on variable-rate housing loans based on a current wholesale rate plus the existing margin rather than using the current interest rate. The Bank has sought further guidance from the RBNZ on this matter (refer to *f*) below) as the appropriate process is a matter of interpretation of BS13.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

e) Condition of Registration 21 – Outsourcing (BS11 updated April 2020)

BS11 requires the Bank to have a compendium of information about outsourcing arrangements.

- During the year ended 30 September 2020, the Bank identified the following instances of data discrepancies in relation to the compendium: 146 data errors; 10 arrangements not entered into the compendium within 20 working days; and 12 instances of incomplete information recorded against arrangements in the compendium. The matters were assessed by the RBNZ as relatively minor and were all corrected during the year ended 30 September 2020. As at the date of last issue to the RBNZ (14 September 2020), the Bank's Condition of Registration 21 compendium contained 132 remediated arrangements with a total of 2,112 data fields.
- In August 2020, the RBNZ notified the Bank that omitting upfront costs in certain entries in the Bank's 2019 compendium without formal dispensation was a relatively minor breach of BS11. Upfront costs were included in the Bank's updated compendium submitted to the RBNZ in September 2020.

BS11 requires the Bank to apply specified risk mitigants against each outsourcing arrangement.

- During the year ended 30 September 2019, the Bank outsourced two arrangements to the Overseas Banking Group without the required prescribed contractual terms. These arrangements were remediated in December 2019.
- During the six months ended 31 March 2020, one of the Bank's independent third party contracts expired nine days before a replacement contract was entered into. During those nine days the relevant outsourcing arrangement did not include the prescribed contractual terms.
- During the year ended 30 September 2020, the Bank outsourced one arrangement to the Overseas Banking Group without the required prescribed contractual terms. This arrangement was remediated in June 2020.

f) Other matters relating to potential non-compliance with the conditions of registration

There are several matters under review, including the calculation of the liquidity ratios (under BS13 and BS13A), and the measurement of security indicators for commercial customers with home loans (under BS2B, but not considered to affect compliance with the current conditions of registration), where there may be more than one interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation the Bank has applied, where appropriate, it has sought further guidance from the RBNZ on these matters. In the Bank's current view, the potential impact of the application of other interpretations is immaterial to reported ratios.

Other material matters

RBNZ review of capital requirements

Between May 2017 and December 2019, the RBNZ conducted a comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks. The RBNZ's final decisions on the capital review as they relate to the Bank are set out below. In response to the COVID-19 pandemic, the RBNZ has delayed the start date for the increased capital requirements to support credit availability, with further delays possible if the conditions warrant it. The new regime is expected to be implemented in stages from 1 July 2021.

- The Banking Group's total capital requirement will increase to 18% of RWA, including tier 1 capital of at least 16% of RWA. Up to 2.5% of the tier 1 capital requirement can be made up of additional tier 1 (AT1) capital, with the remainder of the tier 1 requirement made up of common equity tier 1 (CET1) capital. The increased capital ratios requirement will be implemented progressively from 1 July 2022 to 1 July 2028. AT1 capital must consist of perpetual preference shares, which may be redeemable. The total capital requirement can also include tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The tier 1 capital requirement will include a CET1 prudential capital buffer of 9% of RWA. This will include: a 2% domestic, systemically important bank capital buffer; a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and a 5.5% capital conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at 30 September 2020, the Bank had approximately NZ\$2,741 million of AT1 instruments that will progressively lose eligible regulatory capital treatment over a seven year transition period from 1 July 2021 to 1 July 2028.
- As an internal ratings based approach accredited bank, the Banking Group's RWA outcomes will be increased to approximately 90% of what would be calculated under the standardised approach. This will be achieved by applying an 85% output floor from 1 January 2022, and increasing the credit RWA scalar from 1.06 to 1.20 from 1 October 2022.
- The Banking Group will be required to report RWA, and resulting capital ratios, using both the internal models and the standardised approaches from 1 January 2022.

The RBNZ's reforms will result in a material increase in the level of capital that the Banking Group is required to hold, although the amount of the increase is currently uncertain. The reforms could have a material impact on the Banking Group and its business, including on its capital allocation and business planning.

The Banking Group has started preparing for the changes. Since 30 September 2018, CET1 capital has increased by NZ\$2.9 billion to NZ\$11.9 billion at 30 September 2020 and total capital has increased by NZ\$2.8 billion to NZ\$14.7 billion.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Credit rating

As at 17 November 2020 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 9 July 2019, S&P Global Ratings changed the outlook on the Bank from Negative to Stable. On 17 July 2019, Fitch Ratings changed the outlook on the Bank from Stable to Negative. On 7 April 2020, Fitch Ratings changed the rating on the Bank from AA- to A+ and S&P Global Ratings changed the outlook on the Bank from Stable to Negative.

The Bank's credit ratings are:

Rating agency	Credit rating	Qualification
S&P Global Ratings	AA-	Outlook Negative
Fitch Ratings	A+	Outlook Negative
Moody's Investors Service	A1	Outlook Stable

The following table describes the credit rating grades available:

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Historical summary of financial statements

Income statement

	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m	2017 NZ\$m	2016 NZ\$m
For the year ended 30 September					
Interest income	5,568	6,423	6,390	6,198	6,423
Interest expense	(2,306)	(3,179)	(3,240)	(3,161)	(3,421)
Net interest income	3,262	3,244	3,150	3,037	3,002
Non-interest income	807	946	1,126	938	852
Operating income	4,069	4,190	4,276	3,975	3,854
Operating expenses	(1,752)	(1,608)	(1,517)	(1,468)	(1,599)
Credit impairment charge	(403)	(101)	(55)	(62)	(150)
Profit before income tax	1,914	2,481	2,704	2,445	2,105
Income tax expense	(541)	(662)	(751)	(680)	(570)
Profit after income tax	1,373	1,819	1,953	1,765	1,535

Balance sheet

	2020 NZ\$m	2019 NZ\$m	2018 NZ\$m	2017 NZ\$m	2016 NZ\$m
As at 30 September					
Total assets	179,744	169,416	159,012	153,973	160,819
Total individually impaired assets	361	285	321	357	426
Total impaired assets (i.e. Stage 3)	1,169	729	n/a	n/a	n/a
Total liabilities	163,875	154,986	145,903	141,192	148,109
Equity	15,869	14,430	13,109	12,781	12,710
<i>Other items included in Equity</i>					
Dividends paid	(9)	(411)	(4,611)	(1,695)	(1,363)
Share capital issued	-	-	3,000	-	-

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

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group is included in Note 28 Commitments and Contingent Liabilities.

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2020 NZ\$m	2019 NZ\$m
Total interest earning and discount bearing assets	165,332	153,298
Total interest and discount bearing liabilities	136,036	129,494

Additional information on interest rate sensitivity

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

	Total NZ\$m	Up to 3 months NZ\$m	Over 3 to 6 months NZ\$m	Over 6 to 12 months NZ\$m	Over 1 to 2 years NZ\$m	Over 2 years NZ\$m	Not bearing interest ¹ NZ\$m
2020							
Assets							
Cash and cash equivalents	8,248	7,973	-	-	-	-	275
Settlement balances receivable	378	-	-	-	-	-	378
Collateral paid	1,394	1,394	-	-	-	-	-
Trading securities	12,797	2,957	663	949	394	7,834	-
Derivative financial instruments	9,702	-	-	-	-	-	9,702
Investment securities	9,893	801	213	363	734	7,781	1
Net loans and advances	132,698	59,322	11,187	38,972	20,563	3,232	(578)
Other financial assets	547	-	-	-	-	-	547
Total financial assets	175,657	72,447	12,063	40,284	21,691	18,847	10,325
Liabilities							
Settlement balances payable	2,950	1,689	-	-	-	-	1,261
Collateral received	1,275	1,275	-	-	-	-	-
Deposits and other borrowings	125,061	79,775	14,420	10,342	2,366	1,274	16,884
Derivative financial instruments	8,252	-	-	-	-	-	8,252
Debt issuances	24,439	3,482	2,846	2,409	3,566	12,136	-
Lease liabilities	298	12	12	21	85	168	-
Other financial liabilities	539	158	-	-	-	-	381
Total financial liabilities	162,814	86,391	17,278	12,772	6,017	13,578	26,778
Hedging instruments	-	12,454	(16,749)	(16,220)	14,946	5,569	-
Interest sensitivity gap	12,843	(1,490)	(21,964)	11,292	30,620	10,838	(16,453)

¹ Excludes non-coupon bearing discount financial assets and financial liabilities which are shown as repricing on their maturity date.

Reconciliation of mortgage related amounts

As at 30 September 2020	Note	NZ\$m
Term loans - housing ¹	11	89,258
Less: fair value hedging adjustment		(10)
Less: housing loans made to corporate customers		(1,798)
Add: unsettled re-purchases of mortgages from the NZ Branch		2
On-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	87,452
Add: off-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	8,866
Total residential mortgage exposures subject to the IRB approach (per LVR analysis)	B4	96,318

¹ Term loans – housing includes loans secured over residential property for owner-occupier, residential property investment and business purposes.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY

Movements in components of loss allowance – total

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - total					
As at 1 October 2019	164	194	42	97	497
Transfer between stages	25	(30)	4	1	-
New and increased provisions (net of collective provision releases)	(2)	206	34	157	395
Write-backs	-	-	-	(34)	(34)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	23	176	38	101	338
Bad debts written-off (excluding recoveries)	-	-	-	(92)	(92)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(9)	(9)
Sale of UDC (refer to Note 26 Divestments)	(25)	(23)	(1)	(14)	(63)
As at 30 September 2020	162	347	79	106	694

Off-balance sheet credit related commitments - total

As at 1 October 2019	60	24	2	11	97
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	17	36	1	11	65
Credit impairment charge	20	33	1	11	65
Sale of UDC (refer to Note 26 Divestments)	(1)	(2)	-	-	(3)
As at 30 September 2020	79	55	3	22	159

Impacts of changes in gross financial assets on loss allowances - total

Gross loans and advances - total

As at 1 October 2019	123,285	9,008	444	285	133,022
Net transfers in to each stage	12	4,503	472	210	5,197
Amounts drawn from new or existing facilities	34,287	1,375	120	191	35,973
Additions	34,299	5,878	592	401	41,170
Net transfers out of each stage	(5,152)	(45)	-	-	(5,197)
Amounts repaid	(29,444)	(2,574)	(225)	(212)	(32,455)
Deletions	(34,596)	(2,619)	(225)	(212)	(37,652)
Amounts written off	-	-	-	(92)	(92)
Sale of UDC (refer to Note 26 Divestments)	(2,878)	(447)	(3)	(21)	(3,349)
As at 30 September 2020	120,110	11,820	808	361	133,099
Loss allowance as at 30 September 2020	162	347	79	106	694

Off-balance sheet credit related commitments - total

As at 1 October 2019	28,491	837	3	19	29,350
Net transfers in to each stage	3	387	7	7	404
New and increased facilities and drawn amounts repaid	9,272	600	16	25	9,913
Additions	9,275	987	23	32	10,317
Net transfers out of each stage	(398)	(6)	-	-	(404)
Reduced facilities and amounts drawn	(7,489)	(198)	(7)	(10)	(7,704)
Deletions	(7,887)	(204)	(7)	(10)	(8,108)
Sale of UDC (refer to Note 26 Divestments)	(378)	(165)	-	-	(543)
As at 30 September 2020	29,501	1,455	19	41	31,016
Loss allowance as at 30 September 2020	79	55	3	22	159

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances are 0.5% of gross balances as at 30 September 2020, up from 0.4% as at 30 September 2019. The NZ\$259 million (43.6%) increase in loss allowances was driven by an increase in the proportion of gross balances in Stage 2 and Stage 3, and changes in the forward looking economic scenarios and changes in probability weightings as described in Note 12 to the financial statements.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – total

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - total					
As at 1 October 2018	160	171	40	130	501
Transfer between stages	29	(40)	3	8	-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121	158
Write-backs	-	-	-	(48)	(48)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	4	23	2	58	87
Bad debts written-off (excluding recoveries)	-	-	-	(106)	(106)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	164	194	42	97	497

Off-balance sheet credit related commitments - total

As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
Credit impairment charge	1	2	-	11	14
As at 30 September 2019	60	24	2	11	97

Impacts of changes in gross financial assets on loss allowances - total

Gross loans and advances - total

As at 1 October 2018	118,878	7,448	331	321	126,978
Net transfers in to each stage	-	1,979	206	203	2,388
Amounts drawn from new or existing facilities	21,123	687	35	105	21,950
Additions	21,123	2,666	241	308	24,338
Net transfers out of each stage	(2,372)	-	-	(16)	(2,388)
Amounts repaid	(14,344)	(1,106)	(128)	(222)	(15,800)
Deletions	(16,716)	(1,106)	(128)	(238)	(18,188)
Amounts written off	-	-	-	(106)	(106)
As at 30 September 2019	123,285	9,008	444	285	133,022
Loss allowance as at 30 September 2019	164	194	42	97	497

Off-balance sheet credit related commitments - total

As at 1 October 2018	28,882	1,198	11	14	30,105
Net transfers in to each stage	38	29	4	14	85
New and increased facilities and drawn amounts repaid	3,896	78	1	-	3,975
Additions	3,934	107	5	14	4,060
Net transfers out of each stage	(31)	(45)	-	(9)	(85)
Reduced facilities and amounts drawn	(4,294)	(423)	(13)	-	(4,730)
Deletions	(4,325)	(468)	(13)	(9)	(4,815)
Amounts written off	-	-	-	-	-
As at 30 September 2019	28,491	837	3	19	29,350
Loss allowance as at 30 September 2019	60	24	2	11	97

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances on gross loans and advances have remained stable at approximately 0.4% of gross loans and advances. Loss allowances have increased by NZ\$10 million (2%) driven by an increase in the proportion of gross loans and advances in Stage 2 and Stage 3, offset by a net decrease in Stage 3 individually assessed exposures as a result of amounts written-off.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - residential mortgages					
As at 1 October 2019	18	25	12	22	77
Transfer between stages	6	(7)	1	-	-
New and increased provisions (net of collective provision releases)	(4)	14	16	7	33
Write-backs	-	-	-	(4)	(4)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge	2	7	17	3	29
Bad debts written-off (excluding recoveries)	-	-	-	(1)	(1)
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	(2)	(2)
As at 30 September 2020	20	32	29	22	103

Off-balance sheet credit related commitments - residential mortgages

As at 1 October 2019	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2020	-	-	-	-	-

Impacts of changes in gross financial assets on loss allowances - residential mortgages

Gross loans and advances - residential mortgages

As at 1 October 2019	79,128	2,475	273	25	81,901
Net transfers in to each stage	-	3,553	272	10	3,835
Amounts drawn from new or existing facilities	23,077	545	59	22	23,703
Additions	23,077	4,098	331	32	27,538
Net transfers out of each stage	(3,835)	-	-	-	(3,835)
Amounts repaid	(17,313)	(714)	(92)	(32)	(18,151)
Deletions	(21,148)	(714)	(92)	(32)	(21,986)
Amounts written off	-	-	-	(1)	(1)
As at 30 September 2020	81,057	5,859	512	24	87,452
Loss allowance as at 30 September 2020	20	32	29	22	103

Off-balance sheet credit related commitments - residential mortgages

As at 1 October 2019	8,232	36	-	-	8,268
Net transfers in to each stage	-	25	-	-	25
New and increased facilities and drawn amounts repaid	1,937	23	-	-	1,960
Additions	1,937	48	-	-	1,985
Net transfers out of each stage	(25)	-	-	-	(25)
Reduced facilities and amounts drawn	(1,351)	(11)	-	-	(1,362)
Deletions	(1,376)	(11)	-	-	(1,387)
Amounts written off	-	-	-	-	-
As at 30 September 2020	8,793	73	-	-	8,866
Loss allowance as at 30 September 2020	-	-	-	-	-

Explanation of how changes in the gross carrying amounts of residential mortgages contributed to changes in loss allowance

While gross balances have increased, and there has been a small increase in the proportion of gross balances in Stage 2 and Stage 3, the NZ\$26 million (33.8%) increase in loss allowances on residential mortgage exposures is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings as described in Note 12 to the financial statements. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 94% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80% (refer to page 97).

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - residential mortgages					
As at 1 October 2018	13	26	7	21	67
Transfer between stages	11	(10)	-	(1)	-
New and increased provisions (net of collective provision releases)	(6)	9	5	7	15
Write-backs	-	-	-	(5)	(5)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge / (release)	5	(1)	5	1	10
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages

As at 1 October 2018	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2019	-	-	-	-	-

Impacts of changes in gross financial assets on loss allowances - residential mortgages

Gross loans and advances - residential mortgages

As at 1 October 2018	73,992	1,948	203	25	76,168
Net transfers in to each stage	-	815	169	25	1,009
Amounts drawn from new or existing facilities	14,769	360	22	6	15,157
Additions	14,769	1,175	191	31	16,166
Net transfers out of each stage	(1,001)	-	-	(8)	(1,009)
Amounts repaid	(8,632)	(648)	(121)	(23)	(9,424)
Deletions	(9,633)	(648)	(121)	(31)	(10,433)
Amounts written off	-	-	-	-	-
As at 30 September 2019	79,128	2,475	273	25	81,901
Loss allowance as at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages

As at 1 October 2018	8,206	26	-	-	8,232
Net transfers in to each stage	-	21	-	-	21
New and increased facilities and drawn amounts repaid	1,107	4	-	-	1,111
Additions	1,107	25	-	-	1,132
Net transfers out of each stage	(21)	-	-	-	(21)
Amounts repaid	(1,060)	(15)	-	-	(1,075)
Deletions	(1,081)	(15)	-	-	(1,096)
Reduced facilities and amounts drawn	-	-	-	-	-
As at 30 September 2019	8,232	36	-	-	8,268
Loss allowance as at 30 September 2019	-	-	-	-	-

Explanation of how changes in the gross carrying amounts of residential mortgages contributed to changes in loss allowance

The NZ\$10 million (14.9%) increase in loss allowances on residential mortgage exposures is primarily driven by an increase in overall gross carrying amounts, and an increase in the proportion of Stage 2 and Stage 3 collectively assessed exposures. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 95% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80%.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - other retail exposures					
As at 1 October 2019	26	51	24	14	115
Transfer between stages	11	(11)	-	-	-
New and increased provisions (net of collective provision releases)	(9)	3	3	71	68
Write-backs	-	-	-	(11)	(11)
Recoveries of amounts previously written off	-	-	-	(18)	(18)
Credit impairment charge / (release)	2	(8)	3	42	39
Bad debts written-off (excluding recoveries)	-	-	-	(60)	(60)
Add back recoveries of amounts previously written off	-	-	-	18	18
Discount unwind	-	-	-	-	-
Sale of UDC (refer to Note 26 Divestments)	(17)	(10)	(1)	(10)	(38)
As at 30 September 2020	11	33	26	4	74

Off-balance sheet credit related commitments - other retail exposures

As at 1 October 2019	17	11	2	-	30
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(1)	5	1	-	5
Credit impairment charge	2	2	1	-	5
As at 30 September 2020	19	13	3	-	35

Impacts of changes in gross financial assets on loss allowances - other retail exposures

Gross loans and advances - other retail exposures

As at 1 October 2019	3,135	305	45	30	3,515
Net transfers in to each stage	12	-	25	18	55
Amounts drawn from new or existing facilities	1,813	28	13	49	1,903
Additions	1,825	28	38	67	1,958
Net transfers out of each stage	(10)	(45)	-	-	(55)
Amounts repaid	(1,904)	(105)	(31)	(12)	(2,052)
Deletions	(1,914)	(150)	(31)	(12)	(2,107)
Amounts written off	-	-	-	(60)	(60)
Sale of UDC (refer to Note 26 Divestments)	(1,655)	(18)	(3)	(14)	(1,690)
As at 30 September 2020	1,391	165	49	11	1,616
Loss allowance as at 30 September 2020	11	33	26	4	74

Off-balance sheet credit related commitments - other retail exposures

As at 1 October 2019	4,578	46	3	-	4,627
Net transfers in to each stage	-	-	4	-	4
New and increased facilities and drawn amounts repaid	1,711	16	14	-	1,741
Additions	1,711	16	18	-	1,745
Net transfers out of each stage	(1)	(3)	-	-	(4)
Reduced facilities and amounts drawn	(470)	(12)	(6)	-	(488)
Deletions	(471)	(15)	(6)	-	(492)
As at 30 September 2020	5,818	47	15	-	5,880
Loss allowance as at 30 September 2020	19	13	3	-	35

Explanation of how changes in the gross carrying amounts of other retail exposures contributed to changes in loss allowance

The NZ\$36 million (24.8%) decrease in loss allowances is primarily driven by the reduction in other retail exposures due to the sale of UDC.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - other retail exposures					
As at 1 October 2018	28	55	25	11	119
Transfer between stages	13	(18)	1	4	-
New and increased provisions (net of collective provision releases)	(15)	14	(2)	84	81
Write-backs	-	-	-	(11)	(11)
Recoveries of amounts previously written off	-	-	-	(20)	(20)
Credit impairment charge / (release)	(2)	(4)	(1)	57	50
Bad debts written-off (excluding recoveries)	-	-	-	(74)	(74)
Add back recoveries of amounts previously written off	-	-	-	20	20
Discount unwind	-	-	-	-	-
As at 30 September 2019	26	51	24	14	115

Off-balance sheet credit related commitments - other retail exposures

As at 1 October 2018	18	10	2	-	30
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	4	-	-	-
Credit impairment charge / (release)	(1)	1	-	-	-
As at 30 September 2019	17	11	2	-	30

Impacts of changes in gross financial assets on loss allowances - other retail exposures

Gross loans and advances - other retail exposures

As at 1 October 2018	3,288	315	48	25	3,676
Net transfers in to each stage	-	-	-	38	38
Amounts drawn from new or existing facilities	472	33	4	69	578
Additions	472	33	4	107	616
Net transfers out of each stage	(32)	-	-	(6)	(38)
Amounts repaid	(593)	(43)	(7)	(22)	(665)
Deletions	(625)	(43)	(7)	(28)	(703)
Amounts written off	-	-	-	(74)	(74)
As at 30 September 2019	3,135	305	45	30	3,515
Loss allowance as at 30 September 2019	26	51	24	14	115

Off-balance sheet credit related commitments - other retail exposures

As at 1 October 2018	4,859	54	4	-	4,917
Net transfers in to each stage	-	8	2	-	10
New and increased facilities and drawn amounts repaid	312	8	-	-	320
Additions	312	16	2	-	330
Net transfers out of each stage	(10)	-	-	-	(10)
Amounts repaid	(583)	(24)	(3)	-	(610)
Deletions	(593)	(24)	(3)	-	(620)
Reduced facilities and amounts drawn	-	-	-	-	-
As at 30 September 2019	4,578	46	3	-	4,627
Loss allowance as at 30 September 2019	17	11	2	-	30

Explanation of how changes in the gross carrying amounts of other retail exposures contributed to changes in loss allowance

Loss allowances have decreased by NZ\$4 million (2.7%) reflecting the reduction in gross carrying amounts, offset by a net increase in Stage 3 individually assessed exposures.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – corporate exposures

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - corporate exposures					
As at 1 October 2019	120	118	6	61	305
Transfer between stages	8	(12)	3	1	-
New and increased provisions (net of collective provision releases)	11	189	15	79	294
Write-backs	-	-	-	(19)	(19)
Recoveries of amounts previously written off	-	-	-	(5)	(5)
Credit impairment charge	19	177	18	56	270
Bad debts written-off (excluding recoveries)	-	-	-	(31)	(31)
Add back recoveries of amounts previously written off	-	-	-	5	5
Discount unwind	-	-	-	(7)	(7)
Sale of UDC (refer to Note 26 Divestments)	(8)	(13)	-	(4)	(25)
As at 30 September 2020	131	282	24	80	517

Off-balance sheet credit related commitments - corporate exposures

As at 1 October 2019	43	13	-	11	67
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	18	31	-	11	60
Credit impairment charge	18	31	-	11	60
Sale of UDC (refer to Note 26 Divestments)	(1)	(2)	-	-	(3)
As at 30 September 2020	60	42	-	22	124

Impacts of changes in gross financial assets on loss allowances - corporate exposures

Gross loans and advances - corporate exposures

As at 1 October 2019	41,022	6,228	126	230	47,606
Net transfers in to each stage	-	950	175	182	1,307
Amounts drawn from new or existing facilities	9,397	802	48	120	10,367
Additions	9,397	1,752	223	302	11,674
Net transfers out of each stage	(1,307)	-	-	-	(1,307)
Amounts repaid	(10,227)	(1,755)	(102)	(168)	(12,252)
Deletions	(11,534)	(1,755)	(102)	(168)	(13,559)
Amounts written off	-	-	-	(31)	(31)
Sale of UDC (refer to Note 26 Divestments)	(1,223)	(429)	-	(7)	(1,659)
As at 30 September 2020	37,662	5,796	247	326	44,031
Loss allowance as at 30 September 2020	131	282	24	80	517

Off-balance sheet credit related commitments - corporate exposures

As at 1 October 2019	15,681	755	-	19	16,455
Net transfers in to each stage	3	362	3	7	375
New and increased facilities and drawn amounts repaid	5,624	561	2	25	6,212
Additions	5,627	923	5	32	6,587
Net transfers out of each stage	(372)	(3)	-	-	(375)
Reduced facilities and amounts drawn	(5,668)	(175)	(1)	(10)	(5,854)
Deletions	(6,040)	(178)	(1)	(10)	(6,229)
Sale of UDC (refer to Note 26 Divestments)	(378)	(165)	-	-	(543)
As at 30 September 2020	14,890	1,335	4	41	16,270
Loss allowance as at 30 September 2020	60	42	-	22	124

Explanation of how changes in the gross carrying amounts of corporate exposures contributed to changes in loss allowance

While there has been a small increase in the proportion of gross balances in Stage 2 and Stage 3, the NZ\$269 million (72.3%) increase in loss allowances is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings as described in Note 12 to the financial statements, partially offset by the reduction in exposures from the sale of UDC and amounts written-off.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – corporate exposures

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - corporate exposures					
As at 1 October 2018	119	90	8	98	315
Transfer between stages	5	(12)	2	5	-
New and increased provisions (net of collective provision releases)	(4)	40	(4)	30	62
Write-backs	-	-	-	(32)	(32)
Recoveries of amounts previously written off	-	-	-	(3)	(3)
Credit impairment charge / (release)	1	28	(2)	-	27
Bad debts written-off (excluding recoveries)	-	-	-	(32)	(32)
Add back recoveries of amounts previously written off	-	-	-	3	3
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	120	118	6	61	305

Off-balance sheet credit related commitments - corporate exposures

As at 1 October 2018	41	12	-	-	53
Transfer between stages	2	(2)	-	-	-
New and increased provisions (net of collective provision releases)	-	3	-	11	14
Credit impairment charge	2	1	-	11	14
As at 30 September 2019	43	13	-	11	67

Impacts of changes in gross financial assets on loss allowances - corporate exposures

Gross loans and advances - corporate exposures

As at 1 October 2018	41,598	5,185	80	271	47,134
Net transfers in to each stage	-	1,164	37	140	1,341
Amounts drawn from new or existing facilities	5,882	294	9	30	6,215
Additions	5,882	1,458	46	170	7,556
Net transfers out of each stage	(1,339)	-	-	(2)	(1,341)
Amounts repaid	(5,119)	(415)	-	(177)	(5,711)
Deletions	(6,458)	(415)	-	(179)	(7,052)
Amounts written off	-	-	-	(32)	(32)
As at 30 September 2019	41,022	6,228	126	230	47,606
Loss allowance as at 30 September 2019	120	118	6	61	305

Off-balance sheet credit related commitments - corporate exposures

As at 1 October 2018	15,817	1,118	7	14	16,956
Net transfers in to each stage	38	-	2	14	54
New and increased facilities and drawn amounts repaid	2,477	66	1	-	2,544
Additions	2,515	66	3	14	2,598
Net transfers out of each stage	-	(45)	-	(9)	(54)
Reduced facilities and amounts drawn	(2,651)	(384)	(10)	-	(3,045)
Deletions	(2,651)	(429)	(10)	(9)	(3,099)
Amounts written off	-	-	-	-	-
As at 30 September 2019	15,681	755	-	19	16,455
Loss allowance as at 30 September 2019	43	13	-	11	67

Explanation of how changes in the gross carrying amounts of corporate exposures contributed to changes in loss allowance

The NZ\$4 million (1.1%) increase in loss allowances on corporate exposures was primarily driven by an increase in the proportion of Stage 2 collectively assessed exposures, offset by a net decrease in Stage 3 individually assessed exposures.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Past due assets

	2020				2019			
	Residential mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m	Residential mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
Less than 30 days past due	313	88	549	950	505	177	413	1,095
At least 30 days but less than 60 days past due	86	15	104	205	141	32	85	258
At least 60 days but less than 90 days past due	106	10	15	131	162	18	13	193
At least 90 days past due	470	35	18	523	263	30	31	324
Total past due but not individually impaired	975	148	686	1,809	1,071	257	542	1,870

Other asset quality information

Undrawn facilities with individually impaired customers	-	-	41	41	-	-	19	19
Other assets under administration	3	1	-	4	2	2	-	4

Asset quality for financial assets designated at fair value

The Banking Group does not have any loans and advances designated at fair value through profit or loss.

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED)

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	2020	2019	2020	2019
Common equity tier 1 capital	4.5%	11.7%	10.8%	11.3%	9.7%
Tier 1 capital	6.0%	14.4%	13.6%	14.0%	12.6%
Total capital	8.0%	14.4%	13.6%	14.0%	12.6%
Buffer ratio	2.5%	6.4%	5.6%	n/a	n/a

Capital of the Banking Group

As at 30 September 2020	Note	NZ\$m
Tier 1 capital		
<i>Common equity tier 1 (CET1) capital</i>		
Paid up ordinary shares issued by the Bank	21	11,588
Retained earnings (net of appropriations)		3,863
Accumulated other comprehensive income and other disclosed reserves ¹	21	118
<i>Less deductions from common equity tier 1 capital</i>		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,092)
Deferred tax assets less deferred tax liabilities relating to temporary differences		(356)
Cash flow hedge reserve		(110)
Expected losses to the extent greater than total eligible allowances for impairment		(79)
Common equity tier 1 capital		11,932
<i>Additional tier 1 capital</i>		
Preference shares ²	21	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN) ³	14	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN) ³	14	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2) ³	14	938
Retained earnings of the Bonus Bonds Scheme ⁴		100
<i>Less deductions from additional tier 1 capital</i>		
Surplus retained earnings of the Bonus Bonds Scheme ⁴		(91)
Additional tier 1 capital		2,750
Total tier 1 capital		14,682
Tier 2 capital		-
Total capital		14,682

¹ Includes the cash flow hedging reserve of NZ\$110 million plus the investment securities revaluation reserve of NZ\$8 million as at 30 September 2020.

² Classified as equity on the balance sheet under NZ GAAP.

³ Classified as a liability on the balance sheet under NZ GAAP.

⁴ Bonus Bonds Scheme is not consolidated on the balance sheet under NZ GAAP but is classified as AT1 capital for capital adequacy purposes as set out in BS2B.

Capital requirements of the Banking Group

As at 30 September 2020	Total exposures after credit risk mitigation NZ\$m	Risk weighted exposure or implied risk weighted exposure ¹ NZ\$m	Total capital requirement NZ\$m
Total credit risk	204,847	68,772	5,502
Operational risk	n/a	10,139	811
Market risk	n/a	9,405	752
Supervisory adjustment	n/a	13,974	1,118
Total	n/a	102,290	8,183

¹ The calculation of capital requirements for total credit risk weighted includes a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk subject to the Internal Ratings Based (IRB) approach

IRB credit exposures by exposure class and customer credit rating

As at 30 September 2020	Probability of default %	Total value NZ\$m	Exposure at default NZ\$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted assets NZ\$m	Minimum capital requirement NZ\$m
Corporate							
0 - 2	0.05	64,427	5,670	62	33	1,976	158
3 - 4	0.33	44,381	23,272	38	43	10,664	853
5	1.00	12,940	10,957	32	56	6,547	524
6	2.30	4,502	4,247	33	77	3,479	278
7 - 8	17.48	1,942	1,603	41	179	3,049	244
Default	100.00	650	649	41	143	981	79
Total corporate exposures	2.62	128,842	46,398	39	54	26,696	2,136
Sovereign							
0	0.01	33,412	18,057	5	1	232	19
1 - 8	0.33	86	85	5	5	4	-
Total sovereign exposures	0.01	33,498	18,142	5	1	236	19
Bank							
1	0.03	53,206	4,022	38	35	1,489	119
2 - 4	0.05	2,326,881	5,768	65	27	1,678	134
5 - 8	1.05	1	1	65	108	1	-
Total bank exposures	0.04	2,380,088	9,791	54	31	3,168	253
Residential mortgages							
0 - 3	0.20	31,240	31,624	12	5	1,829	146
4	0.45	39,362	39,507	20	16	6,606	528
5	0.91	21,081	21,171	24	32	7,198	576
6	1.96	3,825	3,828	26	59	2,391	191
7 - 8	4.65	268	268	26	91	257	21
Default	100.00	542	542	18	10	58	5
Total residential mortgages exposures	1.10	96,318	96,940	18	18	18,339	1,467
Other retail							
0 - 2	0.10	549	552	77	49	289	23
3 - 4	0.26	4,652	4,739	78	55	2,765	221
5	1.10	1,172	1,180	78	83	1,036	83
6	2.66	725	757	83	108	868	69
7 - 8	8.43	880	914	88	137	1,325	106
Default	100.00	62	62	82	40	26	3
Total other retail exposures	2.26	8,040	8,204	79	73	6,309	505
Total credit risk exposures subject to the IRB approach	1.38	2,646,786	179,475	27	29	54,748	4,380

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

IRB credit exposures include the following undrawn commitments and other off-balance sheet amounts:

	Total value NZ\$m	Exposure at default NZ\$m
As at 30 September 2020		
Undrawn commitments and other off-balance sheet amounts excluding market related contracts		
Corporate	13,249	12,595
Sovereign	73	72
Bank	1,325	1,179
Residential mortgages	8,866	9,313
Other retail	5,245	5,344
Market related contracts		
Corporate	82,388	1,348
Sovereign	15,285	127
Bank	2,373,317	4,239
Residential mortgages	-	-
Other retail	-	-

Additional mortgage information

As required by RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off-balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which have been accepted by the customer.

	On-balance sheet NZ\$m	Off-balance sheet NZ\$m	Total NZ\$m
As at 30 September 2020			
LVR range			
Does not exceed 60%	42,868	6,098	48,966
Exceeds 60% and not 70%	19,466	1,304	20,770
Exceeds 70% and not 80%	19,563	1,076	20,639
Does not exceed 80%	81,897	8,478	90,375
Exceeds 80% and not 90%	4,061	147	4,208
Exceeds 90%	1,494	241	1,735
Total	87,452	8,866	96,318

Specialised lending subject to the slotting approach

	Total exposures after credit risk mitigation NZ\$m	Risk weight %	Risk weighted assets NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
As at 30 September 2020				
On-balance sheet exposures				
Strong	4,895	70	3,632	291
Good	6,350	90	6,058	485
Satisfactory	539	115	657	53
Weak	58	250	153	11
Default	10	-	-	-

	Exposure at default NZ\$m	Average risk weight %	Risk weighted assets NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
As at 30 September 2020				
Off-balance sheet exposures				
Undrawn commitments and other off-balance sheet exposures	1,572	89	1,485	119

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

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk exposures subject to the standardised approach

As at 30 September 2020	Total exposure after credit risk mitigation NZ\$m	Average risk weight %	Risk weighted exposure NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
On-balance sheet exposures				
Cash and gold bullion	187	-	-	-
Sovereign and central banks	7,108	-	-	-
Multilateral development banks and other international organisations	-	-	-	-
Public sector entities	-	-	-	-
Banks	-	-	-	-
Corporate	1,471	7	110	9
Residential mortgages	-	-	-	-
Past due assets	-	-	-	-
Other assets	1,301	100	1,379	110

As at 30 September 2020	Total exposure or principal amount NZ\$m	Average credit conversion factor %	Credit equivalent amount NZ\$m	Average risk weight %	Risk weighted exposure NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
Off-balance sheet exposures						
Undrawn commitments and other off-balance sheet exposures	596	68	409	100	433	35
Market related contracts						
Foreign exchange contracts	-	n/a	-	-	-	-
Interest rate contracts	883,549	n/a	1,290	8	112	9
Other - OTC etc	-	n/a	-	-	-	-

Equity exposures

As at 30 September 2020	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-

Credit risk mitigation

Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

As at 30 September 2020	For portfolios subject to the standardised approach: total value of exposures covered by eligible financial collateral (after haircut) NZ\$m	For all portfolios: total value of exposures covered by guarantees or credit derivatives ¹ NZ\$m
Exposure class		
Sovereign	-	-
Bank	-	-
Corporate (including specialised lending)	-	861
Residential mortgage	-	-
Other	-	-

¹ Covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures.

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Operational risk

As required by its conditions of registration, the Banking Group uses the standardised approach to the calculation of its operational risk capital requirement. As at 30 September 2020, the Banking Group had an implied risk weighted exposure of NZ\$10,139 million for operational risk and an operational risk capital requirement of NZ\$811 million.

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 30 September 2020.

	Implied risk weighted exposure		Aggregate capital charge	
	Period end	Peak	Period end	Peak
As at 30 September 2020	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Interest rate risk	9,392	9,698	751	776
Foreign currency risk	12	138	1	11
Equity risk	1	1	-	-

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration. Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk and software risk. The Banking Group's internal capital allocation for these other material risks is NZ\$293 million. (2019: NZ\$272 million).

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2020	2019	2020	2019
Common equity tier 1 capital	11.3%	11.4%	11.2%	11.4%
Tier 1 capital	13.2%	13.2%	13.2%	13.4%
Total capital	16.4%	15.3%	16.7%	15.7%

The Ultimate Parent Bank and the Overseas Banking Group are required to hold minimum capital as determined by APRA, which is at least equal to that specified under the Basel III capital framework.

APRA has authorised the Ultimate Parent Bank and the Overseas Banking Group to use:

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. There are however small portfolios (mainly retail and local corporates in Asia Pacific) where the Overseas Banking Group applies the standardised approach.
- the AMA for the operational risk weighted asset equivalent.

The Overseas Banking Group exceeded the minimum capital requirements set by APRA as at 30 September 2020 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2020. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2020, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Regulatory liquidity ratios

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank's liquid assets, adjusted for expected cash inflows and outflows during a 1-month or 1-week period of stress. It is expressed as a ratio over the bank's total funding. The Banking Group must maintain its 1-month and 1-week mismatch ratios above zero on a daily basis. The 1-month and 1-week mismatch ratios are averaged over the quarter.

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. From 2 April 2020, the minimum amount of core funding was lowered from 75% to 50% of a bank's total loans. The Banking Group must maintain its core funding ratio above the regulatory minimum on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	30 Sep 20	30 Jun 20
Quarterly average 1-week mismatch ratio	9.3%	9.0%
Quarterly average 1-month mismatch ratio	8.3%	8.7%
Quarterly average core funding ratio	90.1%	89.6%

REGISTERED BANK DISCLOSURES

B5. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit exposures to individual counterparties at the reporting date on the basis of actual exposures. Peak end-of-day aggregate credit exposures are measured on the basis of internal limits that were not materially exceeded between the reporting date for the previous disclosure statement and the reporting date for the Disclosure Statement.

The exposure information in the table below excludes exposures to:

- connected persons (i.e. other members of the Overseas Banking Group and Directors of the Bank);
- the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 30 Sep 20	Peak end of day over 6 months to 30 Sep 20
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	1	3
with a long-term credit rating of A- or A3 or above, or its equivalent	1	3
- 10% to less than 15% of CET1 capital	1	2
- 15% to less than 20% of CET1 capital	-	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1	2	4
with a long-term credit rating of A- or A3 or above, or its equivalent	2	4
- 10% to less than 15% of CET1 capital	1	3
- 21% to less than 25% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

B6. CREDIT EXPOSURES TO CONNECTED PERSONS

	Connected persons		Non-bank connected	
	Amount NZ\$m	% of Tier 1 Capital	Amount NZ\$m	% of Tier 1 Capital
As at 30 September 2020				
Gross amount, before netting	8,323	56.7%	<\$1m	0.0%
Amount netted	5,960	40.6%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	2,363	16.1%	<\$1m	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2020				
Gross amount, before netting	9,689	68.2%	<\$1m	0.0%
Amount netted	5,551	39.1%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	4,138	29.1%	<\$1m	0.0%

Credit exposures to connected persons

The information on credit exposure to connected persons has been derived in accordance with the RBNZ Banking Supervision Handbook document *Connected Exposures Policy* (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

Peak end-of-day aggregate exposure

Peak end-of-day aggregate credit exposure to connected persons as a ratio to tier 1 capital for the full year accounting period is derived by determining the maximum end-of-day aggregate amount of credit exposure over the accounting period and then dividing that amount by the Banking Group's tier 1 capital as at the reporting date.

Rating contingent limit

The rating-contingent limit that applied to the Banking Group as at 30 September 2020 was 60%. No limit changes have occurred over the year to 30 September 2020. Within the overall rating-contingent limit, there is a sub-limit of 15% of tier 1 capital that applies to the aggregate credit exposure to non-bank connected persons.

Additional requirements for aggregate credit exposure to connected persons

Aggregate credit exposure to connected persons has been calculated on a partial bilateral net basis. The gross amounts and amounts netted off under a bilateral netting agreement are included in the table above. There is a limit of 125% of the Banking Group's tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

Aggregate amount of contingent exposures arising from risk lay-off arrangements

NZ\$264 million of contingent exposures of the Banking Group to connected persons arose from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons) as at 30 September 2020.

Loss allowance for credit-impaired credit exposures to connected persons

There were no loss allowances provided against credit exposures to connected persons as at 30 September 2020.

REGISTERED BANK DISCLOSURES

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

Insurance business

The Banking Group does not conduct any insurance business.

Banking Group's involvement in securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products

a) *Banking Group's involvement in the establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities*

Activity	Details
Custodial	The Banking Group operates three custodians: - ANZ Custodial Services New Zealand Limited, which is the appointed custodian for private banking's (ANZ Private) Discretionary Investment Management Service, Wholesale Investment Services and Trading Service; - ANZ New Zealand Investments Nominees Limited, which is the appointed custodian in respect of direct holdings of securities by various wholesale customer portfolios managed by ANZ New Zealand Investments Limited (ANZ Investments); and - ANZ New Zealand Securities Limited, which, following the sale of the ANZ Securities service to Jarden Securities Limited (Jarden) in December 2018, remains the appointed custodian for a small number of customers who have not yet transferred to Jarden's Direct Broking service.
Funds management	The Banking Group provides the following funds management services: <i>Managed Investment Schemes (MIS)</i>: The Banking Group's subsidiaries ANZ Investments and ANZ Investment Services (New Zealand) Limited (ANZIS) act as manager for a number of managed investment schemes. ANZ Investments holds a MIS Manager licence, with ANZIS being an authorised body under that licence. ANZ Investments is the issuer and manager of ANZ and OneAnswer-branded KiwiSaver, retail and wholesale schemes. ANZIS is the issuer and manager of the Bonus Bonds Scheme and the ANZ PIE Fund. ANZ National Staff Superannuation Limited, also a subsidiary of the Banking Group, is the trustee and manager of the ANZ National Retirement Scheme, which is a restricted workplace savings scheme. <i>Discretionary Investment Management Service (DIMS)</i>: The Bank is a licensed DIMS provider. This service is offered to ANZ Private customers. <i>Other investment portfolios</i>: ANZ Investments also manages investment portfolios for a number of schemes where the scheme manager or trustee has outsourced investment management services to ANZ Investments. These schemes are typically corporate superannuation schemes.
Other fiduciary activities	ANZ Investments, through its subsidiary OneAnswer Nominees Limited, offers the OneAnswer Portfolio Service. The associated administration and custody services are provided by FNZ Limited and FNZ Custodians Limited respectively (together FNZ). FNZ is not a member or related party of the Banking Group.

b) *Banking Group's involvement in the origination of securitised assets, and the marketing or servicing of securitisation schemes*

The Banking Group originates securitised assets in the form of residential mortgage backed securities held for potential repurchase transactions with the RBNZ, and covered bonds. Refer to Note 24 Structured Entities for further details about these programmes. Other than these activities, the Banking Group is not involved in the marketing or servicing of securitisation schemes.

c) *Banking Group's involvement in marketing and distribution of insurance products*

The Banking Group markets and distributes life insurance, other personal and business insurance products provided by or arranged through a number of insurance partners. None of these insurance partners are affiliated insurance entities or affiliated insurance groups. Our insurance partners are:

- Vero Insurance New Zealand Limited for house, contents, car and boat insurance;
- AWP Services New Zealand Limited, trading as Allianz Partners, for travel insurance. Policies are underwritten by Allianz Australia Insurance Limited (incorporated in Australia) trading as Allianz New Zealand;
- Cigna Life Insurance New Zealand Limited for life insurance; and
- Crombie Lockwood (NZ) Limited is our business insurance broker.

The Bank stopped distributing credit card insurance during the year ended 30 September 2019, and stopped distributing travel insurance from 30 October 2020.

Arrangements to ensure no adverse impacts arising from the above activities

Arrangements have been put in place to ensure that difficulties arising from the activities in a), b) and c) above would not impact adversely on the Banking Group. The policies and procedures in place include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (continued)

Amounts represented by funds management and securitisation activities

	2020 NZ\$m	2019 NZ\$m
Funds under management:		
KiwiSaver ¹	16,417	14,781
Bonus Bonds Scheme ²	2,071	3,276
Other managed funds ¹	2,701	2,494
ANZ PIE Fund ²	2,309	2,131
DIMS ³	8,087	8,062
Other investment portfolios ⁴	3,638	3,401
Total funds under management	35,223	34,145
Funds under custodial arrangements	8,353	8,373
Other funds held or managed subject to fiduciary responsibilities ⁵	1,491	1,401
Outstanding securitised assets originated by the Banking Group - carrying amount of covered bonds	4,522	4,460

¹ Managed by ANZ Investments.

² Managed by ANZIS.

³ Managed by the Bank.

⁴ Comprises portfolios managed by ANZ Investments, and the ANZ National Retirement Scheme managed by ANZ National Staff Superannuation Limited.

⁵ Not included in funds under management.

Financial services provided to entities conducting the above activities

Financial services provided by any member of the Banking Group to entities that conduct the activities in a) or b) above are provided on arm's length terms and conditions and at fair value.

Assets purchased from entities conducting the above activities

Over the year ended 30 September 2020, any assets purchased by any member of the Banking Group from entities that conduct the activities in a), b) or c) above have been purchased on arm's length terms and conditions and at fair value.

Funding provided to entities in aggregate and individually

The peak end-of-day aggregate amount of funding provided to entities that provide services relating to the Banking Group's involvement in the above activities over the year ended 30 September 2020 was less than NZ\$0.1 million (2019: less than NZ\$0.1 million) which was 0.0% (2019: 0.0%) of the Banking Group's tier 1 capital and 0.0% (2019: 0.0%) of the total assets of the individual entity.

Method for deriving peak end-of-day amount of funding in aggregate and individually

The peak end-of-day aggregate amount of funding is the maximum end-of-day aggregate amount of funding over the full year accounting period, divided by the Banking Group's tier 1 capital as at the balance date, and the total assets as at the balance date of the individual entity to which the Banking Group has provided funding. Where financial statements for the individual entity are not publicly available, total assets from the publicly available financial statements of the group of which the entity is a member have been used.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES

Information about risk

The success of the Banking Group's strategy is underpinned by our sound management of the Banking Group's risks. All of the Banking Group's activities involve - to varying degrees - the analysis, evaluation, acceptance and management of risks or combinations of risks.



The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework (RMF). The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's risk management policies. The Committee reports regularly to the Board on its activities.

The key pillars of the Banking Group's RMF include:

- the Risk Appetite Statement (RAS), which sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuing its strategic objectives and its business plan; and
- the Risk Management Strategy (RMS), which describes the Banking Group's strategy for managing risks and a summary of the key elements of the RMF that give effect to that strategy. The RMS includes: a description of each material risk; and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies, measures, evaluates, monitors, reports and then either controls or mitigates material risks.

The material risks facing the group per the Banking Group's RMS, and how these risks are managed are summarised below.

Key Material Risks

Each key material risk has an associated RAS, and where applicable, is measured by appropriate metric(s) and associated tolerance(s) representing the maximum level of risk appropriate to execute the Banking Group's strategic agenda. Metrics are prepared and reviewed at least monthly. A risk appetite dashboard is prepared and reviewed by senior management monthly, and presented to the BRC at each meeting.

Risk Type	Description	Managing the Risk
Strategic Risk	Risks that affect or are created by an organisation's business strategy and strategic objectives. Strategic risk might arise from making poor strategic business decisions, from the sub-standard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in a business environment.	We consider and manage strategic risks through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Where the strategy leads to an increase in Key Material Risks (e.g. Credit Risk, Market Risk, Operational Risk) the risk management strategies associated with these risks form the primary controls.
Capital Adequacy Risk	The risk of loss arising from the Banking Group failing to maintain the level of capital required by prudential regulators and other key stakeholders (shareholders, debt investors, depositors, rating agencies, etc.) to support the Banking Group's consolidated operations and risk appetite.	We pursue an active approach to Capital Management through ongoing review, and Board approval, of the level and composition of our capital base against key policy objectives.
Credit Risk	The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies. Includes: • concentrations of credit risk; • intra-day credit risk; • credit risk to bank counterparties; and • related party credit risk.	Our Credit Risk framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle - for example: transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics. The effectiveness of the Credit Risk framework is assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.
Market Risk	The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or • fluctuations in bond, commodity or equity prices.	Our risk management and control framework for Market Risk involves us quantifying the magnitude of market risk within the trading and balance sheet portfolios through independent risk measurement. This identifies the range of possible outcomes, the likely timeframe, and the likelihood of the outcome occurring. Then we allocate an appropriate amount of capital to support these activities. The Banking Group's key tools to measure and manage Market Risk on a daily basis include value at risk, earnings at risk, interest rate sensitivities, market value loss limits and stress testing.

B8. RISK MANAGEMENT POLICIES (continued)

Risk Type	Description	Managing the Risk
Liquidity and Funding Risk	The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: - repaying depositors or maturing wholesale debt; or - the Banking Group having insufficient capacity to fund increases in assets.	Key principles in managing our Liquidity and Funding Risk include: - maintaining our ability to meet liquidity 'survival horizons' under a range of stress scenarios to meet cash flow obligations over a short to medium term horizon; - maintaining a strong structural funding profile; and - maintaining a portfolio of high-quality liquid assets to act as a source of liquidity in times of stress.
Operational Risk	The risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and/or systems; but excludes strategic risk. <i>Compliance Risk</i> The risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to the Banking Group's businesses. <i>Conduct and Reputation Risk</i> The risk of loss that directly or indirectly impacts earnings, capital adequacy or value, that is caused by: - adverse perceptions of the Banking Group held by any of our customers, the community, shareholders, investors, regulators, or rating agencies; - conduct risk associated with the Banking Group's employees or contractors (or both); or the social or environmental (or both) impacts of our lending decisions.	We operate a three-lines-of-defence model to manage Operational Risk, with each line of defence having defined roles, responsibilities and escalation paths to support effective communication and effective management of our operational risk. We also have ongoing review mechanisms to ensure Operational Risk and Compliance Framework continues to meet organisational needs and regulatory requirements. Key features of how we manage Compliance Risk as part of our Operational Risk and Compliance Framework include: - centralised management of key obligations, and emphasis on identifying changes in regulations and the business environment, so as to enable us to proactively assess emerging compliance risks and implement robust reporting and certification processes. - recognition of incident management as a separate element to enhance the Banking Group's ability to identify, manage and report on incidents/breaches in a timely manner. - the Whistleblower Protection Policy allowing employees and contractors to make confidential, anonymous submissions regarding concerns relating to accounting, internal control, compliance, audit and other matters. We manage Conduct and Reputation Risk by maintaining a positive and dynamic culture that: - ensures we act with integrity; and - enables us to build strong and trusted relationships with customers and clients, with colleagues, and with the broader society. We have well established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards that take into account Conduct and Reputation Risk.

Refer to Note 15 Financial Risk Management for the disclosures required under NZ IFRS 7 *Financial Instruments: Disclosures*.

Other Material Risks

Risks where the maximum level of risk is set as part of the Banking Group's ICAAP. These risks do not require the same degree of active or transactional management as the Key Material Risks and are managed and monitored as part of the Banking Group's business, strategic and capital management process. For more information about the Banking Group's ICAAP refer to the section 'Capital for other material risks' in Note B4.

Pension Risk	The risk of the value of investments in a defined benefit pension fund being insufficient to meet liabilities resulting in additional funds being required to match pension liabilities.
Strategic Equity Risk	The risk of financial loss arising from the unexpected reduction in value of equity investments not held in the trading book.
Fixed Asset Risk	The risk of financial loss arising from the negative revaluation of fixed assets owned and leased, caused by adverse changes in business and/or economic conditions. Residual Value Risk is included in the definition of Fixed Assets, which is the risk that the market value of the underlying assets of operating leases may fall below the anticipated residual value.
Deferred Acquisition Risk	The risk of loss arising from the failure of the benefits associated with the acquisition of interest earnings assets to arise due to impairment, transfer, or prepayment.
Software Risk	The risk of financial loss arising from the unexpected accelerated write down of capitalised software expenditure due to diminished future economic benefits caused by adverse business or economic conditions.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Capital adequacy

Refer to Note 22 Capital Management for the disclosures required under NZ IAS 1 *Presentation of financial statements*.

Reviews of the Banking Group's risk management systems

Refer to Note 15 Financial Risk Management for details of the Internal Audit Function's reviews of the Banking Group's RMF. These reviews are not conducted by a party external to the Banking Group or the Ultimate Parent Bank.

Internal Audit Function of the Banking Group

The Banking Group has an Internal Audit Function, refer to Note 15 Financial Risk Management for details.

The nature and scope of the responsibilities of the Audit Committee responsibilities, to which Internal Audit reports, are to assist the Board of Directors by providing oversight and review of:

- the Banking Group's financial reporting principles and policies, controls, systems and procedures;
- the effectiveness of the Banking Group's internal control and risk management framework;
- the work and internal audit standards of Internal Audit which reports directly and solely to the Chair of the Audit Committee;
- the integrity of the Banking Group's financial statements and the independent audit thereof, and the Banking Group's compliance with legal and regulatory requirements in relation thereto;
- any due diligence procedures;
- prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting; and
- any other matters referred to it by the Board.

The Audit Committee is also responsible for:

- the appointment, annual evaluation and oversight of the external auditor;
- annual review of the independence, fitness and propriety, and qualifications of the external auditor;
- compensation of the external auditor; and
- where deemed appropriate, replacement of the external auditor.

In carrying out its responsibilities and duties, the Audit Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

Measurement of impaired assets

Refer to Note 12 Allowance for Expected Credit Losses and Note 15 Financial Risk Management for details of the Banking Group's approach to measurement of impaired assets. Further to this, impairment is assessed monthly, with individual allowances for credit impairment also updated monthly and collective allowances for credit impairment updated quarterly.

Credit risk mitigation

Refer to Note 18 Offsetting for the policies and processes for, and extent of, on-balance sheet netting. The same policies and processes apply to off-balance sheet credit related commitments. No off-balance sheet credit related commitments or guarantees meet the criteria for netting.

As an AIRB bank, the Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

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

Additional information about credit risk

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

The Banking Group adheres to the standards of risk grading and risk quantification as set out for IRB banks in the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

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

- Probability of Default (PD): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.
- Exposure at Default (EAD): The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.
- Loss Given Default (LGD): An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

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

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

B8. RISK MANAGEMENT POLICIES (continued)

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

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

Standardised approach

Exposure Class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by BS2B	Standardised
Equity		Required by BS2B	Standardised
Other assets	All other assets not falling within any of the above classes	Required by BS2B	Standardised

Controls surrounding credit risk rating systems

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

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

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

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

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

DIRECTORS' STATEMENT

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2020, after due enquiry, each Director believes that, except as noted on pages 81 and 82:

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

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 17 November 2020.

Antony Carter



Shayne Elliott



Alison Gerry



Michelle Jablko



Rt Hon Sir John Key, GNZM AC



Mark Verbiest



Antonia Watson



Joan Withers



INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE BANKING GROUP DISCLOSURE STATEMENT

OPINION

We have audited the accompanying consolidated financial statements and registered bank disclosures of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) in section B2, B3, B5, B6, B7 and B8 which comprise:

- the consolidated balance sheet as at 30 September 2020;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

In our opinion, the accompanying consolidated financial statements on pages 4 to 70:

- give a true and fair view of the Banking Group's financial position as at 30 September 2020 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

In our opinion, the registered bank disclosures that are required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and are included in sections B2, B3, B5, B6, B7 and B8 of the Disclosure Statement:

- have been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;
- are in accordance with the books and records of the Banking Group in all material respects; and
- fairly state the matters to which they relate in accordance with those schedules.

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA's (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 section of our report.

Our firm has also provided other services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

EMPHASIS OF MATTER - NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the Disclosure Statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to:

- Capital adequacy;
- Exposures to connected persons; and
- Outsourcing.

Further details of the matters relating to capital adequacy and regulatory liquidity are described below in our qualified review conclusion on the registered bank disclosures in section B4 relating to capital adequacy and regulatory liquidity ratios.

Our opinion on the consolidated financial statements and registered bank disclosures in sections B2, B3, B5, B6, B7 and B8 is not modified in respect of these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

Key changes in the assessment of audit risks

COVID-19

The COVID-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of the provision for credit impairment. All forward looking assumptions are inherently more uncertain during these unprecedented times. While the key audit matter "Allowance for Expected Credit Loss", detailed below, is unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather.

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The key audit matter

Allowance for expected credit losses is a key audit matter due to the significance of the loans and advances balance to the consolidated financial statements and the inherent complexity of the Banking Group's Expected Credit Loss (ECL) models used to measure ECL allowances. These models are reliant on data and a number of estimates including impacts of multiple economic scenarios, and other assumptions such as defining a Significant Increase in Credit Risk (SICR) which in a COVID environment have greater uncertainties.

NZ IFRS 9 requires the Banking Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions, including forward-looking assumptions, of which GDP and unemployment levels are considered key assumptions. Post-model adjustments to the ECL results are also made by the Banking Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging both the economic scenarios used and the judgemental overlays that the Banking Group applies to the ECL results.

The Banking Group's criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Banking Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Banking Group in calculating the ECL, and the associated audit risk.

Additionally, allowances for individually assessed wholesale loans exceeding specific thresholds are individually assessed by the Banking Group. We exercise significant judgement in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Banking Group in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures included assessing the Banking Group's significant accounting policies against the requirements of the accounting standard. KPMG Financial Risk Management and Economic specialists were used in ECL audit procedures as a core part of our audit team.

We tested key controls in relation to:

- The Banking Group's ECL model governance and validation processes which involved assessment of model performance;
- The Banking Group's assessment and approval of the forward looking macroeconomic assumptions and scenario weightings through challenge applied by the Banking Group's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Counterparty risk grading for wholesale loans (larger customer exposures are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, and controls over the monitoring of counterparty credit quality; and
- The Banking Group's oversight of the portfolios, with a focus on controls over delinquency monitoring.

We also tested relevant General Information Technology Controls (GITCs) over the key IT applications used by the Banking Group in measuring ECL allowances, as detailed in the IT systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Re-performing credit assessments of a sample of wholesale loans controlled by the Banking Group's specialist workout and recovery team, who assessed these as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considered the impacts of COVID-19). For each loan sampled, we challenged the Banking Group's CCR and Security Indicator (SI), assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we reviewed the information on the Banking Group's loan file, understood the facts and circumstances of the case with the relationship manager, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment, and comparing data and assumptions used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices and external property sale information;
- Obtaining an understanding of the Banking Group's processes to determine ECL allowances, evaluating the Banking Group's ECL model methodologies against established market practices and criteria in the accounting standards;
- Working with KPMG Financial Risk Management specialists, we assessed the accuracy of the Banking Group's ECL model estimates by re-performing, for a sample of loans, the ECL allowance using our independently driven calculation tools and comparing this to the amount recorded by the Banking Group;
- Working with our KPMG Economic specialists, we challenged the Banking Group's forward-looking macroeconomic assumptions and scenarios

incorporated in the Banking Group's ECL models. We compared the Banking Group's forecast GDP and unemployment rates to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;

- Testing the implementation of the Banking Group's SICR methodology by re-performing the staging calculation for a sample of loans taking into consideration movements in the CCR from loan origination CCR and comparing our expectation to actual staging applied on an individual account level in the Banking Group's ECL model; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We also challenged key assumptions in the components of the Banking Group's post-model adjustments to the ECL allowance balance. This included:

- Assessing the requirement for other additional allowances considering the Banking Group's ECL model and data deficiencies identified by the Banking Group's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;
- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios;
- Assessing the impacts on the modelled ECL and the requirement for out of model adjustments to account for the portion of customers on loan deferral packages that are not aged. We also assessed assumptions used to determine whether a SICR event has occurred; and
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the portfolios against the Banking Group's assessment.

We assessed the appropriateness of the Banking Group's disclosures in the consolidated financial statements using our understanding obtained from our testing and against the requirements of NZ IFRS.

VALUATION OF FINANCIAL INSTRUMENTS

The key audit matter

The fair value of the Banking Group's financial instruments is determined by the Banking Group through the application of valuation techniques which often involve the exercise of judgement and the use of assumption and estimates.

The valuation of Level 2 financial instruments held at fair value is a key audit matter due to the complexity associated with the valuation methodology and models of certain more complex Level 2 financial instruments leading to an increase in subjectivity and estimation uncertainty. Level 2 financial instruments represent 42% of the Banking Group's financial assets carried at fair value and 98% of the Banking Group's financial liabilities carried at fair value.

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

Performing an assessment of the population of financial instruments held at fair value to identify portfolios that have a higher risk of misstatement arising from significant judgment over valuation either due to unobservable inputs or complex models.

We tested the design and operating effectiveness of key controls relating specifically to these financial instruments, including:

- Testing the Banking Group's data validation controls. Controls in relation to Independent Price Verification (IPV), including completeness of portfolios and valuation inputs subject to IPV;
- Controls in relation to model validation at inception and periodically, including assessment of model limitation and assumptions;
- Controls in relation to the review and challenge of daily profit and loss (P&L) by a control function;
- Control over the collateral management process, including review of margin reconciliations with clearing houses; and
- Controls over fair value adjustments (FVAs), including exit price and portfolio level adjustments.

With the assistance of KPMG valuation specialists, we independently revalued a selection of financial instruments and FVAs on level 2 instruments. This involved sourcing independent inputs from market data providers or external sources and using our own valuation models. We challenged the Banking Group where our revaluations significantly differed from the Banking Group's.

We assessed the Banking Group's consolidated financial statement disclosures, including key judgements and assumptions using our understanding obtained from our testing and against NZ IFRS.

IT SYSTEMS AND CONTROLS

The key audit matter

As a major New Zealand bank, the Banking Group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Banking Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Banking Group's IT controls.

How the matter was addressed in our audit

We tested the control environment for key IT applications used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which support the effective operation of technology-enabled business processes. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT environment, including the approach to the Banking Group policy design, review and awareness;

INDEPENDENT AUDITOR'S REPORT

- Design and operating effectiveness testing of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each IT application and the supporting infrastructure;
- Design and operating effectiveness testing of controls in place over change management, including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT applications. We also assessed the appropriateness of users with access to make changes to IT applications across the Banking Group;
- Design and operating effectiveness testing of controls used by the Banking Group's technology teams to schedule system jobs and monitor system integrity;
- Design and operating effectiveness testing of controls related to significant IT application programs per the ANZ Delivery Framework; and
- Design and operating effectiveness testing of automated business process controls including those that enforce segregation of duties between conflicting roles within IT applications, configurations in place to perform calculations, mappings, and flagging of financial transactions, automated reconciliation controls (both between systems, and intra-system) and data integrity of critical system reporting used by us in our audit to select samples and analysis data used by management to generate financial reporting.

PROVISION FOR CUSTOMER REMEDIATION

The key audit matter

The Banking Group has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations, and reviews. This includes provisions for expected refunds to customers and other counterparties, remediation project costs and related customer, counterparty and regulatory claims, penalties, and litigation outcomes.

The provision for customer remediation is a key audit matter due to the judgements required in assessing the Banking Group's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- The number of investigations and the quantum of amounts being paid arising from the present obligations;
- Reliable estimates of the amounts that may be paid arising from investigations, including estimates of related costs; and
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Banking Group's processes for identifying and assessing the potential impact of the investigations into customer remediation payments, related project costs and legal proceedings associated with compliance matters, investigations and reviews from its regulators;
- Enquiring with the Banking Group regarding ongoing legal, and regulatory matters, and investigation into other remediation activities;
- Enquiring with external legal counsel;
- Reading the minutes and other relevant documentation of ANZ Bank New Zealand Limited's Board of Directors and various management committees, and attending ANZ Bank New Zealand Limited's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies;
- For a sample of individual matters, assessing the basis for recognition and measurement of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;
- Testing completeness by evaluating all current customer remediation matters identified by the Banking Group and checking these exposures against the criteria defining a provision or a contingency in the accounting standards; and
- Evaluating the related disclosures using our understanding obtained from our testing and against the requirements of NZ IFRS.

COMPLETENESS AND ACCURACY OF RELATED PARTY DISCLOSURES

The key audit matter

The Banking Group has increased its focus on related party disclosures. We also reassessed the risk of completeness and accuracy of related party disclosures. We consider the increased risk to primarily arise from transactions with key management personnel and their related parties.

How the matter was addressed in our audit

Our audit procedures for related party disclosures included:

- Challenging the Banking Group's definition of related parties and related party transactions;
- Testing the key control over the Banking Group's process for identifying key management personnel, their related parties and their transactions and balances;
- Sample testing the related parties identified, by searching the Directors' Interests Register and public records to identify companies controlled by key management personnel or their close family members;
- Agreeing a sample of key management personnel compensation, transactions and balances identified by the Banking Group to approval documents and source systems;
- Sample testing the Banking Group's core bank system to identify undisclosed balances with key management personnel and their related parties; and
- Evaluating the Banking Group's assertion that key management personnel transactions are on normal commercial terms by testing a sample of transactions and comparing the terms offered to those offered to other employees or customers.

CARRYING VALUE OF GOODWILL

The key audit matter

Carrying value of goodwill is a key audit matter as:

The wide ranging impact of COVID-19 has increased the potential for impairment and our audit effort in this area. Significant judgement was required by the Banking Group as a result of the current COVID-19 environment and the Reserve Bank of New Zealand's increased capital requirements over the period 1 July 2021 to 1 July 2028. COVID-19 has caused significant estimation uncertainty and as a result there is increased judgement in forecasting cash flows and assumptions used in the goodwill impairment assessment.

These conditions and the uncertainty of their continuation increase the risk of inaccurate forecasts or a significantly wider range of possible outcomes and therefore the possibility of goodwill being impaired.

The Banking Group's goodwill impairment assessment is sensitive to small changes in revenue growth rates, terminal growth rates, discount rates, future maintainable earnings, market multiples and control premium assumptions. This drives additional audit effort.

How the matter was addressed in our audit

We involved valuation specialists to supplement our senior team members in assessing this key audit matter.

Working with our valuation specialists, our procedures included:

- In accordance with accounting standards, assessing the reasonableness of the cash-generating units (CGU) to which the Banking Group allocated goodwill;
- Reconciling the movement in goodwill including the reasonableness of the allocation of goodwill to the disposal of UDC and the impairment of goodwill on wind-up of Bonus Bonds;
- Considering the appropriateness of the valuation methods applied by the Banking Group, being value in use (VIU) and fair value less costs of disposal (FVLCD) to perform their annual test for impairment against the requirements of the accounting standards;
- Assessing the integrity of the VIU model and the FVLCD model used by the Banking Group, including the accuracy of the underlying calculation formulae;
- Assessing key assumptions used in the FVLCD model, such as, future maintainable earnings, the control premium comparing the implied multiples from comparable market transactions to the implied multiple used in the model;
- Having considered the reasonableness of the FVLCD model, performing a cross check against the Banking Group's VIU model for each CGU to identify any inconsistencies in assumptions;
- Comparing the forecast cash flows contained in the VIU model to the Banking Group's revised strategic plans, reflecting the low interest rate environment, the increased regulatory minimum capital requirements and COVID-19 impacts;
- Assessing the accuracy of previous Banking Group forecasts to inform our evaluation of forecasts incorporated in the VIU model;
- For each CGU, assessing the Banking Group's key assumptions used in the VIU model, including discount rates, revenue growth rates, and terminal growth rates by comparing to external observable metrics, historical experience, our knowledge of the markets and current market practice;
- Stress testing key VIU assumptions to consider reasonably possible alternatives, including long term OCR forecasts and forecast lending growth;
- Determining with reference to our analysis of both FVLCD and VIU, whether there is sufficient appropriate evidence to support the Banking Group's conclusion that there is no impairment in goodwill associated with any CGU; and
- Assessing the disclosures in the financial statements against the requirements of the accounting standards.

OTHER INFORMATION

The Directors, on behalf of the Banking Group, are responsible for the general disclosures required to be included in the Banking Group's Disclosure Statement in accordance with Schedule 2 of the Order (section B1).

Our opinion on the consolidated financial statements does not cover section B1 (referred to as 'other information') and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B1, B2, B3, B5, B6, B7 AND B8

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5, B6, B7 AND B8

Our objective is:

- to obtain reasonable assurance about whether the Disclosure Statement, including the consolidated financial statements prepared in accordance with Clause 24 of the Order, and registered bank disclosures in section B2, B3, B5, B6, B7 and B8, prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

QUALIFIED REVIEW CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4 RELATING TO CAPITAL ADEQUACY AND REGULATORY LIQUIDITY RATIOS (SECTION B4)

We have reviewed the registered bank disclosures, as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 2020, which are required to be disclosed in accordance with Schedule 11 of the Order.

Based on our review, with the exception of the matter described below, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy and Regulatory Liquidity Ratios, disclosed in section B4 of the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

BASIS FOR QUALIFIED CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the 'Auditor's Responsibilities for the review of the registered bank disclosures in section B4' section of our report.

As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

As described in section B1, the Banking Group has identified that it was not compliant with Condition of Registration 1B in relation to the operation of versions of the following rating models and processes, which were not approved by the Reserve Bank of New Zealand (in some cases since 2008):

- Commercial property Model Suite (single investment, multi-investment, Hotel Investment, Special Purpose Asset investment, Single Residential Development, Englobo Land Pre Development);
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-Life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds);
- Project and Structured Finance; and
- Bank, Country and Sovereigns.

In this respect, the Capital Adequacy Ratios disclosed in section B4 of the Disclosure Statement have not been disclosed in accordance with Schedule 11 of the Order, with section B1 disclosing the Banking Group's calculation of the corresponding impact on risk weighted assets. The Banking Group is working with the Reserve Bank of New Zealand to remediate this matter.

The above matters do not affect the Regulatory Liquidity information, which is also disclosed in section B4.

DIRECTORS' RESPONSIBILITIES FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors, on behalf of the Banking Group, are responsible for the preparation of the registered bank disclosures in section B4, that is required to be prepared in accordance with Schedule 11 of the Order.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE REGISTERED BANK DISCLOSURES IN SECTION B4

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the registered bank disclosures in section B4 is, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISA's (NZ). Accordingly we do not express an audit opinion on the registered bank disclosures in section B4.

USE OF THIS INDEPENDENT AUDITOR'S REPORT

This independent auditor's report is made solely to the shareholder of the Banking Group. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder for our work, this independent auditor's report, or any of the opinions or conclusions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Matt Prichard.

For and on behalf of

A handwritten signature in black ink that reads "KPMG". The letters are stylized and slanted to the right.

KPMG
Auckland

17 November 2020

ANZ BANK NEW ZEALAND LIMITED ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2019
NUMBER 92 | ISSUED DECEMBER 2019



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ANNUAL REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2019

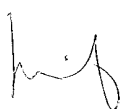
Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Bank has agreed that the Annual Report of the Banking Group need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2019 and the audit report on those financial statements.

For and on behalf of the Board of Directors:



Rt Hon Sir John Key, GNZM AC
Chair
12 December 2019



Mark Verbiest
Independent Non-Executive Director
12 December 2019

GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group, We or Our means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Holdings (New Zealand) Limited.

Ultimate Parent Bank means Australia and New Zealand Banking Group Limited.

Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

New Zealand business means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

NZ Branch means the New Zealand business of the Ultimate Parent Bank.

ANZ New Zealand means the New Zealand business of the Overseas Banking Group.

OnePath means OnePath Life (NZ) Limited.

UDC means UDC Finance Limited.

Registered Office is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

the Order means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

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FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2019 NZ\$m	2018 NZ\$m
Interest income		6,423	6,390
Interest expense		(3,179)	(3,240)
Net interest income	2	3,244	3,150
Other operating income	2	915	972
Net income from insurance business	2	27	149
Share of associates' profit	2	4	5
Operating income		4,190	4,276
Operating expenses	3	(1,608)	(1,517)
Profit before credit impairment and income tax		2,582	2,759
Credit impairment charge	12	(101)	(55)
Profit before income tax		2,481	2,704
Income tax expense	4	(662)	(751)
Profit for the year		1,819	1,953

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2019 NZ\$m	2018 NZ\$m
Profit for the year	1,819	1,953
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	(33)	2
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(31)	(27)
Realised losses transferred to the income statement	14	5
Income tax attributable to the above items	15	6
Other comprehensive income after tax	(35)	(14)
Total comprehensive income for the year	1,784	1,939

BALANCE SHEET

As at 30 September	Note	2019 NZ\$m	2018 NZ\$m
Assets			
Cash and cash equivalents	7	2,363	2,200
Settlement balances receivable		193	656
Collateral paid		2,324	1,919
Trading securities	8	8,942	8,024
Derivative financial instruments	9	11,666	8,086
Investment securities ¹	10	7,027	6,502
Net loans and advances	11	132,525	126,466
Assets held for sale	26	-	897
Investments in associates		-	6
Deferred tax assets	4	77	-
Goodwill and other intangible assets	19	3,276	3,289
Premises and equipment		335	325
Other assets		688	642
Total assets		169,416	159,012
Liabilities			
Settlement balances payable		1,607	2,161
Collateral received		991	845
Deposits and other borrowings	13	113,427	108,008
Derivative financial instruments	9	11,042	8,095
Current tax liabilities		101	161
Deferred tax liabilities		-	21
Liabilities held for sale	26	-	334
Payables and other liabilities		1,159	947
Employee entitlements		138	120
Other provisions	20	314	76
Debt issuances	14	26,207	25,135
Total liabilities		154,986	145,903
Net assets		14,430	13,109
Equity			
Share capital	21	11,888	11,888
Reserves		21	33
Retained earnings		2,521	1,188
Total equity		14,430	13,109

¹ On adoption of NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) on 1 October 2018, the classification and measurement of financial assets were revised. The available-for-sale classification used in comparative periods ceases to exist under NZ IFRS 9 and a new classification of investment securities was introduced. Refer to Note 1 and Note 10 for further details.

For and on behalf of the Board of Directors:



Rt Hon Sir John Key, GNZM AC
Chair
12 December 2019



Mark Verbiest
Independent Non-Executive Director
12 December 2019

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

	Note	2019 NZ\$m	2018 NZ\$m
For the year ended 30 September			
Profit after income tax		1,819	1,953
Adjustments to reconcile to net cash provided by/(used in) operating activities:			
Depreciation and amortisation		81	88
Loss on sale and impairment of premises and equipment		10	4
Net derivatives/foreign exchange adjustment		246	1,150
Proceeds from divestments net of intangibles disposed of, classified as investing activities		(646)	-
Other non-cash movements		(130)	(22)
<i>Net (increase)/decrease in operating assets:</i>			
Collateral paid		(405)	(504)
Trading securities		(918)	(361)
Net loans and advances		(6,059)	(5,927)
Other assets		1,136	(266)
<i>Net increase/(decrease) in operating liabilities:</i>			
Deposits and other borrowings		5,419	5,312
Settlement balances payable		(554)	390
Collateral received		146	232
Other liabilities		53	48
Total adjustments		(1,621)	144
Net cash flows from operating activities¹		198	2,097
Cash flows from investing activities			
Investment securities:			
Purchases		(2,347)	(4,368)
Proceeds from sale or maturity		1,963	4,246
Proceeds from divestments	26	747	-
Other assets		(88)	3
Net cash flows from investing activities		275	(119)
Cash flows from financing activities			
Debt issuances: ²			
Issue proceeds		4,010	3,385
Redemptions		(3,909)	(3,991)
Proceeds from issue of ordinary shares		-	3,000
Dividends paid		(411)	(4,611)
Net cash flows from financing activities		(310)	(2,217)
Net change in cash and cash equivalents		163	(239)
Cash and cash equivalents at beginning of year		2,200	2,439
Cash and cash equivalents at end of year		2,363	2,200

¹ Net cash provided by operating activities includes income taxes paid of NZ\$780 million (2018: NZ\$619 million).

² Movement in debt issuances (Note 14 Debt Issuances) also includes an NZ\$418 million increase (2018: NZ\$1,365 million increase) from the effect of foreign exchange rates, a NZ\$657 million increase (2018: NZ\$246 million decrease) from changes in fair value hedging instruments and a NZ\$104 million decrease (2018: NZ\$16 million increase) of other changes.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ\$m	Investment securities revaluation reserve NZ\$m	Cash flow hedging reserve NZ\$m	Retained earnings NZ\$m	Total equity NZ\$m
As at 1 October 2017		8,888	5	43	3,845	12,781
Profit or loss		-	-	-	1,953	1,953
Unrealised gains / (losses) recognised directly in equity		-	8	(35)	-	(27)
Realised losses transferred to the income statement		-	-	5	-	5
Actuarial gain on defined benefit schemes		-	-	-	2	2
Income tax credit / (expense) on items recognised directly in equity		-	(2)	9	(1)	6
Total comprehensive income for the year		-	6	(21)	1,954	1,939
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary shares issued	21	3,000	-	-	-	3,000
Ordinary dividends paid	5	-	-	-	(4,600)	(4,600)
Preference dividends paid	21	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		3,000	-	-	(4,611)	(1,611)
As at 30 September 2018		11,888	11	22	1,188	13,109
As at 1 October 2018		11,888	11	22	1,188	13,109
Impact on transition to NZ IFRS 9	1	-	-	-	(52)	(52)
As at 1 October 2018 (adjusted)		11,888	11	22	1,136	13,057
Profit or loss		-	-	-	1,819	1,819
Unrealised losses recognised directly in equity		-	(24)	(7)	-	(31)
Realised losses transferred to the income statement		-	-	14	-	14
Actuarial loss on defined benefit schemes		-	-	-	(33)	(33)
Income tax credit / (expense) on items recognised directly in equity		-	7	(2)	10	15
Total comprehensive income for the year		-	(17)	5	1,796	1,784
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	-	-	-	(400)	(400)
Preference dividends paid	21	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(411)	(411)
As at 30 September 2019		11,888	(6)	27	2,521	14,430

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') for the year ended 30 September 2019. The Bank is incorporated and domiciled in New Zealand. The address of the Bank's registered office and its principal place of business is ANZ Centre, 23-29 Albert Street, Auckland, New Zealand.

On 12 December 2019, the Directors resolved to authorise the issue of these financial statements.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Banking Group's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Banking Group's business during the period – for example: business acquisitions or disposals (qualitative factor);
- the information relates to an aspect of the Banking Group's operations that is important to its future performance (qualitative factor); or
- the information is required under legislative requirements of the Financial Markets Conduct Act 2013 or by the Banking Group's principal regulator, RBNZ.

This section of the financial statements:

- outlines the basis upon which the Banking Group's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact the financial statements.

BASIS OF PREPARATION

These financial statements are general purpose (Tier 1) financial statements prepared by a 'for profit' entity, in accordance with the requirements of the Financial Markets Conduct Act 2013. These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice (NZ GAAP), as defined in the Financial Reporting Act 2013;
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities; and
- International Financial Reporting Standards (IFRS).

We present the financial statements of the Banking Group in New Zealand dollars, which is the Banking Group's functional and presentation currency. We have rounded values to the nearest million dollars (NZ\$m), unless otherwise stated.

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except for the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments;
- financial instruments measured at fair value through other comprehensive income (2018: available-for-sale financial assets); and
- financial instruments measured at fair value through profit and loss.

BASIS OF CONSOLIDATION

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the group when we determine that the Bank has control over the entity. Control exists when the Banking Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. We assess power by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity. We have eliminated, on consolidation, the effect of all transactions between entities in the Banking Group.

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as investment securities measured at fair value through other comprehensive income in the investment securities revaluation reserve in equity.



KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Banking Group's accounting policies, management has made a number of judgements and applied estimates and assumptions about future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within the notes to the financial statements.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

NZ IFRS 9 FINANCIAL INSTRUMENTS (NZ IFRS 9)

The Banking Group has applied NZ IFRS 9 from 1 October 2018 (with the exception of the 'own credit' requirements relating to financial liabilities designated as measured at fair value, which were early adopted by the Banking Group effective from 1 October 2013). In addition, the Banking Group chose to early adopt *Prepayment Features with Negative Compensation* (Amendment to NZ IFRS 9) effective from 1 October 2018. NZ IFRS 9 provides an accounting policy choice, which the Banking Group has taken in the current period, to continue to apply the NZ IAS 39 hedge accounting requirements until the International Accounting Standards Board's (IASB) ongoing project on macro hedge accounting is completed.

NZ IFRS 9 and Amendment to NZ IFRS 9 stipulate new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements are outlined within the Financial Assets and Financial Liabilities sections on pages 16 and 29 respectively.

NZ IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (NZ IFRS 15)

The Banking Group adopted NZ IFRS 15 from 1 October 2018 which resulted in changes in accounting policies and adjustments to amounts recognised in the consolidated financial statements. The standard requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis.

The Banking Group has assessed all revenue streams existing at the date of transition to the new standard and determined that the impact of NZ IFRS 15 is immaterial given the majority of the Banking Group's revenues are outside the scope of the standard. The Banking Group has adopted NZ IFRS 15 retrospectively including restatement of prior period comparatives.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2019, and have not been applied by the Banking Group in preparing these financial statements.

The Banking Group has identified five standards where this applies to the Banking Group and further details are set out below:

GENERAL HEDGE ACCOUNTING

NZ IFRS 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks. NZ IFRS 9 provides the Banking Group with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. The Banking Group currently applies the hedge accounting requirements of NZ IAS 39.

NZ IFRS 16 LEASES (NZ IFRS 16)

The Banking Group will adopt NZ IFRS 16 on 1 October 2019 replacing the previous standard NZ IAS 17 *Leases* (NZ IAS 17). NZ IFRS 16 primarily impacts the Banking Group's property and technology leases which were previously classified as operating leases. Under NZ IAS 17, operating leases were not recognised on the balance sheet and rent payments were expensed over the lease term.

Under NZ IFRS 16, lessees must recognise all leases (except for leases of low value assets and short term leases) on the balance sheet under a single accounting model. Accordingly, the Banking Group will recognise its right to use an underlying leased asset over the lease term, as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Banking Group will recognise depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

NZ IFRS 16 only has minor impacts on the Banking Group's lessor arrangements in relation to sale-leaseback transactions which will be implemented prospectively.

The Banking Group will apply the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial and retail leases are measured as if NZ IFRS 16 had always been applied to the leases. For all other leases, the initial ROU asset is measured as equal to the initial lease liability. Based on this transition approach, the Banking Group expects to recognise an increase in liabilities of NZ\$332 million and an increase in assets of NZ\$308 million. This is expected to result in a reduction to opening retained earnings of NZ\$17 million and an increase in deferred tax assets of NZ\$7 million as of 1 October 2019. Comparative information from prior periods will not be restated.

The implementation of NZ IFRS 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease. These estimates may be refined as the Banking Group finalises its implementation of the standard in the first half of the 2020 financial year.

NZ IFRIC INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENTS (NZ IFRIC 23)

In August 2017, the External Reporting Board (XRB) issued NZ IFRIC 23. NZ IFRIC 23 clarifies application and recognition and measurement requirements in NZ IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. NZ IFRIC 23 will apply to the Banking Group from 1 October 2019, and is not expected to have a material impact on the Banking Group.

REVISED CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

In May 2018, the XRB issued a revised Conceptual Framework for Financial Reporting. The new Framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework for Financial Reporting will apply to the Banking Group from 1 October 2020 and is not expected to have a material impact on the Banking Group.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

INTEREST RATE BENCHMARK REFORM

Interbank offered rates (IBORs), such as LIBOR are a key reference rate for derivative, loans and securities for global financial markets. In response to concerns about the transparency and liquidity of IBORs, regulators in a number of jurisdictions across the globe are well advanced in developing benchmark rates to phase out and replace IBORs, these projects are collectively known as 'IBOR Reform'. The IASB are considering the financial reporting implications of IBOR reform which is expected to impact elements of financial instrument accounting, including hedge accounting, loan modifications, fair value methodologies and disclosures.

The IASB project is split into two phases: Phase 1 deals with pre-placement issues (issues affecting financial reporting in the period before the replacement of IBORs); and Phase 2 deals with replacement issues (issues affecting financial reporting when existing IBORs are replaced).

In September 2019, the IASB issued a final standard, Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7, which focuses on 'pre-rate replacement issues' and provides exceptions to specific hedge accounting requirements under IAS 39 and IFRS 9 so that entities will be able to apply those hedge accounting requirements under an assumption that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. In October 2019, XRB adopted these amendments in XRB amending standard *Interest Rate Benchmark Reform*.

Although the Banking Group anticipates the new standard, once adopted, will provide certain relief in relation to hedge accounting requirements, for 30 September 2019 reporting purposes, it has considered the existing portfolio of hedge accounted relationships in light of:

- the significant uncertainty surrounding the methods and timing of transition away from IBORs; and
- ongoing application and reliance in capital markets on IBORs for financial instrument pricing.

As a result of these factors, the Banking Group has concluded that continuation of hedge accounting relationships for potentially impacted hedge relationships remains appropriate. The Banking Group is considering the new standard which is effective on 1 October 2020 but may be adopted earlier.

2. OPERATING INCOME

	Note	2019 NZ\$m	2018 NZ\$m
Net interest income			
Interest income by type of financial asset			
Financial assets at amortised cost		6,062	5,986
Trading securities		203	240
Investment securities		157	159
Financial assets at fair value through profit or loss		1	5
Interest income		6,423	6,390
Interest expense by type of financial liability			
Financial liabilities at amortised cost		(3,134)	(3,168)
Financial liabilities designated at fair value through profit or loss		(45)	(72)
Interest expense		(3,179)	(3,240)
Net interest income		3,244	3,150
Other operating income			
(i) Fee and commission income			
Lending fees		33	32
Non-lending fees		796	795
Commissions		65	46
Funds management income		257	250
Fee and commission income		1,151	1,123
Fee and commission expense		(485)	(463)
Net fee and commission income		666	660
(ii) Other income			
Net foreign exchange earnings and other financial instruments income		117	250
Loss on sale of mortgages to the NZ Branch		-	(1)
Gain on UDC terminated transaction		-	20
Insurance proceeds		-	20
Sale of OnePath	26	66	-
Sale of investment in Paymark Limited (Paymark)	26	39	-
Other		27	23
Other income		249	312
Other operating income		915	972
Net income from insurance business		27	149
Share of associates' profit		4	5
Operating income		4,190	4,276

2. OPERATING INCOME (continued)



RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest income and expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, assets measured at fair value through other comprehensive income or designated at fair value through profit or loss in net interest income. For assets held at amortised cost we use the effective interest rate method to calculate amortised cost. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

We recognise fees and costs, which form an integral part of the financial instruments (for example, loan origination fees and costs), using the effective interest rate method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or financial liability.

OTHER OPERATING INCOME

Fee and commission income

We recognise fees or commissions:

- that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) when the significant act has been completed; and
- charged for providing ongoing services (for example, maintaining and administering existing facilities, funds management services) as income over the period the service is provided.

Net foreign exchange earnings and other financial instruments income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;
- the ineffective portions of fair value hedges and cash flow hedges;
- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading; and
- amounts released from the investment securities revaluation reserve in equity when a debt instrument classified as FVOCI is sold.

NET INCOME FROM INSURANCE BUSINESS

We recognise:

- premiums with a regular due date as income on an accruals basis;
- claims on an accruals basis once our liability to the policyholder has been confirmed under the terms of the contract; and
- change in life insurance contract asset, net of liability for reinsurance, under the Margin of Service (MoS) model.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates in the consolidated financial statements. Under the equity method, the Banking Group's share of the after tax results of associates is included in the income statement and the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING EXPENSES

	2019 NZ\$m	2018 NZ\$m
Personnel		
Salaries and related costs	858	820
Superannuation costs	29	29
Other	35	42
Personnel	922	891
Premises		
Rent	81	82
Other	72	71
Premises	153	153
Technology		
Depreciation and amortisation	48	47
Licences and outsourced services	116	126
Other	41	52
Technology (excluding personnel)	205	225
Other		
Advertising and public relations	47	43
Professional fees	64	45
Freight, stationery, postage and communication	44	44
Charges from Ultimate Parent Bank	60	52
Other	113	64
Other	328	248
Operating expenses	1,608	1,517



RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Banking Group over the period in which an asset is consumed or once a liability is created.

SALARIES AND RELATED COSTS – ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave, and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Banking Group expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Banking Group has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2019 NZ\$m	2018 NZ\$m
Profit before income tax	2,481	2,704
Prima facie income tax expense at 28%	695	757
Tax effect of permanent differences:		
Imputed and non-assessable dividends	(1)	(1)
Sale of OnePath and Paymark	(29)	-
Tax provisions no longer required	(4)	(3)
Non-assessable income and non-deductible expenditure	2	(1)
Subtotal	663	752
Income tax under provided in previous years	(1)	(1)
Income tax expense	662	751
Current tax expense	740	910
Adjustments recognised in the current year in relation to the current tax of previous years	(1)	(1)
Deferred tax income relating to the origination and reversal of temporary differences	(77)	(158)
Income tax expense	662	751
Effective tax rate	26.7%	27.8%



RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except to the extent to which it relates to items recognised directly in equity and other comprehensive income, in which case we recognise directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total dividend NZ\$m
Financial Year 2018		
Dividend paid in March 2018	23.9 cents	800
Dividend paid in April 2018	44.8 cents	1,500
Dividend paid in April 2018	31.0 cents	1,500
Dividend paid in September 2018	12.6 cents	800
Dividends paid during the year ended 30 September 2018		4,600
Financial Year 2019		
Dividend paid in March 2019	6.3 cents	400
Dividends paid during the year ended 30 September 2019		400

IMPUTATION CREDIT ACCOUNT

	2019 NZ\$m	2018 NZ\$m
Imputation credits available	5,660	4,919

The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the New Zealand resident imputation group and other companies in the Banking Group that are not in the New Zealand resident imputation group. The imputation credit balance available includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

6. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

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

Comparative data has been adjusted to reflect a change in the methodology for allocating earnings on capital to each segment, and other minor structure changes. While neutral at the Banking Group level, these changes have impacted net interest income, operating expenses and profit after tax at the segment level.

Retail

Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.

Commercial

Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises, the agricultural business segment, government and government related entities.

Institutional

The Institutional division services governments, global institutional and corporate customers across three product sets: Transaction Banking, Loans & Specialised Finance and Markets.

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- Loans & Specialised Finance provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- Markets provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets in addition to managing the Banking Group's interest rate exposure and liquidity position.

Other

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

6. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

	Retail		Commercial		Institutional		Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
For the year ended 30 September	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Net interest income	1,798	1,817	1,057	1,004	344	320	45	9	3,244	3,150
Net fee and commission income										
- Lending fees	16	16	1	1	16	15	-	-	33	32
- Non-lending fees	714	694	16	19	62	73	4	9	796	795
- Commissions	65	46	-	-	-	-	-	-	65	46
- Funds management fees	257	250	-	-	-	-	-	-	257	250
- Fee and commission expense	(485)	(463)	-	-	-	-	-	-	(485)	(463)
Net fee and commission income	567	543	17	20	78	88	4	9	666	660
Other income	7	6	-	1	172	177	70	128	249	312
Net income from insurance business	19	131	-	-	-	-	8	18	27	149
Share of associates' profits	4	5	-	-	-	-	-	-	4	5
Other operating income	597	685	17	21	250	265	82	155	946	1,126
Operating income	2,395	2,502	1,074	1,025	594	585	127	164	4,190	4,276
Operating expenses	(1,078)	(1,032)	(274)	(258)	(216)	(182)	(40)	(45)	(1,608)	(1,517)
Profit before credit impairment and income tax	1,317	1,470	800	767	378	403	87	119	2,582	2,759
Credit impairment (charge) / release	(47)	(50)	(47)	41	(7)	(46)	-	-	(101)	(55)
Profit before income tax	1,270	1,420	753	808	371	357	87	119	2,481	2,704
Income tax expense	(354)	(396)	(211)	(227)	(104)	(100)	7	(28)	(662)	(751)
Profit after income tax	916	1,024	542	581	267	257	94	91	1,819	1,953
Financial position										
Goodwill ¹	1,039	1,109	1,052	1,052	1,069	1,069	-	-	3,160	3,230
Net loans and advances	81,789	76,843	43,464	42,446	7,270	7,166	2	11	132,525	126,466
Customer deposits	73,866	70,259	16,138	16,842	19,232	16,954	-	-	109,236	104,055

¹ Including items reclassified as held for sale.

OTHER SEGMENT

The Other segment profit after income tax comprises:

	2019 NZ\$m	2018 NZ\$m
Central functions ¹	3	8
Technology and Group Centre ^{2,3}	215	20
Economic hedges	(43)	48
Revaluation of insurance policies from changes in interest rates ³	(81)	15
Total	94	91

¹ Central functions' other income for the year ended 30 September 2018 includes the NZ\$20 million insurance proceeds (Note 2 Operating Income) that were received from a member of the Overseas Banking Group.

² Technology and Group Centre's other income for the year ended 30 September 2019 includes the NZ\$66 million gain on sale of OnePath and the NZ\$39 million gain on sale of Paymark (Note 2 Operating Income).

³ Amounts for the year ended 30 September 2019 include the transfer of NZ\$86 million of accumulated after tax gains previously recognised in revaluation of insurance policies from changes in interest rates to Technology and Group Centre. These gains were transferred upon the sale of OnePath.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL ASSETS



CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under NZ IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows;
- FVOCI: financial assets with contractual cash flows that comprise solely payments of principal and interest only and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- FVTPL: any other financial assets not falling into the categories above are measured at FVTPL.

Fair Value Option for Financial Assets

A financial asset may be irrevocably designated at FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Impact of the transition to NZ IFRS 9 from 1 October 2018

The following table summarises the changes to the measurement classifications on adoption of NZ IFRS 9:

Balance sheet presentation	NZ IAS 39	NZ IFRS 9
Net loans and advances ¹	Loans and receivables	Amortised cost
Investment securities ² (2018: Available-for-sale assets (AFS))	AFS	FVOCI

¹ Refer to Note 12 Allowance for expected credit losses for the change in the carrying amounts on transition to NZ IFRS 9 as at 1 October 2018.

² The carrying amounts did not change on transition to NZ IFRS 9 as at 1 October 2018.

7. CASH AND CASH EQUIVALENTS

	2019 NZ\$m	2018 NZ\$m
Coins, notes and cash at bank	192	204
Securities purchased under agreements to resell in less than 3 months	297	136
Balances with central banks	1,448	1,734
Settlement balances receivable within 3 months	426	126
Cash and cash equivalents	2,363	2,200

8. TRADING SECURITIES

	2019 NZ\$m	2018 NZ\$m
Government securities	4,354	4,696
Corporate and financial institution securities	4,588	3,328
Trading securities	8,942	8,024



RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any revaluation recognised in the profit or loss.



KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to measure the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets 2019 NZ\$m	Liabilities 2019 NZ\$m	Assets 2018 NZ\$m	Liabilities 2018 NZ\$m
Fair value				
Derivative financial instruments - held for trading	10,734	(9,755)	7,746	(7,023)
Derivative financial instruments - designated in hedging relationships	932	(1,287)	340	(1,072)
Derivative financial instruments	11,666	(11,042)	8,086	(8,095)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Banking Group's derivative financial instruments have been categorised as follows:

Trading	Derivatives held in order to: • meet customer needs for managing their own risks. • manage risk in the Banking Group that are not in a designated hedge accounting relationship. • undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in hedging relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • hedges of the Banking Group's exposures to interest rate risk and currency risk. • hedges of other exposures relating to non-trading positions.

TYPES

The Banking Group offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal amount at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which one party exchanges one series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Banking Group offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign exchange	Currencies at current or determined rates of exchange.
Interest rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa, and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Banking Group's derivative financial instruments are held for trading. The fair value of derivative financial instruments held for trading are:

	Assets 2019 NZ\$m	Liabilities 2019 NZ\$m	Assets 2018 NZ\$m	Liabilities 2018 NZ\$m
Fair value				
Interest rate contracts				
Forward rate agreements	6	(6)	5	(4)
Futures contracts	10	(10)	7	(10)
Swap agreements	6,059	(4,671)	4,242	(3,920)
Options purchased	3	-	3	-
Options sold	-	-	-	(1)
Total	6,078	(4,687)	4,257	(3,935)
Foreign exchange contracts				
Spot and forward contracts	2,264	(1,785)	1,179	(889)
Swap agreements	2,340	(3,225)	2,248	(2,146)
Options purchased	35	(1)	34	(3)
Options sold	1	(35)	2	(24)
Total	4,640	(5,046)	3,463	(3,062)
Commodity contracts and credit default swaps	16	(22)	26	(26)
Derivative financial instruments - held for trading	10,734	(9,755)	7,746	(7,023)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group uses two types of hedge accounting relationships:

	Fair value hedge	Cash flow hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: - all changes in the fair value of the underlying item relating to the hedged risk; and - the change in the fair value of the derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.
Recognition of ineffective hedge portion	Recognised immediately in other operating income.	
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.

As outlined in Note 1, the Banking Group has continued to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. However, new hedge disclosures are required in this period under NZ IFRS 7 *Financial Instruments: Disclosures* (NZ IFRS 7) which are presented below. The presentation of derivatives information for 2018 has not been amended.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair value of derivative financial instruments designated in hedging relationships are:

	2019			2018	
	Nominal amount NZ\$m	Assets NZ\$m	Liabilities NZ\$m	Assets NZ\$m	Liabilities NZ\$m
Fair value hedges					
Interest rate swap agreements	25,956	365	(727)	54	(819)
Cash flow hedges					
Interest rate swap agreements	37,730	567	(560)	286	(253)
Derivative financial instruments - designated in hedging relationships	63,686	932	(1,287)	340	(1,072)

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

	Average rate	Less than 3 months NZ\$m	3 to 12 months NZ\$m	1 to 5 years NZ\$m	After 5 years NZ\$m	Total NZ\$m
Nominal amount						
Fair value hedges						
Interest rate	Interest rate 1.88%	-	1,860	15,587	8,509	25,956
Cash flow hedges						
Interest rate	Interest rate 2.22%	531	3,010	30,561	3,628	37,730

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Ineffectiveness			Amount reclassified from the cash flow hedge reserve to profit and loss NZ\$m
	Change in value of hedging instrument NZ\$m	Change in value of hedged item NZ\$m	Hedge ineffectiveness recognised in profit and loss NZ\$m	
2019				
Fair value hedges¹				
Interest rate	459	(464)	(5)	-
Cash flow hedges¹				
Interest rate	(6)	7	1	14

¹ All instruments are held within derivative financial instruments.

Hedge ineffectiveness recognised is classified within other operating income. Reclassification adjustments to the statement of comprehensive income are recognised within net interest income.

Hedged items in relation to the Banking Group's fair value hedges for 30 September 2019 are as follows:

	Balance sheet presentation	Hedged risk	Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
			Assets NZ\$m	Liabilities NZ\$m	Assets NZ\$m	Liabilities NZ\$m
Fixed rate loans and advances	Net loans and advances	Interest rate	1,122	-	-	-
Fixed rate debt issuances	Debt issuances	Interest rate	-	(18,784)	-	(357)
Fixed rate investment securities (FVOCI) ¹	Investment securities	Interest rate	6,745	-	259	-
Total			7,867	(18,784)	259	(357)

¹ The carrying amount of debt instruments at fair value through other comprehensive income does not include the fair value hedge adjustment as the hedged assets are measured at fair value. The accounting for the hedge relationship results in a transfer from other comprehensive income to the income statement.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the balance sheet is less than NZ\$0.1 million.

Hedged items in relation to the Banking Group's cash flow hedges for 30 September 2019 are as follows:

	Hedged risk	Cash flow hedge reserve	
		Continuing hedges NZ\$m	Discontinued hedges NZ\$m
Floating rate loans and advances	Interest rate	516	(1)
Floating rate customer deposits	Interest rate	(465)	(13)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below details the reconciliation of the cash flow hedge by risk type:

	Interest rate NZ\$m
Balance at 1 October 2018	22
Fair value losses	(7)
Transferred to income statement	14
Income taxes	(2)
Balance at 30 September 2019	27

2018 Disclosure

The impact recognised in profit or loss arising from derivative financial instruments designated in hedge accounting relationships, is as follows:

	Hedge accounting type	2018 NZ\$m
Gain/(loss) recognised in other operating income		
Hedged item	Fair value	212
Hedging instrument	Fair Value	(221)



RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired.
Impact on the income statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 19 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Banking Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.



KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to measure the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENT SECURITIES

Period	Security type	2019				2018			
		Government securities NZ\$m	Corporate and financial institution securities NZ\$m	Equity securities NZ\$m	Total NZ\$m	Government securities NZ\$m	Corporate and financial institution securities NZ\$m	Equity securities NZ\$m	Total NZ\$m
Less than 3 months		85	80	-	165	110	19	-	129
Between 3 and 12 months		119	307	-	426	616	162	-	778
Between 1 and 5 years		3,263	1,812	-	5,075	3,134	1,831	-	4,965
Greater than 5 years		1,334	26	-	1,360	458	171	-	629
No maturity		-	-	1	1	-	-	1	1
Total		4,801	2,225	1	7,027	4,318	2,183	1	6,502
<i>Carried on balance sheet at:</i>									
FVOCI ¹		4,801	2,225	1	7,027	-	-	-	-
Available-for-sale assets ¹		-	-	-	-	4,318	2,183	1	6,502
Total		4,801	2,225	1	7,027	4,318	2,183	1	6,502

¹ On adoption of NZ IFRS 9 on 1 October 2018, the classification and measurement of financial assets were revised. The available-for-sale classification used in comparative periods ceases to exist under NZ IFRS 9 and a new classification of investment securities was introduced. Refer to Note 1 for further details.



RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

Investment securities are those financial assets in security form (i.e. transferable debt or equity instruments) that are not held for trading purposes. By way of exception, bills of exchange (a form of security/transferable instrument) which are used to facilitate the Banking Group's customer lending activities are classified as loans and advances (rather than investment securities) to better reflect the substance of the arrangement.

Non-trading equity instruments may be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Assets disclosed as investment securities are subject to the general classification and measurement policy for financial assets outlined at the commencement of the Banking Group's Financial Asset disclosures on page 16.

Policy applicable prior to 1 October 2018

AFS assets comprise non-derivative financial assets which we designate as AFS since we do not hold them principally for trading purposes. They include both equity and debt securities. AFS assets are initially recognised at fair value plus transaction costs and are revalued at least bi-annually. On revaluation, we include movements in fair value within the available-for-sale revaluation reserve in equity, except for certain items which are recognised directly in profit or loss, being interest on debt securities, dividends received, foreign exchange on debt securities and impairment charges.

When we sell the asset, any cumulative gain or loss from the available-for-sale revaluation reserve is recognised in profit or loss.

At each reporting date, we assess whether any AFS assets are impaired. We assess the impairment of any debt securities if an event has occurred which will have a negative impact on the asset's estimated cash flows. For equity securities, we assess if there is a significant or prolonged decline in fair value below cost.

If an AFS asset is impaired, then we remove the cumulative loss related to that asset from the available-for-sale revaluation reserve. We then recognise it in profit or loss for:

- debt instruments, as a credit impairment expense; and
- equity instruments, as a negative impact in other operating income.

We recognise any later reversals of impairment on debt securities in the profit or loss through the credit impairment charge line. However, we do not make any reversals of impairment for equity securities. To the extent previously impaired equity securities recover in value, gains are recognised directly in equity.



KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to measure the fair value of assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

11. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for the Banking Group:

	Note	2019 NZ\$m	2018 NZ\$m
Overdrafts		927	905
Credit cards		1,569	1,644
Term loans - housing		84,007	78,395
Term loans - non-housing		44,586	44,169
Finance lease and hire purchase receivables		1,863	1,791
Subtotal		132,952	126,904
Unearned income		(237)	(239)
Capitalised brokerage/mortgage origination fees		307	313
Gross loans and advances		133,022	126,978
Allowance for expected credit losses	12	(497)	(512)
Net loans and advances		132,525	126,466
Residual contractual maturity:			
- within one year		27,816	26,896
- after more than one year		104,709	99,570
Net loans and advances		132,525	126,466

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ\$739 million as at 30 September 2019 (2018: NZ\$2,210 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.



RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Banking Group provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party.

The Banking Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Banking Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Banking Group's balance sheet, however if substantially all the risks and rewards are transferred, the Banking Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Banking Group derecognises the asset. If control over the asset is not lost, the Banking Group continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

From 1 October 2018, assets disclosed as net loans and advances are subject to the general classification and measurement policy for financial assets outlined at the commencement of the Banking Group's Financial Asset disclosures on page 16. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policies outlined in Note 12.

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

As described in Note 1, the Banking Group adopted NZ IFRS 9 effective from 1 October 2018 which resulted in the application of an expected credit loss (ECL) model for measuring impairment of financial assets and amendments to the presentation of credit impairment information for the current year. Comparative information has not been restated.

ALLOWANCE FOR EXPECTED CREDIT LOSSES – IMPACT OF THE TRANSITION TO NZ IFRS 9

The table below reconciles the closing collective provision for credit impairment for financial assets determined in accordance with NZ IAS 39, and provisions for loan commitments and financial guarantee contracts in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 30 September 2018, and the opening provisions for credit impairment determined in accordance with NZ IFRS 9 as at 1 October 2018.

	Net loans and advances	Off-balance sheet credit related commitments	Total
	NZ\$m	NZ\$m	NZ\$m
Collective provision reconciliation			
As at 30 September 2018	311	71	382
Impact on transition to NZ IFRS 9 ¹	60	12	72
As at 1 October 2018	371	83	454
Collective credit impairment charge	29	3	32
As at 30 September 2019	400	86	486

¹ The increase in allowance for expected credit losses resulted in an increase in deferred tax assets of NZ\$20 million and a decrease in retained earnings of NZ\$52 million.

ALLOWANCE FOR EXPECTED CREDIT LOSSES – BALANCE SHEET

The following tables present the movement in the allowance for ECL for the year ended 30 September 2019.

	Net loans and advances		Off-balance sheet credit related commitments ¹		Total	
	30 Sep 19	30 Sep 18	30 Sep 19	30 Sep 18	30 Sep 19	30 Sep 18
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Provision for credit impairment						
Individual provision ²	97	130	11	-	108	130
Collective provision ³	400	311	86	71	486	382
Total provision for credit impairment	497	441	97	71	594	512

¹ Individual and collective provision relating to off-balance sheet credit related commitments is included in provisions from 1 October 2018.

² Individual provision comprises Stage 3 ECL assessed individually from 1 October 2018.

³ Collective provision comprises Stage 1, 2 and 3 ECL assessed collectively from 1 October 2018.

Net loans and advances - at amortised cost

Allowance for ECL is included in net loans and advances.

	Stage 1		Stage 2		Stage 3		Total
	Stage 1	Stage 2	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
As at 1 October 2018	160	171	40	130			501
Transfer between stages	29	(40)	3	8			-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121			158
Write-backs	-	-	-	(48)			(48)
Recoveries of amounts previously written off	-	-	-	(23)			(23)
Credit impairment charge	4	23	2	58			87
Bad debts written-off (excluding recoveries)	-	-	-	(106)			(106)
Add back recoveries of amounts previously written off	-	-	-	23			23
Discount unwind	-	-	-	(8)			(8)
As at 30 September 2019	164	194	42	97			497

Off-balance sheet credit related commitments - undrawn and contingent facilities

Allowance for ECL is included in other provisions.

As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
Credit impairment charge	1	2	-	11	14
As at 30 September 2019	60	24	2	11	97

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances on gross loans and advances have remained stable at approximately 0.4% of gross loans and advances. Loss allowances have increased by NZ\$10 million (2%) driven by an increase in the proportion of gross loans and advances in Stage 2 and Stage 3, offset by a net decrease in Stage 3 individually assessed exposures as a result of amounts written-off.

2018 Provision for credit impairment disclosure under NZ IAS 39

The below disclosure does not reflect the adoption of NZ IFRS 9 and is prepared under the requirements of the previous NZ IAS 39. All provisions for credit impairment were recognised in net loans and advances until 30 September 2018.

	Net loans and advances NZ\$m	Off-balance sheet credit related commitments NZ\$m	Total NZ\$m
Provision for credit impairment for the year ended 30 September 2018			
Individual provision			
Balance at start of year	152	-	152
New and increased provisions	213	-	213
Write-backs	(83)	-	(83)
Bad debts written off (excluding recoveries)	(149)	-	(149)
Discount unwind	(3)	-	(3)
Total individual provision	130	-	130
Collective provision			
Balance at start of year	343	84	427
Release to profit or loss	(32)	(13)	(45)
Total collective provision	311	71	382
Total provision for credit impairment	441	71	512

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge analysis under NZ IFRS 9.

	2019 NZ\$m
New and increased provisions	
- Collectively assessed	32
- Individually assessed	140
Write-backs	(48)
Recoveries of amounts previously written-off	(23)
Total credit impairment charge	101

2018 credit impairment charge analysis under NZ IAS 39

The below disclosure does not reflect the adoption of NZ IFRS 9 and is prepared under the requirements of the previous NZ IAS 39.

	2018 NZ\$m
New and increased provisions	213
Write-backs	(83)
Recoveries of amounts previously written-off	(30)
Individual credit impairment charge	100
Collective credit impairment release	(45)
Total credit impairment charge	55

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)



RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

The measurement of expected credit losses reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk (SICR) since origination, an allowance equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from default events that are possible within the next 12 months from the reporting date. For instruments with a remaining maturity of less than 12 months, expected credit losses are estimated based on default events that are possible over the remaining time to maturity.
- Stage 2: Where there has been a significant increase in credit risk since origination, an allowance equivalent to lifetime ECL is recognised reflecting expected credit losses resulting from all possible default events over the expected life of a financial instrument. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.
- Stage 3: Where there is objective evidence of impairment, an allowance equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

MEASUREMENT OF EXPECTED CREDIT LOSSES

ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- Probability of default (PD) – the estimate of the likelihood that a borrower will default over a given period;
- Exposure at default (EAD) – the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- Loss given default (LGD) – the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward looking information through the use of macro-economic variables.

EXPECTED LIFE

When estimating ECL for exposures in Stage 2 and 3, the Banking Group considers the expected lifetime over which it is exposed to credit risk.

For non-retail portfolios, the Banking Group uses the maximum contractual period as the expected lifetime for non-revolving credit facilities. For non-retail revolving credit facilities, such as corporate lines of credit, the expected life reflects the Banking Group's contractual right to withdraw a facility as part of a contractually agreed annual review, after taking into account the applicable notice period.

For retail portfolios, the expected lifetime is determined using behavioural term, taking into account expected repayment behaviour and substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Banking Group, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Banking Group's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the income statement.

MODIFIED FINANCIAL ASSETS

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)



RECOGNITION AND MEASUREMENT

SIGNIFICANT INCREASE IN CREDIT RISK

Stage 2 assets are those that have experienced a SICR since origination. In determining what constitutes a SICR, the Banking Group considers both qualitative and quantitative information:

- **Internal credit rating grade**
For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination and is measured by application of thresholds.

For non-retail portfolios, a SICR is determined by comparing the Customer Credit Rating (CCR) applicable to a facility at reporting date to the CCR at origination of that facility. A CCR is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward looking information. CCRs are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

For retail portfolios, a SICR is determined by comparing each facility's scenario weighted lifetime probability of default at the reporting date to the scenario weighted lifetime probability of default at origination. The scenario weighted lifetime probability of default may increase significantly if:
 - there has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
 - there has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.
- **Backstop criteria**
The Banking Group uses 30 days past due arrears as a backstop criteria for both non-retail and retail portfolios. For retail portfolios only, facilities are required to demonstrate three to six months of good payment behaviour prior to being allocated back to Stage 1.

FORWARD LOOKING INFORMATION

Forward looking information is incorporated into both our assessment of whether a financial asset has experienced a significant increase in credit risk since its initial recognition and in our estimate of ECL. In applying forward looking information for estimating ECL, the Banking Group considers four probability-weighted forecast economic scenarios as follows:

- **Base case scenario**
The base case scenario is our view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs the Banking Group's Internal Capital Adequacy Assessment Process (ICAAP) which is the process the Banking Group applies in strategic and capital planning over a 3 year time horizon;
- **Upside and Downside scenarios**
The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over the long term horizons; and
- **Severe downside scenario**
The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

The four scenarios are described in terms of macro-economic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the portfolio and country of the borrower. Examples of the variables include unemployment rates, GDP growth rates, house price indices, commercial property price indices and consumer price indices.

Probability weighting each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.

Where applicable, adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process.

ECL Sensitivity

The table below illustrates the impact on the Banking Group's ECL allowance under scenarios where a 100% weighting is applied to both upside and downside scenarios with all other modelling assumptions remaining constant.

	Collective ECL	Impact
	NZ\$m	NZ\$m
100% upside scenario	371	(115)
100% downside scenario	548	62

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)



RECOGNITION AND MEASUREMENT

Policy applicable prior to 1 October 2018

The Banking Group recognises two types of impairment provisions for its loans and advances:

- individual provisions for significant assets that are assessed to be impaired; and
- collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

	Individually	Collectively
Assessment	If any impaired loans and advances exceed specified thresholds and an impairment event has been identified, then we assess the need for a provision individually.	To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that we do not assess as impaired, we assess them collectively in pools of assets with similar risk characteristics.
Impairment	Loans and advances are assessed as impaired if we have objective evidence that we may not recover principal or interest payments (that is, a loss event has been incurred).	We estimate the provision on the basis of historical loss experience for assets with similar credit risk characteristics to others in the respective collective pool. We adjust the historical loss experience based on current observable data – such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.
Measurement	We measure impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. We record the result as an expense in profit or loss in the period we identify the impairment and recognise a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.	
Uncollectable amounts	If a loan or advance is uncollectable (whether partially or in full), then we write off the balance (and also any related provision for credit impairment). We write off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.	
Recoveries	If we recover any cash flows from loans and advances we have previously written off, then we recognise the recovery in profit or loss in the period the cash flows are received.	
Off-balance sheet amounts	Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.	

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)



KEY JUDGEMENTS AND ESTIMATES

Applicable from 1 October 2018

When estimating the allowance for expected credit losses for loans and advances, we used management's judgement in respect of the matters outlined below.

Key judgements	
Determining when a significant increase in credit risk has occurred	In the measurement of ECL, judgement is involved in setting the rules to determine whether there has been a SICR since initial recognition of a loan, resulting in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement as transition from Stage 1 to Stage 2 increases the ECL calculation from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk combined with transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Banking Group monitors the effectiveness of SICR criteria on an ongoing basis.
Measuring both 12-month and lifetime credit losses	The PD, LGD, and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL. All other things being equal, an increase in the expected behavioural life will increase the amount of ECL.
Forecasting forward-looking scenarios	Our forecast of forward-looking information variables is established from a "base case" or most likely scenario that is used internally by management for planning and forecasting purposes. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2019 are as follows: New Zealand GDP growth is forecast to improve modestly over the forecast period, with the unemployment rate remaining stable. Residential property values are expected to achieve modest levels of growth. Commercial property prices are expected to grow, however, the growth rate is expected to be modest through the forecast period. The consumer price index is expected to rise modestly.
Probability weighting of each scenario	Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are adjustments we use in circumstances where we judge that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.

Applicable prior to 1 October 2018

When we measured impairment of loans and advances, we used management's judgement of the extent of losses at reporting date.

	Individually	Collectively
Key judgements	• estimated future cash flows • business prospects for the customer • realisable value of any collateral • the Banking Group's position relative to other claimants • reliability of customer information • likely cost and duration of recovering loans	• estimated future cash flows • historical loss experience of assets with similar risk characteristics • impact of large concentrated losses inherent in the portfolio • assessment of the economic cycle

We regularly reviewed our key judgements and updated them to reflect actual loss experience.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL LIABILITIES



CLASSIFICATION AND MEASUREMENT

Financial liabilities

Financial liabilities are measured at amortised cost, or fair value through profit or loss (when they are held for trading). Additionally, financial liabilities can be designated at FVTPL where:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains one or more embedded derivatives unless:
 - the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or
 - the embedded derivative is closely related to the host financial liability.

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss. This section of the standard was early adopted by the Banking Group on 1 October 2013.

13. DEPOSITS AND OTHER BORROWINGS

	Note	2019 NZ\$m	2018 NZ\$m
Term deposits		54,984	51,298
On demand and short term deposits		42,329	41,602
Deposits not bearing interest		11,795	10,224
UDC secured investments	17	128	931
Total customer deposits		109,236	104,055
Certificates of deposit		1,484	910
Commercial paper		2,461	2,486
Deposits from banks and securities sold under repurchase agreements		203	517
Deposits from Immediate Parent Company and NZ Branch	27	43	40
Deposits and other borrowings		113,427	108,008
<i>Residual contractual maturity:</i>			
- to be settled within 1 year		109,696	103,492
- to be settled after 1 year		3,731	4,516
Deposits and other borrowings		113,427	108,008
<i>Carried on balance sheet at:</i>			
Amortised cost		110,966	105,522
Fair value through profit or loss (designated on initial recognition)		2,461	2,486
Deposits and other borrowings		113,427	108,008



RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

- are not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designate them as fair value through profit or loss.

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for details of the split between amortised cost and fair value.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Banking Group's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit or loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Banking Group. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the income statement.

14. DEBT ISSUANCES

The Banking Group uses a variety of funding programmes to issue unsubordinated debt (including senior debt and covered bonds) and subordinated debt. The difference between unsubordinated debt and subordinated debt is that holders of unsubordinated debt take priority over holders of subordinated debt owed by the relevant issuer and subordinated debt will be repaid by the relevant issuer only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2019 NZ\$m	2018 NZ\$m
Senior debt	19,307	18,767
Covered bonds	4,460	3,929
Total unsubordinated debt	23,767	22,696
Subordinated debt (Additional Tier 1 capital)	2,440	2,439
Total debt issued	26,207	25,135

TOTAL DEBT ISSUED BY CURRENCY

The table below shows the Banking Group's issued debt by currency of issue, which broadly represents the debt holders' base location.

	2019 NZ\$m	2018 NZ\$m
AUD Australian Dollars	48	45
EUR Euro	8,200	6,740
JPY Japanese Yen	-	36
NZD New Zealand Dollars	6,160	6,654
CHF Swiss Francs	1,522	1,658
USD United States Dollars	10,277	10,002
Total debt issued	26,207	25,135
<i>Residual contractual maturity:</i>		
- to be settled within 1 year	4,580	3,835
- to be settled after 1 year	21,627	21,300
Total debt issued	26,207	25,135

Covered bonds are guaranteed by ANZ NZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZ NZ Covered Bond Trust (the Covered Bond Trust). The Covered Bond Trust is a member of the Banking Group, whereas the Covered Bond Guarantor is not a member of the Banking Group.

SUBORDINATED DEBT

Certain subordinated debt qualifies as regulatory capital for the Banking Group and is classified as Additional Tier 1 (AT1) capital for RBNZ's capital adequacy purposes depending on their term and conditions:

- AT1 Capital: perpetual capital instruments such as:
 - ANZ NZ Capital Notes (ANZ NZ CN);
 - ANZ NZ Internal Capital Notes 1 (ANZ NZ ICN); and
 - ANZ NZ Internal Capital Notes 2 (ANZ NZ ICN2).

NOTES TO THE FINANCIAL STATEMENTS

14. DEBT ISSUANCES (continued)

AT1 Capital

AT1 capital notes are fully paid convertible non-cumulative perpetual subordinated notes. The AT1 capital notes rank equally with each other and with the Bank's preference shares. Holders of AT1 capital notes do not have any right to vote in general meetings of the Bank.

As at 30 September 2019, ANZ NZ CN carried a BB+ credit rating from S&P Global Ratings. On 24 October 2019, S&P Global Ratings revised the credit rating on ANZ NZ CN from BB+ to BBB-.

AT1 capital notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

Interest payments on the AT1 capital notes are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements).

Where specified, AT1 capital notes provide the Bank with an early redemption or conversion option on a specified date and in certain other circumstances (such as a tax or regulatory event). This option is subject to RBNZ's and, in respect of the ANZ NZ CN, APRA's prior written approval.

Each of the AT1 capital notes will immediately convert into a variable number of ordinary shares of the:

- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN and ANZ NZ ICN2); or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number (ANZ NZ CN)

if:

- the Banking Group's, or in the case of the ANZ NZ CN the Overseas Banking Group's Level 2, common equity tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
- RBNZ directs the Bank to convert or write-off the notes or a statutory manager is appointed to the Bank and decides that the Bank must convert or write-off the notes or, in the case of the ANZ NZ CN, APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable - known as a Non-Viability Trigger Event.

Where specified, AT1 capital notes mandatorily convert into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) (based on the net assets per share in the Bank's most recently published Disclosure Statement) or the Ultimate Parent Bank (ANZ NZ CN) (based on the average market value of the shares immediately prior to conversion less a 1% discount):

- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

However, the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

The table below shows the key details of the AT1 capital notes on issue at 30 September in both the current and the prior year:

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount	NZ\$500 million	NZ\$1,003 million	NZ\$938 million
Face value	NZ\$1	NZ\$100	NZ\$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. Resets in May 2020 to a floating rate: (New Zealand 3 month Bank bill rate + 3.5%)	Floating rate: (New Zealand 6 month Bank Bill rate + 3.8%)	Floating rate: (New Zealand 6 month Bank Bill rate + 6.29%)
Issuer's early redemption or conversion option	25 May 2020	24 March 2023	15 June 2026 and each 5th anniversary
Mandatory conversion date	25 May 2022	24 March 2025	n/a
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value as at 30 September 2019 (net of issue costs)	NZ\$499 million	NZ\$1,003 million	NZ\$938 million



RECOGNITION AND MEASUREMENT

Debt issuances are measured at amortised cost. Where the Banking Group enters into a fair value hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Event or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives arise because the amount of shares issued on conversion following any of those trigger events is subject to the maximum conversion number, however they have no value as of the reporting date given the remote nature of those triggering events.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Banking Group's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Banking Group's principal risks.

This note details the Banking Group's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks:

Principal financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk The risk of financial loss from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in financial loss. Credit risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility and correlations; or • fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Foreign currency risk – structural exposure
Liquidity and funding risk The risk that the Banking Group is unable to meet its payment obligations when they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity portfolio management • Funding position • Residual contractual maturity analysis of the Banking Group's liabilities

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under NZ IFRS 7.

The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework (RMF). The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's financial risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Banking Group including:

- the Risk Appetite Statement (RAS), which sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuit of its strategic objectives and business plan; and
- the Risk Management Strategy (RMS), which describes the Banking Group's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies measures, evaluates, monitors, reports and controls or mitigates material risks.

The Banking Group, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At the Banking Group, risk is everyone's responsibility.

The Banking Group has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect the Banking Group's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

Internal Audit Function

Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. Operating under a Board approved Charter, the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the Chief Executive Officer and the external auditor. The Internal Audit Plan is developed using a risk based approach and is reviewed quarterly. The Audit Committee approves the plan.

All audit activities are conducted in accordance with local and international auditing standards, and the results of the activities are reported to the Audit Committee and management. These results influence the performance assessment of business heads. Furthermore, Internal Audit monitors the remediation of audit issues and reports the current status of any outstanding audits.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Banking Group's major sources of income. As this activity is also a principal risk, the Banking Group dedicates considerable resources to its management. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from inter-bank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Banking Group when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Banking Group's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected amount of loan outstanding at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Banking Group can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover such factors as cash cover and sovereign backing. For retail and some small business lending, we group exposures into large homogenous pools – and the LGD is assigned at the pool level.

Our specialist credit risk teams develop and validate the Banking Group's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, internal capital allocation, and credit provisioning.

All customers with whom the Banking Group has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Banking Group's internal CCR to manage the credit quality of financial assets. To enable wider comparisons, the Banking Group's CCRs are mapped to external rating agency scales as follows:

Credit quality description	Internal CCR	The Banking Group customer requirements	Moody's Rating	S&P Global Ratings
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7+ to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 – Caa	B – CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or 'the facility') is classified as defaulted.	n/a	n/a

15. FINANCIAL RISK MANAGEMENT (continued)

The Banking Group has adopted NZ IFRS 9 effective from 1 October 2018 which has resulted in changes to the classification and measurement of financial assets, including the impairment of financial assets. The presentation of credit risk information for 2019 has been amended. Refer to Note 1 for further details on key requirements and impacts of the changes due to the adoption of NZ IFRS 9.

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

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

For the purpose of this note, assets presented as held for sale in the balance sheet have been reallocated to their respective balance sheet categories.

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

	Reported		Excluded ¹ / Other ²		Maximum exposure to credit risk	
	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m
On-balance sheet positions						
Net loans and advances ²	132,525	126,466	-	(71)	132,525	126,537
Other financial assets:						
Cash and cash equivalents	2,363	2,200	192	204	2,171	1,996
Settlement balances receivable	193	656	-	-	193	656
Collateral paid	2,324	1,919	-	-	2,324	1,919
Trading securities	8,942	8,024	-	-	8,942	8,024
Derivative financial instruments	11,666	8,086	-	-	11,666	8,086
Investment securities	7,027	6,502	-	-	7,027	6,502
Other financial assets ^{3,4}	622	719	-	-	622	719
Total other financial assets	33,137	28,106	192	204	32,945	27,902
Subtotal	165,662	154,572	192	133	165,470	154,439
Off-balance sheet commitments						
Undrawn and contingent facilities ^{2,5}	29,253	30,105	-	71	29,253	30,034
Total	194,915	184,677	192	204	194,723	184,473

¹ Excluded comprises bank notes and coins and cash at bank within cash and cash equivalents.

² Other relates to the transfer of individual and collective provisions related to off-balance sheet facilities held in net loans and advances. The provisions are transferred for the purposes of showing the maximum exposure to credit risk by relevant facility type in this and the following tables.

³ Including items reclassified as held for sale.

⁴ Other financial assets mainly comprise accrued interest, insurance receivables and acceptances.

⁵ Undrawn facilities and contingent facilities include guarantees, letters of credit and performance related contingencies, net of allowance for expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

An analysis of the Banking Group's credit risk exposure is presented in the following tables based on the Banking Group's internal rating by stage without account of the effects of any collateral or other credit enhancements.

Net loans and advances

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
As at 30 September 2019					
Strong	95,589	2,270	-	-	97,859
Satisfactory	26,402	4,621	-	-	31,023
Weak	1,224	2,117	-	-	3,341
Defaulted	-	-	444	285	729
Subtotal	123,215	9,008	444	285	132,952
Allowance for ECL	(164)	(194)	(42)	(97)	(497)
Net loans and advances at amortised cost	123,051	8,814	402	188	132,455
Coverage ratio	0.13%	2.15%	9.46%	34.04%	0.37%
Unearned income					(237)
Capitalised brokerage/mortgage origination fees					307
Net carrying amount					132,525

Other financial assets

	Total NZ\$m
As at 30 September 2019	
Strong	32,342
Satisfactory	575
Weak	28
Defaulted	-
Total carrying amount	32,945

Off-balance sheet commitments - undrawn and contingent facilities

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
As at 30 September 2019					
Strong	23,296	59	-	-	23,355
Satisfactory	4,883	641	-	-	5,524
Weak	312	137	-	-	449
Defaulted	-	-	3	19	22
Gross undrawn and contingent facilities subject to ECL	28,491	837	3	19	29,350
Allowance for ECL included in Other provisions (refer to Note 20)	(60)	(24)	(2)	(11)	(97)
Net undrawn and contingent facilities subject to ECL	28,431	813	1	8	29,253
Coverage ratio	0.21%	2.87%	66.67%	57.89%	0.33%
Net undrawn and contingent facilities					29,253

15. FINANCIAL RISK MANAGEMENT (continued)

2018 Credit risk disclosures

The below disclosures do not reflect the adoption of NZ IFRS 9 and have been prepared under the requirements of the previous NZ IAS 39.

The table below provides an analysis of the credit quality of the maximum exposure to credit risk split by:

- neither past due nor impaired financial assets by credit quality;
- past due but not impaired assets by ageing; and
- impaired assets presented as gross amounts and net of individually assessed provisions.

	Loans and advances NZ\$m	Other financial assets NZ\$m	Off-balance sheet credit related commitments NZ\$m	Total NZ\$m
As at 30 September 2018				
Neither past due nor impaired				
Strong credit profile	92,783	27,368	23,475	143,626
Satisfactory risk	29,335	521	6,186	36,042
Sub-standard but not past due or impaired	2,296	13	359	2,668
Subtotal	124,414	27,902	30,020	182,336
Past due but not impaired				
≥ 1 < 30 days	1,420	-	-	1,420
≥ 30 < 60 days	179	-	-	179
≥ 60 < 90 days	128	-	-	128
≥ 90 days	205	-	-	205
Subtotal	1,932	-	-	1,932
Impaired				
Impaired loans	321	-	-	321
Non-performing commitments and contingencies	-	-	14	14
Gross impaired financial assets	321	-	14	335
Individual provisions	(130)	-	-	(130)
Subtotal	191	-	14	205
Total	126,537	27,902	30,034	184,473

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Banking Group monitors its credit portfolio to manage risk concentration and rebalance the portfolio. The Banking Group also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

Analysis of financial assets by industry sector is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. The significant categories shown are the level one New Zealand Standard Industry Output Categories (NZSIOC), except that Agriculture is shown separately as required by the Order.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances ³		Other financial assets ⁴		Off-balance sheet credit related commitments ⁵		Total	
	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m
New Zealand residents								
Agriculture	17,855	17,844	84	82	1,021	1,373	18,960	19,299
Forestry and fishing, agriculture services	1,255	1,379	9	9	225	249	1,489	1,637
Manufacturing	2,682	2,687	378	284	2,004	1,793	5,064	4,764
Electricity, gas, water and waste services	1,414	1,403	514	330	1,834	1,576	3,762	3,309
Construction	1,832	1,713	32	21	1,039	1,358	2,903	3,092
Wholesale trade	1,488	1,404	94	63	1,681	1,521	3,263	2,988
Retail trade and accommodation	2,956	3,211	29	27	961	969	3,946	4,207
Transport, postal and warehousing	1,309	1,222	137	121	864	783	2,310	2,126
Finance and insurance services	816	872	6,203	5,509	1,627	1,567	8,646	7,948
Public administration and safety ¹	343	364	9,723	9,654	1,105	1,043	11,171	11,061
Rental, hiring & real estate services	33,340	31,805	1,212	235	3,112	3,461	37,664	35,501
Professional, scientific, technical, administrative and support services	1,126	1,165	11	9	631	633	1,768	1,807
Households	61,515	56,808	210	192	11,278	11,977	73,003	68,977
All other New Zealand residents ²	2,537	2,569	242	167	1,847	1,663	4,626	4,399
Subtotal	130,468	124,446	18,878	16,703	29,229	29,966	178,575	171,115
Overseas								
Finance and insurance services	148	128	14,030	11,109	121	139	14,299	11,376
Households	1,553	1,512	5	5	-	-	1,558	1,517
All other non-NZ residents	783	818	32	85	-	-	815	903
Subtotal	2,484	2,458	14,067	11,199	121	139	16,672	13,796
Gross total	132,952	126,904	32,945	27,902	29,350	30,105	195,247	184,911
Allowance for ECL	(497)	(441)	-	-	(97)	(71)	(594)	(512)
Subtotal	132,455	126,463	32,945	27,902	29,253	30,034	194,653	184,399
Unearned income	(237)	(239)	-	-	-	-	(237)	(239)
Capitalised brokerage / mortgage origination fees	307	313	-	-	-	-	307	313
Maximum exposure to credit risk	132,525	126,537	32,945	27,902	29,253	30,034	194,723	184,473

¹ Public administration and safety includes exposures to local government administration and central government administration, defence and public safety.

² Other includes exposures to mining, information media and telecommunications, education and training, health care and social assistance and arts, recreation and other services.

³ Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.

⁴ Including items reclassified as held for sale.

⁵ Off-balance sheet credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations. Where there is sufficient collateral, an expected credit loss is not recognised. This is largely the case for certain lending products that are secured by corresponding investment for which margin loans are utilised and for reverse repurchase agreements. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables. During the period there was no change in our collateral policies.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans – housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans – business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, investment securities, derivatives and other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by the Banking Group when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent liabilities	Collateral for off-balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m
Net loans and advances	132,525	126,537	124,249	117,337	8,276	9,200
Other financial assets ¹	32,945	27,902	1,857	2,029	31,088	25,873
Off-balance sheet positions	29,253	30,034	14,152	15,124	15,101	14,910
Total	194,723	184,473	140,258	134,490	54,465	49,983

¹ Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Banking Group's trading and balance sheet management activities and the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risk and compliance with market risk policies to the Bank's Asset & Liability Committee (ALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Banking Group level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded market risk	Non-traded market risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: • Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. • Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. • Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. • Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. • Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Banking Group's possible daily loss based on historical market movements.

The Banking Group's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR, and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using a one-day holding period. For stressed VaR we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

The Banking Group measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR for the relevant holding period.

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	2019				2018			
	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m
Traded value at risk 99% confidence								
Foreign exchange	0.5	1.0	0.2	0.5	0.5	1.6	0.2	0.7
Interest rate	1.4	2.5	0.6	1.2	1.4	3.6	0.8	1.9
Credit	0.6	0.7	0.3	0.4	0.5	0.8	0.3	0.5
Diversification benefit ¹	(0.7)	n/a	n/a	(0.8)	(1.0)	n/a	n/a	(0.9)
Total VaR	1.8	2.6	0.8	1.3	1.4	4.0	1.0	2.2

¹ The diversification benefit reflects risks that offset across categories. The high and low VaR figures reported for each factor did not necessarily occur on the same day as the high and low VaR reported for the Banking Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Banking Group's banking book, while ensuring the Banking Group maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Banking Group's future net interest income. This risk arises from two principal sources, namely 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. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the Banking Group.

	2019				2018			
	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m
Non-traded value at risk 99% confidence								
Total VaR	10.0	10.0	7.4	8.4	8.0	10.2	6.4	7.8

We undertake scenario analysis to stress test the impact of extreme events on the Banking Group's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2019	2018
Impact of 1% rate shock		
As at period end	0.2%	-0.4%
Maximum exposure	1.0%	0.9%
Minimum exposure	-0.7%	-1.2%
Average exposure (in absolute terms)	0.3%	0.0%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Where it is considered appropriate, the Banking Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily Australian Dollar, US Dollar and US Dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effect of changes in exchange rates. During the current and prior years, we had selective hedges in place. Further detail on the Banking Group's hedging relationships is disclosed in Note 9 Derivative Financial Instruments.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that the Banking Group is either:

- unable to meet its payment obligations (including repaying depositors or maturing wholesale debt) when they fall due; or
- does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.

Management of liquidity and funding is overseen by ALCO. The Banking Group's liquidity and funding risks are governed by a set of principles approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards and include:

- maintaining the ability to meet all payment obligations in the immediate term;
- ensuring that the Banking Group has the ability to meet 'survival horizons' under Banking Group specific and general market liquidity stress scenarios to meet cash flow obligations over the short to medium term;
- maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the liquidity and funding risk profile;
- ensuring the liquidity management framework is compatible with local regulatory requirements;
- preparing daily liquidity reports and scenario analysis to quantify the Banking Group's positions;
- targeting a diversified funding base to avoid undue concentrations by investor type, maturity, market source and currency;
- holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- establishing a detailed contingency plan to cover different liquidity crisis events.

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Supervision and regulation

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

Scenario modelling

A key component of the Banking Group's liquidity management framework is scenario modelling.

Potential severe liquidity crisis scenarios which model the behaviour of cash flows where there is a problem (real or perceived) may include, but are not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under these scenarios the Banking Group may have significant difficulty rolling over or replacing funding. The Banking Group's liquidity policy requires sufficient high quality liquid assets to be held to meet its liquidity needs for the following 30 calendar days under the modelled scenarios.

As of 30 September 2019 the Banking Group was in compliance with the above scenarios.

Structural balance sheet metrics

The Banking Group's liquidity management framework also encompasses structural balance sheet metrics such as the RBNZ core funding ratio. These metrics are designed to limit the amount of funding required to be rolled over within a 1 year timeframe and so interact with the liquidity scenarios to maintain the Banking Group's liquidity position.

Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency with targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term and long-term wholesale funding is managed and executed by Treasury operations.

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

Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. Annually, a funding plan is approved by the Bank's Board. The plan is supplemented by regular updates and is linked to the Banking Group's three year strategic planning cycle.

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

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

Total liquidity portfolio

	2019 NZ\$m	2018 NZ\$m
Cash and balances with central banks	1,734	2,026
Certificates of deposit	374	179
Central and local government bonds	7,922	7,528
Government treasury bills	55	794
Reserve Bank bills	-	50
Other bonds	7,256	5,493
Total liquidity portfolio	17,341	16,070

Assets held for managing liquidity risk include short term cash held with RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated New Zealand domestic corporates. These assets would be accepted as collateral by RBNZ in repurchase transactions. At 30 September 2019 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ\$15,607 million. The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ\$7,179 million at 30 September 2019.

Liquidity crisis contingency planning

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

FUNDING POSITION

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

Analysis of funding liabilities by industry is based on ANZSIC codes. The significant categories shown are the level one NZSIOC.

	Note	2019 NZ\$m	2018 NZ\$m
Funding composition			
Customer deposits	13	109,236	104,055
<i>Wholesale funding</i>			
Debt issuances		26,207	25,135
Certificates of deposit and commercial paper		3,945	3,396
Other borrowings		246	557
Total wholesale funding		30,398	29,088
Total funding		139,634	133,143
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,727	3,763
Manufacturing		2,152	2,335
Construction		2,194	2,050
Wholesale trade		2,020	1,571
Retail trade and accommodation		1,543	1,484
Financial and insurance services		11,458	10,661
Rental, hiring and real estate services		3,210	2,878
Professional, scientific, technical, administrative and support services		5,467	5,126
Public administration and safety		1,479	1,572
Arts, recreation and other services		1,968	2,027
Households		59,131	56,640
All other New Zealand residents ¹		3,553	3,556
		97,902	93,663
Customer deposits by industry - overseas			
Households		10,118	9,876
All other non-NZ residents		1,216	516
		11,334	10,392
Total customer deposits		109,236	104,055
Wholesale funding (financial and insurance services industry)			
New Zealand		7,799	8,082
Overseas		22,599	21,006
Total wholesale funding		30,398	29,088
Total funding		139,634	133,143
Concentrations of funding by geography			
New Zealand		105,701	101,745
Australia		775	739
United States		13,844	13,671
Europe		11,139	9,618
Other countries		8,175	7,370
Total funding		139,634	133,143

¹ Other includes mining; electricity, gas, water and waste services; transport, postal and warehousing; information media and telecommunications; education and training; health care and social assistance.

15. FINANCIAL RISK MANAGEMENT (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE BANKING GROUP'S FINANCIAL LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September 2019 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how the Banking Group manages its liquidity risk.

	On demand NZ\$m	Less than 3 months NZ\$m	3 to 12 months NZ\$m	1 to 5 years NZ\$m	After 5 years NZ\$m	Total NZ\$m
2019						
Settlement balances payable	1,114	504	-	-	-	1,618
Collateral received	-	991	-	-	-	991
Deposits and other borrowings	54,183	27,187	29,476	4,065	-	114,911
Derivative financial liabilities (trading)	-	9,530	-	-	-	9,530
Debt issuances ¹	-	284	4,859	16,925	5,277	27,345
Other financial liabilities	-	148	28	106	108	390
Derivative financial instruments (balance sheet management)						
- gross inflows	-	842	2,067	8,426	714	12,049
- gross outflows	-	(974)	(2,444)	(9,084)	(723)	(13,225)
2018						
Settlement balances payable	1,338	837	-	-	-	2,175
Collateral received	-	845	-	-	-	845
Deposits and other borrowings	52,016	25,701	27,008	4,854	-	109,579
Derivative financial liabilities (trading)	-	6,147	-	-	-	6,147
Debt issuances ¹	-	930	3,676	17,810	4,596	27,012
Other financial liabilities ²	-	119	7	44	76	246
Derivative financial instruments (balance sheet management)						
- gross inflows	-	1,790	2,033	9,080	1,266	14,169
- gross outflows	-	(1,998)	(2,218)	(9,368)	(1,179)	(14,763)

¹ Any callable wholesale debt instruments have been included at their next call date. Refer to Note 14 Debt Issuances for subordinated debt call dates.

² Including items reclassified as held for sale.

At 30 September 2019, NZ\$59 million (2018: NZ\$86 million) of the Banking Group's non-credit related commitments and NZ\$29,350 million (2018: NZ\$30,105 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which the Banking Group may be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Banking Group carries a significant number of financial instruments on the balance sheet at fair value. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

The Banking Group has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Banking Group holds offsetting risk positions, then the Banking Group uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* (NZ IFRS 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or liability	Fair value approach
Financial instruments classified as: - Trading securities - Derivative financial assets and financial liabilities - Investment securities	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instrument are discounted using wholesale market interest rates, or market borrowing rates for debt with similar maturities or with a yield curve appropriate for the remaining term to maturity.

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with the carrying amounts as reported on the balance sheet.

	Note	2019			2018		
		At amortised cost NZ\$m	At fair value NZ\$m	Total NZ\$m	At amortised cost NZ\$m	At fair value NZ\$m	Total NZ\$m
Financial assets							
Cash and cash equivalents		2,363	-	2,363	2,200	-	2,200
Settlement balances receivable		193	-	193	656	-	656
Collateral paid		2,324	-	2,324	1,919	-	1,919
Trading securities	8	-	8,942	8,942	-	8,024	8,024
Derivative financial instruments	9	-	11,666	11,666	-	8,086	8,086
Investment securities	10	-	7,027	7,027	-	6,502	6,502
Net loans and advances		132,525	-	132,525	126,466	-	126,466
Other financial assets ¹		622	-	622	592	127	719
Total		138,027	27,635	165,662	131,833	22,739	154,572
Financial liabilities							
Settlement balances payable		1,607	-	1,607	2,161	-	2,161
Collateral received		991	-	991	845	-	845
Deposits and other borrowings	13	110,966	2,461	113,427	105,522	2,486	108,008
Derivative financial instruments	9	-	11,042	11,042	-	8,095	8,095
Debt issuances		26,207	-	26,207	25,135	-	25,135
Other financial liabilities ¹		628	213	841	576	110	686
Total		140,399	13,716	154,115	134,239	10,691	144,930

¹ Including items reclassified as held for sale.

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

FAIR VALUE HIERARCHY

The Banking Group categorises assets and liabilities carried at fair value into a fair value hierarchy as required by NZ IFRS 13 based on the observability of inputs used to measure the fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 – valuations where significant unobservable are used to measure the fair value of the asset or liability.

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m
Assets								
Trading securities	8,319	6,795	623	1,229	-	-	8,942	8,024
Derivative financial instruments	10	7	11,653	8,076	3	3	11,666	8,086
Investment securities	7,026	6,457	-	44	1	1	7,027	6,502
Investments backing insurance contract liabilities ¹	-	-	-	127	-	-	-	127
Total	15,355	13,259	12,276	9,476	4	4	27,635	22,739
Liabilities								
Deposits and other borrowings	-	-	2,461	2,486	-	-	2,461	2,486
Derivative financial instruments	11	10	11,031	8,084	-	1	11,042	8,095
Other financial liabilities	213	110	-	-	-	-	213	110
Total	224	120	13,492	10,570	-	1	13,716	10,691

¹ Including items reclassified as held for sale.

Fair value designation

We designate commercial paper (included in deposits and other borrowings) as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

NOTES TO THE FINANCIAL STATEMENTS

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Banking Group's basis of estimating fair values of the financial instruments carried at amortised cost:

Financial asset and liability	Fair value approach
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Banking Group's cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Banking Group to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to the Banking Group for that instrument.

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Banking Group's balance sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Banking Group provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non- observable inputs (Level 3)			
	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m
Financial assets										
Net loans and advances	132,525	126,466	-	-	167	131	132,920	126,614	133,087	126,745
Total	132,525	126,466	-	-	167	131	132,920	126,614	133,087	126,745
Financial liabilities										
Deposits and other borrowings	110,966	105,522	-	-	111,098	105,592	-	-	111,098	105,592
Debt issuances	26,207	25,135	2,848	2,533	23,737	22,929	-	-	26,585	25,462
Total	137,173	130,657	2,848	2,533	134,835	128,521	-	-	137,683	131,054



KEY JUDGEMENTS AND ESTIMATES

The Banking Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the balance sheet date.

The majority of valuation models the Banking Group uses employ only observable market data as inputs. However, for certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Banking Group considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 9 Derivative Financial Instruments) to the techniques used to reflect the Banking Group's assessment of factors that market participants would consider in setting fair value.

17. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard CSA that forms part of the ISDA Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- UDC secured investments are secured by a security interest granted under a trust deed over all of UDC's present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC secured investments and all other monies payable by UDC under the trust deed. UDC announced on 29 July 2019 that it had decided to exercise its right to redeem all UDC secured investments, and all UDC secured investments were repaid or transferred to deposits in the Bank on 14 October 2019.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Banking Group's covered bond programmes.

The carrying amounts of assets pledged as security are as follows:

	2019 NZ\$m	2018 NZ\$m
Securities sold under agreements to repurchase ¹	203	517
Assets pledged as collateral for UDC secured investments	3,484	3,296
Residential mortgages pledged as security for covered bonds	11,600	10,747

¹ The amounts disclosed as securities sold under arrangements to repurchase include both:

- assets pledged as security which continue to be recognised on the Banking Group's balance sheet; and
- assets repledged, which are included in the disclosure below.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The Banking Group has received collateral associated with various financial instruments. Under certain transactions the Banking Group has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that we have sold or repledged is as follows:

	2019 NZ\$m	2018 NZ\$m
Fair value of assets which can be sold or repledged	300	139
Fair value of assets sold or repledged	81	34

NOTES TO THE FINANCIAL STATEMENTS

18. OFFSETTING

We offset financial assets and financial liabilities in the balance sheet (in accordance with NZ IAS 32 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and financial liabilities are presented on a gross basis.

The Banking Group does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over collateralisation.

	Total amounts recognised in the balance sheet NZ\$m	Amounts not subject to master netting agreement or similar NZ\$m	Amount subject to master netting agreement or similar			
			Total NZ\$m	Financial instruments NZ\$m	Financial collateral (received)/ pledged NZ\$m	Net amount NZ\$m
2019						
Derivative financial instruments	11,666	(3,061)	8,605	(6,468)	(541)	1,596
Reverse repurchase agreements ¹	297	-	297	-	(297)	-
Total financial assets	11,963	(3,061)	8,902	(6,468)	(838)	1,596
Derivative financial instruments	(11,042)	2,340	(8,702)	6,468	858	(1,376)
Repurchase agreements ²	(203)	-	(203)	-	203	-
Total financial liabilities	(11,245)	2,340	(8,905)	6,468	1,061	(1,376)
2018						
Derivative financial instruments	8,086	(1,029)	7,057	(5,711)	(481)	865
Reverse repurchase agreements ¹	136	-	136	-	(136)	-
Total financial assets	8,222	(1,029)	7,193	(5,711)	(617)	865
Derivative financial instruments	(8,095)	694	(7,401)	5,711	563	(1,127)
Repurchase agreements ²	(517)	-	(517)	-	517	-
Total financial liabilities	(8,612)	694	(7,918)	5,711	1,080	(1,127)

¹ Reverse repurchase agreements are presented in the balance sheet within cash and cash equivalents.

² Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	2019 NZ\$m	2018 NZ\$m
Goodwill		3,160	3,230
Software		40	53
Other intangibles:			
Management rights (indefinite life)		76	76
Acquired portfolios of insurance business		-	31
Goodwill and other intangible assets (including assets reclassified as held for sale)		3,276	3,390
Less: Goodwill and other intangible assets reclassified as held for sale	26	-	(101)
Goodwill and other intangible assets		3,276	3,289

GOODWILL ALLOCATED TO CASH-GENERATING UNITS (CGUs)

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount.

To estimate the recoverable amount of the CGU to which each goodwill component is allocated, we use a value-in-use approach.

VALUE-IN-USE

These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and the Consumer Price Index. Cash flows beyond the three year period are extrapolated using a 2% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2019 when the last valuation was prepared, a discount rate of 11.1% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on a blended yield rate between the 10 year New Zealand government bond rate and the associated 5 year forward rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill for any CGU to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)



RECOGNITION AND MEASUREMENT

The table below details how we recognise and measure different intangible assets:

Intangible	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Banking Group has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of "off the shelf" software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than NZ\$20 million are capitalised as assets. Those less than NZ\$20 million are expensed in the year in which the costs are incurred.	Acquired portfolios of insurance business and management fee rights.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at fair value less accumulated amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 3-5 years. Major core infrastructure amortised over periods between 7-10 years.	Acquired portfolios of insurance business are amortised over 20 years. Management fee rights have an indefinite life and are reviewed for impairment at least annually or when there is an indication of impairment.
Amortisation method	Not applicable.	Straight-line method.	Actuarial methods consistent with the calculation of life insurance contract assets.



KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

The carrying amount of goodwill is based on judgements including the basis of assumptions and forecasts used for determining earnings for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. Goodwill is assessed for indicators of impairment quarterly and tested for impairment annually. The level at which goodwill is allocated, the estimation of future cash flows and the selection of discount rates or earnings multiples applied requires significant judgement.

At each balance date, software and other intangible assets are assessed for indicators of impairment. In addition, software and intangible assets not ready for use are tested annually for impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately.

In addition, the expected useful life of intangible assets, including software assets, are assessed on an annual basis. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected economic useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change.

20. OTHER PROVISIONS

	Note	2019 NZ\$m	2018 NZ\$m
ECL allowance on undrawn facilities	12	97	-
Customer remediation		139	34
Restructuring costs		25	6
Leasehold make good		23	12
Other		30	24
Total other provisions		314	76

Movements in other provisions

	Customer remediation NZ\$m	Restructuring costs NZ\$m	Leasehold make good NZ\$m	Other NZ\$m
Balance at start of year	34	6	12	24
New and increased provisions made during the year	115	52	15	13
Provisions used during the year	(10)	(26)	(4)	(2)
Unused amounts reversed during the year	-	(7)	-	(5)
Balance at end of year	139	25	23	30

Customer remediation

Customer remediation includes provisions for expected refunds to customers and other counterparties, remediation project costs and related customer, counterparty and regulatory claims, penalties and litigation outcomes.

Restructuring costs

Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Banking Group, including the OnePath separation, or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

Leasehold make good

Provisions associated with leased premises where, at the end of a lease, the Banking Group is required to remove any fixtures and fittings installed in the leased property. This obligation arises immediately upon installation. Estimated make good costs are added to the leasehold improvement asset (within premises and equipment) upon installation and amortised over the lease term.

Other

Other provisions comprise various other provisions including losses arising from other legal action, operational issues, and warranties and indemnities provided in connection with various disposals of businesses and assets.

NOTES TO THE FINANCIAL STATEMENTS

20. OTHER PROVISIONS (continued)



RECOGNITION AND MEASUREMENT

The Banking Group recognises provisions where there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

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



KEY JUDGEMENTS AND ESTIMATES

The Banking Group holds provisions for various obligations including customer remediation, restructuring costs, leasehold make good and litigation related claims. These provisions involve judgements regarding the outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including, the number of impacted customers, the average refund per customer and the associated remediation costs. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments are made to the provisions where appropriate.

21. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ\$ millions	
	2019	2018	2019	2018
Ordinary shares				
Ordinary shares at start of year	6,345,755,498	3,345,755,498	11,588	8,588
Ordinary shares issued during the year	-	3,000,000,000	-	3,000
Ordinary shares at end of year ¹	6,345,755,498	6,345,755,498	11,588	11,588
Preference shares	300,000,000	300,000,000	300	300
Total share capital	6,645,755,498	6,645,755,498	11,888	11,888

¹ Includes 650,712 (2018: 650,712) uncalled shares.

Preference shares

The key terms of the preference shares are as follows:

Dividends

Dividends are payable at the discretion of the Directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year.

Redemption features

The preference shares are redeemable, subject to prior written approval of RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares; or
- on any dividend payment date; or
- on any date if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

The preference shares may be redeemed for nil consideration should a non-viability trigger event occur.

The preference shares qualify as AT1 capital for RBNZ's capital adequacy purposes.



RECOGNITION AND MEASUREMENT

Ordinary shares

Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Bank, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to:

- on a show of hands, one vote; and
- on a poll, one vote, for each share held.

Preference shares

All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis.

In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and ANZ capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.

Reserves:

Cash flow hedge reserve Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the underlying impacts profit and loss.

Investment securities revaluation reserve Includes the changes in fair value and exchange differences on our revaluation of investment securities financial assets, net of deferred taxes to be realised upon disposal of the asset.

NOTES TO THE FINANCIAL STATEMENTS

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

The Banking Group's core capital objectives are to:

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

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

The Banking Group has minimum and trigger levels for common equity tier 1, tier 1 and total capital that ensure sufficient capital is maintained to:

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

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

In April 2019, the Bank informed RBNZ that in the course of a self-review, the Bank discovered that it had not been using an approved model for the calculation of the operational risk capital requirement since December 2014. RBNZ has required the Banking Group to use the standardised approach to the calculation of its operational risk capital requirement from 31 March 2019.

Throughout the year, the Banking Group maintained compliance with RBNZ's minimum capital ratios.

REGULATORY ENVIRONMENT

As the Bank is a registered bank in New Zealand, it is primarily regulated by RBNZ under the Reserve Bank of New Zealand Act 1989. The Bank must comply with the minimum regulatory capital requirements, capital ratios and specific reporting levels that RBNZ sets. RBNZ requirements are summarised below:

	Regulatory capital definition	Minimum capital ratios
Common Equity Tier 1 (CET1) capital	Comprises ordinary share capital, retained earnings, and certain accounting reserves. Some amounts (e.g. the value of goodwill) must be deducted to determine the final value of CET1 capital.	CET1 capital divided by total risk weighted assets must be at least 4.5%.
Tier 1 capital	CET1 capital plus additional tier 1 instruments, which comprise high-quality capital and must: • provide a permanent and unrestricted commitment of funds; • be freely available to absorb losses; and • provide for fully discretionary capital distributions.	Tier 1 capital divided by total risk weighted assets must be at least 6.0%.
Tier 2 capital	Tier 2 instruments include some subordinated instruments and accounting reserves that are not included in Tier 1 capital. Some amounts are deducted in determining the value of Tier 2 instruments.	No minimum.
Total capital	Tier 1 plus Tier 2 capital.	Total capital divided by total risk weighted assets must be at least 8.0%.
Capital buffer	The Capital buffer is actual CET1 capital in excess of any of the minimum capital requirements imposed on the Bank.	Capital buffer divided by total risk weighted assets should be at least 2.5%.
Reporting levels		
Solo consolidated	The registered bank plus subsidiaries which are funded exclusively and wholly owned by the registered bank.	
Banking Group	The registered bank's consolidated group.	

The Bank measures capital adequacy and reports to RBNZ on a Banking Group basis monthly, and measures capital adequacy on a Solo consolidated basis quarterly. Banking Group and Solo consolidated capital ratios are reported publicly in six-monthly disclosure statements.

22. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

The following table provides details of the Banking Group's capital ratios at 30 September:

	2019 NZ\$m	2018 NZ\$m
Unaudited		
Qualifying capital		
Tier 1		
Shareholder's equity	14,430	13,109
Preference shares included in Additional Tier 1 capital	(300)	(300)
Gross Common Equity Tier 1 capital	14,130	12,809
Deductions	(3,684)	(3,728)
Common Equity Tier 1 capital	10,446	9,081
Additional tier 1 capital	2,780	2,776
Tier 1 capital	13,226	11,857
Tier 2 capital	-	-
Total capital	13,226	11,857
Capital adequacy ratios		
Common Equity Tier 1	10.8%	11.1%
Tier 1	13.6%	14.4%
Total	13.6%	14.4%
Buffer ratio	5.6%	6.4%
Risk weighted assets	97,070	82,147

23. CONTROLLED ENTITIES

The following table lists the principal subsidiaries of the Bank. Principal subsidiaries are those that have transactions or balances with parties outside the Banking Group. All subsidiaries are 100% owned and incorporated in New Zealand.

	Nature of business
ANZ Bank New Zealand Limited	Registered bank
Principal subsidiaries	
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Securities Limited	Non-operating (previously on-line share broker)
ANZNZ Covered Bond Trust ¹	Securitisation entity
Arawata Assets Limited	Property
Karapiro Investments Limited	Asset finance
Kingfisher NZ Trust 2008-1 ¹	Securitisation entity
UDC Finance Limited	Asset finance

¹ The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in Note 24 Structured Entities.

Changes in controlled entities

OnePath was sold to Cigna Corporation on 30 November 2018 (see Note 26 Divestments).



RECOGNITION AND MEASUREMENT

The Banking Group subsidiaries are those entities it controls through:

- being exposed to, or having rights to, variable returns from the entity; and
- being able to affect those returns through its power over the entity.

The Banking Group assesses whether it has power over those entities by examining the Banking Group's existing rights to direct the relevant activities of the entity.

NOTES TO THE FINANCIAL STATEMENTS

24. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities (being those that significantly affect the entity's returns) are directed by means of contractual arrangement. A SE often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well defined objective;
- insufficient equity to permit the SE to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

SEs are classified as subsidiaries and consolidated when control exists. If the Banking Group does not control a SE, then it is not consolidated. This note provides information on both consolidated and unconsolidated SEs.

The Banking Group's involvement with SEs is as follows:

Type	Details
Securitisation	The Banking Group uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle we created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible'). The Banking Group is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated. As at 30 September 2019 and 30 September 2018 the Banking Group had not entered into any repurchase agreements with RBNZ for residential mortgage backed securities issued and therefore no collateral had been accepted by RBNZ under this facility. Additionally, the Banking Group may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.
ANZNZ Covered Bond Trust (the Covered Bond Trust)	Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied. The Banking Group is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.
Structured finance arrangements	The Banking Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Banking Group may provide risk management products (derivatives) to the SE. In all instances, the Banking Group does not control these SEs. Further, the Banking Group's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	The Banking Group is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme. These MIS are financed through the issue of units to investors and the Banking Group considers them to be SEs. The Banking Group's interests in these MIS is limited to receiving fees for services or providing risk management products (derivatives). These interests do not create significant exposures to the MIS that would allow the Banking Group to control the funds. Therefore, these MIS are not consolidated.

24. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

Financial or other support provided to Consolidated Structured Entities

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2018: nil).

UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group's interest in Unconsolidated Structured Entities

An 'interest' in an unconsolidated SE is any form of contractual or non-contractual involvement with an SE that exposes the Banking Group to variability of returns from the performance of that SE. These interests include, but are not limited to: holdings of debt or equity securities; derivatives that pass on risks specific to the performance of the SE; lending; loan commitments; financial guarantees; and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure is made if the Banking Group's involvement is not more than a passive interest - for example: when the Banking Group's involvement constitutes a typical customer-supplier relationship. On this basis, exposures to unconsolidated SEs that arise from lending, trading and investing activities are not considered disclosable interests - unless the design of the structured entity allows the Banking Group to participate in decisions about the relevant activities (being those that significantly affect the entity's returns).
- 'interests' do not include derivatives intended to expose the Banking Group to market risk (rather than performance risk specific to the SE) or derivatives through which the Banking Group creates, rather than absorbs, variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The Banking Group earned funds management fees from its MIS of NZ\$198 million (2018: NZ\$191 million) during the year. Size of these MIS is indicated by Funds Under Management which varies by fund, with a maximum value of approximately NZ\$3.3 billion (2018: NZ\$3.3 billion).

The Banking Group did not provide any non-contractual support to unconsolidated SEs during the year (2018: nil); nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group may also sponsor unconsolidated SEs in which it has no disclosable interest.

For the purposes of this disclosure, the Banking Group considers itself the 'sponsor' of an unconsolidated SE if it is the primary party involved in the design and establishment of that SE and:

- the Banking Group is the major user of that SE; or
- the Banking Group's name appears in the name of that SE, or on its products; or
- the Banking Group provides implicit or explicit guarantees of that SE's performance.

The Bank has sponsored the ANZ PIE Fund, which invests only in deposits with the Bank. The Banking Group does not provide any implicit or explicit guarantees of the capital value or performance of investments in the ANZ PIE Fund. There was no income received from, nor assets transferred to, this entity during the year.



KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether control exists over Structured Entities involved in securitisation activities, structured finance transactions and investment funds. Judgement is required in relation to the existence of:

- power over the relevant activities (being those that significantly affect the entity's returns); and
- exposure to variable returns of that entity.

NOTES TO THE FINANCIAL STATEMENTS

25. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business the Banking Group enters into transactions where it transfers financial assets directly to third parties. These transfers may give rise to the Banking Group fully, or partially, derecognising those financial assets - depending on the Banking Group's exposure to the risks and rewards or control over the transferred assets. If the Banking Group retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Banking Group's balance sheet in its entirety.

Covered bonds

The Banking Group operates a covered bond programme to raise funding. Refer to Note 24 Structured Entities for further details. The covered bonds issued externally are included within debt issuances.

Repurchase agreements

When the Banking Group sells securities subject to repurchase agreements under which we retain substantially all the risks and rewards of ownership, then those assets do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Covered bonds		Repurchase agreements	
	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m
Current carrying amount of assets transferred	11,600	10,747	203	517
Carrying amount of associated liabilities	4,460	3,929	203	517

26. DIVESTMENTS

OnePath and Paymark

On 30 November 2018, the Banking Group sold OnePath to Cigna Corporation and on 11 January 2019, the Banking Group sold its 25% shareholding in Paymark to Ingenico Group. The Banking Group recognised net gains on sale of NZ\$66 million and NZ\$39 million respectively, which are included in other operating income.

Assets and liabilities sold

	NZ\$m
Investments backing insurance contract liabilities	101
Other assets, net of amounts payable to the Bank	6
Life insurance contract assets	675
Investments in associates - Paymark	7
Goodwill and other intangible assets	101
Total assets	890
Deposits and other borrowings (deposits with the Bank)	(50)
Current tax liabilities	18
Deferred tax liabilities	178
Payables and other liabilities	146
Provisions	2
Total liabilities	294
Net assets sold	596

27. RELATED PARTY DISCLOSURES

Key management personnel and their related parties

Key management personnel (KMP) are defined as directors and those executives having authority and responsibility for planning, directing and controlling the activities of the Banking Group. Executive roles included in KMP are the Bank's Chief Executive Officer (CEO), all executives reporting directly to the Bank's CEO, and the CEO – NZ Branch.

	2019 NZ\$000	2018 NZ\$000
Key management personnel compensation¹		
Salaries and short-term employee benefits ²	10,827	11,738
Post-employment benefits ³	297	219
Other long-term benefits ⁴	39	38
Termination benefits ⁵	2,233	452
Share-based payments	2,242	3,308
Total	15,638	15,755

¹ Includes former disclosed KMPs until the end of their employment.

² Includes restatement of prior year amount to include items previously characterised as business related expenses that would more appropriately be characterised as non-business related. Similar items existed in the prior periods between 2010-2017 which would have increased the short-term benefits by less than NZ\$0.1m per annum. Prior year amount has also been restated to include fringe benefit tax paid on short-term benefits, additional fees paid to a director, and the reclassification of annual and long service leave paid on termination to termination benefits.

³ Includes restatement of prior year amount to reclassify retirement allowances paid on termination to termination benefits.

⁴ Comprises long service leave accrued during the year.

⁵ Includes payments for accrued annual leave, long service leave and pay in lieu of notice in accordance with contract, payable on cessation. Comparative amounts have been updated to include payments of accrued annual and long service leave on termination previously included in salaries and short-term benefits, and payments of retirement allowances on termination previously included in post-employment benefits.

	2019 NZ\$m	2018 NZ\$m
Transactions and balances with key management personnel and their related parties¹		
Secured loans and advances	23	19
Credit related commitments (undrawn loan facilities)	5	4
Interest income	1	1
Customer deposits	14	18
Payables and other liabilities (share-based payments liability)	2	3

¹ Includes KMP, close family members of KMP and entities that are controlled or jointly controlled by KMP or their close family members, of the Banking Group and its parent companies. Comparative amounts have been updated for consistency with current period presentation.

Loans made to KMP and their 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, including the term of the loan, security required and the interest rate. No amounts have been written off or forgiven, or individually assessed allowances for expected credit losses raised in respect of these balances (2018: nil).

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. In addition to the amounts above:

- Aggregate amounts for each of unsecured loans and advances, interest expense, fee income, insurance premium income, debt issuances and collectively assessed credit impairment charge and allowance for expected credit losses were less than NZ\$1 million for both years presented.
- KMP and their related parties also hold units in MIS managed by the Banking Group. These holdings include NZ\$0.2 million (2018: nil) of units in the ANZ PIE Fund, which are invested solely in deposits of the Bank. Other transactions and balances in respect of these, and other, MIS holdings are not disclosed because those MIS are unconsolidated structured entities and not included in the financial statements of the Banking Group.
- A close family member of an executive reporting to the CEO is an employee of the Banking Group and received total compensation of NZ\$0.1 million (2018: NZ\$0.1 million).
- Some KMP pay the Banking Group for the use of carparks in premises owned or leased by the Banking Group. These amounts were less than NZ\$0.1 million (2018: less than NZ\$0.1 million)

In November 2010, a subsidiary of the Bank, Arawata Assets Limited, purchased a residential property for NZ\$7.55 million. The property was leased to the then CEO of the Bank, Mr David Hisco, as part of a relocation package arrangement.

On 31 March 2017, the property was sold to Mr Hisco's wife for NZ\$6.9 million. At that time, Mr Hisco was the CEO of the Bank and a member of KMP.

The Bank obtained two independent valuations of the property, one of which was not considered for a number of reasons, including that it did not comply with valuation standards. The Bank then obtained a further independent valuation and the sale price was determined as the midpoint of two independent valuations, less an amount reflecting part of the estimated sale costs that would have otherwise been incurred.

This transaction was not separately disclosed in the Banking Group's 2017 financial statements. The Banking Group acknowledges the decision of the Financial Markets Authority that the Banking Group should have disclosed the March 2017 sale as a related party transaction in its 2017 financial statements.

Transactions with other members of the Overseas Banking Group and associates

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. RELATED PARTY DISCLOSURES (continued)

Transactions	2019 NZ\$m	2018 NZ\$m
Immediate Parent Company		
Interest expense	-	1
Ordinary shares issued	-	3,000
Dividends paid	411	4,611
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Interest income	19	13
Interest expense	135	138
Fee income	4	9
Loss on sale of mortgages to the NZ Branch	-	(1)
Other operating income	24	43
Operating expenses	60	52
Mortgages sold to the NZ Branch	-	302
Mortgages repurchased from the NZ Branch	1,098	1,575
Associates		
Direct fee expense	4	10
Dividends received	3	6
Share of associates' profit	4	5
Outstanding balances		
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Cash and cash equivalents	79	33
Collateral paid	810	-
Derivative financial instruments	3,933	2,431
Other assets	58	39
Associates		
Investments in associates	-	6
Total due from related parties	4,880	2,509
Immediate Parent Company		
Deposits and other borrowings	33	29
Derivative financial instruments	4	1
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances payable	66	125
Collateral received	-	257
Deposits and other borrowings	11	11
Derivative financial instruments	4,777	2,248
Payables and other liabilities	24	30
Debt issuances	1,956	1,945
Associates		
Deposits and other borrowings	1	1
Payables and other liabilities	-	1
Post-employment benefit plans for the benefit of employees of the Banking Group		
Deposits and other borrowings	2	-
Total due to related parties	6,874	4,648

Balances due from / to other members of the Overseas Banking Group and associates are unsecured. The Bank has provided guarantees and commitments to, and received guarantees from, these entities as follows. Fees associated with the provision of financial guarantees to/by the Ultimate Parent Bank may be lower than those for similar transactions with unrelated parties.

	2019 NZ\$m	2018 NZ\$m
Financial guarantees provided by the Ultimate Parent Bank	456	698
Financial guarantees provided to the Ultimate Parent Bank	114	138
Undrawn credit commitments provided to the Immediate Parent Company	250	250
Undrawn credit commitments provided to associates	1	1

28. COMMITMENTS AND CONTINGENT LIABILITIES

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2019 NZ\$m	2018 NZ\$m
Contract amount of:		
Undrawn facilities	26,600	27,245
Guarantees and letters of credit	1,248	1,531
Performance related contingencies	1,502	1,329
Total	29,350	30,105

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total undrawn facilities of NZ\$26,600 million (2018: NZ\$27,245 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

Guarantees, letters of credit and performance related contingencies relate to transactions that the Banking Group has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Banking Group issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Banking Group to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total guarantees and letters of credit of NZ\$1,248 million (2018: NZ\$1,531 million) and total performance related contingencies of NZ\$1,502 million (2018: NZ\$1,329 million) mature within 12 months.

PROPERTY RELATED COMMITMENTS

	2019 NZ\$m	2018 NZ\$m
Property capital expenditure		
Contracts for outstanding capital expenditure (not later than 1 year)	6	7
Total capital expenditure commitments for property	6	7
Lease rentals		
Land and Buildings ¹	279	284
Furniture and equipment	7	86
Motor vehicles	6	8
Total lease rental commitments	292	378
Due within 1 year ¹	53	79
Due later than 1 year but not later than 5 years ¹	148	203
Due later than 5 years ¹	91	96
Total lease rental commitments	292	378

¹ Comparatives have been restated to exclude costs for services to be paid by and reimbursed to the lessor as required by NZ IAS 17 *Leases*.

OTHER CONTINGENT LIABILITIES

There are outstanding court proceedings, claims and possible claims for and against the Banking Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice seriously the interests of the Banking Group in relation to the particular matter.

NOTES TO THE FINANCIAL STATEMENTS

28. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Regulatory and customer exposures

In recent years there has been an increase in the number of matters on which the Banking Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions globally. The Banking Group has received various notices and requests for information from its regulators as part of both industry-wide and Banking Group-specific reviews, and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, may include a range of matters including responsible lending practices, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

Reviews under section 95 of the Reserve Bank of New Zealand Act 1989 (RBNZ Act)

On 5 July 2019 RBNZ issued a notice under section 95 of the RBNZ Act, requiring the Bank to obtain two external reviews, the first on the Bank's compliance with certain aspects of the RBNZ Banking Supervision Handbook document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and the second on the effectiveness of the Bank's directors' attestation and assurance framework. While the director attestation and assurance framework review has now been completed, and the Bank is committed to implementing the recommendations identified and addressing the issues raised, the review of compliance with capital adequacy requirements is ongoing. On 11 December 2019 RBNZ issued a further notice under section 95 of the RBNZ Act, requiring the Bank to obtain an external review of the improvements made to the Bank's directors' attestation and assurance framework.

Warranties and indemnities

The Banking Group has provided warranties, indemnities and other commitments in favour of the purchaser in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments.

29. COMPENSATION OF AUDITORS

	2019 NZ\$000	2018 NZ\$000
KPMG New Zealand		
Audit or review of financial statements ¹	1,852	2,199
Audit related services:		
Prudential and regulatory services ²	1,418	212
Offer documents assurance or review	111	104
Other assurance services ³	53	36
Total audit related services	1,582	352
Total compensation of auditors relating to the Banking Group	3,434	2,551
 Fees relating to certain managed funds and not recharged ⁴	 42	 45
Total compensation of auditors	3,476	2,596

¹ Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.

² Includes fees for reviews and controls reports required by regulations.

³ Includes fees for Trustee reporting, reviews and other agreed upon procedures engagements.

⁴ Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements, controls report and other agreed upon procedures engagements.

The Banking Group's Policy allows KPMG New Zealand to provide assurance and other audit related services that, while outside the scope of the statutory audit, are consistent with the role of an external auditor. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG New Zealand may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

30. EVENTS SINCE THE END OF THE FINANCIAL YEAR

UDC announced on 29 July 2019 that it had decided to exercise its right to redeem all UDC secured investments, and all UDC secured investments were repaid or transferred to deposits in the Bank on 14 October 2019.

On 31 October 2019, the Bank announced that it is again exploring a range of strategic options, including divestment, for UDC.

There were no other significant events from 30 September 2019 to the date of signing this Disclosure Statement.

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REGISTERED BANK DISCLOSURES

This section contains the additional disclosures required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Section	Order reference	Page
B1. General disclosures	Schedule 2	67
B2. Additional financial disclosures	Schedule 4	78
B3. Asset quality	Schedule 7	79
B4. Capital adequacy under the internal models based approach, and regulatory liquidity ratios	Schedule 11	85
B5. Concentration of credit exposures to individual counterparties	Schedule 13	90
B6. Credit exposures to connected parties	Schedule 14	91
B7. Insurance business, securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products	Schedule 15	92
B8. Risk management policies	Schedule 17	94

B1. GENERAL DISCLOSURES

Details of ultimate parent bank and ultimate holding company

The ultimate parent bank and ultimate holding company of the Bank is Australia and New Zealand Banking Group Limited (Ultimate Parent Bank). The address for service of the Ultimate Parent Bank is ANZ Centre, Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Restrictions on the Ultimate Parent Bank's ability to provide financial support

Effect of APRA's Prudential Standards

The Banking Group is subject to extensive prudential regulation by APRA. APRA's current or future requirements may have an adverse effect on the Bank's business, results of operations, liquidity, capital resources or financial condition.

APRA Prudential Standard APS 222 *Associations with Related Entities* (APS 222) sets minimum requirements for authorised deposit-taking institutions (ADIs) in Australia, including the Ultimate Parent Bank, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes maximum limits on intra-group financial exposures.

Under APS 222, the Ultimate Parent Bank's ability to provide financial support to the Bank is subject to the following restrictions:

- 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 must not hold unlimited exposures (i.e. should be limited as to specified time or amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default by the Ultimate Parent Bank on its obligations; and
- the level of exposure, net of exposures deducted from capital, of the Ultimate Parent Bank's Level 1 total capital base to the Bank should not exceed: (A) 50% on an individual exposure basis; or (B) 150% in aggregate (being exposures to all similar regulated ADI equivalent entities related to the Ultimate Parent Bank).

In August 2019, APRA released an update to APS 222, which is to be effective from 1 January 2021. Changes that affect the quantum and nature of the financial support that the Ultimate Parent Bank can provide the Bank are:

- change the Level 1 capital base used for setting the exposure limits from total capital to Tier 1 capital; and
- reduce the ADI exposure limit to 25% of Level 1 Tier 1, and the aggregate to 75% of Level 1 Tier 1 capital base.

APRA has provided for entity-specific transitional arrangements or flexibility on a case-by-case basis.

Further, in October 2019, APRA released a consultation paper on changes to APS 111 *Capital Adequacy* (APS 111), which proposes to change the Level 1 capital treatment for Australian ADIs, such as the Ultimate Parent Bank, investing in ADIs (or overseas equivalents such as the Bank) and insurance subsidiaries. The proposed changes, set for implementation from 1 January 2021, would result in:

- the initial investment, up to an amount equal to 10% of the Ultimate Parent Bank's net Level 1 CET1 capital base, being risk-weighted at 250%; and
- the remainder of the investment being treated as a CET1 capital deduction.

If implemented, these APS 111 changes would reduce the Ultimate Parent Bank's Level 1 Tier 1 capital base and exposure to the Bank for the purposes of APS 222 reporting. As a result, the Ultimate Parent Bank's expected exposure to the Bank at 1 January 2021 would be compliant with the revised APS 222 limits.

In addition, APRA has confirmed that by 1 January 2021, no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (including its subsidiaries incorporated in New Zealand, such as the Banking Group and the New Zealand Branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

APRA has also confirmed that contingent funding support by the Ultimate Parent Bank to the Bank during times of financial stress must be provided on terms that are acceptable to APRA. At present, only covered bonds meet APRA's criteria for contingent funding.

Effect of the Level 3 framework

In addition, certain requirements of APRA's Level 3 framework relating to, among other things, group governance and risk exposures became effective on 1 July 2017. This framework also requires that the Ultimate Parent Bank must limit its financial and operational exposures to subsidiaries (including the Bank).

In determining the acceptable level of exposure to a subsidiary, the Board of the Ultimate Parent Bank should have regard to:

- the exposures that would be approved for third parties of broadly equivalent credit status;
- the potential impact on the Ultimate Parent Bank's capital and liquidity positions; and
- the Ultimate Parent Bank's ability to continue operating in the event of a failure by the Bank.

These requirements are not expected to place additional restrictions on the Ultimate Parent Bank's ability to provide financial or operational support to the Bank.

Other APRA powers

The Ultimate Parent Bank may not provide financial support in breach of the Australian Banking Act 1959 (the Banking Act). Under the Banking Act:

- APRA must exercise its powers and functions for the protection of a bank's depositors in Australia and for the promotion of financial system stability in Australia; and
- in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia are to be available to meet that bank's deposit liabilities in Australia in priority to all other liabilities of the bank.

The requirements of the Banking Act and the exercise by APRA of its powers have the potential to impact the management of the liquidity of the Bank.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Interests in 5% or more of voting securities of the Bank

The Immediate Parent Company holds 100% of the voting securities of the Bank. The Immediate Parent Company has the direct ability to appoint 100% of the Directors of the Bank, subject to RBNZ advising that it has no objection to the appointment in accordance with the Bank's conditions of registration. RBNZ also has the power under section 113B of the Reserve Bank of New Zealand Act 1989, after obtaining the consent of the Minister of Finance, to remove, replace, or appoint directors in certain circumstances.

Priority of creditors' claims

In the event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Customer deposits, except UDC secured investments, are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 31 for further details, and to page 49 for the amount of assets of the ANZ Covered Bond Trust pledged as security for covered bonds.

No other material obligations of the Bank are guaranteed as at 12 December 2019.

Auditors

KPMG, 18 Viaduct Harbour Avenue, Auckland, New Zealand.

Directors

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

Transactions with Directors

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

Board Audit Committee

There is a Board Audit Committee which covers audit matters. The committee has five members. Each member is a non-executive Director, the majority of whom satisfy the criteria for independence.

Policy of the Board of Directors for avoiding or dealing with conflicts of interest

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:

- at least once in each year, Directors are requested to confirm and disclose, in terms of section 140(1) of the Companies Act 1993, 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.
- Directors are also requested to confirm and make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993.

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

Disclosures are entered into the Bank's Interests Register.

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

B1. GENERAL DISCLOSURES (continued)



	Rt Hon Sir John Key, GNZM AC	Antony Carter	Shayne Elliott
Position	Independent Non-Executive Director and Chair	Independent Non-Executive Director	Non-Executive Director
Occupation	Company Director	Company Director	Chief Executive Officer, Australia and New Zealand Banking Group Ltd
Qualifications	BCom, DCom (Honoris Causa)	BE (Hons), ME, MPhil, CFInstD, FNZIM	BCom
Resides	Auckland, New Zealand	Auckland, New Zealand	Melbourne, Australia
Other company directorships	Air New Zealand Ltd, Australia and New Zealand Banking Group Ltd, MTK Capital Ltd, Palo Alto Networks Inc, Thirty Eight JK Ltd	Avonhead Mall Ltd, Datacom Group Ltd, Fisher & Paykel Healthcare Corporation Ltd, Fisher & Paykel Healthcare Employee Share Purchase Trustee Ltd, Loughborough Investments Ltd, Modern Merchants Ltd, Strategic Interchange Ltd, Tetrad Corporation Ltd, T R Group Ltd, Vector Ltd	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children



	Alison Gerry	Michelle Jablko
Position	Independent Non-Executive Director	Non-Executive Director
Occupation	Company Director	Chief Financial Officer, Australia and New Zealand Banking Group Ltd
Qualifications	BMS (Hons), MAppFin, CFInstD	LLB (Hons), B.Ec (Hons)
Resides	Queenstown, New Zealand	Melbourne, Australia
Other company directorships	Asteron Life Ltd, Avokaha Ltd, Glendora Avocados Ltd, Glendora Holdings Ltd, Infratil Ltd, Lindis Crossing Vineyard Ltd, On Being Bold Ltd, Sharesies Ltd, Sharesies Nominee Ltd, Vero Insurance New Zealand Ltd, Vero Liability Insurance Ltd, Wellington International Airport Ltd	ANZ Holdings (New Zealand) Ltd, Bialik College Ltd



	Mark Verbiest	Joan Withers
Position	Independent Non-Executive Director	Independent Non-Executive Director
Occupation	Company Director	Company Director
Qualifications	LLB, CFInstD	MBA, CFInstD
Resides	Wanaka, New Zealand	Auckland, New Zealand
Other company directorships	Bear Fund NZ Ltd, Freightways Ltd, Meridian Energy Ltd, Willis Bond Capital Partners Ltd, Willis Bond General Partner Ltd	On Being Bold Ltd, Sky Network Television Ltd, The Warehouse Group Ltd, The Warehouse Planit Trustees Ltd, The Warehouse Management Trustee Company Ltd, The Warehouse Management Trustee Company No.2 Ltd

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Conditions of registration

The following conditions of registration were applicable as at 30 September 2019, and have applied from 30 June 2019.

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

1. That—
 - (a) the Total capital ratio of the banking group is not less than 8%;
 - (b) the Tier 1 capital ratio of the banking group is not less than 6%;
 - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
 - (d) the Total capital of the banking group is not less than \$30 million;
 - (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
 - (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration, —

"supervisory adjustment" referred to in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is calculated as the scalar times the sum of:

- (a) the greater of:
 - i. 27.66 percent of the exposure-at-default (EAD) amount of non-defaulted standard residential mortgage loans less the risk-weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted standard residential mortgage loans; and
 - ii. zero;

and

- (b) the greater of:
 - i. 75.47 percent of the exposure-at-default (EAD) amount of non-defaulted corporate farm lending exposures less the risk-weighted asset amount (without scalar) calculated using the bank's approved IRB models for non-defaulted corporate farm lending exposures; and
 - ii. zero;

"standard residential mortgage loan" has the same meaning as in 4.7(a) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B), dated November 2015;

"corporate farm lending exposures" has the same meaning as in 4.4(c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 and elsewhere in this condition of registration is 1.06;

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

- 1A. That—
 - (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP') (BS12) dated December 2007;
 - (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015; and
 - (c) the bank determines an internal capital allocation for each identified and measured "other material risk".
- 1B. That the bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015:
 - (a) the model approval requirements in section 1.3A;
 - (b) the compendium requirements in section 1.3B;
 - (c) the minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and
 - (d) the minimum qualitative requirements for using the Advanced Measurement Approach ("AMA") for operational risk set out in section 8.4(a) and sections 8.5 to 8.14.

B1. GENERAL DISCLOSURES (continued)

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

- (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875 - 2.5%	60%

- (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
- (c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

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

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

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

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

In determining the total amount of the banking group's insurance business—

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

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

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

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

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

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

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% 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 Exposures Policy" (BS8) dated November 2015.

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.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

6. That the bank complies with the following corporate governance requirements:
- (a) the board of the bank must have at least five directors;
 - (b) the majority of the board members must be non-executive directors;
 - (c) at least half of the board members must be independent directors;
 - (d) an alternate director,—
 - (i) for a non-executive director must be non-executive; and
 - (ii) for an independent director must be independent;
 - (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
 - (f) the chairperson of the board of the bank must be independent; and
 - (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
- (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:
- (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
- (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
 - (b) the committee must have at least three members;
 - (c) every member of the committee must be a non-executive director of the bank;
 - (d) the majority of the members of the committee must be independent; and
 - (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

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

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

This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2022 or when the existing outsourcing arrangement becomes compliant with condition 24, from which point in time condition 24 will apply to that outsourcing arrangement.

For the purposes of this condition of registration:

- (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and
- (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy (BS11)" dated September 2017.

12. That:
- (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
 - (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
 - (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

B1. GENERAL DISCLOSURES (continued)

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:

- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
- (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
- (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2018.

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

- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition,—

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

"SPV" means a person—

- (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

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

16. That—

- (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
- (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
 - (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

- (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
 - (i) all liabilities are frozen in full; and
 - (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
- (b) apply a *de minimis* to relevant customer liability accounts;
- (c) apply a partial freeze to the customer liability account balances;
- (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
- (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
- (f) reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

18. That the bank has an Implementation Plan that—

- (a) is up-to-date; and
- (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that—

- (a) at the product-class level lists all liabilities, indicating which are—
 - (i) pre-positioned for Open Bank Resolution; and
 - (ii) not pre-positioned for Open Bank Resolution;
- (b) is agreed to by the Reserve Bank; and
- (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

23. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

24. That the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated September 2017.

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 23,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:

"loan-to-valuation measurement period" means—

- (a) the three calendar month period ending on the last day of March 2019; and
- (b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2019.

Changes since 31 March 2019

Effective 15 May 2019, the Bank's conditions of registration were amended to require the Banking Group's operational risk capital (ORC) requirement to be calculated in accordance with BS2A.

Effective 30 June 2019, the Bank's conditions of registration were amended to include a supervisory adjustment to the Banking Group's capital adequacy calculations. This supervisory adjustment introduced minimum pre-scalar risk weightings for residential mortgage exposures and corporate farm lending exposures.

Non-compliance with conditions of registration

a) Condition of Registration 1B – compliance with BS2B

A number of reviews of the Banking Group's application of, and compliance with, BS2B have been conducted both internally and by external parties. These reviews have identified the instances of non-compliance with Condition of Registration 1B on the following page.

The aggregate impact of the matters noted below as at 30 September 2019 was an understatement of risk weighted assets (RWA) of NZ\$203 million, compared to reported RWA of NZ\$97,070 million. This net increase in RWA would decrease the Banking Group's capital ratios by less than 0.03% and would change the reported CET 1 capital ratio to 10.7% from 10.8%, but is not sufficient to affect the reported tier 1 and total capital ratios.

As at 30 September 2019, the Banking Group's total regulatory capital of over NZ\$13 billion was more than NZ\$4 billion (44%) higher than the minimum 10.5% (including buffer) of RWA required.

B1. GENERAL DISCLOSURES (continued)

Area	Details																																												
ORC model (reported in March 2019 disclosure statement)	In April 2019, the Bank informed RBNZ that in the course of a self-review, the Bank discovered that it had not been using an approved model for the calculation of the ORC requirement since December 2014. ORC was calculated for the Bank by the Ultimate Parent Bank. A failure of systems and controls, as well as no verification being undertaken by the Bank, meant that the Ultimate Parent Bank decommissioned the RBNZ approved model without the Bank ensuring that it had the necessary regulatory approvals in place to move to a new model. Calculation of the ORC requirement since December 2014 was based on a previous RBNZ approved ORC model output last run in September 2014, with an adjustment to reflect the growth of the Banking Group's business. The Bank accepts that this was not in compliance with condition of registration 1B. The adoption of this calculation and decommissioning of the authorised ORC model occurred following development of a new ORC model in 2015 to be used by the Overseas Banking Group that better reflected the risks in the business. This new ORC model was approved by APRA in September 2015 and subsequently submitted to RBNZ for approval in June 2016. In 2016, RBNZ suspended approval of capital models and, the new ORC model has not been approved. The RBNZ decided that the Banking Group's ORC requirement would be calculated in accordance with BS2A, and the Bank's Conditions of Registration were amended to this effect from 15 May 2019. As a result, as at 31 March 2019, the Banking Group's ORC requirement increased by NZ\$277 million, and its capital ratios decreased by 40 basis points for CET 1 capital and 60 basis points for total capital. Restatement of prior period comparatives was not required.																																												
Credit risk models	The Bank has not complied with condition of registration 1B in relation to the implementation of changes to rating models and processes that were not approved by RBNZ. Affected models and the initial dates of non-compliance are noted below. Applying the last RBNZ approved methodologies to the affected exposures as at 30 September 2019 would decrease RWA by NZ\$47 million (0.05%) in aggregate, which is not sufficient to affect the reported capital ratios. - Commercial Property Model Suite (Single Investment, Multi Investment, Hotel Investment, Special Purpose Asset Investment, Single Residential Development, Commercial Development, Englobo Land Pre Development) - 2011 - Non-Bank Financial Institutions Model Suite (Life Insurance, Non-life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds) - 2009 - Project and Structured Finance - 2009 - Bank, Country & Sovereigns - 2008 The Bank's model compendium required under section 1.3B of BS2B is not accurate as it includes unapproved model changes. The Bank is working with RBNZ on this issue.																																												
Other calculation matters	Until 31 December 2018, Condition of Registration 1B required compliance with all aspects of BS2B. Effective 1 January 2019, the Bank's conditions of registration were amended to refer to specific sections of BS2B only. Errors were identified in the calculations of risk-weighted assets that meant that the Bank had not complied with Condition of Registration 1B from the emergence of the errors, as noted in the table below, until 31 December 2018. The Bank does not consider that these errors would have materially affected the reported capital ratios. The effect on RWA of each of these errors as at 30 September 2019 is shown below. The net increase in RWA would change the reported CET 1 capital ratio to 10.7% from 10.8%, but is not sufficient to affect the reported tier 1 and total capital ratios. <table><tr><th></th><th>BS2B ref</th><th>Error since</th><th>30 Sep 19 NZ\$m</th></tr><tr><td colspan="4">Understatement / (overstatement) of RWA</td></tr><tr><td>Credit risk - LGD calculated incorrectly for a small number of farm lending exposures¹</td><td>4.61A</td><td>2017</td><td>(1)</td></tr><tr><td>Credit risk - incorrect EAD factor of 23%, instead of 33%, applied to UDC retail commitments¹</td><td>4.64B</td><td>2017</td><td>2</td></tr><tr><td>Credit risk - exposures incorrectly risk weighted as standardised (100%) rather than advanced (360%)²</td><td></td><td>2017</td><td>30</td></tr><tr><td>Credit risk - asset value correlation multiplier applied using a threshold of A\$100m rather than NZ\$120m³</td><td>4.136A</td><td>2013</td><td>(10)</td></tr><tr><td>Market risk - net interest rate risk for some currency exposures calculated in aggregate rather than individually²</td><td>7</td><td>2008</td><td>23</td></tr><tr><td>Market risk - modelling of forward interest rate agreements and interest rate futures</td><td>7</td><td>2008</td><td>206</td></tr><tr><td>Net understatement / (overstatement) of RWA</td><td></td><td></td><td>250</td></tr><tr><td>Reported risk weighted assets</td><td></td><td></td><td>97,070</td></tr><tr><td>Aggregate error in risk weighted assets (%)</td><td></td><td></td><td>0.26%</td></tr></table> ¹ Issue corrected for the calculation of risk-weighted assets at 30 November 2019. ² Issue will be corrected for the 31 December 2019 capital adequacy calculation. ³ Issue will be resolved following the necessary system change. In addition to the above, in relation to the calculation of market risk capital under part 7 of BS2B: - A formula error created in October 2010, had a maximum impact in March 2017 that understated the market risk capital requirement by \$37 million, but did not affect the reported capital ratios. This was corrected as at 30 September 2019. - The system that calculates market risk capital allocates small portions of loan principal to incorrect time periods. These movements could be in both directions, depending on the time of month and timing and frequency of payments, and so may result in either an overstatement or an understatement of the market risk capital requirement. The impact can be modelled on examples of loans but is unable to be quantified with accuracy across the portfolio. The issue, which has existed since 1999, had been documented and assessed as immaterial, however as a zero materiality threshold is applied, constituted a breach of condition of registration 1B.		BS2B ref	Error since	30 Sep 19 NZ\$m	Understatement / (overstatement) of RWA				Credit risk - LGD calculated incorrectly for a small number of farm lending exposures ¹	4.61A	2017	(1)	Credit risk - incorrect EAD factor of 23%, instead of 33%, applied to UDC retail commitments ¹	4.64B	2017	2	Credit risk - exposures incorrectly risk weighted as standardised (100%) rather than advanced (360%) ²		2017	30	Credit risk - asset value correlation multiplier applied using a threshold of A\$100m rather than NZ\$120m ³	4.136A	2013	(10)	Market risk - net interest rate risk for some currency exposures calculated in aggregate rather than individually ²	7	2008	23	Market risk - modelling of forward interest rate agreements and interest rate futures	7	2008	206	Net understatement / (overstatement) of RWA			250	Reported risk weighted assets			97,070	Aggregate error in risk weighted assets (%)			0.26%
	BS2B ref	Error since	30 Sep 19 NZ\$m																																										
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Net understatement / (overstatement) of RWA			250																																										
Reported risk weighted assets			97,070																																										
Aggregate error in risk weighted assets (%)			0.26%																																										

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

b) Condition of Registration 5 - Exposures to connected persons not on more favourable terms (BS8)

From time to time, the Bank provides a guarantee or standby letter of credit to a third party in respect of an obligation of a customer of the Ultimate Parent Bank. The Ultimate Parent Bank provides a counter-guarantee or standby letter of credit to the Bank, giving the Bank recourse directly to the Ultimate Parent Bank if the guarantee or standby letter of credit the Bank provides in respect of the customer's obligations is called upon. The Bank charges the Ultimate Parent Bank a fee for this service. However, through an internal review, the Bank identified that since January 2014 this fee has been lower than the fee charged for this same service provided to unrelated banks and, as a result, the Bank has not complied with condition of registration 5. As at 30 September 2018, the value of the exposure was NZ\$698 million, and was NZ\$456 million across 246 individual transactions at 30 September 2019. The Bank is currently working to establish a revised pricing methodology for these transactions. The Bank anticipates this will be in place for all new transactions entered into after 31 December 2019.

c) Condition of Registration 13 - Liquidity ratios (BS13)

During a review, the following matters of non-compliance with BS13 were identified. These errors were not sufficient to affect the reported liquidity ratios.

- Under BS13, 'Market Funding' entities are defined by reference to the 2006 ANZSIC code K62. A sub-code was incorrectly allocated to 'Non-Market'. This error had existed since 2017. This error was corrected as at 30 September 2019, and decreased the one week and one month mismatches and core funding by NZ\$2.1 million but did not affect the reported ratios.
- The Bank calculated the next cash inflow on variable-rate housing loans based on a current wholesale rate plus the existing margin rather than using the current interest rate to calculate the inflow. This calculation error has existed since 2010. As at 30 September 2019, the difference led to an understatement of the one week and one month liquidity mismatches by NZ\$0.07 million and NZ\$2.8 million respectively but did not affect the reported ratios.
- The liquidity ratio calculation system and the system of record for certain bond liabilities and certain swaps calculate future cash flows differently. The difference has been known since 2017. The difference led to an understatement of the one month mismatch by \$0.9 million as at 30 September 2019, but did not affect the reported ratio.

d) Condition of Registration 24 – Outsourcing (BS11 dated September 2017)

BS11 requires the Bank to apply specified risk mitigants against each outsourcing arrangement. During the year ended 30 September 2019, the Bank outsourced two arrangements to the Overseas Banking Group without the required prescribed contractual terms. These arrangements will be remediated in the year ending 30 September 2020.

BS11 requires the Bank to have a compendium of information about outsourcing arrangements in place by 1 October 2019. In November 2019, the Bank informed RBNZ that minor data discrepancies had been identified for certain information entered in the compendium during the year ended 30 September 2019.

Other matters under review

There are several matters under review, including the calculation of the market risk capital requirement (under BS2B) and liquidity ratios (under BS13 and BS13A), where there may be more than one valid interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation the Bank has applied, where appropriate it will seek further guidance from RBNZ and other parties on these matters. In the Bank's current view, the potential impact of the application of other interpretations is immaterial to reported ratios.

Reviews under section 95 of the Reserve Bank of New Zealand Act 1989

On 5 July 2019, the RBNZ gave the Bank notice, under section 95 of the Reserve Bank of New Zealand Act 1989, requiring the Bank to engage an external reviewer to provide reports regarding the Bank's compliance with the RBNZ's capital adequacy requirements and the effectiveness of the Bank's director attestation and assurance framework. The scope of the director attestation and assurance framework review also included four case studies covering the ORC breach, mischaracterisation of the former CEO's expenses, transactions relating to the 2017 sale of a residential property to the wife of the former CEO, and the 2018 conditions of registration breach relating to the treatment of commitments jointly held with the Ultimate Parent Bank.

The director attestation and assurance framework review has been completed. The review identified a number of recommendations to improve the director attestation and assurance framework. The Bank accepts the findings of the director attestation and assurance framework review and is committed to implementing the recommendations identified and addressing the issues raised. On 11 December 2019 RBNZ issued a further notice under section 95 of the RBNZ Act, requiring the Bank to obtain an external review of the improvements made to the Bank's directors' attestation and assurance framework.

The Bank is continuing to work with the RBNZ and the external reviewer to undertake the review regarding the Bank's compliance with the RBNZ's capital adequacy requirements.

B1. GENERAL DISCLOSURES (continued)

Other material matters

Outcome of the RBNZ capital review

On 14 December 2018, the RBNZ sought feedback on proposals to reform the amount of regulatory capital required of banks incorporated in New Zealand. On 5 December 2019, the RBNZ released its final decisions in respect of these proposals.

While the increase in capital remains significant, as a result of the consultation process there have been changes to the capital instruments and the transition period to the new regime.

The key changes to the RBNZ final capital requirements relative to the consultation paper are:

- No change in total Tier 1 capital required for the Banking Group of 16%, however the transition period is longer at seven years.
- A greater proportion of the increase is in AT1 capital (2.5% compared to the initial proposal of 1.5%), decreasing the amount of CET1 capital required.
- Redeemable preference shares allowable as AT1 capital. It is anticipated that the Bank will be able to refinance existing internal AT1 securities (issued to the Immediate Parent Company) to external counterparties.

Any changes will be implemented gradually, considering the market is competitive for lending. The Banking Group has already started preparing for the change. Of the Banking Group's NZ\$1.8 billion net profit after tax in for the year ended 30 September 2019, approximately 80% has been retained in response to the proposals.

Credit rating

As at 12 December 2019 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 9 July 2019, S&P Global Ratings changed the outlook on the Bank from Negative to Stable. On 17 July 2019, Fitch Ratings changed the outlook on the Bank from Stable to Negative.

The Bank's credit ratings are:

Rating agency	Credit rating	Qualification
S&P Global Ratings	AA-	Outlook Stable
Fitch Ratings	AA-	Outlook Negative
Moody's Investors Service	A1	Outlook Stable

The following table describes the credit rating grades available:

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Historical summary of financial statements

	2019 NZ\$m	2018 NZ\$m	2017 NZ\$m	2016 NZ\$m	2015 NZ\$m
Income statement					
Interest income	6,423	6,390	6,198	6,423	6,926
Interest expense	(3,179)	(3,240)	(3,161)	(3,421)	(4,051)
Net interest income	3,244	3,150	3,037	3,002	2,875
Non-interest income	946	1,126	938	852	1,175
Operating income	4,190	4,276	3,975	3,854	4,050
Operating expenses	(1,608)	(1,517)	(1,468)	(1,599)	(1,512)
Credit impairment charge	(101)	(55)	(62)	(150)	(74)
Profit before income tax	2,481	2,704	2,445	2,105	2,464
Income tax expense	(662)	(751)	(680)	(570)	(681)
Profit after income tax	1,819	1,953	1,765	1,535	1,783
Dividends paid	(411)	(4,611)	(1,695)	(1,363)	(1,760)
Share capital issued	-	3,000	-	-	675
Balance sheet					
Total assets	169,416	159,012	153,973	160,819	147,527
Total individually impaired assets	285	321	357	426	382
Total impaired assets (i.e. stage 3)	729	n/a	n/a	n/a	n/a
Total liabilities	154,986	145,903	141,192	148,109	135,074
Equity	14,430	13,109	12,781	12,710	12,453

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

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group is included in Note 28 Commitments and Contingent Liabilities.

Directors' statements

The Directors' statement is included on page 98.

Auditor's report

The auditor's report is included on page 99.

Index

The index to the contents of the Disclosure Statement is included on page 2, and an index to the contents of the financial statements is included on page 3.

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2019 NZ\$m	2018 NZ\$m
Total interest earning and discount bearing assets	153,298	145,322
Total interest and discount bearing liabilities	129,494	124,625

B2. ADDITIONAL FINANCIAL DISCLOSURES (continued)

Additional information on interest rate sensitivity

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

2019	Total NZ\$m	Up to 3 months NZ\$m	Over 3 to 6 months NZ\$m	Over 6 to 12 months NZ\$m	Over 1 to 2 years NZ\$m	Over 2 years NZ\$m	Not bearing interest NZ\$m
Assets							
Cash and cash equivalents	2,363	2,081	-	-	-	-	282
Settlement balances receivable	193	-	-	-	-	-	193
Collateral paid	2,324	2,324	-	-	-	-	-
Trading securities	8,942	650	253	253	1,624	6,162	-
Derivative financial instruments	11,666	-	-	-	-	-	11,666
Investment securities	7,027	256	148	247	1,997	4,378	1
Net loans and advances	132,525	64,764	10,935	23,041	24,522	9,663	(400)
Other financial assets	622	-	-	-	-	-	622
Total financial assets	165,662	70,075	11,336	23,541	28,143	20,203	12,364
Liabilities							
Settlement balances payable	1,607	451	-	-	-	-	1,156
Collateral received	991	991	-	-	-	-	-
Deposits and other borrowings	113,427	70,546	16,367	10,978	2,221	1,520	11,795
Derivative financial instruments	11,042	-	-	-	-	-	11,042
Debt issuances	26,207	3,499	1,486	3,446	4,266	13,510	-
Other financial liabilities	841	213	-	-	-	-	628
Total financial liabilities	154,115	75,700	17,853	14,424	6,487	15,030	24,621
Hedging instruments	-	(6,725)	11,340	698	(9,612)	4,299	-
Interest sensitivity gap	11,547	(12,350)	4,823	9,815	12,044	9,472	(12,257)

Reconciliation of mortgage related amounts

As at 30 September 2019	Note	NZ\$m
Term loans - housing ¹	11	84,007
Less: fair value adjustment on mortgages repurchased from the NZ Branch		(1)
Less: housing loans made to corporate customers		(2,109)
Add: unsettled re-purchases of mortgages from the NZ Branch		4
On-balance sheet residential mortgage exposures subject to the IRB approach	B4	81,901
Add: off-balance sheet residential mortgage exposures subject to the IRB approach	B4	8,268
Total residential mortgage exposures subject to the IRB approach (as per LVR analysis)	B4	90,169

¹ Term loans – housing includes loans secured over residential property for owner-occupier, residential property investment and business purposes.

B3. ASSET QUALITY

Collectively assessed loss allowances

	Note	Residential mortgages NZ\$m	Other retail exposures NZ\$m	Corporate exposures NZ\$m	Total NZ\$m
Collectively assessed loss allowances - Total					
As at 30 September 2018 (NZ IAS 39)		82	118	182	382
NZ IFRS 9 transition adjustment	1,12	(36)	20	88	72
As at 1 October 2018 (NZ IFRS 9)		46	138	270	454

Collectively assessed loss allowances - recognised in:

Net loans and advances	46	108	217	371
Provisions	-	30	53	83
As at 1 October 2018 (NZ IFRS 9)	46	138	270	454

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – total

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - total					
As at 1 October 2018	160	171	40	130	501
Transfer between stages	29	(40)	3	8	-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121	158
Write-backs	-	-	-	(48)	(48)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	4	23	2	58	87
Bad debts written-off (excluding recoveries)	-	-	-	(106)	(106)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	164	194	42	97	497

Off-balance sheet credit related commitments - total

As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
Credit impairment charge	1	2	-	11	14
As at 30 September 2019	60	24	2	11	97

Impacts of changes in gross financial assets on loss allowances - total

Gross loans and advances - total

As at 1 October 2018	118,878	7,448	331	321	126,978
Net transfers in to each stage	-	1,979	206	203	2,388
Amounts drawn from new or existing facilities	21,123	687	35	105	21,950
Additions	21,123	2,666	241	308	24,338
Net transfers out of each stage	(2,372)	-	-	(16)	(2,388)
Amounts repaid	(14,344)	(1,106)	(128)	(222)	(15,800)
Deletions	(16,716)	(1,106)	(128)	(238)	(18,188)
Amounts written off	-	-	-	(106)	(106)
As at 30 September 2019	123,285	9,008	444	285	133,022
Loss allowance as at 30 September 2019	164	194	42	97	497

Off-balance sheet credit related commitments - total

As at 1 October 2018	28,882	1,198	11	14	30,105
Net transfers in to each stage	38	29	4	14	85
Amounts drawn from new or existing facilities	3,896	78	1	-	3,975
Additions	3,934	107	5	14	4,060
Net transfers out of each stage	(31)	(45)	-	(9)	(85)
Amounts repaid	(4,294)	(423)	(13)	-	(4,730)
Deletions	(4,325)	(468)	(13)	(9)	(4,815)
Amounts written off	-	-	-	-	-
As at 30 September 2019	28,491	837	3	19	29,350
Loss allowance as at 30 September 2019	60	24	2	11	97

Explanation of how changes in the gross carrying amounts of gross loans and advances contributed to changes in loss allowance

Overall, loss allowances on gross loans and advances have remained stable at approximately 0.4% of gross loans and advances. Loss allowances have increased by NZ\$10 million (2%) driven by an increase in the proportion of gross loans and advances in Stage 2 and Stage 3, offset by a net decrease in Stage 3 individually assessed exposures as a result of amounts written-off.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - residential mortgages					
As at 1 October 2018	13	26	7	21	67
Transfer between stages	11	(10)	-	(1)	-
New and increased provisions (net of collective provision releases)	(6)	9	5	7	15
Write-backs	-	-	-	(5)	(5)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge / (release)	5	(1)	5	1	10
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages

As at 1 October 2018	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2019	-	-	-	-	-

Impacts of changes in gross financial assets on loss allowances - residential mortgages

Gross loans and advances - residential mortgages

As at 1 October 2018	73,992	1,948	203	25	76,168
Net transfers in to each stage	-	815	169	25	1,009
Amounts drawn from new or existing facilities	14,769	360	22	6	15,157
Additions	14,769	1,175	191	31	16,166
Net transfers out of each stage	(1,001)	-	-	(8)	(1,009)
Amounts repaid	(8,632)	(648)	(121)	(23)	(9,424)
Deletions	(9,633)	(648)	(121)	(31)	(10,433)
Amounts written off	-	-	-	-	-
As at 30 September 2019	79,128	2,475	273	25	81,901
Loss allowance as at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages

As at 1 October 2018	8,206	26	-	-	8,232
Net transfers in to each stage	-	21	-	-	21
Amounts drawn from new or existing facilities	1,107	4	-	-	1,111
Additions	1,107	25	-	-	1,132
Net transfers out of each stage	(21)	-	-	-	(21)
Amounts repaid	(1,060)	(15)	-	-	(1,075)
Deletions	(1,081)	(15)	-	-	(1,096)
Amounts written off	-	-	-	-	-
As at 30 September 2019	8,232	36	-	-	8,268
Loss allowance as at 30 September 2019	-	-	-	-	-

Explanation of how changes in the gross carrying amounts of residential mortgages contributed to changes in loss allowance

The NZ\$10 million (14.9%) increase in loss allowances on residential mortgage exposures is primarily driven by an increase in overall gross carrying amounts, and an increase in the proportion of Stage 2 and Stage 3 collectively assessed exposures. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 95% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80% (refer to page 84).

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - other retail exposures					
As at 1 October 2018	28	55	25	11	119
Transfer between stages	13	(18)	1	4	-
New and increased provisions (net of collective provision releases)	(15)	14	(2)	84	81
Write-backs	-	-	-	(11)	(11)
Recoveries of amounts previously written off	-	-	-	(20)	(20)
Credit impairment charge / (release)	(2)	(4)	(1)	57	50
Bad debts written-off (excluding recoveries)	-	-	-	(74)	(74)
Add back recoveries of amounts previously written off	-	-	-	20	20
Discount unwind	-	-	-	-	-
As at 30 September 2019	26	51	24	14	115

Off-balance sheet credit related commitments - other retail exposures

As at 1 October 2018	18	10	2	-	30
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	4	-	-	-
Credit impairment charge / (release)	(1)	1	-	-	-
As at 30 September 2019	17	11	2	-	30

Impacts of changes in gross financial assets on loss allowances - other retail exposures

Gross loans and advances - other retail exposures

As at 1 October 2018	3,288	315	48	25	3,676
Net transfers in to each stage	-	-	-	38	38
Amounts drawn from new or existing facilities	472	33	4	69	578
Additions	472	33	4	107	616
Net transfers out of each stage	(32)	-	-	(6)	(38)
Amounts repaid	(593)	(43)	(7)	(22)	(665)
Deletions	(625)	(43)	(7)	(28)	(703)
Amounts written off	-	-	-	(74)	(74)
As at 30 September 2019	3,135	305	45	30	3,515
Loss allowance as at 30 September 2019	26	51	24	14	115

Off-balance sheet credit related commitments - other retail exposures

As at 1 October 2018	4,859	54	4	-	4,917
Net transfers in to each stage	-	8	2	-	10
Amounts drawn from new or existing facilities	312	8	-	-	320
Additions	312	16	2	-	330
Net transfers out of each stage	(10)	-	-	-	(10)
Amounts repaid	(583)	(24)	(3)	-	(610)
Deletions	(593)	(24)	(3)	-	(620)
Amounts written off	-	-	-	-	-
As at 30 September 2019	4,578	46	3	-	4,627
Loss allowance as at 30 September 2019	17	11	2	-	30

Explanation of how changes in the gross carrying amounts of other retail exposures contributed to changes in loss allowance

Loss allowances have decreased by NZ\$4 million (2.7%) reflecting the reduction in gross carrying amounts, offset by a net increase in Stage 3 individually assessed exposures.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – corporate exposures

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
Net loans and advances - corporate exposures					
As at 1 October 2018	119	90	8	98	315
Transfer between stages	5	(12)	2	5	-
New and increased provisions (net of collective provision releases)	(4)	40	(4)	30	62
Write-backs	-	-	-	(32)	(32)
Recoveries of amounts previously written off	-	-	-	(3)	(3)
Credit impairment charge / (release)	1	28	(2)	-	27
Bad debts written-off (excluding recoveries)	-	-	-	(32)	(32)
Add back recoveries of amounts previously written off	-	-	-	3	3
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	120	118	6	61	305

Off-balance sheet credit related commitments - corporate exposures

As at 1 October 2018	41	12	-	-	53
Transfer between stages	2	(2)	-	-	-
New and increased provisions (net of collective provision releases)	-	3	-	11	14
Credit impairment charge	2	1	-	11	14
As at 30 September 2019	43	13	-	11	67

Impacts of changes in gross financial assets on loss allowances - corporate exposures

Gross loans and advances - corporate exposures

As at 1 October 2018	41,598	5,185	80	271	47,134
Net transfers in to each stage	-	1,164	37	140	1,341
Amounts drawn from new or existing facilities	5,882	294	9	30	6,215
Additions	5,882	1,458	46	170	7,556
Net transfers out of each stage	(1,339)	-	-	(2)	(1,341)
Amounts repaid	(5,119)	(415)	-	(177)	(5,711)
Deletions	(6,458)	(415)	-	(179)	(7,052)
Amounts written off	-	-	-	(32)	(32)
As at 30 September 2019	41,022	6,228	126	230	47,606
Loss allowance as at 30 September 2019	120	118	6	61	305

Off-balance sheet credit related commitments - corporate exposures

As at 1 October 2018	15,817	1,118	7	14	16,956
Net transfers in to each stage	38	-	2	14	54
Amounts drawn from new or existing facilities	2,477	66	1	-	2,544
Additions	2,515	66	3	14	2,598
Net transfers out of each stage	-	(45)	-	(9)	(54)
Amounts repaid	(2,651)	(384)	(10)	-	(3,045)
Deletions	(2,651)	(429)	(10)	(9)	(3,099)
Amounts written off	-	-	-	-	-
As at 30 September 2019	15,681	755	-	19	16,455
Loss allowance as at 30 September 2019	43	13	-	11	67

Explanation of how changes in the gross carrying amounts of corporate exposures contributed to changes in loss allowance

The NZ\$4 million (1.1%) increase in loss allowances on corporate exposures was primarily driven by an increase in the proportion of Stage 2 collectively assessed exposures, offset by a net decrease in Stage 3 individually assessed exposures.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Past due assets

	2019				2018			
	Residential mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m	Residential mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
Less than 30 days past due	505	177	413	1,095	595	186	639	1,420
At least 30 days but less than 60 days past due	141	32	85	258	109	31	39	179
At least 60 days but less than 90 days past due	162	18	13	193	105	20	3	128
At least 90 days past due	263	30	31	324	152	34	19	205
Total past due but not individually impaired	1,071	257	542	1,870	961	271	700	1,932

Other asset quality information

Undrawn facilities with individually impaired customers	-	-	19	19	-	-	14	14
Other assets under administration	2	2	-	4	7	2	-	9

Asset quality for financial assets designated at fair value

The Banking Group does not have any loans and advances designated at fair value through profit or loss.

2018 Asset quality disclosure under NZ IAS 39

The below disclosure does not reflect the adoption of NZ IFRS 9 and is prepared under the requirements of the previous NZ IAS 39.

Movement in individually impaired assets

	2018			
	Residential mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
Balance at beginning of the period	31	20	306	357
Additions	21	107	267	395
Amounts written off	(1)	(77)	(71)	(149)
Deletions	(26)	(25)	(231)	(282)
Balance at end of the period	25	25	271	321
Individual provision	21	11	98	130

Movement in balances of individual credit impairment allowances

	2018			
	Residential mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
Balance at beginning of the period	25	6	121	152
Individual credit impairment charge / (release)				
New and increased provisions	7	90	116	213
Write-backs	(9)	(8)	(66)	(83)
Recoveries of amounts previously written off	-	(21)	(9)	(30)
Individual credit impairment charge / (release)	(2)	61	41	100
Bad debts written off	(1)	(77)	(71)	(149)
Add back recoveries of amounts previously written off	-	21	9	30
Discount unwind	(1)	-	(2)	(3)
Balance at end of the period	21	11	98	130

Movement in balances of collective credit impairment allowances

	2018			
	Residential mortgages NZ\$m	Other retail exposures NZ\$m	Non-retail exposures NZ\$m	Total NZ\$m
Balance at beginning of the period	75	121	231	427
Charge / (release) to income statement	7	(3)	(49)	(45)
Balance at end of the period	82	118	182	382

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED)

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	2019	2018	2019	2018
Common equity tier 1 capital	4.5%	10.8%	11.1%	9.7%	9.5%
Tier 1 capital	6.0%	13.6%	14.4%	12.6%	13.0%
Total capital	8.0%	13.6%	14.4%	12.6%	13.0%
Buffer ratio	2.5%	5.6%	6.4%	n/a	n/a

Capital of the Banking Group

As at 30 September 2019	Note	NZ\$m
Tier 1 capital		
<i>Common equity tier 1 (CET1) capital</i>		
Paid up ordinary shares issued by the Bank	21	11,588
Retained earnings (net of appropriations)		2,521
Accumulated other comprehensive income and other disclosed reserves ¹	21	21
<i>Less deductions from common equity tier 1 capital</i>		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,276)
Deferred tax assets less deferred tax liabilities relating to temporary differences		(107)
Cash flow hedge reserve		(27)
Expected losses to the extent greater than total eligible allowances for impairment		(274)
Common equity tier 1 capital		10,446
<i>Additional tier 1 capital</i>		
Preference shares ²	21	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN) ³	15	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN) ³	15	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2) ³	15	938
Retained earnings of the Bonus Bonds Scheme ⁴		59
<i>Less deductions from additional tier 1 capital</i>		
Surplus retained earnings of the Bonus Bonds Scheme ⁴		(20)
Additional tier 1 capital		2,780
Total tier 1 capital		13,226
Tier 2 capital		-
Total capital		13,226

¹ Includes the cash flow hedging reserve of NZ\$27 million less the investment securities revaluation reserve of NZ\$6 million as at 30 September 2019.

² Classified as equity on the balance sheet under NZ GAAP.

³ Classified as a liability on the balance sheet under NZ GAAP.

⁴ Bonus Bonds Scheme is not consolidated on the balance sheet under NZ GAAP but is classified as AT1 capital for capital adequacy purposes as set out in BS2B.

Capital requirements of the Banking Group

As at 30 September 2019	Total exposures after credit risk mitigation NZ\$m	Risk weighted exposure or implied risk weighted exposure ¹ NZ\$m	Total capital requirement NZ\$m
Total credit risk	190,765	70,031	5,602
Operational risk	n/a	9,720	778
Market risk	n/a	4,788	383
Supervisory adjustment	n/a	12,531	1,003
Total	190,765	97,070	7,766

¹ The calculation of capital requirements for total credit risk weighted includes a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk subject to the Internal Ratings Based (IRB) approach

IRB credit exposures by exposure class and customer credit rating

As at 30 September 2019	Probability of default %	Total value NZ\$m	Exposure at default NZ\$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted assets NZ\$m	Minimum capital requirement NZ\$m
Corporate							
0 - 2	0.06	67,193	5,382	60	30	1,683	135
3 - 4	0.32	41,489	23,774	37	42	10,555	844
5	1.01	13,937	12,254	33	58	7,546	604
6	2.29	4,764	4,431	35	81	3,809	305
7 - 8	15.25	2,406	2,045	38	165	3,580	286
Default	100.00	317	315	44	173	578	46
Total corporate exposures	1.93	130,106	48,201	39	54	27,751	2,220
Sovereign							
0	0.01	24,154	12,115	5	1	188	15
1 - 8	0.01	1,182	1,161	5	1	18	1
Total sovereign exposures	0.01	25,336	13,276	5	1	206	16
Bank							
1	0.03	1,084,608	9,535	55	28	2,833	227
2 - 4	0.12	76,136	1,102	65	38	440	35
5 - 8	3.23	5	5	39	116	6	-
Total bank exposures	0.04	1,160,749	10,642	56	29	3,279	262
Residential mortgages							
0 - 3	0.20	27,223	27,591	12	5	1,573	126
4	0.46	36,733	36,883	19	15	5,884	471
5	0.91	21,321	21,423	23	31	7,074	566
6	1.98	4,245	4,249	26	59	2,667	213
7 - 8	4.80	309	309	27	94	309	25
Default	100.00	338	339	19	15	55	5
Total residential mortgages exposures	0.94	90,169	90,794	18	18	17,562	1,406
Other retail							
0 - 2	0.10	538	541	77	50	284	23
3 - 4	0.26	4,607	4,689	78	55	2,714	217
5	1.06	1,934	1,878	71	74	1,473	118
6	2.25	1,854	1,895	70	89	1,786	143
7 - 8	7.94	1,487	1,525	82	127	2,049	164
Default	100.00	84	84	76	67	59	4
Total other retail exposures	2.64	10,504	10,612	76	74	8,365	669
Total credit risk exposures subject to the IRB approach	1.20	1,416,864	173,525	29	31	57,163	4,573

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

IRB credit exposures include the following undrawn commitments and other off-balance sheet amounts:

	Total value NZ\$m	Exposure at default NZ\$m
As at 30 September 2019		
Undrawn commitments and other off-balance sheet amounts excluding market related contracts		
Corporate	12,224	11,561
Sovereign	299	286
Bank	1,444	1,180
Residential mortgages	8,268	8,684
Other retail	5,271	5,294
Market related contracts		
Corporate	82,694	1,991
Sovereign	12,036	179
Bank	1,151,985	3,756
Residential mortgages	-	-
Other retail	-	-

Additional mortgage information

As required by RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off-balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which have been accepted by the customer.

	On-balance sheet NZ\$m	Off-balance sheet NZ\$m	Total NZ\$m
As at 30 September 2019			
LVR range			
Does not exceed 60%	40,753	5,697	46,450
Exceeds 60% and not 70%	18,623	1,317	19,940
Exceeds 70% and not 80%	18,041	931	18,972
Does not exceed 80%	77,417	7,945	85,362
Exceeds 80% and not 90%	3,237	159	3,396
Exceeds 90%	1,247	164	1,411
Total	81,901	8,268	90,169

Specialised lending subject to the slotting approach

	Total exposures after credit risk mitigation NZ\$m	Risk weight %	Risk weighted assets NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
As at 30 September 2019				
On-balance sheet exposures				
Strong	5,179	70	3,843	307
Good	5,713	90	5,450	436
Satisfactory	285	115	347	28
Weak	152	250	402	32
Default	12	-	-	-

	Exposure at default NZ\$m	Average risk weight %	Risk weighted assets NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
As at 30 September 2019				
Off-balance sheet exposures				
Undrawn commitments and other off-balance sheet exposures	1,300	93	1,285	103

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

REGISTERED BANK DISCLOSURES

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Credit risk exposures subject to the standardised approach

As at 30 September 2019	Total exposure after credit risk mitigation NZ\$m	Average risk weight %	Risk weighted exposure NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
On-balance sheet exposures				
Cash and gold bullion	192	-	-	-
Sovereign and central banks	1,448	-	-	-
Multilateral development banks and other international organisations	-	-	-	-
Public sector entities	-	-	-	-
Banks	-	-	-	-
Corporate	1,339	9	130	10
Residential mortgages	-	-	-	-
Past due assets	1	150	1	-
Other assets	927	100	983	79

As at 30 September 2019	Total exposure or principal amount NZ\$m	Average credit conversion factor %	Credit equivalent amount NZ\$m	Average risk weight %	Risk weighted exposure NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
Off-balance sheet exposures						
Undrawn commitments and other off-balance sheet exposures	579	68	396	97	405	32
Market related contracts						
Foreign exchange contracts	2	n/a	-	-	-	-
Interest rate contracts	261,459	n/a	296	6	17	1
Other - OTC etc	-	n/a	-	-	-	-

Equity exposures

As at 30 September 2019	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Minimum Pillar 1 capital requirement NZ\$m
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-

Credit risk mitigation

As at 30 September 2019, the Banking Group had NZ\$918 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

As required by its conditions of registration, the Banking Group uses the standardised approach to the calculation of its operational risk capital requirement. As at 30 September 2019, the Banking Group had an implied risk weighted exposure of NZ\$9,720 million for operational risk and an operational risk capital requirement of NZ\$778 million.

B4. CAPITAL ADEQUACY UNDER THE INTERNAL MODELS BASED APPROACH, AND REGULATORY LIQUIDITY RATIOS (UNAUDITED) (continued)

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 30 September 2019.

	Implied risk weighted exposure		Aggregate capital charge	
	Period end	Peak	Period end	Peak
As at 30 September 2019	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Interest rate risk	4,777	6,543	382	523
Foreign currency risk	10	128	1	10
Equity risk	1	1	-	-
	4,788		383	

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration. Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk and software risk. The Banking Group's internal capital allocation for these other material risks is NZ\$272 million. (2018: NZ\$389 million). Insurance, value in-force and business retention risks are no longer included following the sale of OnePath.

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2019	2018	2019	2018
Common equity tier 1 capital	11.4%	11.4%	11.4%	11.6%
Tier 1 capital	13.2%	13.4%	13.4%	13.6%
Total capital	15.3%	15.2%	15.7%	15.6%

The Ultimate Parent Bank and the Overseas Banking Group are required to hold minimum capital as determined by APRA, which is at least equal to that specified under the Basel III capital framework.

APRA has authorised the Ultimate Parent Bank and the Overseas Banking Group to use:

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. There are however small portfolios (mainly retail and local corporates in Asia Pacific) where the Overseas Banking Group applies the standardised approach.
- the AMA for the operational risk weighted asset equivalent.

The Overseas Banking Group exceeded the minimum capital requirements set by APRA as at 30 September 2019 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2019. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2019, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Regulatory liquidity ratios

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank's liquid assets, adjusted for expected cash inflows and outflows during a 1-month or 1-week period of stress. It is expressed as a ratio over the bank's total funding. The Banking Group must maintain its 1-month and 1-week mismatch ratios above zero on a daily basis. The 1-month and 1-week mismatch ratios are averaged over the quarter.

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. The minimum amount of core funding is currently set at 75% of a bank's total loans. The Banking Group must maintain its core funding ratio above 75% on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	30 Sep 19	30 Jun 19
Quarterly average 1-week mismatch ratio	5.5%	4.6%
Quarterly average 1-month mismatch ratio	5.5%	4.2%
Quarterly average core funding ratio	88.3%	89.1%

REGISTERED BANK DISCLOSURES

B5. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit exposures to individual counterparties at the reporting date on the basis of actual exposures. Peak end-of-day aggregate credit exposures are measured on the basis of internal limits that were not materially exceeded between the reporting date for the previous disclosure statement and the reporting date for the Disclosure Statement.

The exposure information in the table below excludes exposures to:

- connected persons (ie other members of the Overseas Banking Group and Directors of the Bank);
- the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 30 Sep 19	Peak end of day over 6 months to 30 Sep 19
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	3	3
with a long-term credit rating of A- or A3 or above, or its equivalent	3	3
- 10% to less than 15% of CET1 capital	2	-
- 15% to less than 20% of CET1 capital	1	2
- 20% to less than 25% of CET1 capital	-	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1	4	4
with a long-term credit rating of A- or A3 or above, or its equivalent	4	4
- 10% to less than 15% of CET1 capital	3	3
- 25% to less than 30% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

B6. CREDIT EXPOSURES TO CONNECTED PERSONS

	Connected persons		Non-bank connected	
	Amount NZ\$m	% of Tier 1 Capital	Amount NZ\$m	% of Tier 1 Capital
As at 30 September 2019				
Gross amount, before netting	9,100	68.8%	<\$1m	0.0%
Amount netted	6,604	49.9%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	2,496	18.9%	<\$1m	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2019				
Gross amount, before netting	11,007	83.2%	<\$1m	0.0%
Amount netted	7,459	56.4%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	3,548	26.8%	<\$1m	0.0%

Credit exposures to connected persons

The information on credit exposure to connected persons has been derived in accordance with the RBNZ Banking Supervision Handbook document *Connected Exposures Policy* (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

Peak end-of-day aggregate exposure

Peak end-of-day aggregate credit exposure to connected persons as a ratio to tier 1 capital for the full year accounting period is derived by determining the maximum end-of-day aggregate amount of credit exposure over the accounting period and then dividing that amount by the Banking Group's tier 1 capital as at the reporting date.

Rating contingent limit

The rating-contingent limit that applied to the Banking Group as at 30 September 2019 was 60%. No limit changes have occurred over the year to 30 September 2019. Within the overall rating-contingent limit, there is a sub-limit of 15% of tier 1 capital that applies to the aggregate credit exposure to non-bank connected persons.

Additional requirements for aggregate credit exposure to connected persons

Aggregate credit exposure to connected persons has been calculated on a partial bilateral net basis. The gross amounts and amounts netted off under a bilateral netting agreement are included in the table above. There is a limit of 125% of the Banking Group's tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

Aggregate amount of contingent exposures arising from risk lay-off arrangements

NZ\$456 million of contingent exposures of the Banking Group to connected persons arose from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons) as at 30 September 2019.

Loss allowance for credit-impaired credit exposures to connected persons

There were no loss allowances provided against credit exposures to connected persons as at 30 September 2019.

REGISTERED BANK DISCLOSURES

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

Insurance business

The Banking Group previously conducted insurance business through its subsidiary OnePath. OnePath was sold to Cigna Corporation on 30 November 2018, and as at 30 September 2019, the Banking Group does not conduct any insurance business. As at 30 September 2018, the Banking Group's aggregate amount of insurance business comprised the total consolidated assets of OnePath of \$NZ940 million, which was 0.6% of the total consolidated assets of the Banking Group.

Banking Group's involvement in securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products

a) Banking Group's involvement in the establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities

Activity	Details
Custodial	The Banking Group operates two custodians: - ANZ Custodial Services New Zealand Limited, which is the appointed custodian for private banking's (ANZ Private) Discretionary Investment Management Service, Wholesale Investment Services and Trading Service; and - ANZ New Zealand Investments Nominees Limited, which is the appointed custodian in respect of direct holdings of securities by various wholesale customer portfolios managed by ANZ New Zealand Investments Limited (ANZ Investments).
Funds management	The Banking Group provides the following funds management services: <i>Managed Investment Schemes (MIS)</i>: The Banking Group's subsidiaries ANZ Investments and ANZ Investment Services (New Zealand) Limited (ANZIS) act as manager for a number of managed investment schemes. ANZ Investments holds a MIS Manager licence, with ANZIS being an authorised body under that licence. ANZ Investments is the issuer and manager of ANZ and OneAnswer-branded KiwiSaver schemes, retail and wholesale schemes. ANZIS is the issuer and manager of the Bonus Bonds Scheme and the ANZ PIE Fund. ANZ National Staff Superannuation Limited, also a subsidiary of the Banking Group, is the trustee and manager of the ANZ National Retirement Scheme, which is a restricted workplace savings scheme. <i>Discretionary Investment Management Service (DIMS)</i>: The Bank is a licensed DIMS provider. This service is offered to ANZ Private customers. <i>Other investment portfolios</i>: ANZ Investments also manages investment portfolios for a number of schemes where the scheme manager or trustee has outsourced investment management services to ANZ Investments. These schemes are typically corporate superannuation schemes.
Other fiduciary activities	ANZ Investments, through its subsidiary OneAnswer Nominees Limited, offers the OneAnswer Portfolio Service. The associated administration and custody services are provided by FNZ Limited and FNZ Custodians Limited respectively (together FNZ). FNZ is not a member or related party of the Banking Group.

b) Banking Group's involvement in the origination of securitised assets, and the marketing or servicing of securitisation schemes

The Banking Group originates securitised assets in the form of residential mortgage backed securities held for potential repurchase transactions with RBNZ, and covered bonds. Refer to Note 24 Structured Entities for further details about these programmes. Other than these activities, the Banking Group is not involved in the marketing or servicing of securitisation schemes.

c) Banking Group's involvement in marketing and distribution of insurance products

The Banking Group markets and distributes life insurance, other personal and business insurance products provided by or arranged through a number of insurance partners. None of these insurance partners are affiliated insurance entities or affiliated insurance groups. Our insurance partners are:

- OnePath for life insurance. OnePath was a subsidiary of the Banking Group until 30 November 2018;
- Vero Insurance New Zealand Limited for house, contents, car and boat insurance;
- AWP Services New Zealand Limited, trading as Allianz Partners, for travel insurance. Policies are underwritten by Allianz Australia Insurance Limited (incorporated in Australia) trading as Allianz New Zealand;
- Cigna Life Insurance New Zealand Limited for credit card repayment insurance; and
- Crombie Lockwood (NZ) Limited is our business insurance broker.

Arrangements to ensure no adverse impacts arising from the above activities

Arrangements have been put in place to ensure that difficulties arising from the activities in a), b) and c) above would not impact adversely on the Banking Group. The policies and procedures in place include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

B7. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS (continued)

Amounts represented by funds management and securitisation activities

	2019 NZ\$m	2018 NZ\$m
Funds under management:		
KiwiSaver ¹	14,781	12,923
Bonus Bonds Scheme ²	3,276	3,300
Other managed funds ¹	2,494	2,261
ANZ PIE Fund ²	2,131	1,656
DIMS ³	8,062	7,678
Other investment portfolios ⁴	3,401	2,847
Total funds under management	34,145	30,665
Funds under custodial arrangements ⁵	8,373	7,970
Other funds held or managed subject to fiduciary responsibilities ⁶	1,401	1,270
Outstanding securitised assets originated by the Banking Group - carrying amount of covered bonds	4,460	3,929

¹ Managed by ANZ Investments.

² Managed by ANZIS.

³ Managed by the Bank.

⁴ Comprises portfolios managed by ANZ Investments, and the ANZ National Retirement Scheme managed by ANZ National Staff Superannuation Limited.

⁵ Amount for 2018 includes NZ\$60 million held in custody by ANZ New Zealand Securities Nominees Limited, which was sold in December 2018, which are not included in funds under management. All other amounts are also included in funds under management.

⁶ Not included in funds under management.

Financial services provided to entities conducting the above activities

Financial services provided by any member of the Banking Group to entities that conduct the activities in a) or b) above are provided on arm's length terms and conditions and at fair value.

Assets purchased from entities conducting the above activities

Over the year ended 30 September 2019, any assets purchased by any member of the Banking Group from entities that conduct the activities in a), b) or c) above have been purchased on arm's length terms and conditions and at fair value.

Funding provided to entities in aggregate and individually

The peak end-of-day aggregate amount of funding provided to entities that provide services relating to the Banking Group's involvement in the above activities over the year ended 30 September 2019 was less than NZ\$0.1 million (2018: less than NZ\$0.1 million) which was 0.0% (2018: 0.0%) of the Banking Group's tier 1 capital and 0.0% (2018: 0.0%) of the total assets of the individual entity.

Method for deriving peak end-of-day amount of funding in aggregate and individually

The peak end-of-day aggregate amount of funding is the maximum end-of-day aggregate amount of funding over the full year accounting period, divided by the Banking Group's tier 1 capital as at the balance date, and the total assets as at the balance date of the individual entity to which the Banking Group has provided funding. Where financial statements for the individual entity are not publicly available, total assets from the publicly available financial statements of the group of which the entity is a member have been used.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES

Information about risk

The success of the Banking Group's strategy is underpinned by our sound management of the Banking Group's risks. All of the Banking Group's activities involve - to varying degrees - the analysis, evaluation, acceptance and management of risks or combinations of risks.



The Board is responsible for establishing and overseeing the Banking Group's Risk Management Framework. The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's risk management policies. The Committee reports regularly to the Board on its activities.

The key pillars of the Banking Group's Risk Management Framework include:

- the Risk Appetite Statement (RAS), which clearly and concisely sets out the Board's expectations regarding the degree of risk that the Banking Group is prepared to accept in pursuing its strategic objectives and its business plan; and
- the Risk Management Statement (RMS), which describes the Banking Group's strategy for managing risks and a summary of the key elements of the Risk Management Framework (RMF) that give effect to that strategy. The RMS includes: a description of each material risk; and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies, measures, evaluates, monitors, reports and then either controls or mitigates material risks.

The material risks facing the group per the Banking Group's RMS, and how these risks are managed are summarised below:

Key Material Risks

Each key material risk has an associated RAS, and where applicable, measured by appropriate metric(s) and associated tolerance(s) representing the maximum level of risk appropriate to execute the Banking Group's strategic agenda. Metrics are prepared and reviewed at least monthly. A risk appetite dashboard is prepared and reviewed by senior management monthly, and presented to the BRC at each meeting.

Risk Type	Description	Managing the Risk
Strategic Risk	The risk that the Banking Group's business strategy and strategic objectives may lead to an increase in other key Material Risks - for example: Credit Risk, Market Risk and Operational Risk.	We consider and manage Strategic Risks through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Any increase to our key Material Risks is managed in accordance with the risk management practices specified below.
Capital Adequacy Risk	The risk of loss arising from the Banking Group failing to maintain the level of capital required by prudential regulators and other key stakeholders (shareholders, debt investors, depositors, rating agencies, etc.) to support the Banking Group's consolidated operations and risk appetite.	We pursue an active approach to Capital Management through ongoing review, and Board approval, of the level and composition of our capital base against key policy objectives.
Credit Risk	The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies. Includes: • concentrations of credit risk; • intra-day credit risk; • credit risk to bank counterparties; and • related party credit risk.	Our Credit Risk framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle - for example: transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics. The effectiveness of the Credit Risk framework is assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.
Market Risk	The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or • from fluctuations in bond, commodity or equity prices.	Our risk management and control framework for Market Risk involves us quantifying the magnitude of market risk within the trading and balance sheet portfolios through independent risk measurement. First, we identify the range of possible outcomes, the likely timeframe, and the likelihood of the outcome occurring. Then we allocate an appropriate amount of capital to support these activities. The Banking Group's key tools to measure and manage Market Risk on a daily basis include value at risk, earnings at risk, interest rate sensitivities, market value loss limits and stress testing.

B8. RISK MANAGEMENT POLICIES (continued)

Risk Type	Description	Managing the Risk
Liquidity and Funding Risk	The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: - repaying depositors or maturing wholesale debt; or - the Banking Group having insufficient capacity to fund increases in assets.	Key principles in managing our Liquidity and Funding Risk include: - maintaining our ability to meet liquidity 'survival horizons' under a range of stress scenarios to meet cash flow obligations over a short to medium term horizon; - maintaining a strong structural funding profile; and - maintaining a portfolio of high-quality liquid assets to act as a source of liquidity in times of stress.
Operational Risk	The risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and/or systems; but excludes Strategic Risk. <i>Compliance Risk</i> The risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to the Banking Group's businesses. <i>Conduct and Reputation Risk</i> The risk of loss that directly or indirectly impacts earnings, capital adequacy or value, that is caused by: - adverse perceptions of the Banking Group held by any of our customers, the community, shareholders, investors, regulators, or rating agencies; - conduct risk associated with the Banking Group's employees or contractors (or both); or the social or environmental (or both) impacts of our lending decisions.	We operate a three-lines-of-defence model to manage Operational Risk, with each line of defence having defined roles, responsibilities and escalation paths to support effective communication and effective management of our Operational Risk. Also, we have ongoing review mechanisms to ensure our Operational Risk framework continues to meet organisational needs and regulatory requirements. Key features of how we manage Compliance Risk as part of our Operational Risk framework include: - centralised management of key obligations, and emphasis on identifying changes in regulations and the business environment, so as to enable us to proactively assess emerging compliance risks and implement robust reporting and certification processes. - recognition of incident management as a separate element to enhance the Banking Group's ability to identify, manage and report on incidents/breaches in a timely manner. - the Whistleblower Protection Policy allowing employees and contractors to make confidential, anonymous submissions regarding concerns relating to accounting, internal control, compliance, audit and other matters. We manage Conduct and Reputation Risk by maintaining a positive and dynamic culture that: - ensures we act with integrity; and - enables us to build strong and trusted relationships with customers and clients, with colleagues, and with the broader society. We have well established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards that take into account Conduct and Reputation Risk.

Refer to Note 15 Financial Risk Management for the disclosures required under NZ IFRS 7 *Financial Instruments: Disclosures*.

Other Material Risks

Risks where the maximum level of risk is set as part of the Banking Group's ICAAP. These risks do not require the same degree of active or transactional management as the Key Material Risks and are managed and monitored as part of the Banking Group's business, strategic and capital management process. For more information about the Banking Group's ICAAP refer to the section 'Capital for other material risks' in Note B4.

Pension Risk	The risk of the value of investments in a defined benefit pension fund being insufficient to meet liabilities resulting in additional funds being required to match pension liabilities.
Strategic Equity Risk	The risk of financial loss arising from the unexpected reduction in value of equity investments not held in the trading book.
Fixed Asset Risk	The risk of financial loss arising from the negative revaluation of fixed assets owned and leased, caused by adverse changes in business and/or economic conditions. Residual Value Risk is included in the definition of Fixed Assets, which is the risk that the market value of the underlying assets of operating leases may fall below the anticipated residual value.
Deferred Acquisition Risk	The risk of loss arising from the failure of the benefits associated with the acquisition of interest earnings assets to arise due to impairment, transfer, or prepayment.
Software Risk	The risk of financial loss arising from the unexpected accelerated write down of capitalised software expenditure due to diminished future economic benefits caused by adverse business or economic conditions.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Capital adequacy

Refer to Note 22 Capital Management for the disclosures required under NZ IAS 1 *Presentation of financial statements*.

Reviews of the Banking Group's risk management systems

Refer to Note 15 Financial Risk Management for details of the Internal Audit Function's reviews of the Banking Group's RMF. These reviews are not conducted by a party external to the Banking Group or the Ultimate Parent Bank.

Internal Audit Function of the Banking Group

The Banking Group has an Internal Audit Function, refer to Note 15 Financial Risk Management for details.

The nature and scope of the responsibilities of the Audit Committee responsibilities, to which Internal Audit reports, are to assist the Board of Directors by providing oversight and review of:

- the Banking Group's financial reporting principles and policies, controls, systems and procedures;
- the effectiveness of the Banking Group's internal control and risk management framework;
- the work and internal audit standards of Internal Audit which reports directly and solely to the Chair of the Audit Committee.
- the integrity of the Banking Group's financial statements and the independent audit thereof, and the Banking Group's compliance with legal and regulatory requirements in relation thereto;
- any due diligence procedures;
- prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting; and
- any other matters referred to it by the Board.

The Audit Committee is also responsible for:

- the appointment, annual evaluation and oversight of the external auditor;
- annual review of the independence, fitness and propriety, and qualifications of the external auditor;
- compensation of the external auditor; and
- where deemed appropriate, replacement of the external auditor.

In carrying out its responsibilities and duties, the Audit Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

Measurement of impaired assets

Refer to Note 12 Allowance for Expected Credit Losses and Note 15 Financial Risk Management for details of the Banking Group's approach to measurement of impaired assets. Further to this, impairment is assessed monthly, with individual allowances for credit impairment also updated monthly and collective allowances for credit impairment updated quarterly.

Credit risk mitigation

Refer to Note 18 Offsetting for the policies and processes for, and extent of, on-balance sheet netting. The same policies and processes apply to off-balance sheet credit related commitments. No off-balance sheet credit related commitments or guarantees meet the criteria for netting.

As an AIRB bank, the Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

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

Additional information about credit risk

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

The Banking Group adheres to the standards of risk grading and risk quantification as set out for IRB banks in the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

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

- Probability of Default (PD): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.
- Exposure at Default (EAD): The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.
- Loss Given Default (LGD): An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

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

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

B8. RISK MANAGEMENT POLICIES (continued)

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

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

Standardised approach

Exposure Class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by BS2B	Standardised
Equity		Required by BS2B	Standardised
Other assets	All other assets not falling within any of the above classes	Required by BS2B	Standardised

Controls surrounding credit risk rating systems

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

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

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

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

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

DIRECTORS' STATEMENT

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2019, after due enquiry, each Director believes that, except as noted on pages 74 to 76:

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

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 12 December 2019.

Antony Carter



Shayne Elliott



Alison Gerry



Michelle Jablko



Rt Hon Sir John Key, GNZM AC



Mark Verbiest



Joan Withers



INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE BANKING GROUP DISCLOSURE STATEMENT

OPINION

We have audited the accompanying consolidated financial statements and registered bank disclosures of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) in section B2, B3, B5, B6, B7 and B8 which comprise:

- the consolidated balance sheet as at 30 September 2019;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

In our opinion, the accompanying consolidated financial statements on pages 4 to 64:

- give a true and fair view of the Banking Group's financial position as at 30 September 2019 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards).

In our opinion, the registered bank disclosures that are required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and are included in sections B2, B3, B5, B6, B7 and B8 of the Disclosure Statement:

- have been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;
- are in accordance with the books and records of the Banking Group in all material respects; and
- fairly state the matters to which they relate in accordance with those schedules.

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA's (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 section of our report.

Our firm has also provided other audit related services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

EMPHASIS OF MATTER - NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the Disclosure Statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to:

- Capital adequacy;
- Regulatory liquidity;
- Exposures to connected persons; and
- Outsourcing.

Further details of the matters relating to capital adequacy and regulatory liquidity are described below in our qualified review conclusion on the registered bank disclosures in section B4 relating to capital adequacy and regulatory liquidity ratios.

Our opinion on the consolidated financial statements and registered bank disclosures in sections B2, B3, B5, B6, B7 and B8 is not modified in respect of these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The Key Audit Matter

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) was adopted by the Banking Group on 1 October 2018. The allowance for expected credit losses under NZ IFRS 9 is a key audit matter due to the significance of the loans and advances balance to the financial statements and the inherent complexity of the Banking Group's Expected Credit Loss (ECL) models used to measure ECL allowances. This new and complex accounting standard requires the Banking Group to recognise ECLs on its loans and advances and off-balance sheet positions. The Banking Group developed new models, which are reliant on data and a number of estimates including impacts of multiple economic scenarios, and other assumptions such as defining a Significant Increase in Credit Risk (SICR). This involves significant judgement and estimates and forward looking information reflecting potential future economic events.

NZ IFRS 9 requires the Banking Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions, including forward-looking assumptions such as forecast GDP and unemployment levels. Post-model adjustments to the ECL results are also made by the Banking Group to address known ECL model limitations or emerging trends in the loan portfolios. Significant judgement is required in selecting the economic scenarios used and the judgemental overlays that the Banking Group applies to the ECL results.

The criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Banking Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

Separate from the ECL calculation, allowances for individually assessed loans exceeding specific thresholds are individually assessed by the Banking Group. These specific allowances are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Banking Group in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures under NZ IFRS 9 for the year ended 30 September 2019 included assessing the Banking Group's significant accounting policies against the requirements of the accounting standard. KPMG Financial Risk Management specialists were used in ECL audit procedures as a core part of our audit team.

We tested key controls in relation to:

- The Banking Group's ECL model governance and validation processes;
- The Banking Group's assessment and approval of the forward looking macroeconomic assumptions and scenario weightings through challenge applied by the Banking Group's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Counterparty risk grading for non-retail loans (larger customer exposures are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, and controls over the monitoring of counterparty credit quality; and
- The Banking Group's oversight of the retail loan portfolios, with a focus on controls over delinquency monitoring.

We also tested relevant General Information Technology Controls (GITCs) over the Key IT applications used by the Banking Group in measuring ECL allowances, as detailed in the IT systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Performing credit assessments of a sample of non-retail loans controlled by the Banking Group's specialist workout and recovery team, assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Banking Group's risk grading of the loan, assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we reviewed the information on the Banking Group's loan file, understood the facts and circumstances of the case with the relationship manager, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment, and comparing data and assumptions used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices and external property sale information;
- Obtaining an understanding of the Banking Group's processes to determine ECL allowances, evaluating the Banking Group's ECL model methodologies against established market practices and criteria in the accounting standards;
- Assessing the accuracy of the Banking Group's ECL model predictions by re-performing, for a sample of loans, the calculation of the ECL allowance and comparing this to the amount recorded by the Banking Group;
- Utilising KPMG Economic specialists to challenge the Banking Group's forward-looking macroeconomic assumptions and scenarios incorporated in the Banking Group's ECL models. We compared the Banking Group's forecast GDP and unemployment rates to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the implementation of the Banking Group's SICR methodology by re-performing the staging calculation for a sample of loans and comparing our expectation to actual staging applied on an individual account level, taking into consideration movements in CCR; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We also challenged key assumptions in the components of the Banking Group's post-model adjustments to the ECL allowance balance. This included:

- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios;
- Assessing the requirement for other additional allowances the Banking Group's ECL model and data deficiencies identified by the Banking Group's ECL model validation processes; and
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the portfolios against the Banking Group's assessment.

VALUATION OF FINANCIAL INSTRUMENTS

The Key Audit Matter

Financial instruments held at fair value on the Banking Group's balance sheet include investment securities, trading securities, derivative assets and liabilities, certain deposits and other borrowings, and other assets and liabilities designated as measured at fair value through profit or loss. The instruments are mainly risk management products sold to customers and used by the Banking Group to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments held at fair value is considered a key audit matter due to:

- Their significant fair value (17% of assets and 9% of liabilities of the Banking Group);
- The significant volume and range of products transacted, which increases the risk of errors that could lead to inaccurate valuation;
- The significant level of judgement by the Banking Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases in the small number of instances where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument; and
- The valuation of certain derivatives held by the Banking Group is sensitive to inputs including credit risk, funding rates, probabilities of default and loss given default. Both funding and credit risk are incorporated within the valuation of certain derivative instruments.

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

- Testing access rights and change management controls for key valuation systems;
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Banking Group's market risk management and finance systems to identify inconsistencies in valuation processes across products;
- Testing the governance and approval controls such as management review and approval of the valuation models and approval of new products against policies and procedures;
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Banking Group's independent markets and treasury control;
- Testing management's review and approval of valuation model construction and validation; and
- Testing the Banking Group's data validation controls.

We tested the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Evaluating the appropriateness of the Banking Group's valuation methodology for derivative financial instruments;
- Re-performing the valuation of 'level 1' and 'level 2' investment securities and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data; and
- Using independent models to recalculate the valuation of a sample of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Banking Group's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major New Zealand bank, the Banking Group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Banking Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Banking Group's IT controls.

How the matter was addressed in our audit

We tested the control environment for key IT applications used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which support the effective operation of technology-enabled business processes. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT Environment, including the approach to the Banking Group policy design, review and awareness;
- Testing the design and operating effectiveness of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also looked at how privileged roles and functions are managed across each IT Application and the supporting infrastructure;

INDEPENDENT AUDITOR'S REPORT

- Testing the design and operating effectiveness of controls in place over change management, including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT Applications. We also assessed the appropriateness of users with access to make changes to IT applications across the Banking Group;
- Testing the design and operating effectiveness of controls used by the Banking Group's technology teams to schedule system jobs and monitor system integrity;
- Testing the design and operating effectiveness of controls in place to support Program Development, including the implementation of revised guidelines per the new ANZ Delivery Framework; and
- Testing the design and operating effectiveness of automated business process controls including those that enforce segregation of duties between conflicting roles within IT applications, configurations in place to perform calculations, mappings, and flagging of financial transactions, automated reconciliation controls, both between systems, and intra-system and data integrity of critical system reporting used for sampling, data analysis and financial reporting across the audit.

PROVISION FOR CUSTOMER REMEDIATION

The Key Audit Matter

The Banking Group has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations, and reviews. This includes provisions for expected refunds to customers and other counterparties, remediation project costs and related customer, counterparty and regulatory claims, penalties, and litigation outcomes.

The provision for customer remediation is a key audit matter due to the number of investigations, the quantum of amounts involved and the judgements required in assessing the Banking Group's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- Reliable estimates of the amounts that may be paid arising from investigations, including estimates of related costs; and
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Banking Group's processes for identifying and assessing the potential impact of the investigations into customer remediation payments, related project costs and legal proceedings associated with compliance matters, investigations and reviews from its regulators;
- Enquiring with the Banking Group regarding ongoing legal, and regulatory matters, and investigation into other remediation activities;
- Enquiring with external legal counsel;
- Reading the minutes and other relevant documentation of the Banking Group's Board of Directors and various management committees, and attending the Banking Group's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies;
- For a sample of individual matters, assessing the basis for recognition and measurement of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;
- Testing completeness by evaluating all current customer remediation matters identified by the Banking Group and checking these exposures against the criteria for a provision or a contingency in the accounting standards; and
- Evaluating the related disclosures against the requirements of NZ IFRS.

COMPLETENESS AND ACCURACY OF RELATED PARTY DISCLOSURES

The Key Audit Matter

The Banking Group has significantly increased its focus on related party disclosures. We also reassessed the risk of completeness and accuracy of related party disclosures. We consider the increased risk to primarily arise from transactions with key management personnel and their related parties.

How the matter was addressed in our audit

Our audit procedures for related party disclosures included:

- Challenging the Banking Group's definition of related parties and related party transactions;
- Testing the key control over the Banking Group's process for identifying key management personnel, their related parties and their transactions and balances;
- Ensuring intra-group related party amounts are matched against Overseas Banking Group counterparties;
- Testing the completeness of the related parties identified by searching the Directors' Interests Register and public records to identify companies controlled by key management personnel or their close family members;
- Agreeing a sample of key management personnel compensation, transactions and balances identified by the Banking Group to approval documents and source systems;
- Sample testing the Banking Group's core bank system to identify undisclosed balances with key management personnel and their related parties;
- Evaluating the Banking Group's assertion that key management personnel transactions are on normal commercial terms by testing a sample of transactions and comparing the terms offered to those offered to other employees or customers; and
- Obtaining evidence over the Banking Group's assertion that transactions with the Overseas Banking Group are conducted at arm's length and on normal commercial terms basis.

OTHER INFORMATION

The Directors, on behalf of the Banking Group, are responsible for the general disclosures required to be included in the Banking Group's Disclosure Statement in accordance with Schedule 2 of the Order (section B1).

Our opinion on the consolidated financial statements does not cover section B1 (referred to as 'other information') and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B1, B2, B3, B5, B6, B7 AND B8

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5, B6, B7 AND B8

Our objective is:

- to obtain reasonable assurance about whether the Disclosure Statement, including the consolidated financial statements prepared in accordance with Clause 24 of the Order, and registered bank disclosures in section B2, B3, B5, B6, B7 and B8, prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

QUALIFIED REVIEW CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4 RELATING TO CAPITAL ADEQUACY AND REGULATORY LIQUIDITY RATIOS (SECTION B4)

We have reviewed the registered bank disclosures, as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 2019, which are required to be disclosed in accordance with Schedule 11 of the Order.

Based on our review, with the exception of the matter described below, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy and Regulatory Liquidity Ratios, disclosed in section B4 of the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

BASIS FOR QUALIFIED CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the 'Auditor's Responsibilities for the review of the registered bank disclosures in section B4' section of our report.

As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

INDEPENDENT AUDITOR'S REPORT

As described in section B1, the Banking Group has identified that it was not compliant with Condition of Registration 1B in relation to the operation of versions of the following rating models and processes, which were not approved by the Reserve Bank of New Zealand (in some cases since 2008):

- Commercial property Model Suite (single investment, multi-investment, Hotel Investment, Special Purpose Asset investment, Single Residential Development, Englobo Land Pre Development);
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-Life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds);
- Project and Structured Finance; and
- Bank, Country and Sovereigns.

The Banking Group has also identified a small number of calculation errors or other matters of non-compliance, which, individually and in aggregate, have no material impact on the reported ratios.

In these respects, the Capital Adequacy Ratios disclosed in section B4 of the Disclosure Statement have not been disclosed in accordance with Schedule 11 of the Order.

We have estimated the impact of that non-compliance based on a recalculation of the relevant components of those ratios under the Reserve Bank of New Zealand's Standardised Approach for unapproved models, or against the previously approved model where a model had subsequently been modified without approval. In aggregate, our recalculation indicates a 0.17% reduction in the reported CET1 ratio, and a 0.21% reduction in the Tier 1 Capital, Total Capital and Buffer ratios. 59% of the impact comes from our recalculation of the Bank, Country and Sovereigns exposures using a Standardised Approach. The Banking Group would remain 5.41% above its regulatory minimum Total Capital ratio if those adjustments were made.

The above matters do not affect the Regulatory Liquidity information, which is also disclosed in section B4.

DIRECTORS' RESPONSIBILITIES FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors, on behalf of the Banking Group, are responsible for the preparation of the registered bank disclosures in section B4 of the Disclosure Statement in accordance with Schedule 11 of the Order.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE REGISTERED BANK DISCLOSURES IN SECTION B4

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the registered bank disclosures in section B4 is, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISA's (NZ). Accordingly we do not express an audit opinion on the registered bank disclosures in section B4.

USE OF THIS INDEPENDENT AUDITOR'S REPORT

This independent auditor's report is made solely to the shareholder. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder for our work, this independent auditor's report, or any of the opinions or conclusions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Matt Prichard.

For and on behalf of



KPMG
Auckland

12 December 2019

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ANZ NEW ZEALAND (INT'L) LIMITED
INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 MARCH 2021



INTERIM FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March	Note	2021 NZ\$m	2020 NZ\$m
Interest income		146	219
Interest expense		(142)	(215)
Profit before credit impairment and income tax		4	4
Credit impairment release / (charge)	2	2	(3)
Profit before income tax		6	1
Income tax expense		(1)	(1)
Profit for the period		5	-

There are no items of other comprehensive income.

BALANCE SHEET

As at	Note	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
Assets			
Due from the Parent Company	2	19,902	20,649
Total assets		19,902	20,649
Liabilities			
Accrued interest payable		9	20
Commercial paper		3,542	1,747
Current tax liabilities		1	1
Debt issuances	3	16,339	18,875
Total liabilities		19,891	20,643
Net assets		11	6
Equity			
Retained earnings		11	6
Total Equity		11	6

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

CASH FLOW STATEMENT

For the six months ended 31 March	2021 NZ\$m	2020 NZ\$m
Cash flows from operating activities		
Interest received	157	225
Interest paid	(153)	(221)
Income taxes paid	(1)	(1)
Net cash flows provided by operating activities	3	3
Cash flows from investing activities		
Increase in due from the Parent Company	(474)	(3,528)
Net cash flows used in investing activities	(474)	(3,528)
Cash flows from financing activities		
Proceeds from issue of debt issuances	-	2,327
Increase in commercial paper	1,859	1,722
Redemption of debt issuances	(1,388)	(524)
Net cash flows provided by financing activities	471	3,525
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the period	-	-
Cash and cash equivalents at end of the period	-	-

STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March	2021 NZ\$m	2020 NZ\$m
Total equity (retained earnings)		
Opening balance	6	4
Profit or loss	5	-
Closing balance	11	4

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as applicable to interim financial statements. ANZ New Zealand (Int'l) Limited (the Company) is a publicly accountable for-profit entity for the purposes of complying with NZ GAAP.

These financial statements comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the financial statements for the year ended 30 September 2020.

These financial statements were approved by the Board of Directors on 7 May 2021.

Use of estimates and assumptions

The preparation of these interim 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.

Allowance for expected credit losses and coronavirus (COVID-19) pandemic

During the six months ended 31 March 2021 the collectively assessed allowance for expected credit losses (ECL) decreased by NZ\$2 million, reflecting the impact of an improved economic outlook since 30 September 2020.

The uncertain evolution of the COVID-19 pandemic increases the risk to the forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the impact, extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes disruption to capital markets, and the impacts on credit quality, liquidity, unemployment, consumer spending, as well as specific sector impacts and other restructuring activities; and
- the efficacy, extent and pace of roll-out of vaccines, as well as the effectiveness of government and central bank measures that have been and will be put in place to support businesses and consumers through this disruption.

Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact ECL.

Basis of measurement

These interim financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

Presentation currency and rounding

The amounts contained in the financial statements are presented in millions of New Zealand dollars.

Changes in accounting policies

The accounting policies applied by the Company are consistent with those applied and disclosed in the previous full year financial statements.

2. RELATED PARTY TRANSACTIONS

Commercial paper and debt issuances are guaranteed by the Parent Company. Debt issuances, other than covered bonds, are otherwise unsecured and rank equally with other unsecured liabilities.

Amounts due from the Parent Company are lent on similar terms as the underlying funding raised, and are net of an allowance for ECL of NZ\$9 million (30 September 2020: NZ\$11 million).

Covered Bonds

As at 31 March 2021, covered bonds of NZ\$4,196 million (30 September 2020: NZ\$4,456 million) included in debt issuances were guaranteed by ANZNZ Covered Bond Trust Limited as trustee of ANZNZ Covered Bond Trust (the Trust) under the terms of the Parent Company's covered bond programme.

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

3. DEBT ISSUANCES

	31 Mar 21 NZ\$m	30 Sep 20 NZ\$m
U.S. medium-term notes	7,525	9,496
Euro medium-term notes	4,618	4,923
Covered bonds	4,196	4,456
Total debt issued	16,339	18,875

4. FAIR VALUE MEASUREMENTS

Financial assets and financial liabilities not measured at fair value

No assets or liabilities are carried at fair value. Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value:

	31 Mar 21		30 Sep 20	
	Carrying amount NZ\$m	Fair value NZ\$m	Carrying amount NZ\$m	Fair value NZ\$m
Financial assets				
Due from Parent Company	19,902	20,361	20,649	21,341
Financial liabilities				
Commercial paper	3,542	3,543	1,747	1,748
Debt issuances	16,339	16,797	18,875	19,566



Independent Review Report

To the shareholder of ANZ New Zealand (Int'l) Limited

Report on the interim financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 2 to 5 do not:

- i. present fairly in all material respects ANZ New Zealand (Int'l) Limited's (the 'Company') financial position as at 31 March 2021 and its financial performance and cash flows for the six month period ended on that date; and
- ii. comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

We have completed a review of the accompanying interim financial statements which comprise:

- the balance sheet as at 31 March 2021;
- the statements of comprehensive income, changes in equity and cash flows for the six month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for conclusion

A review of the interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of ANZ New Zealand (Int'l) Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the Company in relation to prospectus reviews and assurance services. These matters have not impaired our independence as reviewer of the Company. The firm has no other relationship with, or interest in, the Company.



Use of this Independent review report

This report is made solely to the shareholder as a body. Our review work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our review work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the interim financial statements

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*;
- implementing necessary internal control to enable the preparation of interim financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim financial statements

This description forms part of our Independent review report.

KPMG
Auckland

7 May 2021

ANZ NEW ZEALAND (INT'L) LIMITED
ANNUAL ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020



FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

		2020 NZ\$m	Restated 2019 NZ\$m
For the year ended 30 September	Note		
Interest income	6	421	418
Interest expense	2	(412)	(410)
Net interest income		9	8
Operating expenses		(1)	-
Profit before credit impairment and income tax		8	8
Credit impairment charge		(4)	(2)
Profit before income tax		4	6
Income tax expense	3	(2)	(2)
Profit after income tax		2	4

There are no items of other comprehensive income.

BALANCE SHEET

		2020 NZ\$m	Restated 2019 NZ\$m
As at 30 September	Note		
Assets			
Due from the Parent Company	6	20,649	22,179
Total assets		20,649	22,179
Liabilities			
Accrued interest payable		20	23
Commercial paper	4	1,747	2,460
Current tax liabilities		1	1
Debt issuances	5	18,875	19,691
Total liabilities		20,643	22,175
Net assets		6	4
Equity			
Retained profits		6	4
Total equity	8	6	4

These annual accounts were approved by the Board of Directors on 18 November 2020.

For and on behalf of the Board of Directors:



Penny Dell
Director
18 November 2020

CASH FLOW STATEMENT

	2020 NZ\$m	2019 NZ\$m
For the year ended 30 September		
Cash flows from operating activities		
Interest received	424	435
Interest paid	(415)	(427)
Operating expenses	(1)	(1)
Tax paid	(2)	(2)
Net cash flows provided by operating activities	6	5
Cash flows from investing activities		
Decrease / (increase) in due from the Parent Company	1,124	(67)
Net cash flows provided by / (used in) investing activities	1,124	(67)
Cash flows from financing activities		
Proceeds from debt issuances	2,327	3,300
Redemption of debt issuances	(2,786)	(3,017)
Decrease in commercial paper	(671)	(221)
Net cash flows (used in) / provided by financing activities	(1,130)	62
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	-	-
Cash and cash equivalents at end of the year	-	-

Reconciliation of profit after income tax to net cash flows provided by operating activities

Profit after income tax	2	4
<i>Non-cash items:</i>		
Credit impairment charge	4	2
<i>Other adjustments:</i>		
Change in accrued interest receivable	3	17
Change in accrued interest payable	(3)	(17)
Increase / (decrease) in payables and other liabilities	-	(1)
Net cash flows provided by operating activities	6	5

STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings NZ\$m	Total equity NZ\$m
As at 1 October 2018		5	5
NZ IFRS 9 transition adjustment (restated)	1	(5)	(5)
As at 1 October 2018 (adjusted)(restated)		-	-
Profit or loss (restated)		4	4
As at 30 September 2019 (restated)		4	4
As at 1 October 2019 (restated)		4	4
Profit or loss		2	2
As at 30 September 2020		6	6

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Tax Administration Act 1994 (New Zealand) and The Overseas Companies Regulations 2009 (United Kingdom), and comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- International Financial Reporting Standards (IFRS).

These financial statements have been audited in accordance with International Standards on Auditing (New Zealand), as issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board

ANZ New Zealand (Int'l) Limited (the Company) is incorporated in New Zealand under the Companies Act 1993. Its registered office is, Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, 1010, Auckland. The Company is a wholly owned subsidiary of ANZ Bank New Zealand Limited (the Parent Company) and the ultimate parent company is Australia and New Zealand Banking Group Limited, which is incorporated in Victoria, Australia.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

(ii) Use of estimates and assumptions

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

Allowance for expected credit losses and coronavirus (COVID-19) pandemic

During the year ended 30 September 2020, the collectively assessed allowance for expected credit losses (ECL) increased by NZ\$4 million, mainly attributable to the combined effects of the change in the counterparty credit rating and deteriorating economic outlook, including the uncertainty arising from COVID-19.

The uncertain evolution of the COVID-19 pandemic increases the risk to the forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- The extent and duration of measures to stop or reduce the speed of the spread of COVID-19;
- The extent and duration of the economic downturn, along with the time required for economies to recover; and
- The effectiveness of government stimulus measures, in particular their impact on the magnitude of the economic downturn and the extent and duration of the recovery.

Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact ECL.

(iii) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

(iv) Rounding

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

(v) Changes in accounting policies

There have been no changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

(vi) Changes to comparatives

The impact of the transition to NZ IFRS 9 *Financial Instruments* on 1 October 2018 has been increased by NZ\$3 million, being the impact of correcting the counterparty credit risk rating used in the calculation of the allowance for expected credit losses. This change reduced the amount due from the Parent Company, and retained earnings, by NZ\$4 million as at 30 September 2019.

(vii) Foreign currency translation

Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the Company's functional currency.

Transactions and balances

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income 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.

(c) Income tax

(i) Income tax expense

Income tax on profits for the period comprises current and deferred tax. It is recognised in the statement of comprehensive income as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

(ii) Current tax

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

(d) Recognition and derecognition of financial assets and financial liabilities

(i) Recognition

Financial assets include amounts due from the Parent Company. Financial liabilities include commercial paper and debt issuances.

The Company recognises a financial asset or liability on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets and financial liabilities are initially recognised at fair value including directly attributable transaction costs and subsequently measured at amortised cost.

(ii) Derecognition

The Company 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 Company 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 Company derecognises a financial liability from its balance sheet, when and only when, it is extinguished.

(e) Presentation

(i) Offsetting of income and expenses

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

- where 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 Company is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Company is reimbursed.

(ii) Offsetting of assets and liabilities

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

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

(iii) Cash flow statement

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and immediately lent to the Parent Company.

(iv) Segment reporting

Business segments are distinguishable components of the Company 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.

As the principal activity of the Company is the raising of external funding, which is on-lent to the Parent Company at a margin, and the majority of its revenue is not earned from external customers, the Company does not have any reportable segments.

NOTES TO THE FINANCIAL STATEMENTS

2. INTEREST EXPENSE

	2020 NZ\$m	2019 NZ\$m
Commercial paper	50	68
Debt issuances	362	342
Total interest expense	412	410

3. INCOME TAX

	2020 NZ\$m	Restated 2019 NZ\$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	4	6
Prima facie income tax at 28%	1	2
Add: tax effect of non-deductible credit impairment charge	1	-
Total income tax expense	2	2
Amounts recognised in the statement of comprehensive income		
Current tax	2	2
Total income tax expense recognised in the statement of comprehensive income	2	2

4. COMMERCIAL PAPER

Commercial paper comprises issuances under the Company's U.S. Commercial paper programme and is guaranteed by the Parent Company.

5. DEBT ISSUANCES

	2020 NZ\$m	2019 NZ\$m
U.S. medium term notes	9,496	9,989
Euro medium term notes	4,923	5,332
Covered bonds	4,456	4,370
Total debt issued	18,875	19,691

Debt issuances are guaranteed by the Parent Company. Debt issuances, other than covered bonds, are otherwise unsecured and rank equally with other unsecured liabilities.

Covered Bonds

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

6. RELATED PARTY TRANSACTIONS

Transactions with other related parties

The Company undertakes transactions with the Parent Company and other members of the Australia and New Zealand Banking Group Limited group of companies (ANZ Group). These transactions principally consist of funding transactions. Other members of the ANZ Group provide administrative functions, including remuneration of key management personnel, to the Company for which no payments have been made.

All interest income is from the Parent Company. Audit fees and fees for other services have been paid to the auditors by the Parent Company without reimbursement.

	2020 NZ\$000	2019 NZ\$000
Audit or review of financial statements	39	38
Other services:		
Review of offer documents	94	111
Other assurance services	17	17
Total other services	111	128
Total fees paid to auditors by the Parent Company	150	166

Balances with related parties

Amounts due from the Parent Company are lent on similar terms as the underlying funding raised, and are net of an allowance for expected credit losses of NZ\$11 million (2019: NZ\$7 million). The change in the allowance for expected credit losses for the year ended 30 September 2020 was a charge of NZ\$4 million (2019: NZ\$2 million).

As at 30 September 2020, ANZ Group held NZ\$31 million (2019: NZ\$4 million) of the Company's debt issuances.

7. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

	2020			Restated 2019		
	within one year NZ\$m	after more than one year NZ\$m	Total NZ\$m	within one year NZ\$m	after more than one year NZ\$m	Total NZ\$m
Assets						
Due from Parent Company	5,882	14,767	20,649	5,384	16,795	22,179
Liabilities						
Debt issuances	4,108	14,767	18,875	2,896	16,795	19,691

8. EQUITY

Capital management policies

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide funding for the Parent Company and to maintain an optimal capital structure to reduce the cost of capital.

The Company's capital comprises issued share capital and retained earnings. The Company manages its capital by distributing its retained profits to the Parent Company.

Ordinary share capital

The Company's share capital consists of 500,000 (2019: 500,000) fully paid ordinary shares that have the rights and powers prescribed by Section 36 of the Companies Act 1993. The shares have a carrying value of \$499,900.

There were no dividends paid on ordinary shares during the year (2019: nil).

NOTES TO THE FINANCIAL STATEMENTS

9. FINANCIAL RISK MANAGEMENT

Financial instruments are entered into by the Company in its operations as a financial intermediary. The Company's operations are matched funded to minimise interest rate, currency and liquidity risks.

There are no material off balance sheet instruments. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting. Risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

Credit risk

Credit risk is the potential that the counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing loss.

The Company's principal exposure is to the Parent Company and the carrying amount represents the Company's maximum and net exposure to credit risk.

Market risk

Interest rate risk

Interest rate risk relates to the potential adverse impact of changes in market interest rates on future net interest income of the Company.

The Company manages its interest rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company. As a result a 1% rate shock would not have any impact on profit or loss.

Currency risk

Currency risk arises from changes in foreign exchange rates impacting on residual currency positions that may result from the Company's business as a financial intermediary.

Currency risk is monitored in terms of open positions to each currency, based on nominal value and the duration of each exposure. The total amount of foreign currency exposures, whether recognised or unrecognised, within each currency is not material.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations on commercial paper and debt issuances when they fall due.

The Company manages its liquidity rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company.

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. All outstanding debt issuance is profiled on the earliest date on which the Company may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reporting on balance sheet.

	Total NZ\$m	Less than 3 months NZ\$m	3-12 months NZ\$m	1-5 years NZ\$m	Beyond 5 years NZ\$m	No specified maturity NZ\$m
2020						
Liabilities						
Commercial paper	1,749	912	837	-	-	-
Debt issuances	20,032	5	4,384	11,741	3,902	-
Total financial liabilities	21,781	917	5,221	11,741	3,902	-
2019						
Commercial paper	2,480	840	1,640	-	-	-
Debt issuances	20,910	9	3,232	13,330	4,339	-
Total financial liabilities	23,390	849	4,872	13,330	4,339	-

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

No assets or liabilities are carried at fair value. The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

- for accrued interest payable, the carrying amount is equivalent to the fair value.
- for all other financial assets and financial liabilities, estimated fair values are based on market rates.

Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value:

	2020		Restated 2019	
	Carrying amount NZ\$m	Fair value NZ\$m	Carrying amount NZ\$m	Fair value NZ\$m
Financial assets				
Due from the Parent Company	20,649	21,341	22,179	22,620
Financial liabilities				
Commercial paper	1,747	1,748	2,460	2,461
Debt issuances	18,875	19,566	19,691	20,131



Independent Auditor's Report

To the shareholder of ANZ New Zealand (Int'l) Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of ANZ New Zealand (Int'l) Limited (the 'Company') on pages 1 to 8:

- i. present fairly in all material respects the Company's financial position as at 30 September 2020 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the balance sheet as at 30 September 2020;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the Company in relation to prospectus reviews and assurance services. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.



Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

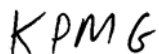
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/>

This description forms part of our independent auditor's report.



KPMG
Auckland

18 November 2020

**ANZ NEW ZEALAND (INT'L) LIMITED
ANNUAL ACCOUNTS**

FOR THE YEAR ENDED 30 SEPTEMBER 2019



FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	Note	2019 NZ\$m	2018 NZ\$m
Interest income	6	418	382
Interest expense	2	(410)	(374)
Net interest income		8	8
Operating expenses		-	(1)
Profit before credit impairment and income tax		8	7
Credit impairment charge		(1)	-
Profit before income tax		7	7
Income tax expense	3	(2)	(2)
Profit after income tax		5	5

There are no items of other comprehensive income.

BALANCE SHEET

As at 30 September	Note	2019 NZ\$m	2018 NZ\$m
Assets			
Due from the Parent Company	6	22,183	21,314
Total assets		22,183	21,314
Liabilities			
Accrued interest payable		23	40
Commercial paper	4	2,460	2,486
Current tax liabilities		1	1
Payables and other liabilities		-	1
Debt issuances	5	19,691	18,781
Total liabilities		22,175	21,309
Net assets		8	5
Equity			
Retained profits		8	5
Total equity	8	8	5

These annual accounts were approved by the Board of Directors on 16 December 2019.

For and on behalf of the Board of Directors:



Penny Dell
Director
16 December 2019

CASH FLOW STATEMENT

	2019 NZ\$m	2018 NZ\$m
For the year ended 30 September		
Cash flows from operating activities		
Interest received	435	377
Interest paid	(427)	(370)
Operating expenses	(1)	-
Tax paid	(2)	(2)
Net cash flows provided by operating activities	5	5
Cash flows from investing activities		
Decrease / (increase) in due from the Parent Company	(67)	1,667
Net cash flows provided by / (used in) investing activities	(67)	1,667
Cash flows from financing activities		
Proceeds from debt issuances	3,300	2,510
Decrease in commercial paper	(221)	(1,457)
Redemption of debt issuances	(3,017)	(2,720)
Dividends paid	-	(5)
Net cash flows provided by / (used in) financing activities	62	(1,672)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	-	-
Cash and cash equivalents at end of the year	-	-

Reconciliation of profit after income tax to net cash flows provided by operating activities

Profit after income tax	5	5
<i>Non-cash items:</i>		
Credit impairment charge	1	-
<i>Other adjustments:</i>		
Change in accrued interest receivable	17	(5)
Change in accrued interest payable	(17)	4
Increase / (decrease) in payables and other liabilities	(1)	1
Net cash flows provided by operating activities	5	5

STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings NZ\$m	Total equity NZ\$m
As at 1 October 2017		5	5
Profit or loss		5	5
Ordinary dividend paid	8	(5)	(5)
As at 30 September 2018		5	5
As at 1 October 2018		5	5
Impact on transition to NZ IFRS 9	1	(2)	(2)
As at 1 October 2018 (adjusted)		3	3
Profit or loss		5	5
As at 30 September 2019		8	8

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Tax Administration Act 1994 (New Zealand) and The Overseas Companies Regulations 2009 (United Kingdom), and comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- International Financial Reporting Standards (IFRS).

These financial statements have been audited in accordance with International Standards on Auditing (New Zealand), as issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

ANZ New Zealand (Int'l) Limited (the Company) is incorporated in New Zealand under the Companies Act 1993. Its registered office is, Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, 1010, Auckland. The Company is a wholly owned subsidiary of ANZ Bank New Zealand Limited (the Parent Company) and the ultimate parent company is Australia and New Zealand Banking Group Limited, which is incorporated in Victoria, Australia.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

(ii) Use of estimates and assumptions

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

(iii) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

(iv) Rounding

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

(v) Changes in accounting policies

Refer to Note 1(f) for accounting standards adopted in the period. There have been no other changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

(vi) Foreign currency translation

Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the Company's functional currency.

Transactions and balances

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

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

(b) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income 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.

(c) Income tax

(i) Income tax expense

Income tax on profits for the period comprises current and deferred tax. It is recognised in the statement of comprehensive income as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

(ii) Current tax

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Recognition and derecognition of financial assets and financial liabilities

(i) Recognition

Financial assets include amounts due from the Parent Company. Financial liabilities include commercial paper and debt issuances.

The Company recognises a financial asset or liability on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets and financial liabilities are initially recognised at fair value including directly attributable transaction costs and subsequently measured at amortised cost.

(ii) Derecognition

The Company 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 Company 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 Company derecognises a financial liability from its balance sheet, when and only when, it is extinguished.

(e) Presentation

(i) Offsetting of income and expenses

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

- where 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 Company is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Company is reimbursed.

(ii) Offsetting of assets and liabilities

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

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

(iii) Cash flow statement

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and immediately lent to the Parent Company.

(iv) Segment reporting

Business segments are distinguishable components of the Company 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.

As the principal activity of the Company is the raising of external funding, which is on-lent to the Parent Company at a margin, and the majority of its revenue is not earned from external customers, the Company does not have any reportable segments.

(f) Accounting standards adopted in the period

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9)

The Company has applied NZ IFRS 9 from 1 October 2018. NZ IFRS 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

The application of NZ IFRS 9 as at 1 October 2018 resulted in higher aggregate impairment provisions (included in Due from Parent Company) of approximately NZ\$2 million, and the impact on total equity is a reduction of approximately NZ\$2 million.

2. INTEREST EXPENSE

	2019 NZ\$m	2018 NZ\$m
Commercial paper	68	51
Debt issuances	342	323
Total interest expense	410	374

3. INCOME TAX

	2019 NZ\$m	2018 NZ\$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	7	7
Prima facie income tax at 28%	2	2
Total income tax expense	2	2
Amounts recognised in the statement of comprehensive income		
Current tax	2	2
Total income tax expense recognised in the statement of comprehensive income	2	2

NOTES TO THE FINANCIAL STATEMENTS

4. COMMERCIAL PAPER

	2019 NZ\$m	2018 NZ\$m
U.S. commercial paper	2,460	2,486
Total commercial paper	2,460	2,486

Commercial paper issued is guaranteed by the Parent Company.

5. DEBT ISSUANCES

	2019 NZ\$m	2018 NZ\$m
U.S. medium term notes	9,989	10,213
Euro medium term notes	5,332	4,610
Covered bonds	4,370	3,958
Total debt issued	19,691	18,781

Debt issuances are guaranteed by the Parent Company. Debt issuances, other than covered bonds, are otherwise unsecured and rank equally with other unsecured liabilities.

Covered Bonds

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

6. RELATED PARTY TRANSACTIONS

Transactions with other related parties

The Company undertakes transactions with the Parent Company and other members of the Australia and New Zealand Banking Group Limited group of companies (ANZ Group). These transactions principally consist of funding transactions. Other members of the ANZ Group provide administrative functions, including remuneration of key management personnel, to the Company for which no payments have been made.

All interest income is from the Parent Company. Audit fees and fees for other services have been paid to the auditors by the Parent Company without reimbursement.

	2019 NZ\$000	2018 NZ\$000
Audit or review of financial statements	38	38
Other services:		
Review of offer documents	111	104
Other assurance services	17	16
Total other services	128	120
Total fees paid to auditors by the Parent Company	166	158

Balances with related parties

Amounts due from the Parent Company are lent on similar terms as the underlying funding raised, and are net of an allowance for expected credit losses of NZ\$3 million (On initial application of NZ IFRS 9 on 1 October 2018: NZ\$2 million, as at 30 September 2018: nil). The change in the allowance for expected credit losses for the year ended 30 September 2019 was a charge of NZ\$1 million (2018: nil).

As at 30 September 2019, ANZ Group held NZ\$4 million (2018: NZ\$15 million) of the Company's debt issuances.

7. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

	2019			2018		
	within one year NZ\$m	after more than one year NZ\$m	Total NZ\$m	within one year NZ\$m	after more than one year NZ\$m	Total NZ\$m
Assets						
Due from Parent Company	5,388	16,795	22,183	5,575	15,739	21,314
Liabilities						
Debt issuances	2,896	16,795	19,691	3,042	15,739	18,781

8. EQUITY

Capital management policies

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide funding for the Parent Company and to maintain an optimal capital structure to reduce the cost of capital.

The Company's capital comprises issued share capital and retained earnings. The Company manages its capital by distributing its retained profits to the Parent Company.

Ordinary share capital

The Company's share capital consists of 500,000 (2018: 500,000) fully paid ordinary shares that have the rights and powers prescribed by Section 36 of the Companies Act 1993. The shares have a carrying value of \$499,900.

There were no dividends paid on ordinary shares during the year (2018: \$9.79 per share).

9. FINANCIAL RISK MANAGEMENT

Financial instruments are entered into by the Company in its operations as a financial intermediary. The Company's operations are matched funded to minimise interest rate, currency and liquidity risks.

There are no material off balance sheet instruments. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting. Risk exposures are independently monitored and controlled within predefined limits, with an internal reporting framework in place.

Credit risk

Credit risk is the potential that the counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing loss.

The Company's principal exposure is to the Parent Company and the carrying amount represents the Company's maximum and net exposure to credit risk.

Market risk

Interest rate risk

Interest rate risk relates to the potential adverse impact of changes in market interest rates on future net interest income of the Company.

The Company manages its interest rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company. As a result a 1% rate shock would not have any impact on profit or loss.

Currency risk

Currency risk arises from changes in foreign exchange rates impacting on residual currency positions that may result from the Company's business as a financial intermediary.

Currency risk is monitored in terms of open positions to each currency, based on nominal value and the duration of each exposure. The total amount of foreign currency exposures, whether recognised or unrecognised, within each currency is not material.

NOTES TO THE FINANCIAL STATEMENTS

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations on commercial paper and debt issuances when they fall due.

The Company manages its liquidity rate risk by matching interest rates and tenors on its financial liabilities with the interest rates and tenors on its financial assets with the Parent Company.

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. All outstanding debt issuance is profiled on the earliest date on which the Company may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reporting on balance sheet.

	Total NZ\$m	Less than 3 months NZ\$m	3-12 months NZ\$m	1-5 years NZ\$m	Beyond 5 years NZ\$m	No specified maturity NZ\$m
2019						
Liabilities						
Commercial paper	2,480	840	1,640	-	-	-
Debt issuances	20,910	9	3,232	13,330	4,339	-
Total financial liabilities	23,390	849	4,872	13,330	4,339	-
2018						
Commercial paper	2,506	986	1,520	-	-	-
Debt issuances	20,011	901	2,470	12,982	3,658	-
Payables and other liabilities	1	1	-	-	-	-
Total financial liabilities	22,518	1,888	3,990	12,982	3,658	-

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

No assets or liabilities are carried at fair value. The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

- for accrued interest payable, the carrying amount is equivalent to the fair value.
- for all other financial assets and financial liabilities, estimated fair values are based on market rates.

Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value:

	2019		2018	
	Carrying amount NZ\$m	Fair value NZ\$m	Carrying amount NZ\$m	Fair value NZ\$m
Financial assets				
Due from the Parent Company	22,183	22,624	21,314	21,092
Financial liabilities				
Commercial paper	2,460	2,461	2,486	2,486
Debt issuances	19,691	20,131	18,781	18,559



Independent Auditor's Report

To the shareholder of ANZ New Zealand (Int'l) Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of ANZ New Zealand (Int'l) Limited (the 'Company') on pages 1 to 7:

- i. present fairly in all material respects the Company's financial position as at 30 September 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the balance sheet as at 30 September 2019;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the Company in relation to prospectus reviews and assurance services. These matters have not impaired our independence as auditor of the Company. We have no relationship with, or interests in, the Company.



Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/>

This description forms part of our independent auditor's report.

KPMG

KPMG
Auckland

16 December 2019

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Annex B—Form of Final Terms

ANZ New Zealand (Int'l) Limited /ANZ Bank New Zealand Limited US\$10,000,000,000 Medium-Term Notes, Series A, Offering Memorandum dated May 28, 2021 (the "Offering Memorandum").

PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "EU PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA") and the regulations made under EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA or the regulations made under EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law of the UK by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

[MiFID II product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of [the Agents/each relevant Agent's] product approval process as [a] MiFID II [(as defined below)] "manufacturer[s]", the target market assessment completed by the relevant [Agents/Agent] in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.] The Issuer is not subject to MiFID II and any implementation thereof by a member state of the EU. It is therefore not a "manufacturer" for the purposes of the MiFID Product Governance Rules under EU Delegated Directive 2017/593 and has no responsibility or liability for identifying a target market, or any other product governance obligation set out in MiFID II, for financial instruments it issues (including the foregoing target market assessment for the Notes described in this legend).]

[UK MiFIR product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of [the Agents/each relevant Agent's] product approval process as [a] UK MiFIR [(as defined below)] "manufacturer[s]", the target market assessment completed by the relevant [Agents/Agent] in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No. 600/2014 as it forms part of domestic law of the UK by virtue of the EUWA) ("UK MiFIR"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "UK MiFIR Product Governance Rules") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels. The Issuer is not subject to UK MiFIR. It is therefore not a "manufacturer" for the purposes of the UK MiFIR Product Governance Rules and has no responsibility or liability for identifying a target market, or any other product governance obligation set out in UK MiFIR for financial instruments it issues (including the foregoing target market assessment for the Notes described in this legend).]

[This document constitutes the Final Terms of the Notes described herein for the purposes of Regulation (EU) 2017/1129 as it forms part of domestic law of the UK by virtue of the EUWA (the "UK Prospectus Regulation"), and must be read in conjunction with the Offering Memorandum [and the supplements[s] dated []], which constitutes a base prospectus for the purposes of the UK Prospectus Regulation. Full information on ANZ New Zealand (Int'l) Limited/ANZ Bank New Zealand Limited and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Memorandum [and the supplement[s] dated []].

The Offering Memorandum [and the supplement[s] dated []] is [are] available for viewing during normal business hours at Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand [and copies may be obtained from Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand.] / [This document constitutes the Final Terms of the Notes described herein for the purposes of Regulation (EU) 2017/1129 as it forms part of domestic law of the UK by virtue of the EUWA (the "UK Prospectus Regulation") and must be read in conjunction with the Offering Memorandum [and the supplement[s] dated []], which constitutes a base prospectus for the purposes of the UK Prospectus Regulation, including the terms and conditions of the Notes as set out in the section entitled "Description of the Notes and the Guarantee" in the Offering Memorandum dated []. Full information on ANZ New Zealand (Int'l) Limited/ANZ Bank New Zealand Limited and the

offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Memorandum [and the supplement[s] dated []]. The Offering Memorandum [and the supplement[s] dated []] is [are] available for viewing during normal business hours at Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand [and copies may be obtained from Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand].]

[Notification under Section 309B(1) of the Securities and Futures Act of Singapore (the "SFA"): The Issuer has determined and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the "MAS") Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

Final Terms—dated []

In terms of the Fiscal Agency Agreement dated as of March 15, 2005, as amended, the Issuer wishes to advise the following in respect of the latest issue of Notes.

Deal Reference MTN:	[]
Issuer:	[ANZ New Zealand (Int'l) Limited] (Legal Entity Identifier ("LEI"): HZSN7FQBPO5IEWYIGC72] OR [ANZ Bank New Zealand Limited (Legal Entity Identifier ("LEI"): 213800VD256NU2D97H12)
[Guarantor]	[ANZ Bank New Zealand Limited]
Principal Amount and Specified Currency:	[US\$[]] OR []
Option to receive payment in Specified Currency:	[Not Applicable] OR []
Type of Note:	[Rule 144A Global Note] OR [Regulation S Global Note] OR [Rule 144A Global Note and Regulation S Global Note]
Date on which the Notes will be consolidated to form a single series:	[The Notes will be consolidated and form a single series with [] on the [Issue Date].] [Not Applicable]
Issue Date:	[]
Stated Maturity:	[]
Redemption:	[No redemption at the option of the Issuer prior to Stated Maturity (other than for tax reasons)] OR [At option of the Issuer -]
Repayment:	[No repayment at the option of the holders prior to Stated Maturity] OR [At option of holders -]
Fixed Rate Notes:	[Applicable/Not Applicable]
Interest Rate Basis:	[Fixed Rate] OR [Fixed Reset Rate]
Interest Rate:	[]% per annum [in respect of each interest period comprised in the period from and including the Issue Date to but excluding the [first] Interest Reset Date and a fixed rate (expressed as a percentage per annum) equaling the sum of the Reset Rate on the relevant Reset Determination Date plus the Reset Spread in respect of each interest period comprised in the period from and including the [first] Interest Reset Date to but excluding the Stated Maturity]
Interest Rate Reset Provisions:	[Applicable/Not Applicable]
Reset Rate:	[U.S. Treasury Rate] OR [Other: [specify rate]]
Reset Spread:	
Interest Reset Date(s):	
Reset Determination Date(s):	
Index Maturity:	
Designated page:	[H.15/specify other/Not Applicable]
Interest Rate Frequency:	[Annually/Semi-annually/Quarterly/Monthly/Weekly/Daily]
Regular Record Date(s):	[The []th calendar day prior to the relevant Interest Payment Date]
Interest Payment Dates:	[]
Floating Rate Notes:	[Applicable/Not Applicable]

Floating Rate:	Specified Interest Rate [+/-Spread] [x Spread Multiplier][Inverse Floating Rate][Floating Rate/Fixed Rate]
Initial Interest Rate:	[]%
Base Rate:	[Federal Funds Rate] OR [LIBOR] OR [Compounded Daily SOFR] OR [Compounded SOFR Index Rate]
Initial Base Rate:	[]%
Spread (if applicable):	[Not Applicable] OR []
Spread Multiplier (if applicable):	[Not Applicable] OR []
Maximum (if applicable):	[Not Applicable] OR []
Minimum (if applicable):	[Not Applicable] OR []
Interest Payment Dates:	[third Wednesday of each month/March/June/September/December] OR [●]
Interest Payment Period:	[]
Interest Reset Period:	[]
Interest Reset Dates:	[Annually/Semi-annually/Quarterly/Monthly/Weekly/Daily]
Initial Interest Reset Date:	[]
Interest Calculation Date:	[Earlier of the tenth calendar day after Interest Determination Date, or if such day is not a business day, the next succeeding business day and the business day preceding the applicable Interest Payment Date or Stated Maturity, as the case may be] OR [Not Applicable—if LIBOR or SOFR] OR [●]
Interest Determination Dates:	[Specify details] [[●] [U.S. Government Securities Business Day prior to Interest Payment Date]] (for SOFR Notes, specify number under Relevant Number below)
Index Maturity:	[]
LIBOR Notes:	[Applicable/Not Applicable]
Applicable provisions:	[Reuters LIBOR01]
Designated LIBOR Page:	[Reuters LIBOR01]
Index currency:	U.S. dollars
SOFR Notes:	[Applicable/Not Applicable] [If not applicable, delete following subparagraphs]
Relevant Number:	[●] U.S. Government Securities Business Day(s)
Observation Method:	[Lookback/Suspension Period/Observation Shift/Not Applicable]
Suspension Determination Period:	[Applicable/Not Applicable] [●] U.S. Government Securities Business Day(s)
Floating Rate/Fixed Rate Security:	[Applicable/Not Applicable]
Fixed Rate Commencement Date:	[Not Applicable] OR []
Fixed Interest Rate:	[Not Applicable] OR []
Fixed Rate/Floating Rate Security:	[Applicable/Not Applicable]
Floating Rate Commencement Date:	[]
Inverse Floating Rate Security:	[Applicable/Not Applicable]
Original Issue Discount Notes:	[Applicable/Not Applicable]
Zero Coupon Notes:	[Applicable/Not Applicable]
Redemption:	[Applicable/Not Applicable]
Redemption Commencement Date:	[]
Redemption Price(s):	[]
Redemption Period(s):	[]
Yield:	[] %

General Provisions:

Business Day Convention:	[Following Business Day Convention] OR [Modified Following Business Day] OR [Preceding Business Day Convention]
business day:	[]
Day Count Fraction:	[]OR [Not Applicable]
Issue Price to Investors (%):	[]%
Issue Price to Investors (\$):	[US\$[]] OR []
Agent(s) acting in capacity of:	[Principal] OR [Agent]
Additional Paying Agent:	[]
Calculation Agent:	[The Bank of New York Mellon]
Listing:	The Official List of the Financial Conduct Authority
Admission to trading:	[Application has been made for the Notes to be admitted to trading on the London Stock Exchange with effect from [].]
Denominations:	[]
Covenant Defeasance:	[Applicable/Not Applicable]
CUSIP:	[]
ISIN:	[]
Common Code:	[]
[CFI:	[], as updated, as set out on the website of the Association of National Numbering Agencies ("ANNA") or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.]
[FISN:	[], as updated, as set out on the website of the ANNA or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.]
Ratings:	The Notes to be issued [have been] OR [are expected to be] rated: [S&P Global Ratings Australia Pty Ltd. []] [Moody's Investors Service Pty Limited []] [Fitch Australia Pty Ltd []] [Brief explanation of the meaning of the rating to be included if this has previously been published by a ratings provider]
Interests of natural and legal persons involved in the issue:	Save for the fees payable to [●], [●] and [●] (the "Agent[s]"), so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.
Relevant Benchmark[s]:	[[LIBOR / SOFR / Federal Funds Rate / Other (specify)] is provided by [administrator legal name].. [As at the date hereof, [[administrator legal name] appears in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of the EU Benchmarks Regulation.] [As at the date hereof, [[administrator legal name] appears in the Register of administrators and benchmarks established and maintained by the FCA pursuant to Article 36 of the UK Benchmarks Regulation.] [As at the date hereof, [[administrator legal name] does not appear in the register of administrators and benchmarks established and maintained by [ESMA][the FCA] pursuant to Article 36 of the [EU Benchmarks Regulation][UK Benchmarks Regulation]. [As far as the Issuer is aware, as at the date hereof, Article 2 of the [EU Benchmarks Regulation][UK Benchmarks Regulation] applies, such that [] is not currently required to obtain authorization/registration (or, if located outside the [European Union][United Kingdom], recognition, endorsement or equivalence).]/[[] does not fall within the scope of the [EU Benchmarks Regulation][UK Benchmarks Regulation].]
Reasons for the offer:	[[] [See "Use of Proceeds" in Offering Memorandum]]
(i) Estimated net proceeds:	[●]
(ii) Estimated total expenses:	[●]
Yield (Fixed Rate Notes only):	
Indication of Yield:	The yield is [●]% per annum]

[The information relating to [●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorized

[By:

Duly authorized]

Annex C—Guarantee

GUARANTEE

1. ANZ National Bank Limited, a New Zealand corporation (the "**Guarantor**"), hereby fully, unconditionally and irrevocably guarantees (the "**Guarantee**") as its own debt to each holder of a security of each series authenticated and delivered by the Fiscal Agent (as defined below) (collectively, the "**Securities**", and, individually, a "**Security**"), of ANZ National (Int'l) Limited (the "**Issuer**"), a New Zealand corporation, acting through its London branch, the due and prompt payment in full (including interest thereon, if any) of all payments of principal of, and interest on, Securities issued pursuant to the Fiscal Agency Agreement, dated as of March 15, 2005 (as the same may be amended from time to time), between the Issuer and The Bank of New York, as fiscal agent (the "**Agent**"), and the Guarantor, all sums which may at any time be or become due and payable under the Securities (each, a "**Payment**" and hereinafter collectively referred to as "**Payments**"), at their stated due dates or when otherwise due, irrespective of the invalidity, irregularity or unenforceability thereof.

2. The Guarantor hereby agrees that its obligations hereunder shall be as if it were a principal debtor and not merely a surety, and shall be full, absolute and unconditional, irrespective of, and shall not be affected by, any invalidity, irregularity or enforceability of any Security, any failure to enforce the provisions of any Security, any waiver, modification or consent granted to the Issuer with respect thereto, by the holder of any Security or any other circumstances which may otherwise constitute a legal or equitable discharge of a surety or guarantor.

3. The Guarantor waives all notices of acceptance of this Guarantee or of the creation, renewal, extension, modification, acceleration, compromise or release of any Security and no such creation, renewal, extension, modification, acceleration, compromise or release of any Security shall impair or diminish the Guarantor's obligations hereunder.

4. The Guarantor waives any requirement that the holder or holders of the Securities, in the event of a default in the making of any Payments by the Issuer, first make demand upon or seek to enforce remedies against the Issuer or first realize upon the collateral, if any, available to such holder or holders before demanding payment under or seeking to enforce this Guarantee.

5. The Guarantor hereby waives, in favor of the holders, any and all of its rights, protections, privileges and defenses provided by applicable law to a guarantor and waives any right of set-off which the Guarantor may have against the holder of a Security in respect to any amounts which are or may become payable by the holder of the Security to the Issuer.

6. The Guarantor waives diligence, notice of acceptance, presentment, demand for payment, filing of claims with a court in the event of merger or bankruptcy of the Issuer, any right to require a proceeding first against the Issuer or any other person, protest, notice of dishonor or non-payment to or on the Guarantor or the Issuer, notice of any other default, breach or nonperformance of any agreement, covenant or obligation of the Issuer under the Security, and all notices and demands whatsoever with respect to the Securities or any indebtedness evidenced thereby.

7. This Guarantee is a continuing guarantee and nothing save payment in full of each Security hereby guaranteed shall discharge the Guarantor of its obligations hereunder in respect of such Security.

8. This Guarantee shall continue to be effective or to be reinstated, as the case may be, if at any time any Payment, in whole or in part, is rescinded or must otherwise be restored by the holder of a Security upon the bankruptcy, liquidation or reorganization of the Issuer or otherwise.

9. The obligations of the Guarantor under this Guarantee shall not be altered, limited or affected by any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of the Issuer or by any defense which the Issuer may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding. The Guarantor agrees that any interest on Payments which accrues after the commencement of any such proceeding (or which would have accrued had such proceeding not been commenced) shall be included in the Payments.

10. The Guarantor shall be subrogated to all rights of each holder of Securities against the Issuer in respect of any amounts paid to such holder by the Guarantor pursuant to the provisions of this Guarantee; provided, however, that the Guarantor shall not be entitled to enforce, or to receive any payments arising out of or based upon, such right of subrogation until the Payments on all Securities of the same series and like tenor shall have been paid in full.

11. This Guarantee shall be governed by, and interpreted in accordance with, the laws of the State of New York, without reference to principles of conflict of laws that would require the application of laws of a jurisdiction other than the State of New York, except that all matters pertaining to the authorization and execution of this Guarantee shall be governed by the laws of New Zealand.

12. No amendment, release or modification of the provisions of this Guarantee shall be established by conduct, custom or course of dealing, but solely by the Guarantor giving written notice of such amendment, release or modification to the Agent, *provided* that such amendment, release or modification shall not affect the validity or enforceability of this Guarantee, in its current form as of the date hereof, including any continuation or reinstatement of this Guarantee pursuant to the sixth paragraph hereof in respect of any Securities issued, extended, renewed or otherwise outstanding prior to the receipt of such amendment or revocation. No delay or omission by any holder or holders of Securities to exercise any right under this Guarantee shall impair any such right, nor shall it be construed to be a waiver thereof.

13. The Guarantor, for the benefit of the holders of Securities, agrees that in the event any payments made by the Guarantor hereunder to any holder of a Security are subject to any present or future tax, duty, assessment, impost, levy or other similar charge imposed upon such holder in respect of the Guarantor's payment hereunder by the government of New Zealand or the United Kingdom or any political subdivision thereof or taxing authority therein, or the domicile or principal place of business of the payor (the "**Taxing**

Jurisdiction”) (any such taxes, duties, assessments, imposts, levies and other similar charges being referred to herein as “*Taxes*”), the Guarantor will pay to such holder additional amounts such that the amount paid to such holder will not be less than the amount which the holder would have received if the Guarantor’s payments hereunder were not subject to any Taxes; *provided, however*, that no such additional amounts shall be payable with respect to any Security presented for payment by or on behalf of any holder of a Security who is subject to such Taxes in respect of payments hereunder by reason of:

- (a) any Taxes which would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary or member of such holder, if such holder is an estate, trust or partnership) and a Taxing Jurisdiction, other than the mere receipt of such payment or the ownership or holding of the Security;
- (b) any Taxes which would not have been so imposed but for such holder (or between a fiduciary, settlor, beneficiary or member of such holder, if such holder is an estate, trust or partnership) not complying with any statutory requirements or not having made a declaration of non-residence in, or lack of connection with, a Taxing Jurisdiction or any similar claim for exemption, if the Issuer or its agent has provided such holder of the Security with at least 60 days’ prior written notice of an opportunity to comply with such statutory requirements or make a declaration or claim;
- (c) any Taxes which would not have been so imposed but for the presentation by the holder of the Security for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (d) any Taxes withheld or deducted, where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (e) any Taxes withheld or deducted where a holder would be able to avoid such withholding or deduction by presenting the Security to another Paying Agent (as defined in the Fiscal Agency Agreement) in a Member State of the European Union;
- (f) any Taxes which would not have been so imposed but for such holder (or between a fiduciary, settlor, beneficiary or member of such holder, if such holder is an estate, trust or partnership) having presented the Securities in a Taxing Jurisdiction, unless the Securities could not have been presented for payment elsewhere; or
- (g) any combination of the Taxes described above;

nor will additional amounts be paid with respect to any payment of principal of, premium, if any, or interest on the Security to any New Zealand Alien who is a fiduciary or partnership or other than the sole beneficial owner of any such payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the registered holder of the Security.

The term "***New Zealand Alien***" means a registered holder who is not resident in New Zealand for the purposes of the New Zealand Income Tax Act 1994 and who does not engage in business in New Zealand through a fixed establishment (as defined in the New Zealand Income Tax Act 1994) in New Zealand.

The Guarantor shall pay all stamp and other duties, if any, which may be imposed by New Zealand or the United Kingdom, the United States or any political subdivision thereof or taxing authority of or in the foregoing with respect to the Fiscal Agency Agreement or the issuance of this Guarantee.

14. The Guarantor agrees that, for so long as any of the Securities remain outstanding and are "***restricted securities***" within the meaning of Rule 144(a)(3) under the Securities Act of 1933, the Guarantor will, for so long as it is neither required to comply with Section 13 or 15(d) of the Securities Exchange Act of 1934, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities, or to any prospective purchasers of such restricted securities designated by a holder, upon the request of such holder, beneficial owner or prospective purchaser, any information required by Rule 144A(d)(4) under the Securities Act of 1933.

15. This Guarantee is unsecured and unsubordinated and ranks *pari passu* with all unsecured and unsubordinated indebtedness of the Guarantor other than indebtedness preferred by law.

16. The Guarantor hereby irrevocably accepts and submits to the non-exclusive jurisdiction of the United States federal courts located in the Borough of Manhattan and the courts of the State of New York located in the Borough of Manhattan in personam, generally and unconditionally, for itself and in respect of its properties, assets and revenues, with respect to any suit, action or proceeding in connection with or arising out of this Guarantee.

17. The Guarantor hereby appoints Australia and New Zealand Banking Group Limited acting through its offices at 1177 Avenue of the Americas in the Borough of Manhattan, The City of New York, New York 10036 and its successors as its authorized agent (the "***Authorized Agent***") upon which process may be served in any action arising out of or based on this Guarantee, the Securities or the Fiscal Agency Agreement which may be instituted in any State or Federal court in the City of New York by the holder of any Security and expressly accepts the non-exclusive jurisdiction of any such court in respect of such action. The Guarantor hereby irrevocably waives any immunity to service of process in respect of any such action to which it might otherwise be entitled in any action arising out of or based on this Guarantee, the Securities or the Fiscal Agency Agreement which may be instituted by the holder of any Security in any State or Federal court in the City of New York or in any competent court in New Zealand. Such appointment shall be irrevocable so long as the

holders of the Securities shall have rights pursuant to the terms of the Securities or this Guarantee, except that, if for any reason, Australia and New Zealand Banking Group Limited ceases to be able to act as Authorized Agent or no longer has an address in the Borough of Manhattan, The City of New York, the Guarantor will appoint another person in the Borough of Manhattan, The City of New York, selected in its discretion, as such Authorized Agent. Prior to the date of issuance of any Securities under the Fiscal Agency Agreement, the Guarantor shall obtain the acceptance of Australia and New Zealand Banking Group Limited, New York branch to its appointment as such Authorized Agent, a copy of which acceptance it shall provide to the Fiscal Agent. The Guarantor shall take any and all action, including the filing of any and all documents and instruments, that may be necessary to continue such appointment or appointments in full force and effect as aforesaid. Service of process upon the Authorized Agent at the address indicated above, as such address may be changed within the Borough of Manhattan, The City of New York by notice given by the Authorized Agent to each party hereto, shall be deemed, in every respect, effective service of process upon the Guarantor. The Guarantor agrees that the failure of such Authorized Agent to give any notice of such service to it shall not impair or affect in any way the validity of such service or any judgment rendered in any action or proceeding based thereon. Notwithstanding the foregoing, any action arising out of or based on this Guarantee, the Securities or the Fiscal Agency Agreement may be instituted by the holder of any Security in any competent court in New Zealand. The Guarantor hereby waives irrevocably any immunity from jurisdiction to which it might otherwise be entitled in any action arising out of or based on this Guarantee, the Securities or the Fiscal Agency Agreement which may be instituted by the holder of any Security in any State or Federal court in The City of New York or in any competent court in New Zealand and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action, suit or proceeding has been brought in an inconvenient forum.

18. The Guarantee shall not be valid or become obligatory for any purpose with respect to a Security until the certificate of authentication on such Security shall have been signed by or on behalf of the Fiscal Agent.

IN WITNESS WHEREOF, the Guarantor has authorized and caused this
Guarantee to be duly executed and delivered as of this 15 day of March, 2005.

ANZ NATIONAL BANK LIMITED by:



Signature of authorised signatory
SIR JOHN ANDERSON

Name of authorised signatory



Signature of authorised signatory
ANTHONY BRADSHAW

Name of authorised signatory

and witnessed by:



Signature of witness
Bank Manager

Occupation
Wellington, New Zealand

City/town of residence

ANZ Bank New Zealand Limited

Ground Floor, ANZ Centre, 23-29 Albert Street
Auckland 1010
New Zealand

ANZ New Zealand (Int'l) Limited

Ground Floor, ANZ Centre, 23-29 Albert Street
Auckland 1010
New Zealand

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